CALIFORNIA MUNICIPAL TREASURERS ASSOCIATION
CERTIFIED INVESTMENT POLICY

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TREASURERS ASSOCIATION

Investment Policy Certification

City of South Lake Tahoe

The California Municipal Treasurers Association certifies that the investment policy of the City of South Lake Tahoe complies with the current State statutes governing the investment practices of local government entities located within the State of California. This Policy shall be certified for the duration of one calendar year beginning February 4, 2013.

President

February 7, 2013
Date

Certification Date: February, 2013

City Treasurer David Olivo

City of South Lake Tahoe
Investment Policy
Fiscal Year 2011-2012

I. POLICY

It is the policy of the City of South Lake Tahoe (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 state and local statutes governing the investment of public funds.

II. SCOPE

This investment policy applies to all financial assets of the City. These funds are accounted for in the City's Comprehensive Annual Financial Report and include:

- General Fund
- Special Revenue Funds
- Debt Service Funds
- Capital Project Funds
- Enterprise Funds
- Internal Service Funds
- Fiduciary Funds

This investment policy does not apply to Bond Proceeds or Deferred Compensation Funds. California Government Code Section 5922(d) authorizes bond, certificates of participation notes and other debt issue proceeds to be invested in accordance with the related offering documentation. These Code Sections recognize the unique needs and objectives of such proceeds. Likewise, Deferred Compensation Plans are covered under California Government Code.

III. PRUDENT PERSON RULE

Investments shall 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 probable safety of their capital as well as the probable income to be derived.

1. The standard of **prudence** to be used by investment officials shall be the "prudent person" and/or "prudent investor" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and the investment policy and exercising due diligence shall 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 is taken to control adverse developments.

IV. OBJECTIVE

1. **Safety**: Safety of principal is the foremost objective of the investment program. Investments of the City shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, the City will diversify its investments by investing funds among a variety of securities offering independent returns and financial institutions.

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

3. **Yield on Investments**: The City's investment portfolio shall be designed with the objective of attaining a benchmark rate of return throughout budgetary and economic cycles, commensurate with the City's investment risk constraints and the cash flow characteristics of the portfolio.

V. DELEGATION OF AUTHORITY

Authority to manage the City's investment program is derived from California Government Code 53646. Management responsibility for the investment program is hereby delegated to the City Treasurer who shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials, and their procedures in the absence of the City Treasurer.

1. Investment Procedures: The City Treasurer shall establish written investment policy procedures for the operation of the investment program consistent with this policy. The procedures should include reference to: safekeeping, PSA repurchase agreements, wire transfer agreements, banking service contracts and collateral/depository agreements. Such procedures shall include explicit delegation of authority of persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the City Treasurer.

VI. ETHICS AND CONFLICT OF INTEREST

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which would impair their ability to make impartial investment decisions. Employees and investment officials shall disclose to the City Manager any material financial interests in financial institutions that conduct business within their jurisdiction, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the City. All the City's employees who are listed on the City's Conflict of Interest Policy are required by the Fair Political Practices Commission to complete and file a Form 700 annually.

VII. AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

The Treasurer will maintain a list of financial institutions authorized to provide investment services. In addition, a list will also be maintained for approved or security broker/dealers selected by, the City Treasurer and approved by the City council, for their credit worthiness that are authorized to provide investment services in the State of California. These may include "primary" dealers or regional dealers that qualify under Securities & Exchange Commission Rule 15C3-1 (uniform net capital rule). No public deposit shall be made except in a qualified public depository as established by state laws. All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the Treasurer with the following: *audited financial statements, proof of National Association of Security Dealers certification, trading resolution, proof of state registration, completed broker/dealer questionnaire, certification of having read City's investment policy and depository contracts.*

An annual review of financial condition and registrations of qualified bidders will be conducted by the Treasurer. A current audited financial statement is required to be on file for each financial institution and broker/dealer in which the City invests.

