CITY OF FOREST PARK

Investment Policy

Policy Statement

The purpose of this investment policy, in conjunction with the Ohio Revised Code, as amended, will govern the investments and the investment activities of the City of Forest Park.

It is the policy of the City of Forest Park, hereinafter referred to as the "City", to invest public funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the entity and conforming to all Ohio and City statutes governing the investment of public funds.

Scope

This investment policy applies to the investment of all funds of the City of Forest Park both short-term operating funds and longer-term funds, including investments of proceeds from certain bond issues. This investment policy applies to all financial assets of the City. These funds are accounted for in the Comprehensive Annual Financial Report of the City and include the following:

General Fund
Special Revenue Funds
Capital Project Funds
Trust and Agency Funds
Any new fund created by Council, unless specifically exempted.

Investment Objectives

The City's investment portfolio is designed and managed in a manner responsive to the public trust and consistent with state and local statutes. Investments are made on the basis of the following list of objectives which are listed in the order of importance:

1. Safety and security of City funds and investments.
2. Preservation of capital and protection of principal.
3. Maintenance of sufficient liquidity to meet operating needs.
4. Diversification of investments to avoid unreasonable or avoidable risks.
5. Market rate of return on the portfolio within the above constraints.

The City is generally restricted to investing in certificates of deposit, savings accounts, money market accounts, the State Treasury Asset Reserve (STAR Ohio), obligations of the State of Ohio, and obligations of the United States government or certain agencies thereof. The City is authorized to invest in any instrument or security outlined in ORC 135.14, as amended. All investment transactions will be completed on a competitive basis, whenever possible.

Investments will be made with care and judgment which persons of prudence, discretion, and intelligence exercise in the management of their own affairs. Additionally, purchases will be executed, not for speculation, but for investment, considering the safety of the capital as well as the probable income to be derived.

Safety: Safety of principal is the foremost objective of the investment program. Investments of the City will be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

Liquidity: The City's investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements which might be reasonably anticipated.

Return in Investments: The City's investment portfolio will be designed with the objective of attaining a rate of return throughout budgetary and economic cycles, commensurate with the City's investment risk constraints and the cash flow characteristics of the portfolio.

Standard of Care

A. Delegation of Authority

In accordance with City Charter Article V Section 5.05, responsibility for administration of the cash management and investment program is delegated to the Director of Finance, who will establish written procedures for the operation of the investment program consistent with the investment policy. Such procedures will include an internal control structure adequate to provide a satisfactory level of accountability, maintaining record, incorporating descriptions and amounts of investments, transaction dates, and other relevant information, and regulating the activities of subordinate employees. The Director of Finance, in conjunction with the City Manager, may utilize the advice of a licensed and designated investment advisor to fully authorize the buying of selling of investments in accordance with the goals and objectives of this policy and to sign investment-related agreements with authorized financial institutions, and broker/dealers on behalf of the City of Forest Park.

Authority to manage the City investment program is derived from the City Charter. Section 12.08 of the City Charter states, "Council may at its discretion direct investment of any surplus, reserve, or inactive funds into such investments as are permitted by general law. Such investments will be supervised by a board consisting of the Manager, the Director of Finance, and three Councilmen chosen by majority vote of all members of Council. Each Councilman is to serve for a term expiring on the date of expiration of his term as Councilman. Council may also authorize the purchase of short term Certificates of Deposit with the Municipal Depository." No person may engage in an investment transaction except as provided under the terms of this policy.

B. Defining Investment Treasury

In compliance with the Codified Ordinance of the City of Forest Park Chapter 123 Section 123.03, the investment treasury is defined as whenever there are funds in the treasury of the City which will not be required to be used for a period of six months or more may be invested in accordance with the provisions of Ohio Revised Code Section 731.56, as amended. Investments purchased will also be sold in accordance with Ohio Revised Code Section 731.57, as amended.

C. Prudence

All participants in the cash management and investment process will act responsibly as custodians of the public trust and will avoid any transaction that might impair public confidence in the City.

Investment officers acting in accordance with written procedures and this policy and exercising due diligence will be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action which may include the liquidation or sale of securities is carried out in accordance with terms of this policy.

Investments will be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the safety of the principal as well as the probable income to be derived.

