

FUNDAMENTALS OF PUBLIC FUNDS INVESTING



SESSION 2 | CA GOVERNMENT CODE, LEGAL INVESTMENTS, AND INVESTMENT POLICY

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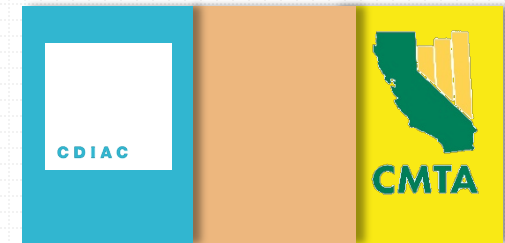


John Johnson

Chief Deputy Treasurer | County of San Bernardino



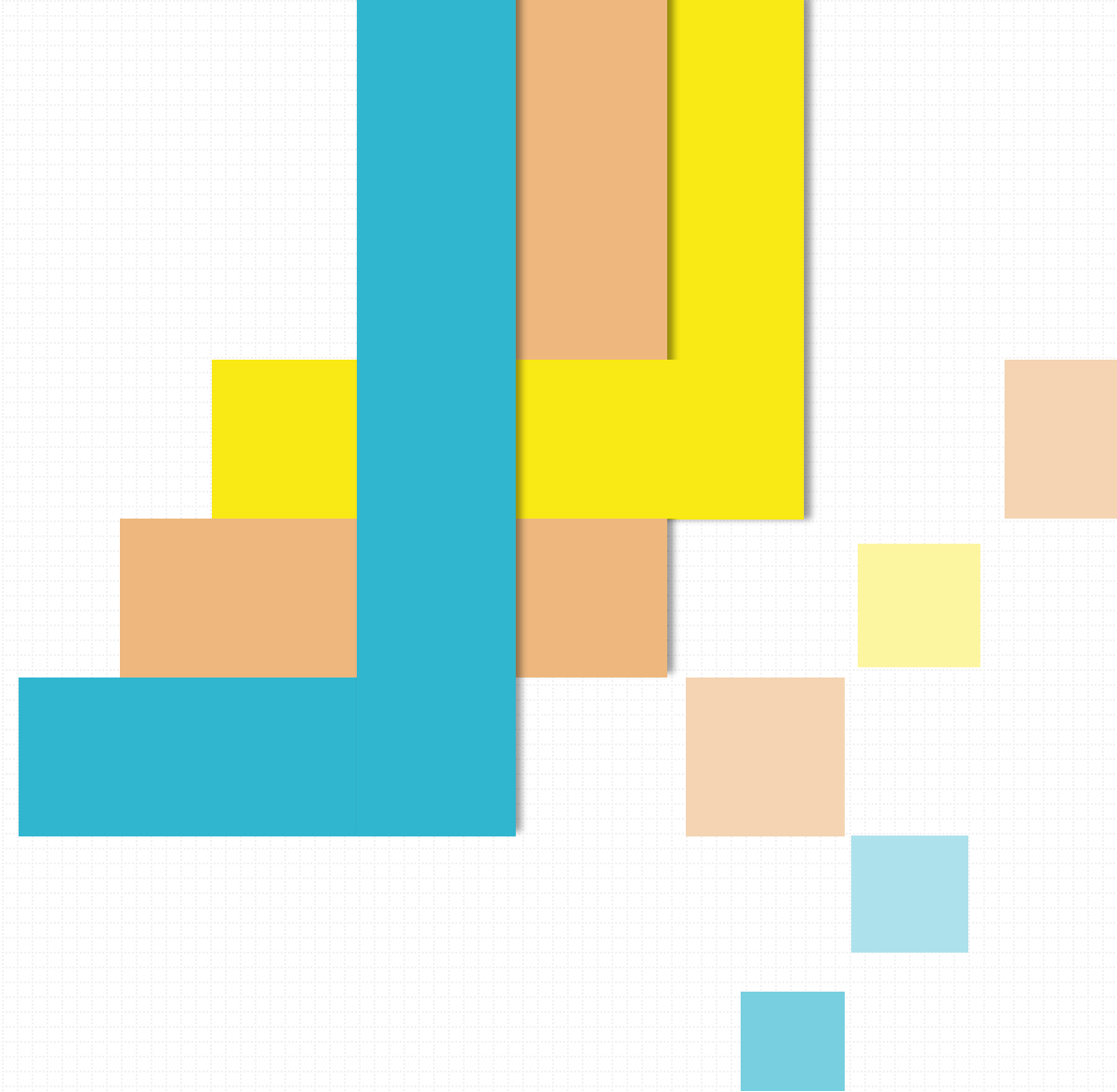
January 14, 2021



SESSION OVERVIEW

California Government Code prescribes the authorized investments available to California public agencies. Further, agencies refine their available investment options and guide their investment decisions through their adopted investment policy. This session will cover an introduction to:

