Government Investment Officers Association
Investment Policy Certification Program and Application

Government Investment
Officers Association

2020 Edition

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Investment Policy Certification Program and Application

Thank you for your interest in GIOA's Investment Policy Certification Program.

This program will provide your entity with professional assistance and guidance to develop an investment policy that meets industry best practices. Your entity's submitted policy will be reviewed by three experienced GIOA members to determine if it meets the standards established by the GIOA Investment Policy Review Committee.

Procedures:

- Email a copy of a completed GIOA Investment Policy Certification Form and your entity's full investment policy to rick.phillips@fhnmainstreet.com.
- Send payment of $150 to GIOA Investment Policy Certification, 10655 Park Run Drive #120, Las Vegas, Nevada 89144 (check-payable to "GIOA"); credit card payment available online).
- The submitted information will be forward to three GIOA Investment Policy Committee members to review and provide recommended changes and feedback.
- For the investment policy to receive certification, at least two of the three reviewers must provide a passing score (at least 85 points out of a possible 100 points).
- Within six weeks after the application and policy are received, the applicant will receive notification of approval or non-approval, and recommendations from the reviewers. If the investment policy is not approved for certification, the applicant may resubmit at no charge if re-submitted within 90 days.
- If approved, the applicant will receive a GIOA Investment Policy Certification Certificate and be recognized at the next GIOA Annual Conference.

Should you have any questions regarding the application process or the GIOA Model Investment Policy, please contact the Chair of the GIOA Investment Policy Certification.

Rick Phillips, Chair
GIOA Investment Policy Certification Program
rick.phillips@fhnmainstreet.com
702-575-6666

Disclaimer: The submitting entity understands and agrees that certification of the investment policy does not constitute any warranty or insurance of the performance of the entity's investment policy or program. Accordingly, and pursuant to this agreement, the entity agrees to indemnify any officers, reviewers, and employees of GIOA. Policy standards established are based on industry best standards and may not reflect state and local restrictions. It is the responsibility of the entity's governing board and officers to adhere to local laws and ordinances.

GIOA Investment Policy Certification Form

Please email this completed form and your entity's full investment policy to rick.phillips@fhnmainstreet.com. Please send payment of $150 (payable to "GIOA") to:

GIOA Investment Policy Certification
10655 Park Run Drive #120
Las Vegas, Nevada 89144

Entity Name (As it will appear on the Certificate)	
Mailing Address	
Entity Contact and Phone Number	
Contact's Email Address	
Size of Investment Portfolio	
$	
Composition of Portfolio	
MMF/ICS	$
State Pool	$
Repo	$
Commercial Paper	$
Treasury	$
Agency	$
Supranational	$
CD/CDARS	$
Corporate	$
ABS	$
MBS	$
Bond Mutual Funds	$
Other	$

GIOA SAMPLE INVESTMENT POLICY

The following is **sample language** for an investment policy. An entity's investment policy will vary depending on specific circumstances of that entity. The ordering of policy items should conform to the entity's preferences, and some items may not be applicable.

Cover Page: Name of entity, date, etc.

1. **Table of Contents:** Full listing of all sections, with page numbers.

2. Introduction and Overview

Provide a description of the entity [city, county, district, etc.], such as organizational date, geographical information, population information, etc.

3. Governing Authority

The [governing body: city council, board, commission, etc.] is the governing body of the entity. Provide information such how many members serve on the govern body, what are their terms, what is the jurisdiction of the governing body.

4. Delegation of Authority and Investment Responsibility

Under authority delegated by the [governing body], in accordance with [state law, etc.], the investment of [entity's] funds is the responsibility of the [designated official: treasurer, finance director, etc.]. As such, all funds covered under this Policy will be invested by the [designated official], and authorized investment advisors (if applicable).

The [designated official]'s responsibilities include the authority to conduct business with financial institutions and broker/dealers, to arrange for the custody of securities, and to execute such documents as may be necessary to carry out these responsibilities in compliance with this policy. The [designated official] or authorized investment managers are also responsible for furnishing authentic, timely instructions to the safekeeping bank(s) concerning settlement of investment transactions, and verifying accuracy of completed transactions.

The [governing body] may also enter into an agreement with an investment advisor for investment management/advisory services, and the investment advisor will operate under the direction of the [designated official].

5. Investment Program Oversight Committee (IPOC) and Investment Program Review

The Investment Program Oversight Committee shall be comprised of the [designated officials]. The IPOC shall meet at least [number] times per fiscal year to review the operations, performance, and compliance of the Investment Program. (Note: Some entities may not have an IPOC (or similar name); this is considered a best practice by GIOA).

6. Policy Statement

The purpose of this Investment Policy is to establish investment guidelines for the [designated official], who is responsible for the stewardship of the [entity's] Investment Program. Each transaction and the entire portfolio must comply with applicable [state law, etc.] and this Policy. All investment program activities will be judged by the standards of this Policy and ranking of Primary Investment Objectives. Those activities that violate its intent will be deemed to be contrary to the Policy. This Policy conforms to the customary standards of prudent investment management. Should the provisions of the [state law, etc.] change from those contained herein; such provisions will be considered incorporated in this Policy. This Policy shall remain in effect until the [governing body] approves a subsequent revision.

7. Scope of the Investment Policy
This policy applies to all financial assets of the [entity] that are overseen by the [designated official], including, but not specifically limited to those assets held in the public interest in the [entity's] fiscal capacity as well as those held in trust or agency capacity for other governmental entities. Should bond covenants be more restrictive than this Policy, bond proceeds will be invested in full compliance with those restrictions. Additionally, all funds overseen by the [designated official] are accounted for in the [entity's] Comprehensive Annual Financial Report (CAFR). Retirement and Other Post Employment Benefits (OPEB) are excluded from this Policy. (Note: Since bond proceeds may have different guidelines, they may be exclude from the entity's main policy and have a separate policy.)

8. Primary Investment Objectives

- **Safety of Principal:** Safety of principal is the foremost objective of the [entity's] investment program. Investments by the [designated official] shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, diversification of security types, sectors, issuers, and maturities is necessary in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

- **Liquidity:** The investment portfolio shall be structured to timely meet expected cash outflow needs and associated obligations which might be reasonably anticipated. This objective shall be achieved by matching investment maturities with forecasted cash outflows and maintaining an additional liquidity buffer for unexpected liabilities.

- **Investment Income:** The investment portfolio shall be designed to earn a market rate of investment income in relation to prevailing budgetary and economic cycles, while taking into account investment risk constraints and liquidity needs of the portfolio.

9. Primary Investment Philosophy
The primary investment philosophy of the [entity] is to match investment maturities with expected cash outflows. Securities shall generally be held until maturity, with the following exceptions:

- A security with declining credit may be sold prior to maturity to minimize loss of principal.
- Liquidity needs of the portfolio require that a security be sold prior to maturity.
- A security rebalance or swap would improve the quality, yield, or target duration in the portfolio.

10. Standard of Prudence
The Prudent Investor Rule states that governing bodies of state and local agencies or persons authorized to make investment decisions on behalf of those local agencies investing public funds are trustees, and therefore are fiduciaries. The Prudent Investor Standard is as follows:

> When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent investor acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law.