The standard of prudence to be used will be the "prudent person" standard and will be applied in the context of managing an overall portfolio. Those acting in accordance with written procedures and the investment policy and exercising due diligence will be relieved of personal responsibility for an individual's security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

D. Ethics and Conflicts of Interest

All participants involved in the investment process will refrain from personal business activity that could conflict or appear to conflict with the proper execution of the investment program, or which could impair their ability to make impartial investment decisions.

Employees and investment officials will disclose to Council any material interests in financial institutions with which the City of Forest Park conducts business. They will further disclose any personal financial or investment positions that could be related to the performance of the investment portfolio. Employees and officers will refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the City of Forest Park.

Employees involved in the investment process will refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees will disclose to the City Manager any material financial interests in financial institutions that conduct business within the City and they will further disclose any large personal financial/ investment positions that could be related to the performance of the City particularly with regard to the time of purchases and sales.

Investment Parameters

1. Diversification

It is the policy of the City to diversify its deposits and investments by investment instrument, and by maturity scheduling.

The following diversification limitations will be imposed on the City's portfolio of deposits and investments at the time of purchase of each deposit or security:

Instrument:

- No more than 60% of the overall portfolio may be invested in cooperative, money market or pooled investment programs, and,
- No more than 20% of the overall portfolio may be invested in the securities of a single issue, except the U.S. Treasury.
- No more than 35% of the overall portfolio may be concentrated into a single issuer, except for obligations or securities guaranteed by the United States.

The City will diversify its investments by security type and institution. With the exception of U.S. Treasury securities and authorized pools, no more than 50% of the City's total investment portfolio will be invested in a single security type or with a single financial institution.

2. Maturity Guidelines

To the extent possible, the Director of Finance will attempt to match the investments with anticipated cash flow requirements to take best advantage of prevailing economic and market conditions. The maximum maturity of any eligible instrument is five years from the settlement date, unless per a related bond indenture the investment is matched to a specified obligation or debt of the subdivision.

Maturity guidelines will be as follows:

1. No more than 25% of the portfolio may have a maturity beyond 36 months.
2. The average maturity of the portfolio will never exceed two and one-half years, and
3. At least 20% of the portfolio will be invested in liquid instruments or marketable securities that can be sold to raise cash in one business day's notice.

Any investment made should be purchased with the expectation it will be held to maturity. Investments may be sold to meet unexpected liquidity needs, to capture a capital gain, to reinvest in a preferred investment, or if otherwise determined to be in the best interests of the City.

Reserve funds and other funds with longer-term investments horizons may be invested in securities exceeding five (5) years if the maturities of such investments are made to coincide as nearly as practicable with the expected use of funds. The intent to invest in securities with longer maturities will be disclosed in writing to City Council.

Because of inherent difficulties in accurately forecasting cash flow requirement, a portion of the portfolio should be continuously invested in readily available funds such as STAR Ohio, money market funds, or overnight repurchase agreements to ensure that appropriate liquidity is maintained to meet ongoing obligations.

To the extent possible, the City will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the City will not directly invest in securities maturing more than two years from the date of purchase. However, the City may collateralize its repurchase agreements using longer-dated investments not to exceed five years to maturity.

Reserve funds may be invested in securities exceeding two years if the maturities of such investments are made to coincide as nearly as practicable with the expected use of the funds.

Permissible Investments.
The Director of Finance may invest in any instrument or security authorized by Ohio Revised Code Section 135.14, as amended. Permissible investments include:

A. United States Treasury bills, notes, bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States. Stripped principal or interest obligations of such eligible obligations are strictly prohibited.

B. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency or instrumentality securities must be direct issuances of the federal agency or instrumentality.

C. STAR Ohio is eligible as long as the fund maintains the highest letter rating provided by at least one nationally recognized standard rating service as outlined in Ohio Revised Code Section 135.45.

D. Bonds and other obligations of the State of Ohio.

E. Interim deposits (such as Certificates of Deposit) in the eligible institutions applying for interim moneys as provided in Ohio Revised Code Section 135.08.

F. No-load money market mutual funds consisting exclusively of obligations described in section VII A or B of this policy and expressly excluding derivatives in accordance with Ohio Revised Code Section 135.14.