- California Government Code and Resources
- Legislative Changes Incorporated in 2021
- Investment Policies






CALIFORNIA GOVERNMENT CODE AND RESOURCES

CA GOVERNMENT CODE AND RESOURCES

Everything underlined is a
link to more information.



[CA Code
53600 et al](#)

[CDIAC](#)
CA Debt and
Investment
Advisory
Commission

[Local Agency
Investment
Guidelines
\(LAIG\)](#)

[Replays and
Recordings](#)

[CMTA](#)
CA Municipal
Treasurers
Association

[CMTA Investment
Policy Certification
Program &
Application Process](#)

[CMTA Application](#)

[CSMFO](#)
CA Society of
Municipal
Finance
Officers

[APT US & C](#)
Association of
Public Treasurers
of the US and
Canada

[GIOA](#)
Government
Investment
Officers
Association

[GFOA](#)
Government
Finance
Officers
Association

LAIG FIGURE 1

ALLOWABLE INVESTMENT
INSTRUMENTS PER STATE
GOVERNMENT CODE
(AS OF JANUARY 1, 2021)^A
APPLICABLE TO ALL LOCAL
AGENCIES^B

See “Table of Notes for Figure 1”
on the next slide for footnotes
related to this figure

INVESTMENT TYPE	MAXIMUM REMAINING MATURITY ^C	MAXIMUM SPECIFIED % OF PORTFOLIO ^D	MINIMUM QUALITY REQUIREMENTS	GOVERNMENT CODE SECTIONS
Negotiable Certificates of Deposit	5 years	30% ^J	None	53601(i)
Non-negotiable Certificates of Deposit	5 years	None	None	53630 et seq.
Placement Service Deposits	5 years	50% ^K	None	53601.8 and 53635.8
Placement Service Certificates of Deposit	5 years	50% ^K	None	53601.8 and 53635.8
Repurchase Agreements	1 year	None	None	53601(i)
Reverse Repurchase Agreements and Securities Lending Agreements	92 days ^L	20% of the base value of the portfolio	None ^M	53601(i)
Medium-term Notes ^N	5 years or less	30% ^G	“A” rating category or its equivalent or better	53601(k)
Mutual Funds and Money Market Mutual Funds	N/A	20% ^O	Multiple ^{P,Q}	53601(l) and 53601.6(b)
Collateralized Bank Deposits ^R	5 years	None	None	53630 et seq. and 53601(n)
Mortgage Pass-through and Asset Backed Securities	5 years or less	20%	“AA” rating category or its equivalent or better	53601(o)

LAIG FIGURE 1, Continued

ALLOWABLE INVESTMENT
INSTRUMENTS PER STATE
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footnotes related to this figure

INVESTMENT TYPE	MAXIMUM REMAINING MATURITY ^C	MAXIMUM SPECIFIED % OF PORTFOLIO ^D	MINIMUM QUALITY REQUIREMENTS	GOVERNMENT CODE SECTIONS
Local Agency Bonds	5 years	None	None	53601(a)
U.S. Treasury Obligations	5 years	None	None	53601(b)
State Obligations: CA and Others	5 years	None	None	53601(d)
CA Local Agency Obligations	5 years	None	None	53601(e)
U.S. Agency Obligations	5 years	None	None	53601(f)
Bankers' Acceptances	180 days	40% ^E	None	53601(g)
Commercial Paper: Non-pooled Funds ^F (under \$100,000,000 of investments)	270 days or less	25% of the agency's money ^G	Highest letter and number rating by an NRSRO ^H	53601(h)(2)(C)
Commercial Paper: Non-pooled Funds (min. \$100,000,000 of investments)	270 days or less	40% of the agency's money ^G	Highest letter and number rating by an NRSRO ^H	53601(h)(2)(C)
Commercial Paper: Pooled Funds ^I	270 days or less	40% of the agency's money ^G	Highest letter and number rating by an NRSRO ^H	53635(a)(1)