The **Prudent Person Standard** may also be used, which states:

"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.

Another example of the **Prudent Person Standard** is as follows:

The standard of prudence to be used by investment officials shall be the "Prudent Person" standard and shall be applied in the context of managing an overall portfolio under prevailing economic conditions at the moment of investment commitments. 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.

11. Ethics and Conflicts of Interest

[State law, etc.] mandates that the [designated official] file an annual Statement of Financial Disclosure form with the [governing authority, etc.]. Additionally, 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. Investment officials shall disclose to the [designated official] any material financial interests in financial institutions that conduct business with the [entity], and they will further disclose any personal financial or investment positions that could be related to the performance of the [entity's] portfolio, particularly with regard to the timing of purchases and sales.

12. Limit on Receipt of Gifts, Honoraria, and Gratuities

No individual responsible for the management of the [entity's] investment portfolio or any member of the Investment Program Oversight Committee shall accept honoraria, gifts or gratuities from any advisor, broker, dealer, banker or other person with whom the [designated official] conducts business, that aggregate in value in excess of [dollar amount] in any fiscal year.

13. Investment Procedures

The [designated official], authorized [entity] staff, and authorized investment advisors will have written Investment Procedures for the operation of the investment program. The procedures include such items as delegation of duties/authority, reconciliation, trade settlement, investment strategy/selection, broker/dealer selection, compliance monitoring, internal controls, and risk mitigation strategies.

14. Internal Controls

The [designated official] has established a system of internal controls over investments. The internal controls have been reviewed by the [entity's] internal audit division. The controls are designed to prevent losses of public funds arising from fraud, employee error, misrepresentation by third parties, or imprudent actions by staff and [entity] officials.

15. Internal and External Audit

The custodian/safekeeping account, investment transactions, and records may be audited by internal auditors independent of the [designated official] and/or by outside independent auditors with a frequency prescribed by the [governing body]. The results of that audit shall be furnished to the [governing body] and the IPOC.

16. Safekeeping and Custody

Securities purchased by the [entity] shall be delivered against payment (delivery vs. payment) and held in a custodial safekeeping account with the trust department of a third party bank insured by the Federal Deposit Insurance Corporation designated by the [designated official] for this purpose in accordance with [state law, etc.]. A custody agreement between the bank and the [entity] is required before execution of any transactions.

17. Authorized Investments (Pursuant to applicable state laws, etc.)

The [entity] may only invest in the following securities:

(Below are examples for U.S. Treasury, U.S. Government-Sponsored Enterprises, and Commercial Paper in list format):

U.S. Treasury Obligations or backed by the full faith and credit of the United States

[State Law]:	[applicable state law, etc. section]
Maximum Term:	10 years
Maximum Type Allocation:	Not applicable
Maximum Issuer Concentration:	Not applicable
Minimum Issuer Rating:	Not applicable

Obligations that are issued by any agency or instrumentality of the United States Government (U.S. Government-Sponsored Enterprises)

[State Law]:	[applicable state law, etc. section]
Maximum Term:	10 years
Maximum Type Allocation	80%
Maximum Issuer Concentration:	40%
Minimum Issuer Rating:	Not applicable
Other:	Allowable GSEs and instrumentalities such as Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Federal Agricultural Mortgage Corporation, Tennessee Valley Authority

Commercial Paper

[State Law]:	[applicable state law, etc. section]
Maximum Term:	270 days
Maximum Type Allocation	25%
Maximum Issuer Concentration:	5% in aggregate with corporate notes/bonds and CDs
Minimum Issuer Rating:	A-1, P-1, F-1 equivalent or better by a NRSRO, long-term rating A- equivalent or better by a NRSRO
Other:	Issued by a corporation organized and operating in the U.S. or by a depository institution licensed by the U.S. or any state, if rating falls below required guidelines, the information shall be reported to the [governing body] within 10 days

(Below are examples for U.S. Treasury, U.S. Government-Sponsored Enterprises, and Commercial Paper in narrative format):

U.S. Treasury Obligations: Bills, notes, bonds, debentures, and other direct obligations of the United States Treasury, the maturity date of which is not more than 10 years from the date of purchase. The total allocation to U.S. Treasury obligations is 100% of the portfolio.

U.S. Government-Sponsored Enterprises (GSEs): Notes, bonds, debentures, and other direct obligations of any agency or instrumentality of the United States, the maturity date of which is not more than 10 years from the date of purchase. Total allocation to U.S. GSEs shall not exceed 80% and the allocation to individual issuers shall not exceed 40%.

Commercial Paper: Commercial paper issued by corporations, depositories, or other entities organized and operating in the United States with a credit rating of "A-1, P-1" or its equivalent or better by a NRSRO, the maturity date of which is no longer than 270 days. Total allocation to commercial paper shall not exceed 25% and the allocation to individual issuers shall not exceed 5% in aggregate with corporate obligations and certificates of deposit. If rating falls below required guidelines, the information shall be reported to the [governing body] within 10 days

Other Investments

Securities which have been expressly authorized as investments for local governments by any provision of [state law, etc.] or by any special law.

18. Prohibited Investments and Transactions

The following are prohibited investments and transactions *(examples below)*:

- Range notes
- Inverse floating rate securities
- Step-down securities
- Short selling
- Reverse repurchase agreements

19. Diversification Parameters

The investment program shall follow the diversification parameters delineated in the Authorized Investment section and the following, which all shall be calculated at time of purchase *(examples below)*:

- Issuer: No more than 5% in aggregate corporate exposure (CD, CP, corporate notes)
- U.S. GSE Callables: No more than 10%
- U.S. GSE Step-Ups: No more than 10%
- Floating Rate Notes: No more than 10%

20. Maturity Parameters

The investment program shall follow the following maturity parameters *(examples below)*:

- Weighted Average Maturity no greater than 3.5 years (using state final maturity)
- Weighted Average Maturity of bond proceeds and reserve funds may be longer than 3.5 years
- At least 5% of the investment pool maturing within 90 days
- No signal security’s maturity shall be longer than 10 years

21. Investment Transaction Parameters
The investment program shall follow the following investment transaction parameters *(examples below)*:

- Obtain at least three offers/bids (when applicable/available) or obtain independent third-party pricing
- Forward settlement time limit of not more than 30 days

22. Calculation Parameters
Calculations of percentage allocations shall be done at the time of purchase and formulated on book value (or market value). Weighted average maturity is calculated using a security's stated final maturity and using the settlement date (or trade date). (Note: Information on securities which have been purchased/sold but have not settled, may be included.)

23. Authorized Financial Institutions
The [designated official] shall deposit funds with banks which comply with all applicable state and federal laws. The [designated official] may physically possess securities, which must be registered in the name of the [entity], or may make an agreement, in writing, with any qualified bank, custodian, or trust to hold those securities for, and in the name of [entity]. The bank, custodian, or trust shall furnish the [designated official] a written statement acknowledging that the securities are held in the name of the [entity].