G. Up to ten percent of interim moneys available for investment may be invested in the following:

   a. Commercial paper notes issued by an entity that is defined in division (D) of section 1705.01 of the Revised Code and that has assets exceeding five hundred million dollars, to which all of the following apply:

   b. The notes are rated at the time of purchase in the highest classification established by at least two nationally recognized standard rating services.

   c. The aggregate value of the notes does not exceed ten percent of the aggregate value of the outstanding commercial paper of the issuing corporation.

d. The notes mature not later than one hundred eighty days after purchase

H. Repurchase Agreements with eligible institutions.

The City is empowered by statute to invest in the following:

- Bonds, notes or other obligations of or guaranteed by the United States.
- Bonds, notes, debentures, or other obligations or securities issued by any federal government agency or instrumentality.
- Certificates of Deposit from eligible financial institutions.
- Repurchase Agreements, only when a Master Repurchase Agreement exists.
- Other types of investments that may be allowed by Ohio Revised Code, Chapter 135.

Repurchase Agreements

Written repurchase agreements with any eligible public depository mentioned in Ohio Revised Code Section 135.03, or with any dealer who is a member of the NASD. All repurchase agreements must be entered into subject to a Master Repurchase agreement providing for the terms outlined below and satisfactory to the Law Director of the City of Forest Park.

The market value of the securities subject held as collateral for an overnight repurchase agreement (including sweep accounts) or term repurchase agreements must exceed the principal by at least 2%, the securities must be marked to market daily and the stated margin will be maintained by the initial seller during the life of the transaction. No one repurchase agreement may exceed $2,000,000. The City retains the right to terminate the agreement and sell the securities outside the repurchase agreement. Reverse repurchase agreements are strictly prohibited.

Term repurchase agreements may not exceed 30 days. Any repurchase agreement with an eligible securities dealer must be transacted on a delivery versus payment basis. For all securities purchased pursuant to a repurchase agreement with an institution or dealer, the institution or dealer must agree in writing to unconditionally repurchase any of the securities used for any repurchase agreement transaction.

Collaterization

All deposits will be collateralized pursuant to the requirements of the Ohio Revised Code. Eligible securities used for collateralizing deposits will be held by the depository and/or a third party bank or trust company subject to security and custodial agreements.

The security agreement will provide that eligible securities are being pledged to secure City deposits together with agreed upon interest, if any, and any costs or expenses arising out of the collection of such deposits upon default. It will also provide the conditions under which the securities may be sold, presented for payment, substituted, or released providing collateral values are maintained, and, the events which will enable the City to exercise its rights against the pledged securities including failure to meet deposit repayment or collateral terms, or the deposit institution's insolvency. In the event that the securities are not registered or inscribed in the name of the City, such securities will be delivered in a form suitable for transfer or with an assignment in blank to the City or its custodial bank.

The custodial agreement will provide that securities held by the bank or trust company, as agent of and custodian for the City, will be kept separate and apart from the general assets of the custodial bank or trust company and will not, in any circumstances, be commingled with or become part of the backing for any other deposit or other liabilities. The agreement will also describe how the custodian will confirm the receipt, substitution, or release of the securities. The agreement will provide for daily revaluation of eligible securities and for the substitution of securities when a change in the rating of a security may cause ineligibility. The agreement will provide that the custodian will exercise the City's rights to the security or as instructed by the City. Such agreement will include all provisions necessary to provide the City with a perfected interest in the securities

Derivatives

Investments in derivatives are strictly prohibited. A derivative is defined in Ohio Revised Code Section 135 as a financial instrument or contract or obligation whose value is based upon or linked to another asset or index or both, separate from the financial instrument, contract, or obligation itself. However, any eligible investment with a variable interest rate payment based upon a single interest payment or single index comprised of other investments consisting of US government or federal agency or instrumentality obligations is not considered a derivative if it matures in two years or less.

Pooling

The pooling of funds by subdivisions is prohibited except as provided in Ohio Revised Code Section 715.02 or Section. IV Article XVIII of the Ohio Constitution, and STAR Ohio.

Pursuant to Chapter 38 of the City Code of Ordinances, the Finance Director may pay public moneys of the City into the State Treasury Asset Reserve of the state in an amount not to exceed $100,000.