LAIG FIGURE 1, Continued

ALLOWABLE INVESTMENT
INSTRUMENTS PER STATE
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(AS OF JANUARY 1, 2021)^A
APPLICABLE TO ALL LOCAL
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See “Table of Notes for Figure
1” on the next slide for
footnotes related to this figure

INVESTMENT TYPE	MAXIMUM REMAINING MATURITY ^C	MAXIMUM SPECIFIED % OF PORTFOLIO ^D	MINIMUM QUALITY REQUIREMENTS	GOVERNMENT CODE SECTIONS
County Pooled Investment Funds	N/A	None	None	27133
Joint Powers Authority Pool	N/A	None	Multiple ^S	53601(p)
Local Agency Investment Fund (LAIF)	N/A	None	None	16429.1
Voluntary Investment Program Fund ^T	N/A	None	None	16340
Supranational Obligations ^U	5 years or less	30%	“AA” rating category or its equivalent or better	53601(q)
Public Bank Obligations	5 years	None	None	53601(r), 53635(c) and 57603

TABLE OF NOTES FOR FIGURE 1

Sources: Sections 16340, 16429.1, 27133, 53601, 53601.6, 53601.8, 53630 et seq., 53635, 53635.8, and 57603.

Municipal Utilities Districts have the authority under the Public Utilities Code Section 12871 to invest in certain securities not addressed here.

Section 53601 provides that the maximum term of any investment authorized under this section, unless otherwise stated, is five years. However, the legislative body may grant express authority to make investments either specifically or as a part of an investment program approved by the legislative body that exceeds this five year remaining maturity limit. Such approval must be issued no less than three months prior to the purchase of any security exceeding the five-year maturity limit.

Percentages apply to all portfolio investments regardless of source of funds. For instance, cash from a reverse repurchase agreement would be subject to the restrictions.

No more than 30 percent of the agency's money may be in bankers' acceptances of any one commercial bank.

Includes agencies defined as a city, a district, or other local agency that do not pool money in deposits or investment with other local agencies, other than local agencies that have the same governing body.

Local agencies, other than counties or a city and county, may purchase no more than 10 percent of the outstanding commercial paper and medium-term notes of any single issuer.

Issuing corporation must be organized and operating within the U.S., have assets in excess of \$500 million, and debt other than commercial paper must be in a rating category of "A" or its equivalent or higher by a nationally recognized statistical rating organization, or the issuing corporation must be organized within the U.S. as a special purpose corporation, trust, or LLC, have program wide credit enhancements, and have commercial paper that is rated "A-1" or higher, or the equivalent, by a nationally recognized statistical rating agency.

Includes agencies defined as a county, a city and county, or other local agency that pools money in deposits or investments with other local agencies, including local agencies that have the same governing body. Local agencies that pool exclusively with other local agencies that have the same governing body must adhere to the limits set forth in Section 53601(h)(2)(C).

No more than 30 percent of the agency's money may be in negotiable certificates of deposit that are authorized under Section 53601(i).

Effective January 1, 2020, no more than 50 percent of the agency's money may be invested in deposits, including certificates of deposit, through a placement service as authorized under 53601.8 (excludes negotiable certificates of deposit authorized under Section 53601(i)). On January 1, 2026, the maximum percentage of the portfolio reverts back to 30 percent. Investments made pursuant to 53635.8 remain subject to a maximum of 30 percent of the portfolio.

Reverse repurchase agreements or securities lending agreements may exceed the 92-day term if the agreement includes a written codicil guaranteeing a minimum earning or spread for the entire period between the sale of a security using a reverse repurchase agreement or securities lending agreement and the final maturity dates of the same security.

Reverse repurchase agreements must be made with primary dealers of the Federal Reserve Bank of New York or with a nationally or state chartered bank that has a significant relationship with the local agency. The local agency must have held the securities used for the agreements for at least 30 days.

"Medium-term notes" are defined in Section 53601 as "all corporate and depository institution debt securities with a maximum remaining maturity of five years or less, issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States."

