

Association of Public Treasurers of the United States and Canada
Sample Model Investment Policy and Certification Scoring Overview

Section 1.0 - Policy: (maximum points: 4)

SAMPLE LANGUAGE: It is the policy of the (entity) 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/province and local statutes governing the investment of public funds.

Section 2.0 – Scope: (maximum points: 7)

Rationale: An investment policy should explain its scope. Does the policy apply to all funds held in the custody of the government jurisdiction and all of its offices?

SAMPLE LANGUAGE: This investment policy applies to all financial assets of the (entity). These funds are accounted for in the (entity’s) Comprehensive Annual Financial Report and include:

- 2.1 Funds - specifically designate; the following is a sample list:
 - 2.1.1 General Fund
 - 2.1.2 Special Revenue Funds
 - 2.1.3 Capital Project Funds
 - 2.1.4 Enterprise Funds
 - 2.1.5 Trust and Agency Funds
 - 2.1.6 Retirement/Pension Funds
 - 2.1.7 (Any new fund created by the legislative body, unless specifically exempted)

Section 3.0 - Prudence: (maximum points: 4)

Rationale: To burden a conscientious professional with personal responsibility for a default on a single item within a diversified portfolio seems unduly severe. (Accordingly, public entities with portfolios of sufficient size are urged to apply the prudence concept to the overall portfolio.)

The Following is the prudent person standard:

SAMPLE LANGUAGE: 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.

3.1 - 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.

Section 4.0 - Objective: (maximum points: 10)

Rationale: Every investment policy should contain a concise and clear statement(s) of objectives. The effectiveness of the investment program is set by the caliber of the staff, the procedures used, the working environment and the policy guidance provided by governing officials. Through its statement of objectives, the governing body sets the tone and direction of the policy and investment program.

SAMPLE LANGUAGE: The primary objectives, in priority order, of the entity's investment activities shall be:

- **4.1 Safety:** Safety of principal is the foremost objective of the investment program. Investments of the (entity) shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, the (entity) will diversify its investments by investing funds among a variety of securities offering independent returns and financial institutions.
- **4.2 Liquidity:** The (entity's) investment portfolio will remain sufficiently liquid to enable the (entity) to meet all operating requirements which might be reasonably anticipated.
- **4.3 Return on Investments:** The (entity's) investment portfolio shall be designed with the objective of attaining a benchmark rate of return throughout budgetary and economic cycles, commensurate with the (entity's) investment risk constraints and the cash flow characteristics of the portfolio.

Section 5.0 - Delegation of Authority: (maximum points: 4)

Rationale: After the investment objectives have been identified, the next logical element of an investment policy is an explicit delegation of authority to investment officials responsible for conducting transactions and managing the entity's investment program.

SAMPLE LANGUAGE: Authority to manage the (entity's) investment program is derived from the following: (e.g., trading resolutions, code citations, ordinances, statutes, etc.). Management responsibility for the investment program is hereby delegated to the (designated official) 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 (Designated Official).

- **5.1 Investment Procedures:** (maximum points: 4)

SAMPLE LANGUAGE: The (designated official) 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 to 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 (designated official). See appendix to APT US&C's Model Investment Policy entitled APT US&C's Guidelines for an Investment Procedures Manual.

Section 6.0 - Ethics and Conflicts of Interest: (maximum points: 4)

Rationale: Some governments have adopted conflict-of interest legislation that regulates the activities of certain officers and employees. In the investment area, general code provisions, so separate policies may be redundant, may govern certain conflicts. Some jurisdictions, however, may seek to adopt policies regarding ethical behavior and conflicts of interest.

SAMPLE LANGUAGE: 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 could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose to the (Chief Executive Officer) 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 (entity).

Section 7.0 - Authorized Financial Dealers and Institutions: (maximum points: 7)

Rationale: The investment policy should require that a set formal process be used to select depositories and brokers/dealers in money market instruments. Because the policy is intended to endure, it should not mention specific firms or depositories. Rather it should provide for a process that will screen out institutions that lack economic viability or whose past practices suggest that the safety of public capital would be impaired if transactions were directed to or through such firms.

SAMPLE LANGUAGE: 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 credit worthiness that are authorized to provide investment services in the State/Province of (_____). 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/province laws. All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the treasurer with the following: (e.g. audited financial statements, proof of National Association of Security Dealers certification, trading resolution, proof of state/province registration, completed broker/dealer questionnaire, certification of having read entity’s investment policy and depository contracts.)

An annual review of the 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 (entity) invests.

Section 8.0 - Authorized & Suitable Investments: (maximum points: 10)

Rationale: The selection of investment instruments to be allowed for investment purposes is a significant policy issue for many governments. Although day-to-day selection of specific instruments should be treated as a management function, the policy should define the general universe.

From the governing body perspective, special care must be taken to ensure that the list of instruments includes only those allowed by law and those that local investment managers are trained and competent to handle.

SAMPLE LANGUAGE: The (entity) is empowered by statute to invest in the following types of securities. (List types of investments authorized by state/province law, ordinance, or charter.

Consider appending copies of these specific requirements to the investment policy.) (In selecting authorized investments, consideration should be given to credit ratings on commercial paper, bankers acceptance, and collateralization of applicable instruments)

- **8.1 - Master Repurchase Agreement:** (maximum points: 10)

If repurchase agreements are legal and authorized by policy, a Master Repurchase Agreement must be signed with the bank or dealer. (e.g., a PSA Master Repurchase Agreement or equivalent)

Section 9.0 - Investment Pools/Mutual Funds: (maximum points: 7)

Rationale: Governmental sponsored pools and money market mutual funds are excellent short-term cash management facilities. These pools/funds can provide safety, liquidity and yield in a single investment instrument. However, there is a due diligence standard, which applies to the use of pools/funds, as there is no safety net.