24. Collateralization
All [entity] money deposited with a bank, savings and loan, savings bank or credit union including checking accounts, savings accounts, NOW accounts, nonnegotiable certificates of deposit, time deposits or similar type accounts provided by the financial institution in excess of the amount of federal insurance will be fully collateralized in accordance with [state law, etc.]. (Repurchase agreement/reverse repurchase agreement/securities lending collateral could be delineated in the Authorized Investment section, if applicable).

25. Authorized Investment Advisors (If applicable)
The [entity] may enter into an agreement with an investment advisor for investment management/advisory services, and the investment advisor will operate under the direction of the [designated official]. The investment advisor shall be registered with the Securities and Exchange Commission under the Investment Advisers Act of 1940. The investment advisor shall submit on an annual basis to the [designated official] form ADV Part 1 and form ADV Part 2A.

26. Authorized Broker/Dealers
All transactions initiated on behalf of the [entity] shall be executed through either banks or securities broker/dealers. Broker/dealers must either be primary dealers, regional dealers, or regional dealers that clear transactions through a dealer which qualifies under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule), and must have been in operation at least three years.

The [designated official] shall approve and maintain a list of broker/dealers and direct issuers authorized to provide investment services to the [entity]. The criteria for approval are described in a separate Investment Procedures Manual maintained by the [designated official].

An external investment advisor may use its own list of approved broker/dealers and financial institutions for investment purposes. The investment advisor shall submit the list of approved broker/dealers to the [designated official] on an annual basis. The [designated official] may restrict the use of a broker/dealer which may be deemed unsuitable.

27. Investment Program Reporting

The [designated official] shall prepare a monthly (GIOA best practice is monthly, but no less than quarterly) investment report, which provides an analysis of the investment program. The report will be placed on the [entity's] website (also, a GIOA best practice). All funds overseen by the [designated official] are accounted for in the [entity's] Comprehensive Annual Financial Report.

The investment report shall include at least all of the following (examples below):

- Portfolio Summary: Weighted average maturity, weighted average book yield, asset allocation by type, maturity distribution, and aggregate book and market values
- Individual Investments: Issuer, CUSIP or identifier, purchase date, maturity date, purchase yield, par value, book value, market value, credit rating
- Compliance Matrix: Stating the compliance or non-compliance of investments or parameters
- Investment Income: A listing of investment income for the reporting period
- Performance Information: Yield comparisons, book return, total return, etc.
- Transaction Information: A listing of the period's transactions.

The [designated official] shall also maintain records, subject to audit, of all investment transactions including the names of all obligors, descriptions of all securities purchased and sold (including dates of issue, acquisition and maturity, coupon, price, yield, and gain or loss on ultimate disposition), name of the broker/dealer involved in each transaction, custodian of each security, and the sale or maturity of each security.

The [entity] will comply with any arbitrage reporting requirements as set forth in all applicable federal, state, and local laws. Additionally, the [entity] will comply with all Government Accounting Standards Board (GASB) requirements and appropriate Generally Accepted Accounting Principles (GAAP).

28. Allocation of Investment Income

The [entity] allocates investment income based upon a portfolio's average daily balance and the investment income is calculated on an accrual basis. See Appendix A for additional details regarding the investment portfolio operations.

29. Performance Information

The investment portfolio shall be designed to earn a market rate of investment income in relation to prevailing budgetary and economic cycles, while taking into account investment risk constraints and liquidity needs of the [entity]. Given this strategy, the benchmark for investment considerations shall be a benchmark which reflects the prominent and persistent characteristics of the portfolio overtime. The benchmark may be adjusted periodically as material changes take place in regard to asset allocation and/or weighted average maturity.

30. Business Continuity

The [designated official] has developed a Business Continuity Plan (Plan) describing the [entity's] anticipated response to a range of events that could significantly disrupt its business. Because the timing and impact of disasters, emergencies and other events is unpredictable, flexibility is necessary when responding to actual disruptions as they occur. With that in mind, the goal of the Plan is to prevent lapses in operations or resume operations as quickly and smoothly as possible.

The Plan for responding to a significant business disruption addresses safeguarding of employees' lives and [entity's] property, making a financial and operational assessment, quickly recovering and resuming operations, protecting all of the [entity's] books and records, and allowing the continued ability to manage the investment program and transact business.

31. Ongoing Training and Education

The [entity] strives for professionalism and accountability in the investment of its funds. In order to assure the highest possible professional standards, the [entity] will provide opportunities and funding for the personnel involved in the investment function to complete continuing education programs or other training in cash and investment management sufficient to maintain their skills and remain up-to-date on best practices and new regulations. (Note: the Policy may include a specific amount of hours per year.)

32. Investment Policy Review, Revisions, and Adoption

The Investment Policy shall be reviewed at least annually by the Investment Program Oversight Committee [or other governing body] to ensure its consistency with the [entity's] overall objectives and its compliance with applicable laws and best practices. However, the [designated official] may at any time further restrict for investment the types of instruments, issuers, and maturities as may be appropriate from time to time. If approved by the [state legislature, etc.], previously unauthorized investment vehicles and procedures may be utilized by the [entity]. The Investment Policy shall be submitted to [governing body] for consideration and adoption at a public meeting.

Below are other items to consider including in your entity's Investment Policy:

- Settlement date versus trade date for maturity limits
- Guidelines to sell a security that falls below allowable ratings criteria
- Purchasing private placement securities
- Investment pool/fund participation (from outside your entity)
- Loans to pool/fund participants
- Pool/fund withdrawal policies
- Apportionment of administrative pool/fund expenses
- Security impairment evaluation process
- Environmental, Social, and Corporate Governance Investing

SAMPLE SUMMARY OF AUTHORIZED INVESTMENTS

AUTHORIZED INVESTMENTS	MAXIMUM % HOLDINGS	PURCHASE RESTRICTIONS	MAXIMUM MATURITY	CREDIT QUALITY	State Law Requirements
US Treasury Obligations	100%	N/A	10 years	N/A	No type limit, no issuer limit, max maturity 10 yrs, no rating criteria
U.S. GSEs	100%	N/A	10 years	N/A	No type limit, no issuer limit, max maturity 10 yrs, no rating criteria
Money-Market Mutual Funds	100%	Max 100% issuer, government only, must maintain constant NAV	Daily	AAA rated from a NRSRO	No type limit, no issuer limit, govt only, AAA rated from a NRSRO
Commercial Paper	25%	Max issuer 5%, combined with corporates and CD	270 days	A-1 equivalent or better by a NRSRO	Type limit 25%, issuer limit 5%, 270 max maturity, A-1 or better by a NRSRO
Negotiable CDs (above FDIC limit)	25%	Max issuer 5%, combined with corporates and CP, issued by banks, credit unions, S&L in the U.S.	5 years	A-1 equivalent or better by a NRSROs, past 1 year long term rating A or better	No type limit, no issuer limit, no maturity limit, no rating criteria, issued by banks, credit unions, S&L, and savings banks
Negotiable CDs (at/below FDIC limit)	25%	FDIC limit (currently $250,000), issued in the U.S.	5 years	N/A	No type limit, no issuer limit, no maturity limit, no rating criteria, issued by banks, credit unions, S&L, and savings banks
Non-Negotiable CDs (at/below FDIC limit)	5%	FDIC limit (currently $250,000), issued in the U.S.	5 years	N/A	No type limit, no issuer limit, no maturity limit, no rating criteria, issued by banks, credit unions, S&L, and savings banks
Corporate Notes/Bonds	25%	Max issuer 5%, combined with CDs and CP, issued by U.S. corporations	5 years	A equivalent or better by a NRSROs	Type limit 25%, issuer limit 5%, maturity limit 5 yrs, A equivalent or better by a NRSRO
Asset-Backed Securities	20%	Max issuer 5%, U.S. issuer	N/A	AAA by a NRSRO	No type limit, no issuer limit, no maturity limit, AAA by a NRSRO, no issuer domicile constraint
Mortgage-Backed Securities	20%	100% Backed by U.S. or U.S. GSEs	N/A	N/A	No type limit, no issuer limit, no maturity limit
State and Local Government Bonds	20%	Max issuer 5%, tax exempt from federal taxes	5 years	A equivalent or better by a NRSRO	No type limit, no issuer limit, no maturity limit, A by a NRSRO, obligation federal tax exempt