Safekeeping and Custody

1. Eligible Institutions and Dealers

Any financial institution located within the State of Ohio as defined by ORC 135.03 is eligible to serve as an approved depository and/or investment provider. Only securities dealers and brokers that are members of the National Association of Securities Dealers (NASD) are eligible to be an investment provider. Investment advisors must be an eligible financial institution as defined by ORC 135.03, or an advisor that is registered with the Securities and Exchange Commission.

A list will be maintained of financial institutions authorized to provide investment services. In addition, a list also will be maintained of approved security broker/dealers selected by creditworthiness (e.g. a minimum capital requirement of $100,000,000 and at least five years of operation). These may include “primary” dealers or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15C3-1 (uniform net capital rule).

All financial institutions and broker/dealers with which the City conducts business must supply the following information to the City of Forest Park as an investment advisor/manager:

- Audited financial statements,
- Proof of National Association of Securities Dealers (NASD) certification,
- Proof of State of Ohio registration,
- Certification of having read the City’s Investment Policy.

The City will bid for investment advisory and management services for no more than a five year period. A contract outlining services to be provided will be maintained by the Director of Finance and on file with the Clerk of Council of the City of Forest Park.

In accordance with Ohio Revised Code, a signed copy of this policy will be kept on file for each investment advisor, financial institution and broker/dealer doing investment business with the City of Forest Park. The signature indicating that the investment advisor has received, read, comprehended and will abide by its content when recommending, buying, or selling any investment security of the City.

The Director of Finance is responsible for evaluating the financial position and maintaining a listing of proposed depositories, trading partners and custodians. An annual review of the financial condition and registration of qualifies financial institutions; broker and dealers will be conducted by the Director of Finance.

To the extent that the City uses the services of an outside Investment Manager, it will be the responsibility of the Investment Manager to establish appropriate credit criteria for broker/dealers with which they execute investment transactions on behalf of the City. Upon request, the Investment Manager will provide the City with a complete list of approved brokers.

2. Internal Control

The City will establish an annual process of independent review which will assure compliance with policies and procedures. A system of internal controls will be designed to protect the city from theft, loss, and misuse of public funds. The City will attempt to prohibit collusion, by separating investment transactions from the accounting and recording of those transactions. The City will assure the timely delivery and matching of custodial trust receipts.

The Director of Finance (Treasurer) will establish an annual process of independent review by an external auditor. This review will provide internal control by assuring compliance with this policy.

3. Delivery vs. Payment

All investment securities purchased by the City or held as collateral on either deposits or investments will be held in third-party safekeeping at a financial institution (to be designated as the “Custodian”) qualified to act in this capacity. All securities held for the City account will be held free and clear of any lien and all transactions will be conducted on a delivery-vs.-payment basis. The Custodian will issue a safekeeping receipt to the City listing the specific instrument, rate, maturity and other pertinent information. On a monthly basis, the custodian will also provide reports which list all securities held for the City, the book value of holdings and the market value as of month-end.

Appropriate City officials and representatives of the Custodian responsible for, or in any manner involved with, the safekeeping and custody process of the City will be bonded in such a fashion as to protect the State from losses from malfeasance and misfeasance.

All security transactions, including collateral for repurchase agreements, will be evidenced by safekeeping receipts.

Reporting

The Director of Finance is responsible for oversight of reporting in compliance with the specific requirements of the Ohio Revised Code. Such reporting will include all items as required by Ohio Revised Code and other such information as deemed appropriate for the proper management and oversight of the City’s investment function.

The investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should obtain a market average rate of return throughout budgetary and economic cycles. A series of appropriate benchmarks will be established against which portfolio performances will be compared on a regular basis.

The market value of the portfolio will be calculated at least quarterly and a statement of the market value of the investment portfolio will be issued at least quarterly. This will ensure that review of the investment portfolio, in term of value and price volatility, has been performed consistent with the Government Finance Officers Association's Recommended Practices.

The Director of Finance (Treasurer) will provide a quarterly investment report which provides a clear picture of the status of the current investment portfolio.

GLOSSARY

AGENCIES: Federal agency securities and/or Government-sponsored enterprises.