No more than 10 percent invested in any one mutual fund. This limitation does not apply to money market mutual funds.

A mutual fund must receive the highest ranking by not less than two nationally recognized rating agencies or the fund must retain an investment advisor who is registered with the SEC (or exempt from registration), has assets under management in excess of \$500 million, and has at least five years' experience investing in instruments authorized by Sections 53601 and 53635.

A money market mutual fund must receive the highest ranking by not less than two nationally recognized statistical rating organizations or retain an investment advisor registered with the SEC or exempt from registration and who has not less than five years' experience investing in money market instruments with assets under management in excess of \$500 million.

Investments in notes, bonds, or other obligations under Section 53601(n) require that collateral be placed into the custody of a trust company or the trust department of a bank that is not affiliated with the issuer of the secured obligation, among other specific collateral requirements.

A joint powers authority pool must retain an investment advisor who is registered with the SEC (or exempt from registration), has assets under management in excess of \$500 million, and has at least five years' experience investing in instruments authorized by Section 53601, subdivisions (a) to (o).

Local entities can deposit between \$200 million and \$10 billion into the Voluntary Investment Program Fund, upon approval by their governing bodies. Deposits in the fund will be invested in the Pooled Money Investment Account.

Only those obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), and Inter-American Development Bank (IADB), with a maximum remaining maturity of five years or less.

ALLOWABLE INVESTMENTS

This table provides educational resources for allowable investment instruments per California Government Code.

Allowable Investment	CDIAC Webinar	Link to Webinar
US Treasury Securities	1	Investing In Treasuries
Municipal Notes/Bonds Local Agency State Obligations-CA & Others CA Local Agency	3	When It Makes Sense to Buy Municipals
US Government Agency Securities, aka Government Sponsored Enterprises (GSEs)	2	Demystifying the World of U.S. Federal Agencies and Supranationals
Bankers' Acceptances	4, Part 1	Understanding Banker's Acceptances and Commercial Paper
Commercial Paper		
Certificates of Deposit	4, Part 2	Money Markets Certificates of Deposit, Deposit Placements Services & Collateralized Bank Deposits
Bank Deposits		
Placement Services		
Repo/Reverse Repo/Securities Lending Investment Agreements	4, Part 3	Utilizing Repurchase Agreements, Reverse Repos, and Securities Lending Agreements
Medium Term Notes	5	Making Sense of Corporate Notes and Bonds
Mutual Funds and Money Market Mutual Funds	7	Differentiating Mutual Funds from Money Market Mutual Funds and Understanding Investment Pools
Investment Pools		
Mortgage Pass-through and Asset Backed Securities	6	Understanding Structured Pooled Securities
Supranational Securities	2	Demystifying the World of U.S. Federal Agencies and Supranationals
Public Bank Obligations		



LEGISLATIVE CHANGES INCORPORATED IN 2021

2021 LEGISLATIVE UPDATES



SENATE BILL 998 (MOORLACH) [SB 998 2019-2020 Chaptered](#)

- Increases portfolio concentration limits for securities authorized under CGC 53601(h) from 25% to 40%, *if agency assets under management are over \$100MM*. (No changes for agencies authorized under CGC 53635).
- Drops the 10% of *outstanding* commercial paper per single issuer limit
- Adds portfolio *concentration* limit of 10% for a single corporate issuer's commercial paper *and* medium-term notes for agencies and special districts (other than a county, or a city and a county).
- Allows for purchases of *US Government Securities* with zero or negative interest accrual, *in the event of, and for the duration of, a period of negative market interest rates*.
- Clarifies that Federally recognized Indian tribes can participate in JPA Investment Pools
- Sunsets January 1, 2026

2021 LEGISLATIVE UPDATES



SEC ACCREDITED INVESTOR AND QUALIFIED INSTITUTIONAL BUYER RULE CHANGES FOR PURCHASES OF PRIVATE PLACEMENT SECURITIES (RULE 144A) [FINAL RULE](#)

- Amendment 144A(a)(1)(i)(J) encompasses all **entity types** that are not already listed in paragraphs (a)(1)(i)(A) through (I) or paragraphs (a)(1)(ii) through (vi) of Rule 144A, including Indian tribes, **governmental bodies**, and bank-maintained collective investment trusts.