This table is only an example and should be customized for an entity's specific investment parameters and guidelines.

SAMPLE CREDIT RATINGS INTERPRETATION

SHORT TERM DEBT RATINGS			
MOODY'S	**S&P**	**FITCH**	**RATINGS INTERPRETATION FOR CREDIT**
P-1	A-1+	F1+	STRONGEST QUALITY
	A-1	F1	STRONG QUALITY
P-2	A-2	F2	GOOD QUALITY
P-3	A-3	F3	MEDIUM QUALITY

LONG TERM DEBT RATINGS			
MOODY'S	**S&P**	**FITCH**	**RATINGS INTERPRETATION FOR CREDIT**
Aaa	AAA	AAA	STRONGEST QUALITY
Aa1	AA+	AA+	STRONG QUALITY
Aa2	AA	AA	
Aa3	AA-	AA-	
A1	A+	A+	GOOD QUALITY
A2	A	A	
A3	A-	A-	
Baa1	BBB+	BBB+	MEDIUM QUALITY
Baa2	BBB	BBB	
Baa3	BBB-	BBB-	
Ba1	BB+	BB+	SPECULATIVE
Ba2	BB	BB	
Ba3	BB-	BB-	
B1	B+	B+	LOW
B2	B	B	
B3	B-	B-	
Caa	CCC+	CCC	POOR
-	CCC	-	HIGHLY SPECULATIVE TO DEFAULT
-	CCC-	-	
Ca	CC	CCC	
C	-	-	
-	-	DDD	
-	-	DD	
-	D	D	

GLOSSARY OF TERMS

The following is a glossary of key terms which appear in the Government Investment Officers Association's Model Investment Policy. (Note: The entity's Policy should include relevant terms, not all terms may need to be included)

144A: A Section of the Securities and Exchange Commission (SEC) which restricts trades of privately placed securities so that these investments can be traded among qualified institutional buyers.

Accretion: The increase in the value of a discounted instrument as time passes and as the maturity date gets closer. The value of the instrument will accrete (grow) at the interest rate implied by the discounted issuance price, the value at maturity, and the term to maturity.

Accrued Interest: The interest that has accumulated but has not yet been paid from the most recent interest payment date or issue date to a certain date.

Agency: A debt security issued by an agency or instrumentality of the United States. Agencies are backed by each particular agency or instrumentality of the United States with a market perception that there is an implicit government guarantee.

Amortized Cost: The original cost of the principal adjusted for the periodic reduction of any discount or premium from the purchase date until a specific date (also called "Book Value").

Amortization: The systematic reduction of the amount owed on a debt issue through periodic payments of principal. The decrease in the value of a premium instrument as time passes and as the maturity date gets closer. The value of the instrument will amortize (decrease) at the interest rate implied by the discounted issuance price, the value at maturity, and the term to maturity.

Asset-Backed Security: A security backed by notes or receivables against assets other than real estate. Examples are autos, credit cards, and equipment.

Ask/Offer: The price at which securities are offered.

Bankers' Acceptances: A short-term credit instrument created by a non-financial firm and guaranteed by a bank as to payment. Acceptances are traded at discounts from face value in the secondary market on the basis of the credit quality of the guaranteeing banks.

Basis Point: A unit of measurement used in the valuation of fixed-income securities equal to 1/100 of 1 percent of yield. As an example, the difference between a security yielding 2.00% and 2.25% is 25 basis points.

Benchmark: A comparative base for measuring the performance or risk tolerance of an investment portfolio. A benchmark should represent the persistent and prominent characteristics of a portfolio, taking into account metrics such as duration, investment type, and asset allocation.

Bid: The indicated price at which a buyer is willing to purchase a security or commodity.

Bond: A long-term debt instrument of a government or corporation promising payment of the original investment plus interest by a specified future date.

Book or Effective Return: The sum of all investment income plus realized gains and losses.

Book Value: The value at which a security is carried on the inventory lists or other financial records of an investor. The book value may differ significantly from the security's current value in the market.

Broker: A broker facilitates security trades on behalf of investors (see Dealer).

Bullet: A colloquial term for a bond that cannot be redeemed, or called, prior to maturity.

Callable Bond: A bond issue in which all or part of its outstanding principal amount may be redeemed before maturity by the issuer under specified conditions.

Call Price: The price at which an issuer may redeem a bond prior to maturity. The price is usually at a slight premium to the bond's original issue price to compensate the holder for loss of income and ownership.

Call Risk: The risk to a bondholder that a bond may be redeemed prior to maturity.

Cash Sale/Purchase: A transaction which calls for delivery and payment of securities on the same day that the transaction is initiated.

Certificate of Deposit: A debt instrument issued by financial institutions that will pay interest, periodically or at maturity, and principal when it reaches maturity. Maturities range from a few weeks to several years.

Collateralization: A process by which a borrower pledges securities, property, or other deposits for the purpose of securing the repayment of a loan and/or security.

Collateralization: Process by which a borrower pledges securities, property or other deposits for the purpose of securing the repayment of a loan and/or security.

Collateralized (Guaranteed) Investment Contracts (CIC): A CIC is a fixed rate, fixed maturity contract similar to a bond that is typically collateralized by an insurance company. However, unlike a bond, a CIC is always carried or valued at par. CICs are primarily utilized for the investment of bond proceeds.

Commercial Paper: An unsecured short-term promissory note issued by corporations, with maturities typically ranging from 1 to 270 days, and usually transacts at a discount with no coupon payments.

Comprehensive Annual Financial Report (CAFR): The CAFR is the entity’s official annual financial report. It consists of three major sections: introductory, financial, and statistical. The introductory section furnishes general information on the entity’s structure, services, and environment. The financial section contains all basic financial statements and required supplementary information, as well as information on all individual funds and discretely presented component units not reported separately in the basic financial statements. The reported information is in conformity with accounting principles generally accepted in the United States of America (GAAP). The financial section may also include supplementary information not required by GAAP. The statistical section provides trend data and nonfinancial data useful in interpreting the basic financial statements and is especially important for evaluating economic condition.