ASKED: The price at which securities are offered.

BANKERS' ACCEPTANCE (BA): A draft or bill or exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

BASIS POINTS: The measure of the yield to maturity of an investment calculated to four decimal places. A basis point is 1/100th of 1% (.01 percent).

BENCHMARK: A comparative base for measuring the performance or risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio's investments.

BID: The price offered by a buyer of securities. (When you are selling securities, you ask for a bid.) See Offer,

BOND: A written promise, generally under seal, to pay a specified amount of money, called the face value, at a fixed time in the future, called the date of maturity, and carrying interest at a fixed or variable rate, usually payable periodically.

BROKER: A broker brings buyers and sellers together for a commission.

CERTIFICATE OF DEPOSIT (CD): A time deposit with a specific maturity evidenced by a Certificate. Large-denomination CD's are typically negotiable.

COLLATERAL: Securities, evidence of deposit or other property, which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

COMMERCIAL PAPER: Short-term, unsecured, discounted, and negotiable notes sold by an institutional borrower to investors in order to satisfy immediate cash needs. They are highly liquid debt instruments with maturities of less than three months.

COMPREHENSIVE ANNUAL FINANCIAL **REPORT** (CAFR): The official annual report for the City of Forest Park. It includes five combined statements for each individual fund and account group prepared in conformity with GAAP. It also includes supporting schedules necessary to demonstrate compliance with finance-related legal and contractual provisions, extensive introductory material, and a detailed Statistical Section.

COUPON: (a) The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value. (b) A certificate attached to a bond evidencing interest clue on a payment date. DEALER: A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.

DEBENTURE: A bond secured only by the general credit of the issuer.

DELIVERY VERSUS PAYMENT: There are two methods of delivery of securities: delivery versus payment and delivery versus receipt. Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

DERIVATIVES: (1) Financial instruments whose return profile is linked to, or derived from, the movement of one or more underlying index or security, and may include a leveraging factor, or (2) financial contracts based upon notional amounts whose value is derived from an underlying index or security (interest rates, foreign exchange rates, equities or commodities).

DISCOUNT: The difference between the cost price of a security and its maturity when quoted at lower than face value. A security selling below original offering price shortly after sale also is considered to be at a discount.

DISCOUNT SECURITIES: Non-interest bearing money market instruments that are issued a discount and redeemed at maturity for full face value, e.g., U.S. Treasury Bills.

DIVERSIFICATION: Dividing investment funds among a variety of securities offering independent returns.

FACE VALUE: The value printed or written on the face, as of a bill or bond; the value of a security that is set by the company issuing it.

FEDERAL CREDIT AGENCIES: Agencies of the Federal government set up to supply credit to various classes of institutions and individuals, e.g., Saving & Loan's, small business firms, students, farmers, farm cooperatives, and exporters.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): A federal agency that insures bank deposits, currently up to $100,000 per deposit. FEDERAL FUNDS RATE: The rate of interest at which Fed funds are traded. This rate is currently pegged by the Federal Reserve through open-market operations.

FEDERAL HOME LOAN BANKS (FHLB): Government sponsored wholesale banks (currently 12 regional banks), which lend funds and provide correspondent banking services to member commercial banks, thrift institutions, credit unions and insurance companies. The mission of the FHLBs is to liquefy the housing related assets of its members who must purchase stock in their district Bank.

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA): FNMA, like GNMA was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans, in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

FEDERAL OPEN MARKET COMMITTEE (FOMC): Consists of seven members of the Federal Reserve Board and five of the twelve Federal Reserve Bank Presidents. The President of the New York Federal Reserve Bank is a permanent member, while the other Presidents serve on a rotating basis. The Committee periodically meets to set Federal Reserve guidelines regarding purchases and sales of Government Securities in the open market as a means of influencing the volume of bank credit and money.

FEDERAL RESERVE SYSTEM: The central bank of the United States created by Congress and consisting of a seven member Board of Governors in Washington, D.C., 12 regional banks and about 5,700 commercial banks that are members of the system.

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA): Securities influencing the volume of bank credit guaranteed by FNMA and issued by mortgage bankers, commercial banks, savings and loan associations, and other institutions. Security holder is protected by full faith and credit of the U.S. Government. Fannie Mae securities are hacked by the FHA, VA or FMHA mortgages. The term "pass-through" is often used to describe Freddie Macs.