VIII. AUTHORIZED AND SUITABLE INVESTMENTS

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

1. Certificates of Deposit (or Time Deposits) placed with commercial banks and or savings and loan institutions.

2. Bankers' Acceptance.

3. Securities of the U.S. Government or its agencies.

4. Commercial Paper.

5. Medium-Term Corporate Notes.

6. Local Agency Investment Fund (State Pool) Demand Deposits.

7. Negotiable Certificates of Deposit.

8. Passbook Savings Account Demand Deposits.

9. Shares of beneficial interest issued by diversified management companies (Government Security Mutual Funds 2370M of the California Revenue and Taxation Code).

10. Bonds or Notes of California Local Agencies.

11. Bond proceeds may be invested as authorized by California Government Code 53601(k), but may also be invested in authorized investments as outlined in bond covenants and agreements.

12. Registered Treasury Notes or Bonds of all 50 United States.

Prohibited Investments: Under Provisions of California Code 53601.6 the City shall not invest any funds covered by this Investment Policy in inverse floaters, range notes, interest-only strips derived from mortgage pools or any investment that may result in a zero interest accrual if held to maturity. Also, the City shall not invest in Reverse Repurchased Agreements and Mortgage Pass Through Securities.

IX. INVESTMENT POOLS/MUTUAL FUNDS

A thorough investigation of the pool/funds is required prior to investing, and on a continual basis. There shall be a questionnaire developed which will answer the following general questions:

- A description of eligible investment securities, and a written statement of investment policy and objectives.
- A description of interest calculations and how it is distributed, and how gains and losses are treated.
- A description of how the securities are safeguarded (including the settlement processes), and how often the securities are priced and the program audited.
- A description of who may invest in the program, how often, what size deposit and withdrawal are allowed.
- A schedule for receiving statements and portfolio listings.
- Are reserves, retained earnings, etc. utilized by the pool/fund?
- A fee schedule, and when and how is it assessed.
- Is the pool/fund eligible for bond proceeds and/or will it accept such proceeds?

X. COLLATERIZATION

Collateraliztion will be required on two types of investments: certificates of deposit and sweep checking accounts. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be 110% of market value of principal and accrued interest.

The City chooses to limit collateral to the following: certificates of deposit and sweep checking accounting held by an independent third party with whom the entity has a current custodial agreement. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the entity and retained. The right of collateral substitution is granted.

Collateral for other investments must be 110% of principal for government securities and 150% of principal for first mortgages.

XI. SAFEKEEPING AND CUSTODY

All security transactions entered into by the City shall be conducted on a delivery-versus payment (DVP) basis. Securities will be held by a third party custodian designated by the Treasurer and evidenced by safekeeping receipts.

XII. DIVERSIFICATION

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.

The City Treasurer may invest in the following types of Investment Instruments:

1. Certificate of Deposit: Cash will be invested only in FDIC or FSLIC insured certificates of deposit. Collateral for investments of greater than $250,000.00 in any one institution will only be considered through one of the 15 largest banks in the United States with a credit rating of "aaa" by A.M. Best & Company or "5 stars" by Bank Rate.com. No more than 5% of the City portfolio, not to exceed $500,000.00 shall be invested in any one institution. An institution must meet the following further criteria:

   a. The institution must have been in existence for more than two calendar years.

   b. The institution must maintain a net worth to asset ratio of at least 3% with a positive earnings record for at least the past two years.

   c. The institution offices must be located within the United States of America. In no case, however, will an amount greater than the FDIC or FSLIC insured maximum be invested in an institution located outside of the State of California.

2. Bankers' Acceptances: The City will only invest through the 15 largest banks in the United States or the 100 largest banks in the world (in terms of assets). The maximum investment with any one institution will not exceed $1.0 million. The maximum maturity will be 180 days. The maximum proportion of City funds invested in Bankers' Acceptance shall not exceed 20% of the total City portfolio. (Note: California Government Code allows a maximum of 40%).

3. Securities of the U.S. Government or its Agencies: Securities purchased from brokers/dealers shall be held in third party safekeeping by the trust department of the City's bank or by other designated third party trust in the City's name and control, whenever possible.

4. Commercial Paper: The City will require safekeeping documentation in an acceptable safekeeping account in the City's name. Commercial paper will be used solely as a short-term investment not to exceed 270 days. The City will only invest through the largest 15 banks (in terms of assets) in the United States. Commercial paper will be of "prime" quality of the highest ranking or of the highest letter and number rating as provided for by a nationally recognized statistical-rating organization.