Convexity: A measure of how much a fixed-income instrument’s duration changes when interest rates change. A high convexity indicates greater sensitivity of a bond's price to interest rate changes.

Corporate Security: A debt obligation issued by a corporation.

Coupon or Coupon Rate: The stated interest rate on a debt security that an issuer promises to pay. The origin of the term "coupon" is that bonds were historically issued in the form of bearer certificates. Physical possession of the certificate was proof of ownership. Several coupons, one for each scheduled interest payment, were printed on the certificate.

Credit Quality: The measurement of the financial strength of a bond issuer. This measurement helps an investor to understand an issuer's ability to make timely interest payments and repay the loan principal upon maturity. Generally, the higher the credit quality of a bond issuer, the lower the interest rate paid by the issuer because the risk of default is lower. Credit quality ratings are provided by nationally recognized rating agencies.

Credit Risk: The risk to an investor that an issuer will default in the payment of interest and/or principal on a security.

Current Yield (Current Return): A yield calculation determined by dividing the annual interest received on a security by the current market price of that security.

CUSIP: A unique identifier for a security developed by the Committee on Uniform Security Identification Procedures (CUSIP). The identifier is a nine-digit alphanumeric character. The first six characters identify the issuer, the following two identify the issue, and the final character is a check digit. CUSIPs are correlated to an alphabetical listing of the issuer’s name.

Day Count Convention: A day-count convention is the system used to calculate the amount of accrued interest or the present value when the next coupon payment is less than a full coupon period away. Each bond market and financial instrument has its own day-count convention, which varies depending on the type of instrument, whether the interest rate is fixed or floating, and the country of issuance. Among the most common conventions are 30/360 or 365, actual/360 or 365, and actual/actual.

Dealer: A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for their own account. (see Broker).

Debenture: A bond secured only by the general credit of the issuer and not by physical assets or collateral of the company.

Delivery (Settlement): There are typically four types of delivery or settlement of securities: cash, which is the same day as the transaction occurred; regular, which trade day plus one; corporate, which is trade day plus two; and forward, which typically occurs three to thirty days after the trade date.

Delivery Versus Payment (DVP): A type of securities transaction in which the purchaser pays for the securities when they are delivered either to the purchaser or his/her custodian.

Derivative Security: Financial instrument created from, or whose value depends upon, one or more underlying assets or indexes of asset values.

Discount: The amount by which the par value of a security exceeds the price paid for the security.

Discount Rate: The interest rate member banks pay the Federal Reserve when the banks use securities as collateral.

Diversification: A process of investing assets among a range of security types by sector, maturity, and quality rating.

Duration: A measure of the timing of the cash flows, such as the interest payments and the principal repayment, to be received from a given fixed-income security. This calculation is based on three variables: term to maturity, coupon rate, and yield to maturity. The duration of a security is a useful indicator of its price volatility for given changes in interest rates. There are three primary types of duration: Macaulay Duration, Modified Duration, and Effective Duration.

> **Macaulay Duration** was developed in 1938 by Frederic Macaulay, this form of duration measures the number of years required to recover the true cost of a bond, considering the present value of all coupon and principal payments received in the future. Thus, it is the only type of duration quoted in "years." Interest rates are assumed to be continuously compounded.
>
> **Modified Duration** expands or modifies Macaulay duration to measure the responsiveness of a bond's price to interest rate changes. It is defined as the percentage change in price for a 100 basis point change in interest rates. The formula assumes that the cash flows of the bond do not change as interest rates change (which is not the case for most callable bonds).
>
> **Effective Duration** (sometimes called option-adjusted duration) further refines the modified duration calculation and is particularly useful when a portfolio contains callable securities. Effective duration requires the use of a complex model for pricing bonds that adjusts the price of the bond to reflect changes in the value of the bond's "embedded options" (e.g., call options or a sinking fund schedule) based on the probability that the option will be exercised. Effective duration incorporates a bond's yield, coupon, final maturity and call features into one number that indicates how price-sensitive a bond or portfolio is to changes in interest rates.

Earnings Apportionment: The distribution of investment income to investment pool participants.

Environmental, Social, and Governance (ESG): (ESG) criteria are a set of standards for a company's operations that socially conscious investors use to screen potential investments. Environmental criteria consider how a company performs as a steward of nature. Social criteria examine how it manages relationships with employees, suppliers, customers, and the communities where it operates. Governance deals with a company's leadership, executive pay, audits, internal controls, and shareholder rights.

Fair Value: The amount at which an investment could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Federal Agricultural Mortgage Corporation (FAMC/Farmer Mac): Farmer Mac is a stockholder-owned, federally chartered corporation with the mission of providing a secondary market for a variety of loans made to borrowers in rural America. Farmer Mac was established under federal legislation in 1988. Farmer Mac is an instrumentality of the United States and government-sponsored enterprise ("GSE") by virtue of the status conferred by its charter. s. Farmer Mac is part of the Farm Credit System but is separate from the Federal Farm Credit Banks and Funding Corporation. It is based primarily in Washington, D.C, and also has offices in Iowa, Idaho, and California.

Federal Deposit Insurance Corporation (FDIC): The FDIC preserves and promotes public confidence in the U.S. financial system by insuring deposits in banks and thrift institutions for at least $250,000; by identifying, monitoring and addressing risks to the deposit insurance funds; and by limiting the effect on the economy and the financial system when a bank or thrift institution fails. An independent agency of the federal government, the FDIC was created in 1933 in response to the thousands of bank failures that occurred in the 1920s and early 1930s. Since the start of FDIC insurance on January 1, 1934, no depositor has lost a single cent of insured funds as a result of a failure. The FDIC receives no Congressional appropriations - it is funded by premiums that banks and thrift institutions pay for deposit insurance coverage and from earnings on investments in U.S. Treasury securities. The FDIC insures trillions of dollars of deposits in U.S. banks and thrifts - deposits in virtually every bank and thrift in the country.

Federal Funds (Fed Funds): Funds placed in Federal Reserve banks by depository institutions in excess of current reserve requirements. These depository institutions may lend fed funds to each other overnight or on a longer basis. They may also transfer funds among each other on a same-day basis through the Federal Reserve banking system. Fed funds are considered to be immediately available funds.

Federal Funds Rate: Interest rate charged by one institution lending federal funds to the other.

Federal Farm Credit Bank (FFCB/Farm Credit): The Federal Farm Credit Banks Funding Corporation is responsible for issuing and marketing debt securities on behalf of the four Banks of the Farm Credit System: AgFirst FCB, Agribank FCB, FCB of Texas. And CoBank, ACB. These four Banks (located in South Carolina, Minnesota, Texas, and Colorado) are a leading provider of loans, leases and services to rural communities and U.S. agriculture. The Farm Credit System is a government-sponsored enterprise, created in 1916 and dedicated to assuring a steady source of financing to qualified borrowers. The Federal Farm Credit Banks Funding Corporation is based in Jersey City, New Jersey.