2021 LEGISLATIVE UPDATES



- Changes the legal standards to allow State and Local Governments to be considered having Accredited Investor Status if Investment Assets under Management are \$5MM> and,
- Qualified Institutional Buyer Status if Investment Assets Under Management are \$100MM>.
- Effective December 8, 2020

2021 LEGISLATIVE UPDATES



3(a)3, 3(a)2 CP:

- Must only be used by the companies to finance working capital needs (think inventory, accounts receivables etc.) or meet current period expenses like payroll, office rent etc. In legal language; these are called 'current expenses'
- Maturity \leq 270 days.

4(2) 3(c)7 / 144a CP:

- Proceeds can be used for all purposes above plus mergers and acquisitions, share repurchases, buying investment securities, buying fixed assets and other non-working capital needs.
- Maturity \leq 397 days.

Summary:

- Because paper issued under 4(a)(2) and 3(c)(7) has much more flexibility; many issuers have converted their Programs from 3(a)(3) to 4(2) and 3(c)(7) Programs.
- Although the statistics vary and are not centrally maintained, some estimate that more than 75% of commercial paper is now issued under 4(2), less than 10% as 3(c)7 and approximately 15% as 3a3/3a2.
- Note: California code only allows a maximum final maturity of 270 days for any type of commercial paper.

CP Registration Type	3a2, 3a3	4(2)	3(c 7)
Public	May Purchase	May Not Purchase	May Not Purchase
Accredited Investor	May Purchase	May Purchase Only New Issue	May Not Purchase
Qualified Institutional Buyer	May Purchase	May Purchase New Issue and Secondary	May Purchase New Issue and Secondary



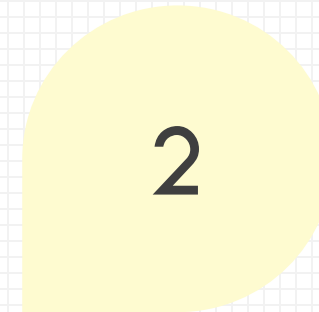
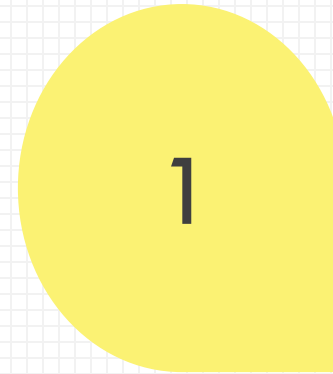
INVESTMENT POLICIES

INVESTMENT POLICY IMPORTANCE

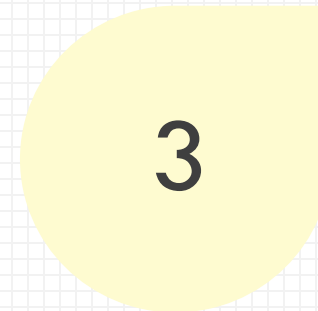
YOUR INVESTMENT POLICY IS
IMPORTANT TO:

- Your Constituents
- Auditors
- Capital Markets
(issuing, buying/selling)
- Rating Agencies

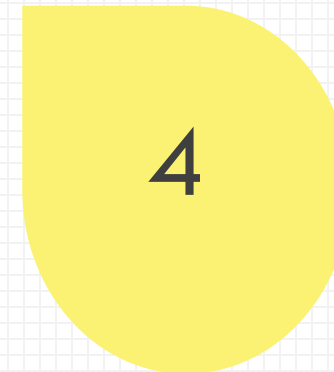
Defines whether your
investment policy
statement (IPS) is
more restrictive than
CA Code or matches
the minimum
standards set forth
by code requirements



Identifies investment
objectives, risk
tolerance and
constraints on the
investment portfolio



Demonstrates a
commitment to the
fiduciary care of
public funds



Facilitates decision
making with the
emphasis on safety,
liquidity, and yield

CMTA CERTIFICATION PROCESS

Independent certification reinforces to your council/board, auditors, constituents, capital markets and rating agencies that you've taken steps towards a sound, quality investment policy.



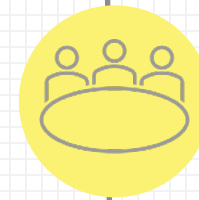
[CMTA's Investment Policy Certification](#) will provide you with a run-down of the process. CMTA's Investment Policy Certification Program and Application Process was developed by CMTA with support from CDIAC.