If governmental sponsored pools and/or mutual funds are included in Authorized Investments, a section on investigation and due diligence must be included.

SAMPLE LANGUAGE: A thorough investigation of the pool/fund 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?

NOTE: The topics listed above are not all encompassing, but only a sampling of what might be covered in a questionnaire. APT US&C will be developing a questionnaire in the near future for use when pools/funds are part of the list of Authorized Investments.

Section 10.0 - Collateralization: (maximum points: 7)

Rationale: Several states require collateralization of all public funds. In these states a collateralization section must be included for any certificates of deposit. In addition, collateralization must be required on any repurchase agreement or reverse repurchase agreement. For these items, the policy should address such points as market valuation responsibility and timing, specific collateral provisions such as type and maturity, safekeeping by a third party, and evidence of ownership.

SAMPLE LANGUAGE: Collateralization will be required on two types of investments: certificates of deposit and repurchase (and reverse) agreements. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be (102%) of market value of principal and accrued interest.

The entity chooses to limit collateral to the following: —(list)— Collateral will always be 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.

Section 11.0 - Safekeeping and Custody: (maximum points: 10)

Rationale: Like private investors, governing officials feel more secure about their entity's investments if they know that the securities are physically safe. Investment policies should include a clause regarding third-party safekeeping and custody of securities and collateral.

SAMPLE LANGUAGE: All security transactions, including collateral for repurchase agreements, entered into by the (entity) 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.

Section 12.0 - Diversification: (maximum points: 7)

Rationale: governments should state the purpose of diversification—to reduce overall portfolio risks while attaining benchmark average rate of return. Diversification should be conceptualized in terms of maturity as well as instrument type and issuer. thus, the diversification concept in a cash management fund should include prohibition against over concentration in a specific maturity sector, as well as constraining the reliance on specific risky instruments and issuers.

SAMPLE LANGUAGE: The (entity) 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 (entity's) total investment portfolio will be invested in a single security type or with a single financial institution.

Section 13.0 - Maximum Maturities: (maximum points: 7)

Rationale: To protect public funds from market price losses resulting from rising interest rates, some states and many local governments limit the maximum term to maturity on current operating funds' investments, some limit the maximum term to maturity to current operating funds' investments. Some limit the maximum maturity on cash management funds to 12 months. Others find this unduly restrictive and employ a two-year rule. The latter seems reasonable, provided that only a portion of the assets is invested beyond one year.

SAMPLE LANGUAGE: To the extent possible, the (entity) will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the (entity) will not directly invest in securities maturing more than (____) years from the date of purchase. However, the (entity) may collateralize its repurchase agreements using longer-dated investments not to exceed (____) years to maturity. Reserve funds may be invested in securities exceeding (____) years if the maturity of such investments is made to coincide as nearly as practicable with the expected use of the funds.

Section 14.0 - Internal Control: (maximum points: 4)

Rationale: The development of internal controls remains a management function. A statement of investment policy therefore should avoid specific internal control measures. Instead, policy makers should require that a system of internal controls be established. The policy can also provide for periodic reviews and monitoring of the controls. The review of internal controls might be assigned to a committee or to the independent auditor.

SAMPLE LANGUAGE: 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.

Section 15.0 - Performance Standards: (maximum points: 4)

Rationale: Much of the investment policy focus is directed toward control. Yield objectives are just as important, however. The long-run interests of the jurisdiction go beyond simple prudence and safety of funds. The investment policy should provide a formal evaluation of performance and occasional operational audits.

SAMPLE LANGUAGE: 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.

- **15.1 Market Yield (Benchmark):** The entity's investment strategy is (passive or active). 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 your portfolio investment duration, e.g., 90-day US Treasury Bill, 6-month US Treasury Bill, Average Fed Funds Rate.

Section 16.0 - Reporting: (maximum points: 10)

Rationale: Periodic required investment reports to policymakers and elected officials provide necessary written communication regarding investment performance, risk analysis, adherence to policy provisions, as well as other information.

SAMPLE LANGUAGE: The Treasurer shall provide (the legislative authority) quarterly investment reports which provide a clear picture of the status of the current investment portfolio. The management report should include comments on the fixed income markets and economic conditions, discussions regarding restrictions on percentage of investment by categories, possible changes in the portfolio structure going forward and thoughts on investment strategies. Schedules in the quarterly report should include the following:

1. A listing of individual securities held at the end of the reporting period by authorized investment category.
2. Average life and final maturity of all investments listed.
3. Coupon, discount or earnings rate.
4. Par value, Amortized Book Value and Market Value.
5. Percentage of the Portfolio represented by each investment category.

NOTE: Depending on the degree of comprehension of those receiving the reports and their desire, or lack thereof, for detail, you may choose to provide the information in executive summary format.

Section 17.0 - Investment Policy Adoption: (maximum points: 4)

The (entity's) investment policy shall be adopted by resolution of the (entity's) legislative authority. The policy shall be reviewed annually by the (legislative authority) and any modifications made thereto must be approved by the (legislative authority).

Section 18.0 - Glossary: (maximum points: 4)

Rationale: Because this policy is to be available to the public as well as the governing body, it is important that a glossary of related terminology be part of the policy.