Federal Home Loan Banks (FHLB/Home Loan): The Federal Home Loan Banks are 11 U.S. government-sponsored banks that provide reliable liquidity to member financial institutions to support housing finance and community investment. With their members, the FHLB represents the largest collective source of home mortgage and community credit in the United States. FHLB was created by Congress in 1932 by the Federal Home Loan Bank Act and is located in Reston, Virginia.

Federal Home Loan Mortgage Corporation (FHLMC/Freddie Mac): Freddie Mac was created by Congress in 1970 to expand the secondary market for mortgages in the US. Along with the Federal National Mortgage Association, buys mortgages on the secondary market, pools them, and sells them as a mortgage-backed security to investors on the open market. This secondary mortgage market increases the supply of money available for mortgage lending and increases the money available for new home purchases. Freddie Mac, is headquartered in McLean, Virginia.

Federal National Mortgage Association (FNMA/Fannie Mae): Fannie Mae was created Congress in 1938 to provide supplemental liquidity to the mortgage market, similar to the FHLMC. Fannie Mae, is headquartered in Washington, D.C.

Federal Open Market Committee (FOMC): The FOMC is the branch of the Federal Reserve Board that determines the direction of monetary policy. The FOMC meets several times a year to discuss whether to maintain or change current policy.

Federal Reserve Board (FRB): The governing body of the Federal Reserve System (12 regional Federal banks monitoring the commercial and savings banks in their regions). The board establishes policies on such key matters as reserve requirements and other regulations, sets the discount rate, and tightens or loosens the availability of credit in the economy.

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 6,000 commercial banks that are members of the system. These member banks hold stock in the Federal Reserve Banks and earn dividends.

Financial Industry Regulatory Authority (FINRA): FINRA is a private corporation, authorized by Congress, that acts as a self-regulatory organization. FINRA is the successor to the National Association of Securities Dealers, Inc. and the member regulation, enforcement, and arbitration operations of the New York Stock Exchange. FINRA also provides BrokerCheck, which is a service to obtain information regarding brokers, brokerage firms, and investment advisors.

Fitch: A credit rating agency that as one of its services, analyzes and rates securities. Fitch Ratings is one of the “Big Three” credit rating agencies, along with Moody’s and S&P.

Floating Rate Securities: A bond whose interest rate is adjusted according to the interest rates of other financial instruments. These instruments provide protection against rising interest rates, but pay lower yields than fixed rate notes.

Futures: Futures are derivative financial contracts that obligate the parties to transact an asset at a predetermined future date and price. Here, the buyer must purchase or the seller must sell the underlying asset at the set price, regardless of the current market price at the expiration date.

Generally Accepted Accounting Principles (GAAP): GAAP refer to a common set of accepted accounting principles, standards, and procedures that companies and their accountants must follow when they compile their financial statements. GAAP is a combination of authoritative standards (set by policy boards) and the commonly accepted ways of recording and reporting accounting information. GAAP improves the clarity of the communication of financial information.

Governmental Account Standards Board (GASB): GASB is a non-profit entity that was organized in 1984 by the Financial Accounting Foundation (FAF) to establish standards of financial accounting and reporting for state and local governmental entities. Its standards guide the preparation of external financial reports of those entities.

Government National Mortgage Association (GNMA/Ginnie Mae): Ginnie Mae is a U.S. government corporation that guarantees the timely payment of principal and interest on mortgage-backed securities issued by approved GNMA lenders. That assurance allows the mortgage lenders to obtain a better price for these offerings in the capital markets. Those improved proceeds, in turn, allow the lenders to make additional mortgage loans, and at lower costs to finance. GNMA was created by Congress in 1968 and is headquartered in Washington D.C.

Government Securities: An obligation backed by the full faith and credit of the U.S. government. These securities are regarded as the highest quality of investment securities available in the U.S. securities market. See "Treasury Bills, Notes, and Bonds."

Government Sponsored Enterprises (GSEs): Federally-chartered agency or instrumentality of the United States Government

IDC Ranking: IDC Financial Publishing, Inc. compiles financial data on all banks, thrifts, and credit unions reporting to the federal government, and publishes a ranking based on 24 key indicators.

Interest Rate: See "Coupon Rate."

Interest Rate Risk: The risk associated with declines or rises in interest rates, which cause an investment in a fixed-income security to increase or decrease in value. Duration is a measure of interest rate risk.

Interest Rate Swap: An interest rate swap is a forward contract in which one stream of future interest payments is exchanged for another based on a specified principal amount. Interest rate swaps usually involve the exchange of a fixed interest rate for a floating rate, or vice versa, to reduce or increase exposure to fluctuations in interest rates or to obtain a marginally lower interest rate than would have been possible without the swap.

Inter-American Development Bank (IADB): An international financial institution that supports Latin American and Caribbean economic development, social development and regional integration by lending to governments and government agencies, including State corporations. The IADB is headquartered in Washington, D.C. IADB is a supranational organization and was established in 1959.

International Bank for Reconstruction and Development (IBRD): An international financial institution that offers loans to middle-income developing countries. The IBRD is the first of five member institutions that compose the World Bank Group, and is headquartered in Washington, D.C. IBRD is a supranational organization and was established in 1944.

International Finance Corporation (IFC): An international financial institution that offers investment, advisory, and asset-management services to encourage private-sector development in less developed countries. The IFC is a member of the World Bank Group and is headquartered in Washington, D.C. IFC is a supranational organization and was established in 1956.

Inverse Floater: An inverse floater is a bond or other type of debt whose coupon rate has an inverse relationship to a benchmark rate. An inverse floater adjusts its coupon payment as the interest rate changes.

Inverted Yield Curve: A chart formation that illustrates long-term securities having lower yields than short-term securities. This configuration usually occurs during periods of (or anticipation of) high inflation coupled with low levels of confidence in the economy and a restrictive monetary policy.

Investment Company Act of 1940: Federal legislation, which sets the standards by which investment companies, such as mutual funds, are regulated in the areas of advertising, promotion, performance reporting requirements, and securities valuations.

Investment Policy: A concise and clear statement of the objectives and parameters formulated by an investor or investment manager for a portfolio of investment securities.

Investment-Grade Obligations: Obligations that are rated BBB or higher by a rating agency

Leverage: The use of financial leverage to control a greater amount of assets (by borrowing money) will cause the returns on the owner's cash investment to be amplified.

Liquidity: The amount of a portfolio or an asset that can be converted easily and quickly into cash.

Local Government Investment Pool (LGIP): An investment by local governments in which their money is pooled as a method for managing local funds.

Make Whole Call: A make whole call provision is a type of call provision on a bond allowing the issuer to pay off remaining debt early. The issuer typically has to make a lump sum payment to the investor derived from a formula based on the net present value (NPV) of future coupon payments that will not be paid incrementally because of the call combined with the principal payment the investor would have received at maturity.

Mark-to-Market: The process whereby the book value or collateral value of a security is adjusted to reflect its current market value.

Market Risk: The risk that the value of a security will rise or decline as a result of changes in market conditions.

Market Value: Current market price of a security.

Master Repurchase Agreement (MRA): 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. SIFMA's MRA is the industry standard agreement.