[The CMTA Certification Program and Application](#) takes you step by step through the application process



The Sample Investment Policy is your “open book” to best practices, presentation and minimum points the committee is looking for to certify your investment policy



Reviewed by Committee members that have extensive public finance experience



Certification fee is nominal : \$175 for a participating CMTA member or \$270 for a non-member (which includes a new membership to CMTA). The turn-around time is 6 weeks or sooner; must meet criteria with a score of 85 or above. You can re-submit for no additional charge if done within 90 days of notification.

CMTA BEST PRACTICES

POLICY CERTIFICATION

Scope

Prudence

Objective

Delegation of Authority

Ethics and Conflicts of Interest

Authorized Financial Dealers and
Institutions

Authorized and Suitable Investments

Investment Pools/Mutual Funds

Collateralization

Safekeeping and Custody

Diversification

Maximum Maturities

Internal Control

Performance Standards

Reporting

Investment Policy Adoption

Glossary

TREASURY OVERSIGHT COMMITTEE

GC Sections 27131 and 27132 through 27132.4 consider the formation, composition, and role of a county treasury oversight committee. These code sections provide that the function of the treasury oversight committee is to monitor and review the county investment policy by conducting or causing an annual audit and discussing its findings at a public meeting. The rationale behind the creation of an oversight committee is to give local agencies and private sector citizens a say in the policies governing the investment pool. (See [LAIG](#) Chapter IV)

IPS and Rating Agencies

If your treasury pool is rated, it is advisable to ask your rating agency to review any proposed IPS changes. Good communication is very important.

Rating Agencies will not officially “approve” your IPS.

Rating Agencies will “review” your IPS and opine as to whether your limits are consistent with specific ratings criteria.

Rating Agencies do consider your IPS when rating your treasury pool/fund.

31.0 AUTHORIZED INVESTMENTS (SCHEDULE I)

COUNTY OF SAN BERNARDINO INVESTMENT POLICY					
OFFICE OF THE AUDITOR-CONTROLLER/TREASURER/TAX COLLECTOR (SCHEDULE I)					
AUTHORIZED INVESTMENTS	DIVERSIFICATION	PURCHASE RESTRICTIONS		MATURITY (not to exceed)	MINIMUM ALLOWABLE CREDIT QUALITY (S&P/MOODY'S/FITCH)
United States Treasury notes, bonds, bills, or certificates of indebtedness, or those for which the full faith and credit of the U. S. are pledged for the payment of principal and interest 53601(b)	100%	None		5 years and 6 months	Not Applicable
Notes, participations or obligations issued or fully guaranteed as to principal and interest by an agency of the Federal Government or U.S. government-sponsored enterprises 53601(f)	100%	Senior debt only		5 years and 6 months	Not Applicable
Notes, participations or obligations issued or fully guaranteed as to principal and interest by the International Bank for Reconstruction and Development, the International Finance Corporation, and/or the Inter-American Development Bank 53601(q)	30%	US Dollar denominated Senior Unsecured debt only		5 years	AA by at least one rating agency*
Bonds, notes, warrants or certificates of indebtedness issued by agencies of and/or within the County of San Bernardino 53601(e)	10%	With approval of Treasurer		5 years	AAA by at least 2 of the 3 rating agencies*
Commercial paper of U.S. Corps with total assets in excess of \$500 MM 53635(a)(1)	40% total for all Commercial Paper	Max 5% of portfolio by any one issuer, subject to 5% overall corporate issuer limit		270 Days	Rated by at least 2 of the 3 rating agencies, minimum A-1, P-1, and/or F1 (if rated)*
Asset-backed Commercial Paper 53635(a)(1)	40% total for all Commercial Paper	Issuer must have program-wide credit enhancements		270 Days	Rated by at least 2 of the 3 rating agencies, minimum A-1, P-1, and/or F1 (if rated)*

Negotiable CDs issued by approved banks 53601(i)	30%	Max 5% of portfolio by any one issuer, subject to 5% overall corporate issuer limit		3 years and 2 months (38 months) from settlement date	Rated by at least 2 of the 3 rating agencies, minimum A-1, P-1, and/or F1 short-term rating or long-term letter rating of A- and/or A3, or higher (if rated)*
Collateralized Certificates of Deposit 53630 et. seq. and 53601(n)	10%	As stipulated in Article 2, Section 53630 et al. of the Calif. Govt. Code		1 year from settlement date	See Section 53630 et al. of the California Government Code
Repurchase Agreements with 102% collateral 53601(i)	40%	Repurchase Agreements (contracts) must be on file		180 days	Restricted to Primary Dealers on Eligible Broker/Dealer List
Reverse Repurchase Agreements 53601(i)	10%	See Schedule II		92 days (See Schedule II)	Restricted to Primary Dealers on Eligible Broker/Dealer List
Medium Term Notes of U.S. Corporations & Depository Institutions and/or Corporate or Bank notes 53601(k)	20% (shall not exceed 10% over 13 months)	Subject to 5% overall corporate issuer limit.		3 years and 2 months (38 months) from settlement date	Rated long-term A- and/or A3, or higher by at least 2 of the 3 rating agencies*
Asset-Backed Securities 53601(o)	10%	Subject to 5% overall special purpose entity** limit		5 years	As per Section 53601(o) of the California Government Code
FDIC Insured Deposit Accounts Authorized under California Government Code 53601.8 & 53635.8	5%	Max \$100MM per selected depository institution. Max \$100MM per placement service		Term Deposits not permitted	Not Applicable
JPA Investment Pools authorized under California Government Code Section 53601(p)	5%	JPA Pool Maintain Constant Net Asset Value (NAV)		Immediate Liquidity	AAA by at least one rating agency*
Money Market mutual funds that meet requirements of California Government Code 53601(l) and 53601.6(b)	20%	Registered with SEC. No NAV adjustments. No loads. Max 10% per fund.		Immediate Liquidity	AAA by at least 2 of the 3 rating agencies*
<p>* Standard & Poor's Ratings Services, Moody's Investors Service Inc., and Fitch Ratings Ltd. "New Issue" securities may be purchased and settled based on anticipated ratings.</p> <p>** See Glossary Terms</p>					

IPS POLICY TABLE (ENLARGED)

31.0 AUTHORIZED INVESTMENTS (SCHEDULE I)

COUNTY OF SAN BERNARDINO INVESTMENT POLICY					
OFFICE OF THE AUDITOR-CONTROLLER/TREASURER/TAX COLLECTOR (SCHEDULE I)					
AUTHORIZED INVESTMENTS	DIVERSIFICATION	PURCHASE RESTRICTIONS		MATURITY (not to exceed)	MINIMUM ALLOWABLE CREDIT QUALITY (S&P/MOODY'S/FITCH)
United States Treasury notes, bonds, bills, or certificates of indebtedness, or those for which the full faith and credit of the U. S. are pledged for the payment of principal and interest 53601(b)	100%	None		5 years and 6 months	Not Applicable
Notes, participations or obligations issued or fully guaranteed as to principal and interest by an agency of the Federal Government or U.S. government-sponsored enterprises 53601(f)	100%	Senior debt only		5 years and 6 months	Not Applicable
Notes, participations or obligations issued or fully guaranteed as to principal and interest by the International Bank for Reconstruction and Development, the International Finance Corporation, and/or the Inter-American Development Bank 53601(q)	30%	US Dollar denominated Senior Unsecured debt only		5 years	AA by at least one rating agency*

BIG MISTAKES TO AVOID

Having language in your IPS that *forces* you to take a realized loss

Being too restrictive/inflexible to respond to market conditions and changes

Failing to review every code reference in your IPS and update with new legislative changes on an annual basis (sunset provisions, code nomenclature changes, new code sections, etc.)