INTERNAL CONTROL: A plan of organization for cash management, purchasing, accounting and other financial activities which, among other things, provides that: the duties of employees are subdivided so that no single employee handles a financial action from beginning to end; proper authorization from specific responsible officials are obtained before key steps in the processing of a transaction are completed; and records and procedures are arranged appropriately.

LIQUIDITY: A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if-the spread between bid and asked prices is narrow and reasonable size can be done at those quotes. LOCAL GOVERNMENT INVESTMENT POOL (LGIP): The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

MARKET VALUE: The price at which a security is trading and could presumably be purchased or sold.

MASTER REPURCHASE AGREEMENT: A written contract covering all future transactions between the parties to repurchase—reverse repurchase agreements that establishes each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller borrower.

MATURITY: The date upon which the principal or stated value of an investment becomes due and payable.

MONEY MARKET: The market in which short-term debt instruments (bills, commercial paper, bankers' acceptances, etc.) are issued and traded.

MUTUAL FUND: An investment company that continually offers new shares and buys existing shares back at the request of the shareholder and uses its capital to invest in diversified securities of other companies; a regulated investment company with a pool of assets that regularly sells and redeems its shares.

NO-LOAD: Sold directly to customers at net asset value without a sales commission.

NOTE: A promise to pay a specified amount on demand or at a certain time; a written promise to pay a debt with a maturity of less than one year.

OFFER: The price asked by a seller of securities. (When you are buying securities, you ask for an offer.) See Asked and Bid.

OPEN MARKET OPERATIONS: Purchases and sales of government and certain other securities in the open market by the New York Federal Reserve Bank as directed by the FOMC in order to influence the volume of money and credit in the economy. Purchases inject reserves into the bank system and stimulate growth of money and credit; sales have the opposite effect. Open market operations are the Federal Reserve's most important and most flexible monetary policy tool.

PORTFOLIO: Collection of securities held by an investor.

PRIMARY DEALER: A group of government securities dealers who submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC)-registered securities broker-dealers, banks, and a few unregulated firms.

PRUDENT PERSON RULE: An investment standard. In some states the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by the custody state—the so-called legal list. In other states the trustee may invest in a security if it is one which would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

QUALIFIED PUBLIC DEPOSITORIES: A financial institution which does not claim exemption from the payment of any sales or compensating use or ad valorem taxes under the laws of this state, which has segregated for the benefit of the commission eligible collateral having a value of not less than its maximum liability and which has been approved by the Public Deposit Protection Commission to hold public deposits.

RATE OF RETURN: The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond the current income return.

REPURCHASE AGREEMENT (RP OR REPO): A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security "buyer" in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate him for this. Dealers use RP extensively to finance their positions. Exception: When the Fed is said to be doing RP, it is lending money that is, increasing bank reserves.

SAFEKEEPING: A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vaults for protection.

SECONDARY MARKET: A market made for the purchase and sale of outstanding issues following the initial distribution.

SECURITIES & EXCHANGE COMMISSION: Agency created by Congress to protect investors in securities transactions by administering securities legislation.

SEC RULE 15C3-1: See Uniform Net Capital Rule.

STRUCTURED NOTES: Notes issued by Government Sponsored Enterprises (FHLB, FNMA, SLMA, etc.) and Corporations, which have imbedded options (e.g., call features, step-up coupons, floating rate coupons, and derivative-based returns) into their debt structure. Their market performance is impacted by the fluctuation of interest rates, the volatility of the imbedded options and shifts in the shape of the yield curve.

TREASURY BILLS: A non-interest bearing discount: security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months, or one year.

TREASURY BONDS: Long-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities of more than 10 years.

TREASURY NOTES: Medium-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and leaving initial maturities from two to 10 years.

UNIFORM NET CAPITAL RULE: Securities and Exchange Commission requirement that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called net capital rule and net capital ratio. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

YIELD: The rate of annual income return on an investment, expressed as a percentage. (a) INCOME YIELD is obtained by dividing the current dollar income by the current market price for the security. (b) NET YIELD or YIELD TO MATURITY is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.