Maturity: The date on which payment of a financial obligation is due. The final stated maturity is the date on which the issuer must retire a bond and pay the face value to the bondholder. See "Weighted Average Maturity".

Medium Term Notes: Debt obligations of banks, corporations, and insurance companies. They are issued at a specific rate of return for a specific period of time.

Monetary Policy: The way in which the money supply is managed by the Federal Reserve Board. The FRB manipulates the money supply either through open market transactions, member bank reserve requirements, or through changing the Fed Funds Rate or the Discount Rate.

Money Market: Typically refers to short-term debt instruments (bills, commercial paper, discount notes, etc.).

Money Market Fund: Mutual funds that invest solely in money market instruments (short-term debt instruments, such as Treasury bills, commercial paper, bankers' acceptances, repos, and federal funds).

Moody's Investors Service: A company that as one of its services, analyzes and rates securities (similar to Fitch and Standard and Poor's).

Mortgage-Backed Security: A security that is backed by a pool of mortgages. Generally, the security is issued or guaranteed by the United States or its agencies or instrumentalities, but also may be issued by financial institutions such as banks.

Municipal Bond: A municipal bond is a debt security issued by a local government, such as county, state, city, special improvement district, to finance its capital expenditures, including the construction of highways, bridges or schools. Municipal bonds can issue taxable or tax-exempt from federal, state, and local taxes.

Mutual Fund: A mutual fund is a professionally managed investment fund that pools money from many investors to purchase securities. These investors may be retail or institutional in nature. Mutual funds have advantages and disadvantages compared to direct investing in individual securities.

Nationally Recognized Statistical Rating Organization (NRSRO): A credit rating agency that issues credit ratings that the U.S. Securities and Exchange Commission (SEC) permits other financial firms to use for certain regulatory purposes. The most recognized NRSROs are Fitch, Moody's, and Standard and Poor's.

National Association of Securities Dealers (NASD): A self-regulatory organization of brokers and dealers in the over-the-counter securities business. Its regulatory mandate includes authority over firms that distribute mutual fund shares as well as other securities.

Nominal Yield: The stated rate of interest that a bond pays its current owner, based on par value of the security. It is also known as the "coupon," "coupon rate," or "interest rate."

Offer: An indicated price at which market participants are willing to sell a security or commodity. Also referred to as the "Ask price."

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.

Option Adjusted Spread (OAS): Option-adjusted spread is the yield spread which has to be added to a benchmark yield curve to discount a security's payments to match its market price, using a dynamic pricing model that accounts for embedded options. OAS is hence model-dependent.

Overnight Indexed Swap (OIS): OIS is an interest rate swap where the periodic floating payment is generally based on a return calculated from a daily compound interest investment. ... The LIBOR–OIS spread is the difference between LIBOR and the OIS rates.

Par: Face value or principal value of a bond, typically $1,000 per bond.
Pass-Thorough Securities: A debt instrument that reflects an interest in a mortgage pool, consumer receivables pool and equipment lease-backed pool that serves as collateral for a bond.

Portfolio: Collection of securities held by an investor.

Positive (Normal) Yield Curve - A chart formation that illustrates short-term securities having lower yields than long-term securities.

Premium: The amount by which the price paid for a security exceeds the security's par value.

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 and banks.

Prime Rate - A preferred interest rate charged by commercial banks to their most creditworthy customers. Many interest rates are keyed to this rate.

Principal - The face value or par value of a debt instrument. Also may refer to the amount of capital invested in a given security.

Private Placements: Securities that do not have to be registered with the Securities and Exchange Commission because they are offered to a limited number of sophisticated investors.

Prospectus - A legal document that must be provided to any prospective purchaser of a new securities offering registered with the SEC. This can include information on the issuer, the issuer's business, the proposed use of proceeds, the experience of the issuer's management, and certain certified financial statements.

Range Notes: Notes which pay interest only if the underlying index upon which it is benchmarked, falls within a certain range.

Real Adjustment: When a specific metric or economic indicator is adjusted for inflation.

Regional Dealer: Non-Primary broker-dealers and banks, which transact in the fixed-income markets.

Regular Settlement: Securities settlement that calls for delivery and payment on the next business day following the trade day for government securities and the second business day following the trade date for corporate and municipal securities. Money market funds and money market instruments are settled on a same day basis.

Reinvestment Risk: The risk that a fixed-income investor will be unable to reinvest income proceeds from a security holding at the same rate of return currently generated by that holding.

Repurchase Agreement (Repo or RP): An agreement of one party to sell securities at a specified price to a second party and a simultaneous agreement of the first party to repurchase the securities at a specified price or at a specified later date.
Reverse Repurchase Agreement (Reverse Repo): An agreement of one party to purchase securities at a specified price from a second party and a simultaneous agreement by the first party to resell the securities at a specified price to the second party on demand or at a specified date.

Rule 2a-7 of the Investment Company Act: Applies to all money market mutual funds and mandates such funds to maintain certain standards, including a 13- month maturity limit and a 90-day average maturity on investments, to help maintain a constant net asset value of one dollar ($1.00).

Safekeeping: The holding of assets (e.g., securities) by a financial institution.

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

Securities and Exchange Commission (SEC): The government agency that regulates and supervises the securities industry. The commission administers federal law, formulates and enforces rules to protect against malpractice, and seeks to ensure that companies provide the fullest possible disclosure to investors. All of the national exchanges and virtually all institutions in the securities industry fall under its jurisdiction.

SEC RULE l5(C))3-1: See Uniform Net Capital Rule.

Securities Lending: Securities lending is when entities transfer or "loan" their securities to broker-dealers in return for cash collateral and simultaneously agree to return the collateral in exchange for the same securities in the future. Entities then invest the cash received as collateral in allowable investments, such as commercial paper, at a rate that exceeds the "rebate" or loan rate paid to the broker-dealer for the cash collateral. These transactions are structured to result in earning an incremental income on a portion of the investment portfolio. The amount of securities loaned from the portfolio and the income generated is dependent upon market conditions.

Security Swap: Selling one asset and buying another.

Securities Industry and Financial Markets Association (SIFMA): SIFMA is the leading trade association for broker-dealers, investment banks and asset managers operating in the U.S. and global capital markets. SIFMA was formed in 2006, from the merger of the Bond Market Association and the Securities Industry Association. SIFMA also provides a recommended holiday schedule for the U.S. financial markets.

Standard and Poor's (S&P): A company that as one of its services, analyzes and rates securities (similar to Moody's Investors Service).

Standard of Prudence: An investment standard outlining the fiduciary responsibilities of public funds investors relating to investment practices. Generally, the Prudent Person and Prudent Investor are used, with the Prudent Investor being more relevant to state and local governments.

Stated Final Maturity: The date when the final principal amount of a note, draft, or other debt instrument becomes due and is repaid to the investor.

Straight Line Amortization: A common method of calculating accretion or amortization of a discount or premium security to par or 100 from the purchase date to the maturity date. It is calculated by dividing the discount/premium amount by the number of days to maturity, without regard to a security's day count convention.