LANGUAGE ON LOSSES

San Bernardino County Investment Policy

AUTHORIZED
INVESTMENTS

MITIGATING MARKET
AND CREDIT RISK

TRADING AND EARLY
SALE OF SECURITIES

AUTHORIZED INVESTMENTS: Investments shall be restricted to those authorized in the California Government Code and as further restricted by this policy statement, with the exception of certain bond funds in which the Board of Supervisors has specifically authorized other allowable investments. All investments shall be further governed by the restrictions shown in Schedule I, which defines the type of investments authorized, maturity limitations, portfolio diversification (maximum percent of portfolio), credit quality standards, and purchase restrictions that apply. Whenever a maximum allowable percentage of the portfolio is stated for any type of security as detailed above, the maximum allowable limit is determined by the portfolio size at the market close of the regular business day prior to the security purchase date. Maximum limits are applicable *at the time of security purchase only unless otherwise noted or defined in Schedule I.*

LANGUAGE ON LOSSES

San Bernardino County Investment Policy

AUTHORIZED
INVESTMENTS

MITIGATING MARKET
AND CREDIT RISK

TRADING AND EARLY
SALE OF SECURITIES

MITIGATING MARKET & CREDIT RISKS: Safety of principal is the primary objective of the portfolio. Each investment transaction shall seek to minimize the County's exposure to market and credit risks by giving careful and ongoing attention to the credit ratings issued by Standard & Poor's, Moody's and/or Fitch rating services on the credit worthiness of each issuer of securities, by limiting the duration of investments to the time frames noted in Schedule I, and by maintaining the diversification and liquidity standards expressed within this policy. *In the event of a downgrade of a security held in the portfolio, the Investment Officer shall report the downgrade to the Treasurer promptly. In the event of a downgrade below the minimum credit ratings authorized by this policy, the security shall be evaluated to determine whether the security shall be sold or held.* It is preferred to sell such a security if there is no book loss. *In the event of a potential loss upon sale, the Treasurer will evaluate whether to hold or sell the security based on the amount of loss, remaining maturity and any other relevant factors.*

LANGUAGE ON LOSSES

San Bernardino County Investment Policy

AUTHORIZED
INVESTMENTS

MITIGATING MARKET
AND CREDIT RISK

TRADING AND EARLY
SALE OF SECURITIES

TRADING & EARLY SALE OF SECURITIES: Securities should be purchased with the intent of holding them until maturity. However, in an effort to minimize market risks, credit risks, and increase the total return of the portfolio, *securities may be sold prior to maturity, either at a profit or loss, when market conditions or a deterioration in credit worthiness of the issuer warrant a sale of the securities to either enhance overall portfolio yield or to minimize loss of investment principal.* In measuring a profit or loss, the sale proceeds shall be compared to the original cost as per the County's books of the security plus accrued interest earned and/or any accretion or amortization of principal on the security from the date of purchase or the last coupon date to the date of sale.

However, the sale of a security at a loss can only be made with the approval of the County Treasurer or his designee.

SPECIAL ATTACHMENTS TO IPS (EXAMPLE)

San Bernardino County Investment Policy

POLICY STATEMENT ON REVERSE REPURCHASE AGREEMENTS AND SECURITIES LENDING AGREEMENTS

The Treasurer hereby institutes the following policies as further safeguards governing investments in Reverse Repurchase Agreements and Securities Lending Agreements:

1. The total of Reverse Repurchase Agreement and Securities Lending Agreement transactions shall not exceed 10 percent of the base value of the portfolio.
2. The term of such agreements shall not exceed 92 calendar days, unless the agreement includes a written codicil guaranteeing a minimum earning or spread for the entire period between the sale of a security using such an agreement and the final maturity date of the same security.
3. All loaned securities subject to Reverse Repurchase Agreements or Securities Lending Agreements shall be properly flagged and immediately accounted for in the Treasurer's financial system.
4. Investments purchased from the loaned proceeds of the Reverse Repurchase Agreement shall have maturities not exceeding the due date for repayment of the Reverse Repurchase Agreement transaction.
5. Only U.S. Treasury Notes and Federal Agency securities owned, fully paid for, and held in the Treasurer's portfolio for a minimum of 30 days can be subject to Reverse Repurchase Agreement and Securities Lending Agreement transactions.
6. Reverse Repurchase Agreements and Securities Lending Agreements shall only be placed on portfolio securities that are intended to be held to maturity, have been fully paid for, and have been held in the portfolio for a minimum of 30 days.
7. Reverse Repurchase Agreements and Securities Lending Agreements shall only be made with primary dealers of the Federal Reserve Bank of New York.
8. A contractual agreement must be in place prior to entering into a Reverse Repurchase Agreement or Securities Lending Agreement with any authorized primary dealer.
9. Reverse Repurchase Agreement and Securities Lending Agreement transactions shall have the approval of the County Treasurer.

Disclosure and Resources

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