5. Medium-Term Corporate Notes: The City will require safekeeping documentation in an acceptable safekeeping account in the City's name. The City may invest in medium-term corporate notes of a maximum of five years maturity 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.

Notes eligible for investment shall be rated "A" or better by a nationally recognized rating service. The maximum proportion of City funds invested in Medium Term Corporate Notes shall not exceed 30% of the total City Portfolio.

6. Local Agency Investment Fund (State Pool): The investment with LAIF may not, by state regulation, exceed $50 million. LAIF transactions, by LAIF guidelines, are not to exceed 15 per month.

7. Negotiable Certificates of Deposit: the City shall only invest with the largest 15 banks (in terms of asset) in the United States.

8. Passbook Savings Account Demand Deposits: This account shall be maintained solely for the following purposes:

a. Investment of amounts over $100,000.00 received too late in the day to invest in other instruments; or,

b. Investment of amounts under $100,000.00 for periods of up to ten working days in order to fine-tune cash flow and minimize LAIF transactions in a given month.

9. Government Security Mutual Funds: Instruments invested in shall meet the following:

a. Have the highest ranking or rating as provided by not less than two of the three largest nationally recognized rating services; or,

b. Have an investment advisor registered with the Securities and Exchange Commission with not less than five years experience investing in these types of funds, and

c. Have assets under management in excess of five hundred million dollars ($500,000,000.00), and

d. Have no commissions paid

e. The City shall invest no more than 15% of the portfolio in these instruments.

f. The five-year maturity specified in paragraph F below will not apply to Government Security Mutual Funds investing primarily in adjustable rate securities guaranteed as to payment of principal and interest by the U.S. Government or its agencies.

10. Bonds, Notes or other evidences of indebtedness issue by the California Local Agencies: These instruments of indebtedness shall include bonds payable solely out of the revenues from revenue-from revenue-producing property owned, controlled, or operated by the local agency, or by a department, board, agency, or authority of the local agency as authorized by California Government Code 53601 (e). Notes eligible for investment shall be rated in a category of "A" or its equivalent by two Nationally Recognized Rating Organizations.

11. Bond Proceeds: Section 53601 (k) allows greater flexibility with respect to the types of investments that may be made with bond proceeds. The law permits money from bond proceeds to be invested in any security that meets the statutory provisions governing the issuance of the bond or other agreements made by the issuing agency. This section of the code recognizes outstanding contracts between issuers and bond holders such as indenture or rating agency requirements and gives local agencies greater discretion in how to invest bond proceeds. Specifically, Bond proceeds may be invested in instruments with maturities longer than the 5 year limitation that applies to other investments.

12. Notes and Bonds of the 50 States: Registered Treasury notes or bonds of all 50 United States including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency or authority of the state as authorized by California Government Code 53601 (c) and (d). Notes eligible for investment shall be rated in a category of "A" or its equivalent by two Nationally Recognized Rating Organizations.

XIII. MAXIMUM MATURITIES

To the extent possible, the City will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow and /or authorized by the City Council, the City will not directly invest in securities maturing more than five years from the date of purchase.

CD maturities will normally not exceed two years. U.S. Government or Agency securities will not exceed five years. At least 50% of idle funds will be placed in investments which can be liquidated for at least face value in the event of an emergency. The City uses LAIF for its idle funds to insure this requirement is met.

XIV. INTERNAL CONTROL

The Treasurer shall establish an annual process of independent review by an external auditor. This review will provide internal control by assuring compliance with policies and procedures.

XV. PERFORMANCE STANDARDS

The investment portfolio shall be designed with the objective of obtaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs.

1. Market Yield (Benchmark): the City's investment strategy is passive. Given this strategy, the basis used by the Treasurer to determine whether market yields is being achieved shall be to identify a comparable benchmark to the portfolios investment duration, e.g., 90 day US Treasury Bill, 6 month US Treasury Bill, Average Fed Funds Rate or LAIF.

XVI. REPORTING

1. In accordance with California Government Code 53646 (B (1), The City Treasurer shall submit to each member of the City Council a quarterly investment report. The report shall include a complete description of the portfolio, the type of investments, the issuers, maturity dates, par values and the current market values of each component of the portfolio, including funds managed for the City of South Lake Tahoe by third party contract managers. The report will also include the source of the portfolio valuation. As specified in California Government code 53646 (e), if all funds are placed in LAIF, FDIC-insured accounts and/or in a county investment pool, the foregoing report elements may be replaced by copies of the latest statements from such institutions. The report must also include a certificate that (1) all investment actions executed since the last report have been made in full compliance with the Investment Policy and, (2) the city of South Lake Tahoe will meet its expenditure obligations for the next six months.

2. A staff investment committee consisting of Treasurer, City Manager and Finance Director will convene at least once a year to review the investment program. Such review shall examine both policy and administrative procedures in the program for possible revision. This meeting will normally occur in August.

3. Strategy Review: The staff investment committee will review interest rate trends and resultant desirable investment maturity goals consistent with the City's needs for safety and liquidity in its investment program.

XVII. INVESTMENT POLICY ADOPTION

The City's investment policy shall be adopted by resolution of the City's legislative authority. Per Government code, the policy shall be reviewed annually by the City Council and any modifications made thereto must be approved by the City Council.

XVIII. GUIDELINES

Guidelines are established to direct and control activities in such a manner that previously established goals are achieved.

1. Investment Transactions: Every investment transaction must be authorized, documented and reviewed by the local agency Treasurer.

2. Pooled Cash: Whenever practical, local agency cash should be consolidated into one bank account and invested on a pooled concept basis. Interest earnings may be allocated to fund cash and investment balances.

3. Competitive Bids: Purchase and sale of securities should be made on the basis of competitive offers and bids when practical.

4. Cash Forecast: The cash flow for the local agency should be analyzed with the receipt of revenues and maturity of investments scheduled so that adequate cash will be available to meet disbursement requirements.

5. Investment Limitations: Security purchases and holdings shall be maintained within statutory limits imposed by the Investment Policy and California Government code. Any investments not listed are not subject to % limitations.

Bankers' Acceptance	40%	Code Section 53601 (f)
Commercial Paper	25%	Code Section 53601 (g)
Negotiable Cert. Of Deposit	30%	Code Section 53601 (h)
Medium-Term Corporate Notes	30%	Code Section 53601 (j)

6. Liquidity: The marketability (salability) of a security should be considered at the time of purchase as the security may have to be sold at a later date to meet unanticipated cash demand.

7. Long-Term Maturities: As a general rule, long-term maturities should not represent a significant percentage of the total portfolio, as the principal risk involved can outweigh the potential for higher earnings.

8. Authorized Broker/Dealers: Execute investment transactions with previously approved broker/dealers who have certified compliance with the City's investment policy.

9. Diversification: The portfolio should consist of a mix of various types of securities, issuers and maturities.

10. <u>Evaluation of Certificates of Deposit</u>: The following items will govern the valuation:

a. Time Certificates of Deposit (TCD) shall be evaluated in terms of FDIC or FSLIC coverage. For deposits in excess of the insured maximum of $250,000.00, approved collateral at the amounts stated in section X of this policy. (California Government Code 53652 and/or 53651 (m).

b. Negotiable Certificates of Deposit (NCD) shall be evaluated in terms of the credit worthiness of the issuer, as these deposits are uninsured and uncollateralized notes.

GLOSSARY

(Note: Entities are encouraged to include a glossary as part of the investment policy. All words of a technical nature should be included. Following is an example of common treasury terminology.)

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.

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.

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.

COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR): The official annual report for the ____________________. 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 due 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.

FEDERAL CREDIT AGENCIES: Agencies of the Federal government set up to supply credit to various classes of institutions and individuals, *e.g.*, S&L'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 or Ginnie Mae): Securities influencing the volume of bank credit guaranteed by GNMA 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. Ginnie Mae securities are backed by the FHA, VA or FmHA mortgages. The term "pass-throughs" is often used to describe Ginnie Maes.

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.

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, 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 having 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.