Structured Notes: Notes issued by Government Sponsored Enterprises (FHLB, FNMA, 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.

Structured Overnight Financing Rate (SOFR): SOFR is a broad measure of the cost of borrowing cash overnight collateralized by Treasury securities. The SOFR includes all trades in the Broad General Collateral Rate plus bilateral Treasury repurchase agreement (repo) transactions cleared through the Delivery-versus-Payment (DVP) service offered by the Fixed Income Clearing Corporation (FICC), which is filtered to remove a portion of transactions considered "specials".
The SOFR is calculated as a volume-weighted median of transaction-level tri-party repo data collected from the Bank of New York Mellon as well as GCF Repo transaction data and data on bilateral Treasury repo transactions cleared through FICC's DVP service, which are obtained from DTCC Solutions LLC, an affiliate of the Depository Trust & Clearing Corporation. Each business day, the New York Fed publishes the SOFR on the New York Fed website at approximately 8:00 a.m.

Supranational: A supranational entity is formed by two or more central governments with the purpose of promoting economic development for the member countries. Supranational institutions finance their activities by issuing debt, such as supranational bonds. The three U.S. based supranationals are International Bank for Reconstruction and Development, the International Finance Corporation, and the Inter-American Development Bank.

Total Return: The sum of all investment income plus realized and unrealized gain and losses.

Trade Reporting and Compliance Engine (TRACE): TRACE is the FINRA-developed vehicle that facilitates the mandatory reporting of over-the-counter secondary market transactions in eligible fixed income securities. All broker-dealers who are FINRA member firms have an obligation to report transactions in corporate bonds to TRACE under an SEC-approved set of rules.

Treasury Bills: Short-term U.S. government non-interest bearing debt securities with maturities of no longer than one year and issued in minimum denominations of $10,000. Auctions of three- and six-month bills are weekly, while auctions of one-year bills are monthly. The yields on these bills are monitored closely in the money markets for signs of interest rate trends.

Treasury Notes: Intermediate U.S. government debt securities with maturities of one to 10 years and issued in denominations ranging from $1,000 to $1 million or more.

Treasury Bonds: Long-term U.S. government debt securities with maturities of ten years or longer and issued in minimum denominations of $1,000. Currently, the longest outstanding maturity for such securities is 30 years.

Uniform Net Capital Rule: SEC Rule 15C3-1 outlining capital requirements for broker/dealers who must maintain a maximum ratio of indebtedness to liquid capital of 15 to 1. Indebtedness covers all money owed to a firm, including margin loans, and commitments to purchase securities (one reason new issues are spread among members of underwriting syndicates). Liquid capital includes cash and assets easily converted to cash.

Volatility: A degree of fluctuation in the price and valuation of securities.

Volatility Risk Rating: A rating system to clearly indicate the level of volatility and other non-credit risks associated with securities and certain bond funds. The ratings for bond funds range from those that have extremely low sensitivity to changing market conditions and offer the greatest stability of the returns to those that are highly sensitive with currently identifiable market volatility risk.

Warrant: In finance, a warrant is a security that entitles the holder to buy the underlying stock of the issuing company at a fixed price called exercise price until the expiry date. Warrants and options are similar in that the two contractual financial instruments allow the holder special rights to buy securities. In accounting, a warrant sometimes similar to a check or an instrument to present for payment.

Weighted Average Life (WAL): The average number of years that each dollar of unpaid principal due on loan, asset-backed security, or mortgage-backed security remains outstanding. WAL delineates how many years it will take to pay half of the outstanding principal.

Weighted Average Maturity (WAM): The average maturity of all the securities that comprise a portfolio, weighted by the individual securities.

When Issued: A transaction that is made conditionally because a security has been authorized but not yet issued. Treasury securities, stock splits, and new issues of stocks and bonds are traded on a when-issued basis.

World Bank: The World Bank is an international financial institution that provides loans and grants to the governments of poorer countries for the purpose of pursuing capital projects. It comprises two institutions: the International Bank for Reconstruction and Development, and the International Development Association.

Yield: The current rate of return on an investment security generally expressed as a percentage of the security's current price.

Yield-to-Call (YTC): The rate of return an investor earns from a bond assuming the bond is redeemed (called) prior to its nominal maturity date.
Yield Curve: A graphic representation that depicts the relationship at a given point in time between yields and maturity for bonds that are identical in every way except maturity. A normal yield curve may be alternatively referred to as a positive yield curve.

Yield-to-Maturity (YTM): The rate of return yielded by a debt security held to maturity when both interest payments and the investor's potential capital gain or loss are included in the calculation of return.

Yield-to-Worst (YTW): The YTW is the lowest potential yield that can be received on a bond without the issuer actually defaulting. The YTW is calculated by making worst-case scenario assumptions on the issue by calculating the return that would be received if the issuer uses provisions, including prepayments or calls.

Zero-Coupon Securities: Security that is issued at a discount and makes no periodic interest payments. The rate of return consists of a gradual accretion of the principal of the security and is payable at par upon maturity.

GIOA Investment Policy Scorecard

For internal use only

Name of Entity:			
Evaluator:			
Section 1: Table of Contents – Max 2 Point		Section 18: Prohibited Investments – Max 2 Points	
Section 2: Introduction/Overview – Max 2 Points		Section 19: Diversification Parameters – Max 4 Points	
Section 3: Governing Authority – Max 2 Points		Section 20: Maturity Parameters – Max 4 Points	
Section 4: Delegation Authority – Max 3 Points		Section 21: Transaction Parameters – Max 2 Points	
Section 5: Oversight Comt./Review – Max 4 Points		Section 22: Calculation Parameters – Max 2 Points	
Section 6: Policy Statement – Max 4 Points		Section 23: Authorized Institutions – Max 3 Points	
Section 7: Scope – Max 2 Points		Section 24: Collateralization – Max 3 Points	
Section 8: Objectives – Max 5 Points		Section 25: Investment Advisors (if needed)	
Section 9: Philosophy – Max 4 Points		Section 26: Authorized Broker/Dealers – Max 3 Points	
Section 10: Standard of Prudence – Max 2 Points		Section 27: Inv Program Reporting – Max 5 Points	
Section 11: Ethics/Conflicts of Interest – Max 2 Points		Section 28: Allocation of Inv Income – Max 2 Points	
Section 12: Limit on Receipt of Gifts – Max 2 Points		Section 29: Performance Information – Max 5 Points	
Section 13: Investment Procedures – Max 2 Points		Section 30: Business Continuity – Max 2 Points	
Section 14: Internal Controls – Max 3 Points		Section 31: Ongoing Training – Max 3 Points	
Section 15: Internal/External Audit – Max 2 Points		Section 32: Inv Policy Review/Adoption – Max 3 Points	
Section 16: Safekeeping and Custody – Max 3 Points		Section 33: Summary-Authorized Inv – Max 2 Points	
Section 17: Authorized Investments – Max 8 Points		Section 34: Glossary – Max 3 Points	
TOTAL		**TOTAL**	

OVERALL TOTAL SCORE	

Certified Policy Must Score 85 Points or Above, By At Least Two Reviewers

Evaluator Comments/Suggestions: