

CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF APRIL 21, 2015

Item 5, Report No. 8, of the Finance, Administration and Audit Committee, which was adopted without amendment by the Council of the City of Vaughan on April 21, 2015.

5

INVESTMENT POLICY UPDATE

The Finance, Administration and Audit Committee recommends approval of the recommendation contained in the following report of the Commissioner of Finance and City Treasurer and the Director of Development Finance and Investments dated April 13, 2015:

Recommendation

The Commissioner of Finance and City Treasurer and the Director of Development Finance and Investments recommend:

1. That the amended City of Vaughan Investment Policy be approved and supersede other prior investment policies.

Contribution to Sustainability

The effective management of the City's funds and optimization to the City's investment portfolio play an important role in the overall financial health of the corporation. The City's Investment Policy provides parameters for the investment of available City of Vaughan funds and helps to support long term financial sustainability.

Economic Impact

The Investment Policy, as approved by Council, sets the parameters within which staff may invest the City's available funds. The majority of the recommended amendments to the Investment Policy relate to increasing the flexibility of investment parameters by increasing sector and term limits to be invested in. This will allow for mitigation against the current low interest environment, but more importantly sets-up the initial framework for a long term investment strategy that staff can pursue upon improvement in the economic and investment environment.

Communications Plan

Upon approval, the Investment Policy will be incorporated within the City's policy manual. In addition, this policy will support the City's investment program and be referenced in future investment processes, controls, and reports.

Purpose

To obtain Council's approval of an updated City of Vaughan Investment Policy inclusive of a new policy statement, fund management structure and investment parameters, performance measurement benchmarks and security lending program. This is considered to be integral to establishing a long term investment strategy and program.

Background - Analysis and Options

The Municipal Act is the governing legislation for the investment of municipal funds. Ontario Regulation 438/97 outlines the criteria for eligible investments. The City's investment policy approved by Council in December 2009 conforms to this legislation and acts as the governing parameters in managing the City's investment portfolio.

Over the past number of years, the City's investment program has changed its focus from just providing liquidity for the day-to-day operations to a long term reserve management. Additionally,

CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF APRIL 21, 2015

Item 5, Finance Report No. 8 – Page 2

the historical low interest rate environment has created challenges in generating optimal returns providing the impetus to modifying the current policy to create more flexibility in investment approaches.

The following were all considerations in an update of the Investment Policy:

1. Regular review of the policy and housekeeping amendments
2. Creation of fund management portfolio structure (e.g. separate short and long term portfolios)
3. Updating the investment limit parameters
4. Addition of new eligible investments
5. Regular monitoring and management reporting

Revision of the current Investment Policy is necessary to optimize performance and is in accordance with the Municipal Act

A detailed review of the current investment policy was undertaken by staff. The recommended amendments, as outlined in this report, support the transformation to a more diversified long term portfolio and to respond to the challenges of a historically low rate environment.

In addition, the recommended amendments to the Investment Policy would allow for:

- flexibility to adjust to changes in the capital market environment
- expand the range of eligible investments to maximize yields
- closer alignment of the City's investment parameters to neighbouring municipalities, and
- clearer identification of benchmarks to set rate of return objectives and evaluate performance

A new Fund Management Portfolio Structure and Investment Parameters provides separate focus and flexibility for short and long term portfolios

The current investment policy commingle the investment parameters of both short term ("Money Market") and long term ("Bond") portfolios. It is recommended that the investment management structure be separated into two distinct components:

- a) Short Term ("Money Market Portfolio")
- b) Long Term ("Bond Portfolio")

The Short Term Portfolio would consist of investments that have a maturity term of less than one year such as Term Deposits and Bankers Acceptances. The Long Term Portfolio would consist of investments that have a maturity term of more than one year, namely Bonds. The recommended change would separate out these two components; each with its own set of investment parameters. The recommended changes would allow for clear and more focused parameters for the short and long term portfolios.

Attachment 1 illustrates a chart that compares the investment parameters of old policy versus the new policy. The chart shows both the portfolio and the individual limits for various types of Sectors and Securities and also shows a benchmark range from neighbouring municipalities. The amendments to this policy essentially seek to increase both the Portfolio and Individual limits in various sectors, but especially the Federal, Schedule I Banks and Credit Unions where there is the potential to earn more investment income in response to changes in the market. Of note as well is the addition of Schedule III banks and Asset Backed Securities. Both types of investments are allowable under the Municipal Act and are commonly found in several neighbouring municipality's investment policies.

CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF APRIL 21, 2015

Item 5, Finance Report No. 8 – Page 3

Performance Measurement and Benchmarks will provide evaluation against objectives

For the Short Term Portfolio a minimum standard benchmark against the Bank of Canada 91 Day Treasury Bill Yield will be used, while the Long Term Portfolio will be benchmarked against a blend of the FTSE TMX Canada All Government Bond Index and the FTSE TMX Canada Short Term Government Bond Index. Both benchmarks are widely used passive indices and are considered industry standards. Staff believe it is important to establish these performance benchmarks to ensure that the City's investment program performance is transparently and objectively measured.

Securities Lending

Under the City's current policy, staff are allowed to enter in to Custodial Service arrangements whereby a financial institution maintains custody of the City's investments rather than individual bonds being held at the various issuing institutions. This is a commonly held practice in the industry and the service is offered by only a few institutions. In late 2014 the City of Vaughan opened a Custodial account in anticipation of ramping up a long term investment program.

While the investments or "Securities" are in the custody of the banking institution the funds may be loaned, for the purpose of generating revenue on a fully indemnified basis. This is known as "securities lending". The practice of securities lending is permitted within the Municipal Act Section 418, is a relatively risk-free arrangement and can be used to generate additional revenue on the City's custodial portfolio. Several GTA municipalities, for example Hamilton, Brampton, and York, are already using this practice to enhance their investment returns.

Relationship to Vaughan Vision 2020/Strategic Plan

The above recommendations are consistent with the City's goal of organization excellence, and more specifically, to ensure financial sustainability in the effective management and safeguard of the City's surplus funds.

Regional Implications

Not applicable

Conclusion

The City's investment program has changed its focus from providing liquidity for the day-to-day operations to a long term reserve management. This change focused on transforming the investment portfolio from a short term money market portfolio to one that is more diversified in terms of credit and term exposure.

As a result, the recommended amendments to the existing investment policy will support moving towards this strategy as the economic and investment environment improves. The recommendations, as outlined in this report, are in accordance with the Municipal Act and the criteria for eligible investments under Ontario Regulation 438/97.

Attachments

1. Comparison of Investment Parameters – Old Vs. Updated Policy Vs. Benchmarks
2. Updated City of Vaughan Investment Policy

CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF APRIL 21, 2015

Item 5, Finance Report No. 8 – Page 4

Report prepared by:

Alex Ly, CFA, CGA
Senior Analyst, Development Finance and Investments
Ext. 8312

(A copy of the attachments referred to in the foregoing have been forwarded to each Member of Council and a copy thereof is also on file in the office of the City Clerk.)

INVESTMENT POLICY UPDATE**Recommendation**

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Report prepared by:

Alex Ly, CFA, CGA
Senior Analyst, Development Finance and Investments
Ext. 8312

Respectfully submitted,

John Henry, CPA, CMA
Commissioner of Finance & City Treasurer

Lloyd Noronha, CPA, CMA
Director of Development Finance & Investments

ATTACHMENT 1

COMPARISON OF INVESTMENT PARAMETERS – OLD VS. UPDATED POLICY VS. BENCHMARKS

(Only parameters that are changing have been highlighted below. A comprehensive list of parameters has been included in the new policy – see Attachment 2).

Reasoning for changes that is common to all Sectors are as follows:

- Changes provide flexibility and potential to maximize return
- Changes better align with policies of neighbouring municipalities (e.g. York, Mississauga, Brampton)
- Increases in Portfolio and Individual limits allows for ability to respond to market conditions

SHORT TERM INVESTMENT PORTFOLIO							
Investment Parameters							
	Current Policy		Proposed Policy		Benchmark* Municipal Ranges		
Sector / Securities	Portfolio Limit %	Individual Limit %	Portfolio Limit %	Individual Limit %	Portfolio Limit %	Individual Limit %	Additional Comments
Federal Guarantees	50	25	100	50	100	100	Federal short term debt are the safest and most liquid instrument.
PROVINCIAL	80	25	80	35	50-100	10-50	
BANKS							
Schedule I Banks (R1-High)	N/A	N/A	100	50	50-100	25-100	This is a new addition that allows for greater investment opportunity. The investment must meet the highest short term credit rating of R1 High.
Schedule I Banks (R1-Mid)	80	25	80	35	50-100	10-100	
OTHER							
Credit Unions and Loan/Trust Corporations	10	2	30	5	0-30	0-15	
Asset Backed Securities	N/A	N/A	10	3	0-25	0-10	This is a new addition, which is an eligible investment. The investment must meet the minimum short term credit rating of R1 Mid.
LONG TERM INVESTMENT PORTFOLIO							
Investment Parameters							
	Current Policy		Proposed Policy		Benchmark* Municipal Ranges		
Sector / Securities	Portfolio Limit %	Individual Limit %	Portfolio Limit %	Individual Limit %	Portfolio Limit %	Individual Limit %	Comments
FEDERAL							
Government of Canada	70	70	100	100	100	100	Government of Canada bonds are the safest and most liquid instrument.
PROVINCIAL (AA)	70	25	70	35	70-100	10-50	
(A)	25	15	35	15	20-100	10-15	
MUNICIPALS							
Municipals and School Boards	15	5	25	5	20-35	5-10	
BANKS							
Schedule I Banks	20	20	50	20	35-60	10-25	
Schedule II Banks	10	2	15	5	10-20	5-10	
Schedule III Banks	N/A	N/A	10	3	0-10	0-5	This is a new addition, which is an eligible investment. The investment allows for flexibility to maximize yields and respond to market conditions.
OTHER							
Asset Backed Securities	N/A	N/A	10	3	0-25	0-10	This is a new addition, which is an eligible investment. The investment allows for flexibility to maximize yields and respond to market conditions.
TOTAL PORTFOLIO - Weighted Average Term	N/A		2.5 - 7.5 Years to Maturity				Setting a range from 2.5 years to 7.5 years to maturity for long term investments allows for the ability to respond to changing market conditions. The target weighted average would be 5 years.

* Municipal benchmark ranges used include Region of York, Peel, City of Mississauga, Markham, Brampton and Hamilton

CITY OF VAUGHAN INVESTMENT POLICY

TABLE OF CONTENTS

<u>POLICY STATEMENT AND OBJECTIVES</u>	2
<u>Legal Compliance</u>	2
<u>Preservation of Principal</u>	2
<u>Maintenance of Liquidity</u>	2
<u>Competitive Rate of Return</u>	2
<u>SCOPE</u>	3
<u>MANAGEMENT STRUCTURE AND PARAMETERS</u>	3
<u>Short Term Portfolio</u>	3
<u>Long Term Portfolio</u>	3
<u>STANDARD OF CARE</u>	4
<u>Prudence</u>	4
<u>Ethics and Conflicts of Interest</u>	4
<u>DELEGATION OF AUTHORITY</u>	4
<u>ELIGIBLE INVESTMENTS AND CREDIT RATINGS</u>	5
<u>Eligible Investments</u>	5
<u>Minimum Quality Requirements</u>	5
<u>Portfolio Parameters</u>	5
<u>REPORTING</u>	6
<u>SAFEKEEPING AND CUSTODY</u>	7
<u>SECURITIES LENDING</u>	7
<u>DEFINITIONS</u>	7
<u>Appendix A: Short Term Portfolio – Eligible Investments and Limitations</u>	9
<u>Appendix B: Long Term Portfolio – Eligible Investments and Limitations</u>	10
<u>Appendix C: Municipal Act, Ontario Regulation 438/97</u>	12

Date: April 2015

POLICY STATEMENT AND OBJECTIVES

The overall goal is to ensure that available City funds are put to work to generate additional value through interest and investment yields. The City has authority to invest funds under section 418 of the Municipal Act, 2001.

The investment objectives of the City of Vaughan in order of priority are:

1. Compliance to statutory requirements
2. Preservation of principal investment
3. Maintenance of adequate level of liquidity
4. Earning a competitive rate of return

Compliance to Statutory Requirements

The City's investment portfolio shall conform to the Municipal Act and Ontario Regulation 438/97 as amended from time to time, Eligible Investments or as authorized by subsequent provincial regulations including the Electricity Act, 1998. The legislation provides very strict investment requirements, limiting municipalities to very specific investment types, quality and duration.

Preservation of Investment Principle

The preservation of principal is of primary importance. Investments shall be selected in a manner that will attempt to ensure the safety of the overall portfolio principle investment. This will be accomplished through a program of diversification, through high credit quality, sector allocation, and maturity limitations more fully discussed below.

Maintenance of Liquidity

The investment portfolio shall remain sufficiently liquid to meet all operating and capital requirements that may reasonably be anticipated. This is accomplished through cash flow analysis and projection techniques and by structuring the portfolio so that securities mature concurrent with anticipated current and future financial demands.

Competitive Rate of Return

The investment portfolio shall be designed with the objective of attaining a market or better rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs.

Return on investments is of secondary importance compared to the safety of principal and liquidity objectives. The core of investments is limited to relatively high quality securities in anticipation of earning a competitive return relative to the low risk being assumed.

The composition of the short and long term portfolios, including their terms to maturity and type of investments, shall be adjusted within the parameters of this policy to take advantage of market conditions.]

To take advantage of short-term fluctuations in interest rates, securities may be sold prior to maturity. All realized and unrealized capital gains/losses will be identified in the annual investment report.

SCOPE

The policy as outlined applies to all future investment of Current, Reserve and Trust Funds of the City of Vaughan.

MANAGEMENT STRUCTURE AND INVESTMENT PARAMETERS

The City's Investment Portfolio will consist of two major components:

- A) Short Term Portfolio ("Money Market Portfolio")
- B) Long Term Portfolio ("Bond Portfolio")

A) Short Term Portfolio

The Short Term Portfolio will consist of Eligible Investments with a maturity term of one year or less. The funds in this Portfolio are generally needed in the short term to meet on-going needs and obligations of the City. Securities are generally held to maturity unless declining credit or liquidity needs warrant a pre-maturity sale. A minimum of 15% of overall available funds will be invested in the Short Term Portfolio to maintain adequate liquidity to meet daily operating needs.

Appendix A provides the investment parameters for the Short Term Portfolio, including sectors and allowable percentages that may be held at any time within the Portfolio.

Performance Measurement and Benchmark

For the purpose of evaluating the performance of the Short Term Investment portfolio, the performance benchmark is the Bank of Canada 91 Day Treasury Bill Yield.

B) Long Term Portfolio

The Long Term Portfolio will consist of Eligible Investments with a weighted average maturity term of more than one year to a maximum of 20 years. The funds in this Portfolio are invested in securities of longer terms, which generally have higher yields.

Appendix B provides the investment parameters for the Long Term Portfolio, including sectors and allowable percentages that may be held at any time within the Portfolio.

Performance Measurement and Benchmark

For the purpose of evaluating the performance of the Long Term Investment portfolio, the performance benchmark will be based on a proportional blend of applicable components of the following indices:

- FTSE TMX Canada Universe All Government Bond Index
- FTSE TMX Canada Short Term Government Bond Index

Return calculations are net of fees and include realized and unrealized capital gains or losses plus income from all sources. All rates of return are measured over moving one-year and four-year periods.

STANDARD OF CARE

Prudence

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 principle as well as the probable income to be derived.

An Investment Officer acting in accordance with written procedures and this 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 the liquidation or sale of securities are carried out in accordance with the terms of this Policy.

Ethics and Conflicts of Interest

Employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Employees shall disclose any material interests in financial institutions that conduct business with the City, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the investment portfolio. No employee involved in the investment process shall undertake personal investment transactions with the same individual with whom business is conducted on behalf of the City.

DELEGATION OF AUTHORITY

The Commissioner of Finance and Treasurer will have overall accountability for the scope of this Policy. Given the restrictive nature of the applicable legislation and the need to be effective and efficient at executing the investment program, the Director of Development Finance and Investments is responsible for the implementation of the investment program and the establishment of investment procedures consistent with this investment policy. The Director of Development Finance and Investments shall delegate to staff, within an established system of controls and procedures, the day-to-day responsibilities of managing the investment activities.

The Director shall be responsible for all transactions undertaken, and shall exercise control over the staff administering the program. Additionally, the Director shall be responsible for providing regular updates to the Commissioner of Finance & City Treasurer and shall notify the same of any material changes in the investment portfolios in a timely manner. The Director shall also be accountable for appropriate record keeping in relation to the investment program.

Opening and closing of investment accounts shall be governed by the resolution of Council on November 28, 2005 to authorize only the City Treasurer and Deputy City Treasurer (Director of Financial Services) to sign necessary documentation. In this regard, a separation of duties from authorization to open/close accounts to authorization for investment transactions on those same accounts will be achieved.

Those investments governed by the provisions of the "ONE Fund – The Public Sector Group of Funds" agreement shall be deemed delegated to that Agent.

All investment transactions related to Hydro Utility corporations shall not be governed by this policy and is not a delegated authority. These transactions shall be governed by Council and/or relevant holding companies.

ELIGIBLE INVESTMENTS AND CREDIT RATINGS

Eligible Investments

The City will invest only in securities permitted under the Municipal Act and Ontario Regulation 438/97, as amended from time to time, and the Electricity Act 1998 as amended from time to time.

Eligible investments may include such securities as bonds, debentures, promissory notes, term deposits, deposit receipts, deposit notes, certificates of deposit, acceptances or similar instruments, and Joint Investment pools.

For a complete listing of all Eligible Investments, refer to the Ontario Regulation 438/97 found in *Appendix C*.

Minimum Quality Requirements

The City shall not invest in a security that does not meet the credit rating requirements established under the Municipal Act and Regulations 438/97. The credit ratings listed are established by Dominion Bond Rating Service (DBRS), Standard and Poor's (S&P), Fitch Ratings (Fitch) and Moody's Investor Service (Moody's).

The tables below show the credit rating scales of the four main credit rating agencies. The checked ratings are investment grades that meet the minimum credit rating requirements.

Credit Rating for Short Term Debt					
Investment Grade	DBRS	S&P	Fitch	Moody's	Meet Minimum credit rating
Highest	R-1 (high)	A-1	F1	P-1	✓
Very High	R-1 (middle)	A-2	F2	P-2	✓
High	R-1 (low)	A-3	F3	P-3	✓
Medium	R-2 (high)	B	B	NP	X
Lower Medium	R-2 (middle)	C	C	NP	X
Low	R-2 (low)	D	D	NP	X
Poor	R3			NP	X

Credit Rating for Long Term Debt					
Investment Grade	DBRS	S&P	Fitch	Moody's	Meet Minimum credit rating
Highest	AAA	AAA	AAA	Aaa	✓
Very High	AA	AA+ to AA-	AA+ to AA-	Aa1 to Aa3	✓
High	A	A+ to A-	A+ to A-	A1 to A3	✓
Medium	BBB	BBB+ to BBB-	BBB	Baa1 to Baa3	X
Lower Medium	BB	BB+ to BB-	BB	Ba	X

Low	B	B+ to B-	B	B	X
Poor	CCC	CCC to CCC-	CCC	Caa	X
Speculative	CC	CC	CC	Ca	X
Default	C to D	R & D	D	C	X

Portfolio Parameters

In accordance with Objective #2 under the Policy Statement Section, the City shall maintain a diversified portfolio to minimize the risk of loss by:

- a) limiting investments to avoid over-concentration of securities from a specific issuer or type
- b) limiting investment in securities to those that have high credit ratings
- c) investing in securities with varying maturities
- d) investing in mainly liquid marketable securities which have an active secondary market, to ensure that appropriate liquidity is maintained in order to meet ongoing obligations, and
- e) limited to Canadian investments only

Diversification will include sector limitations outlined in *Appendix A and B* of this policy. The Investment Officer under the direction of the Commissioner of Finance or his/her designate is permitted to deviate +/- 10% from the sector limitation to take advantage of changing market conditions.

REPORTING

As mandated by the Municipal Act, the Commissioner of Finance or his/her designate shall submit an investment report to Council at least annually that:

- a) contains a statement about the performance of the investment portfolio during the period covered by the report
- b) contains a statement by the Commissioner of Finance as to whether or not, in his or her opinion, all investments were made in accordance with this investment Policy
- c) contains a listing of the type of securities in which the portfolio invested during the period covered by the report and
- d) contains a listing of the percentage of the total portfolio which each type of investment represents
- e) contains a listing of the securities held by the portfolio at the date of the report
- f) contains other information that Council may require or that, in the opinion of the Commissioner of Finance, should be included

Additionally, periodic management reports shall be provided on a regular basis to the Commissioner of Finance that will include analysis on the status of the investment portfolios and transactions made during the period. In accordance with the Municipal Act, if an investment is made that is inconsistent with the Investment Policy, the Commissioner of Finance shall report the inconsistency to Council within 30 days after becoming aware of it.

SAFEKEEPING AND CUSTODY

All securities shall be held for safekeeping by a financial institution approved by the City. All securities will be held in the name of the City. Individual accounts shall be maintained for the short term and long term portfolio.

The depository shall issue a safekeeping receipt to the City listing the specific instrument, issuer, maturity, purchase or sale price, transaction date, and other pertinent information. The depository will provide monthly reports listing all securities held for the City, the book value of the holdings and market value as of month end.

SECURITIES LENDING

The investments of the funds may be loaned, for the purpose of generating revenue on a fully indemnified basis. Such loans must be secured by cash and/or readily marketable government bonds, treasury bills and/or letters of credit, discount notes and bankers' acceptances of chartered banks. The amount of collateral taken for securities lending should reflect best practices in local markets. In Canada, the current market practice is to obtain collateral of at least 100% of the market value of the loaned securities. This market value relationship must be calculated at least daily.

The terms and conditions of any securities lending program will be set out in a contract with the Custodian. The contract will specify the City's portion of the relevant revenues as well as a full indemnity clause for the City

DEFINITIONS

Bond - A debt security issued by such entities as corporations, governments, or their agencies, for example statutory authorities, in return for cash from lenders and investors. A bond holder is a creditor of the issuer and not a shareholder. The issuer of a bond is effectively a borrower, and is required to pay interest to creditors (lenders) throughout the life of the bond

CHUMS - (Colleges, Hospitals, Universities and Municipalities), The entity which operates One Fund, the Public Sector Group of funds, an investment pool in which local governments can invest. CHUMS Financing Corporation is a subsidiary of the Municipal Finance Officers' Association of Ontario recognized in the Ontario Regulations.

DBRS - means Dominion Bond Rating Service Limited.

Fitch - means Fitch Ratings, a bond rating agency

FTSE TMX Indices - Indices tabulated by FTSE TMX Global Debt Capital Markets (formerly PC Bond / DEX) and a leading provider of fixed income performance benchmarks and database in Canada

Local Authorities Service Limited (LAS) - Entity which operates One Fund, the Public Sector Group of funds, an investment pool in which local governments can invest. LAS is a subsidiary of the Association of Municipalities of Ontario recognized in the Ontario Regulations.

Moody's - means Moody's Investors Services Inc., a bond rating agency

ONE Fund - the Public Sector Group of Funds (the "One Fund") - is an investment pool in which local governments can invest and is administered by LAS and CHUMS Financing Corporation.

S & P - means Standard & Poor's, a bond rating agency

Safekeeping - Holding of assets (e.g., securities) by a qualified financial institution (e.g. bank) on behalf of the investor.

Schedule I banks - are domestic banks and are authorized under the Bank Act to accept deposits, which may be eligible for deposit insurance provided by the Canadian Deposit Insurance Corporation

Schedule II banks - are foreign bank subsidiaries authorized under the Bank Act to accept deposits, which may be eligible for deposit insurance provided by the Canada Deposit and Insurance Corporation. Foreign bank subsidiaries are controlled by eligible foreign institutions.

Schedule III banks - are foreign bank branches of foreign institutions that have been authorized under the Bank Act to do banking business in Canada. These branches have certain restrictions.

APPENDIX A: Short Term Portfolio - Eligible Investments and Limitations

SHORT TERM INVESTMENT PORTFOLIO							
Investment Limitations							
				Minimum Credit Rating			
				Meet at least one of the following			
Sector / Securities	Portfolio Limit %	Individual Limit %	Maximum Term	DBRS	S&P	Fitch	Moody's
FEDERAL							
Government of Canada	100	100	1 year	N/A	N/A	N/A	N/A
Federal Guarantees	100	50	1 year	N/A	N/A	N/A	N/A
PROVINCIAL	100	50	1 year	R1 High	A-1	F1	P-1
	80	35	1 year	R1 Mid	A-2	F2	P-2
	20	5	1 year	R1 Low	A-3	F3	P-3
Provincial Total	100						
BANKS							
Schedule I Banks	100	50	1 year	R1 High	A-1	F1	P-1
	80	35	1 year	R1 Mid	A-2	F2	P-2
	20	5	1 year	R1 Low	A-3	F3	P-3
Schedule II Banks	15	5	1 year	R1 High	A-1	F1	P-1
	10	3	1 year	R1 Mid	A-2	F2	P-2
Schedule III Banks	5	2	6 months	R1 High	A-1	F1	P-1
Banks Total	100						
OTHER							
Asset Backed Securities	10	3	6 months	R1 Mid	A-2	F2	P-2
Credit Unions and Loan/Trust Corporations	30	5	1 year	N/A	N/A	N/A	N/A
Other Total	30						
TOTAL PORTFOLIO - Weighted Average Term			1 year				

APPENDIX B: Long Term Portfolio - Eligible Investments and Limitations

LONG TERM INVESTMENT PORTFOLIO							
Investment Limitations							
Sector / Securities	Portfolio Limit %	Individual Limit %	Maximum Term	Minimum Credit Rating			
				Meet at least one of the following			
				DBRS	S&P	Fitch	Moody's
FEDERAL							
Government of Canada	100	100	20 years	N/A	N/A	N/A	N/A
Federal Guarantees	50	25	20 years	N/A	N/A	N/A	N/A
Federal Total	100						
PROVINCIAL¹	70	35	20 years	AA	AA-	AA-	Aa3
	35	15	15 years	A	A-	A-	A
	10	5	5 years	BBB	BBB-	BBB	Baa3
Provincial Total	70						
MUNICIPALS							
Municipals and School Boards	35	10	15 years	AAA	AAA	AAA	Aaa
	25	5	10 years	AA	AA-	AA-	Aa3
	10	2	5 years	A	A-	A-	A
Municipals Total	35						
BANKS							
Schedule I Banks	50	20	10 years	AA	AA-	AA-	Aa3
Schedule II Banks	15	5	5 years	AA	AA-	AA-	Aa3
Schedule III Banks	10	3	5 years	AA	AA-	AA-	Aa3
Banks Total	50						
OTHER							
Asset Backed Securities	10	3	5 years	AA	AA-	AA-	Aa3
Loan/Trust Corporations, Credit Unions, and Other Corporations	10	3	5 years	AA	AA-	AA-	Aa3
Other Total	10						
ONE FUND²							
Money Market	10	N/A	N/A	N/A	N/A	N/A	N/A
Bond Fund	10	N/A	N/A	N/A	N/A	N/A	N/A

Equity	5	N/A	N/A	N/A	N/A	N/A	N/A
Corporate Debt	5	N/A	N/A	N/A	N/A	N/A	N/A
ONE Fund Total	20	N/A	N/A				
TOTAL PORTFOLIO - Weighted Average Term³			2.5 – 7.5 Years ⁴				

¹ Includes Provincial Guarantees

² One Fund is an Investment Pool which municipalities can invest and is administered by LAS and CHUMS Financing Corp.

³ The Benchmark used is a blend of DEX Universe All Government Bond Index and DEX Short Term Government Bond Index

⁴ The weighted average term of the Benchmark is targeted for 5 years.

APPENDIX C: Municipal Act, 2001 (Eligible Investments and Related Financial Agreements) Ontario Regulation 438/97

ONTARIO REGULATION 438/97

Formerly under Municipal Act

ELIGIBLE INVESTMENTS AND RELATED FINANCIAL AGREEMENTS

Last amendment: O. Reg. 373/11.

This Regulation is made in English only.

1. A municipality does not have the power to invest under section 418 of the Act in a security other than a security prescribed under this Regulation. O. Reg. 438/97, s. 1; O. Reg. 399/02, s. 1.

2. The following are prescribed, for the purposes of subsection 418 (1) of the Act, as securities that a municipality may invest in:

1. Bonds, debentures, promissory notes or other evidence of indebtedness issued or guaranteed by,
 - i. Canada or a province or territory of Canada,
 - ii. an agency of Canada or a province or territory of Canada,
 - iii. a country other than Canada,
 - iv. a municipality in Canada including the municipality making the investment,
 - iv.1 the Ontario Strategic Infrastructure Financing Authority,
 - v. a school board or similar entity in Canada,
 - v.1 a university in Ontario that is authorized to engage in an activity described in section 3 of the *Post-secondary Education Choice and Excellence Act, 2000*,
 - v.2 the board of governors of a college established under the *Ontario Colleges of Applied Arts and Technology Act, 2002*,
 - vi. a local board as defined in the *Municipal Affairs Act* (but not including a school board or a municipality) or a conservation authority established under the *Conservation Authorities Act*,
 - vi.1 a board of a public hospital within the meaning of the *Public Hospitals Act*,
 - vi.2 a non-profit housing corporation incorporated under section 13 of the *Housing Development Act*,
 - vi.3 a local housing corporation as defined in section 24 of the *Housing Services Act, 2011*, or
 - vii. the Municipal Finance Authority of British Columbia.
2. Bonds, debentures, promissory notes or other evidence of indebtedness of a corporation if,
 - i. the bond, debenture or other evidence of indebtedness is secured by the assignment, to a trustee, as defined in the *Trustee Act*, of payments that Canada or a province or territory of Canada has agreed to make or is required to make under a federal, provincial or territorial statute, and

- ii. the payments referred to in subparagraph i are sufficient to meet the amounts payable under the bond, debenture or other evidence of indebtedness, including the amounts payable at maturity.
- 3. Deposit receipts, deposit notes, certificates of deposit or investment, acceptances or similar instruments the terms of which provide that the principal and interest shall be fully repaid no later than two years after the day the investment was made, if the receipt, note, certificate or instrument was issued, guaranteed or endorsed by,
 - i. a bank listed in Schedule I, II or III to the *Bank Act* (Canada),
 - ii. a loan corporation or trust corporation registered under the *Loan and Trust Corporations Act*, or
 - iii. a credit union or league to which the *Credit Unions and Caisses Populaires Act, 1994* applies.
- 3.1 Deposit receipts, deposit notes, certificates of deposit or investment, acceptances or similar instruments the terms of which provide that the principal and interest shall be fully repaid more than two years after the day the investment was made, if the receipt, note, certificate or instrument was issued, guaranteed or endorsed by,
 - i. a bank listed in Schedule I, II or III to the *Bank Act* (Canada),
 - ii. a loan corporation or trust corporation registered under the *Loan and Trust Corporations Act*,
 - iii. a credit union or league to which the *Credit Unions and Caisses Populaires Act, 1994* applies.
- 4. Bonds, debentures, promissory notes or other evidence of indebtedness issued or guaranteed by an institution listed in paragraph 3.
- 5. Short term securities, the terms of which provide that the principal and interest shall be fully repaid no later than three days after the day the investment was made, that are issued by,
 - i. a university in Ontario that is authorized to engage in an activity described in section 3 of the *Post-secondary Education Choice and Excellence Act, 2000*,
 - ii. the board of governors of a college established under the *Ontario Colleges of Applied Arts and Technology Act, 2002*, or
 - iii. a board of a public hospital within the meaning of the *Public Hospitals Act*.
- 6. Bonds, debentures, promissory notes, other evidence of indebtedness or other securities issued or guaranteed by the International Bank for Reconstruction and Development.
- 6.1. Bonds, debentures, promissory notes or other evidence of indebtedness issued or guaranteed by a supranational financial institution or a supranational governmental organization, other than the International Bank for Reconstruction and Development.
- 7. Asset-backed securities, as defined in subsection 50 (1) of Regulation 733 of the Revised Regulations of Ontario, 1990 made under the *Loan and Trust Corporations Act*.
- 7.1 Bonds, debentures, promissory notes or other evidence of indebtedness issued by a corporation that is incorporated under the laws of Canada or a province of Canada, the terms of which provide that the principal and interest shall be fully repaid more than five years after the date on which the municipality makes the investment.
- 7.2 Bonds, debentures, promissory notes or other evidence of indebtedness issued by a corporation that is incorporated under the laws of Canada or a province of Canada, the terms of which provide that the principal and interest shall be fully repaid more than one year and no later than five years after the date on which the municipality makes the investment.

8. Negotiable promissory notes or commercial paper, other than asset-backed securities, maturing one year or less from the date of issue, if that note or commercial paper has been issued by a corporation that is incorporated under the laws of Canada or a province of Canada.
- 8.1 Shares issued by a corporation that is incorporated under the laws of Canada or a province of Canada.
9. Bonds, debentures, promissory notes and other evidences of indebtedness of a corporation incorporated under section 142 of the *Electricity Act, 1998*.
10. Bonds, debentures, promissory notes or other evidence of indebtedness of a corporation if the municipality first acquires the bond, debenture, promissory note or other evidence of indebtedness as a gift in a will and the gift is not made for a charitable purpose.
11. Securities of a corporation, other than those described in paragraph 10, if the municipality first acquires the securities as a gift in a will and the gift is not made for a charitable purpose.
12. Shares of a corporation if,
 - i. the corporation has a debt payable to the municipality,
 - ii. under a court order, the corporation has received protection from its creditors,
 - iii. the acquisition of the shares in lieu of the debt is authorized by the court order, and
 - iv. the treasurer of the municipality is of the opinion that the debt will be uncollectable by the municipality unless the debt is converted to shares under the court order. O. Reg. 438/97, s. 2; O. Reg. 265/02, s. 1; O. Reg. 399/02, s. 2; O. Reg. 655/05, s. 2; O. Reg. 607/06, s. 1; O. Reg. 39/07, s. 1; O. Reg. 373/11, s. 1.

2.1 A security is prescribed for the purposes of subsection 418 (1) of the Act as a security that a municipality may invest in if,

- (a) the municipality invested in the security before January 12, 2009; and
- (b) the terms of the municipality's continued investment in the security have been changed pursuant to the Plan Implementation Order of the Ontario Superior Court of Justice dated January 12, 2009 (Court file number 08-CL-7440) and titled "In the matter of the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36 as amended and in the matter of a plan of compromise and arrangement involving Metcalfe & Mansfield Alternative Investments II Corp. et al". O. Reg. 292/09, s. 1.

3. (1) A municipality shall not invest in a security under subparagraph 1 iii, v.1, v.2, vi.1, vi.2 or vi.3 or paragraph 3.1 or 4 of section 2 unless the bond, debenture, promissory note or evidence of indebtedness is rated,

- (a) Revoked: O. Reg. 265/02, s. 2 (1).
- (b) by Dominion Bond Rating Service Limited as "AA(low)" or higher;
 - (b.1) by Fitch Ratings as "AA-" or higher;
- (c) by Moody's Investors Services Inc. as "Aa3" or higher; or
- (d) by Standard and Poor's as "AA-" or higher. O. Reg. 438/97, s. 3 (1); O. Reg. 265/02, s. 2 (1); O. Reg. 399/02, s. 3 (1); O. Reg. 655/05, s. 3 (1, 2); O. Reg. 607/06, s. 2; O. Reg. 39/07, s. 2.
- (2) Revoked: O. Reg. 655/05, s. 3 (3).

(2.1) A municipality shall not invest in a security under paragraph 6.1 of section 2 unless the security is rated,

- (a) by Dominion Bond Rating Service Limited as "AAA";

- (b) by Fitch Ratings as "AAA";
- (c) by Moody's Investors Services Inc. as "Aaa"; or
- (d) by Standard and Poor's as "AAA". O. Reg. 655/05, s. 3 (4).

(3) A municipality shall not invest in an asset-backed security under paragraph 7 of section 2 that matures more than one year from the date of issue unless the security is rated,

- (a) by Dominion Bond Rating Service Limited as "AAA";
- (a.1) by Fitch Ratings as "AAA";
- (b) by Moody's Investors Services Inc. as "Aaa"; or
- (c) by Standard and Poor's as "AAA". O. Reg. 265/02, s. 2 (2); O. Reg. 399/02, s. 3 (2); O. Reg. 655/05, s. 3 (5).

(4) A municipality shall not invest in an asset-backed security under paragraph 7 of section 2 that matures one year or less from the date of issue unless the security is rated,

- (a) by Dominion Bond Rating Service Limited as "R-1(high)";
- (a.1) by Fitch Ratings as "F1+";
- (b) by Moody's Investors Services Inc. as "Prime-1"; or
- (c) by Standard and Poor's as "A-1+". O. Reg. 265/02, s. 2 (2); O. Reg. 399/02, s. 3 (3); O. Reg. 655/05, s. 3 (6).

(4.1) A municipality shall not invest in a security under paragraph 7.1 of section 2 unless the security is rated,

- (a) by Dominion Bond Rating Service Limited as "AA(low)" or higher;
- (b) by Fitch Ratings as "AA-" or higher;
- (c) by Moody's Investors Services Inc. as "Aa3" or higher; or
- (d) by Standard and Poor's as "AA-" or higher. O. Reg. 292/09, s. 2 (1).

(4.2) A municipality shall not invest in a security under paragraph 7.2 of section 2 unless the security is rated,

- (a) by Dominion Bond Rating Service Limited as "A" or higher;
- (b) by Fitch Ratings as "A" or higher;
- (c) by Moody's Investors Services Inc. as "A2"; or
- (d) by Standard and Poor's as "A". O. Reg. 292/09, s. 2 (1).

(5) A municipality shall not invest in a security under paragraph 8 of section 2 unless the promissory note or commercial paper is rated,

- (a) by Dominion Bond Rating Service Limited as "R-1(mid)" or higher;
- (a.1) by Fitch Ratings as "F1+";
- (b) by Moody's Investors Services Inc. as "Prime-1"; or
- (c) by Standard and Poor's as "A-1+". O. Reg. 265/02, s. 2 (2); O. Reg. 399/02, s. 3 (4); O. Reg. 655/05, s. 3 (8).

(6) If an investment made under subparagraph 1 iii, v.1, v.2, vi.1, vi.2 or vi.3 of section 2 or paragraph 3.1, 4, 6.1, 7, 7.1, 7.2 or 8 of section 2 falls below the standard required by this section, the municipality shall sell the investment within 180 days after the day the investment falls below the standard. O. Reg. 292/09, s. 2 (2).

(6.1) Subsection (6) does not apply with respect to an investment made by a municipality under paragraph 7 of section 2 on a day before the day this subsection comes into force. O. Reg. 292/09, s. 2 (3).

(7) A municipality shall not invest in a security under paragraph 9 of section 2 unless, at the time the investment is made and as long as it continues, the investment ranks, at a minimum, concurrently and equally in respect of payment of principal and interest with all unsecured debt of the corporation. O. Reg. 265/02, s. 2 (2).

(8) A municipality shall not invest in a security under paragraph 9 of section 2 unless, at the time the investment is made, the total amount of the municipality's investment in debt of any corporation incorporated under section 142 of the *Electricity Act, 1998* that would result after the proposed investment is made does not exceed the total amount of investment in debt, including any interest accrued on such debt, of the municipality in such a corporation that existed on the day before the day the proposed investment is to be made. O. Reg. 265/02, s. 2 (2).

(9) Any investment made under paragraph 9 of section 2, including any refinancing, renewal or replacement thereof, may not be held for longer than a total of 10 years from the date such investment is made. O. Reg. 265/02, s. 2 (2).

(10) Subsections (7), (8) and (9) do not prevent a municipality from holding or disposing of a security described in paragraph 9 of section 2 issued by a corporation incorporated under section 142 of the *Electricity Act, 1998*, if the municipality acquired the security through a transfer by-law or otherwise under that Act. O. Reg. 655/05, s. 3 (9).

(11) A municipality shall sell an investment described in paragraph 10 or 11 of section 2 within 90 days after ownership of the investment vests in the municipality. O. Reg. 655/05, s. 3 (9).

(12) Revoked: O. Reg. 292/09, s. 2 (4).

4. (1) A municipality shall not invest more than 25 per cent of the total amount in all sinking and retirement funds in respect of debentures of the municipality, as estimated by its treasurer on the date of the investment, in short-term debt issued or guaranteed by the municipality. O. Reg. 438/97, s. 4 (1).

(2) In this section,

"short-term debt" means any debt, the terms of which provide that the principal and interest of the debt shall be fully repaid no later than 364 days after the debt is incurred. O. Reg. 438/97, s. 4 (2).

4.1 (1) A municipality shall not invest in a security under paragraph 7 of section 2 or in a promissory note or commercial paper under paragraph 8 of section 2 unless, on the date that the investment is made,

(a) the municipality itself is rated, or all of the municipality's long-term debt obligations are rated,

(i) by Dominion Bond Rating Service Limited as "AA(low)" or higher,

(i.1) by Fitch Ratings as "AA-" or higher,

(ii) by Moody's Investors Services Inc. as "Aa3" or higher, or

(iii) by Standard and Poor's as "AA-" or higher; or

(b) the municipality has entered into an agreement with the Local Authority Services Limited and the CHUMS Financing Corporation to act together as the municipality's agent for the investment in that security, promissory note or commercial paper. O. Reg. 265/02, s. 3; O. Reg. 399/02, s. 4; O. Reg. 655/05, s. 4 (1, 2).

(1.1) A municipality shall not invest in a security under paragraph 7.1 or 8.1 of section 2 unless, on the date the investment is made, the municipality has entered into an agreement with the Local Authority Services Limited and the CHUMS Financing corporation to act together as the municipality's agent for the investment in the security. O. Reg. 655/05, s. 4 (3).

(1.2) Subsection (1.1) does not apply to investments in securities by the City of Ottawa if all of the following requirements are satisfied:

1. Only the proceeds of the sale by the City of its securities in a corporation incorporated under section 142 of the *Electricity Act, 1998* are used to make the investments.
2. The investments are made in a professionally-managed fund.
3. The terms of the investments provide that,
 - i. where the investment is in debt instruments, the principal must be repaid no earlier than seven years after the date on which the City makes the investment, and
 - ii. where the investment is in shares, an amount equal to the principal amount of the investment cannot be withdrawn from the fund for at least seven years after the date on which the City makes the investment.
4. The City establishes and uses a separate reserve fund for the investments.
5. Subject to paragraph 6, the money in the reserve fund, including any returns on the investments or proceeds from their disposition, are used to pay capital costs of the City and for no other purpose.
6. The City may borrow money from the reserve fund but must repay it plus interest. O. Reg. 655/05, s. 4 (3).

(2) The investment made under clause (1) (b) or described in subsection (1.1), as the case may be, must be made in the One Investment Program of the Local Authority Services Limited and the CHUMS Financing Corporation with,

- (a) another municipality;
 - (b) a public hospital;
 - (c) a university in Ontario that is authorized to engage in an activity described in section 3 of the *Post-secondary Education Choice and Excellence Act, 2000*;
 - (d) the board of governors of a college established under the *Ontario Colleges of Applied Arts and Technology Act, 2002*;
 - (d.1) a foundation established by a college mentioned in clause (d) whose purposes include receiving and maintaining a fund or funds for the benefit of the college;
 - (e) a school board; or
 - (f) any agent of an institution listed in clauses (a) to (d.1). O. Reg. 265/02, s. 3; O. Reg. 655/05, s. 4 (4); O. Reg. 607/06, s. 3; O. Reg. 292/09, s. 3; O. Reg. 52/11, s. 1.
5. A municipality shall not invest in a security issued or guaranteed by a school board or similar entity unless,
- (a) the money raised by issuing the security is to be used for school purposes; and
 - (b) Revoked: O. Reg. 248/01, s. 1.

O. Reg. 438/97, s. 5; O. Reg. 248/01, s. 1.

6. (1) A municipality shall not invest in a security that is expressed or payable in any currency other than Canadian dollars. O. Reg. 438/97, s. 6 (1).

(2) Subsection (1) does not prevent a municipality from continuing an investment, made before this Regulation comes into force, that is expressed and payable in the currency of the United States of America or the United Kingdom. O. Reg. 438/97, s. 6 (2).

7. (1) Before a municipality invests in a security prescribed under this Regulation, the council of the municipality shall, if it has not already done so, adopt a statement of the municipality's investment policies and goals. O. Reg. 438/97, s. 7.

(2) In preparing the statement of the municipality's investment policies and goals under subsection (1), the council of the municipality shall consider,

- (a) the municipality's risk tolerance and the preservation of its capital;
- (b) the municipality's need for a diversified portfolio of investments; and
- (c) obtaining legal advice and financial advice with respect to the proposed investments. O. Reg. 265/02, s. 4.

(3) Revoked: O. Reg. 655/05, s. 5.

(4) In preparing the statement of the municipality's investment policies and goals under subsection (1) for investments made under paragraph 9 of section 2, the council of the municipality shall consider its plans for the investment and how the proposed investment would affect the interest of municipal taxpayers. O. Reg. 265/02, s. 4.

8. (1) If a municipality has an investment in a security prescribed under this Regulation, the council of the municipality shall require the treasurer of the municipality to prepare and provide to the council, each year or more frequently as specified by the council, an investment report. O. Reg. 438/97, s. 8 (1).

(2) The investment report referred to in subsection (1) shall contain,

- (a) a statement about the performance of the portfolio of investments of the municipality during the period covered by the report;
- (b) a description of the estimated proportion of the total investments of a municipality that are invested in its own long-term and short-term securities to the total investment of the municipality and a description of the change, if any, in that estimated proportion since the previous year's report;
- (c) a statement by the treasurer as to whether or not, in his or her opinion, all investments are consistent with the investment policies and goals adopted by the municipality;
- (d) a record of the date of each transaction in or disposal of its own securities, including a statement of the purchase and sale price of each security; and
- (e) such other information that the council may require or that, in the opinion of the treasurer, should be included. O. Reg. 438/97, s. 8 (2); O. Reg. 655/05, s. 6.

(2.1) The investment report referred to in subsection (1) shall contain a statement by the treasurer as to whether any of the following investments fall below the standard required for that investment during the period covered by the report:

1. An investment described in subparagraph 1 iii, v.1, v.2, vi.1, vi.2 or vi.3 of section 2.
2. An investment described in paragraph 3.1, 4, 6.1, 7, 7.1, 7.2 or 8 of section 2.
3. An investment described in subsection 9 (1). O. Reg. 292/09, s. 4.

(3) Upon disposition of any investment made under paragraph 9 of section 2, the council of the municipality shall require the treasurer of the municipality to prepare and provide to the council a report detailing the proposed use of funds realized in the disposition. O. Reg. 265/02, s. 5.

8.1 If an investment made by the municipality is, in the treasurer's opinion, not consistent with the investment policies and goals adopted by the municipality, the treasurer shall report the inconsistency to the council of the municipality within 30 days after becoming aware of it. O. Reg. 655/05, s. 7.

9. (1) Despite this Regulation, an investment by a municipality in bonds, debentures or other indebtedness of a corporation made before March 6, 1997 may be continued if the bond, debenture or other indebtedness is rated,

- (a) Revoked: O. Reg. 265/02, s. 6.
- (b) by Dominion Bond Rating Service Limited as "AA(low)" or higher;

(b.1) by Fitch Ratings as "AA-" or higher;

(c) by Moody's Investors Services Inc. as "Aa3" or higher; or

(d) by Standard and Poor's as "AA-" or higher. O. Reg. 438/97, s. 9 (1); O. Reg. 265/02, s. 6; O. Reg. 399/02, s. 5; O. Reg. 655/05, s. 8.

(1.1) Despite subsection 3 (4.1), an investment in a security under paragraph 7.1 of section 2 made on a day before the day this subsection comes into force may be continued if the security is rated,

(a) by Dominion Bond Rating Service Limited as "A" or higher;

(b) by Fitch Ratings as "A" or higher;

(c) by Moody's Investors Services Inc. as "A2"; or

(d) by Standard and Poor's as "A". O. Reg. 292/09, s. 5 (1).

(2) If the rating of an investment continued under subsection (1) or (1.1) falls below the standard required by that subsection, the municipality shall sell the investment within 180 days after the day the investment falls below the standard. O. Reg. 438/97, s. 9 (2); O. Reg. 292/09, s. 5 (2).

FORWARD RATE AGREEMENTS

10. (1) A municipality that enters into an agreement to make an investment on a future date in a security prescribed by section 2 may enter one or more forward rate agreements with a bank listed in Schedule I, II or III to the *Bank Act* (Canada) in order to minimize the cost or risk associated with the investment because of fluctuations in interest rates. O. Reg. 655/05, s. 9.

(2) A forward rate agreement shall provide for the following matters:

1. Specifying a forward amount, which is the principal amount of the investment or that portion of the principal amount to which the agreement relates.
2. Specifying a settlement day, which is a specified future date.
3. Specifying a forward rate of interest, which is a notional rate of interest applicable on the settlement day.
4. Specifying a reference rate of interest, which is the market rate of interest payable on a specified future date on an acceptance issued by a bank listed in Schedule I, II or III to the *Bank Act* (Canada).
5. Requiring a settlement payment to be payable on the settlement day if the forward rate and the reference rate of interest are different. O. Reg. 655/05, s. 9.

(3) A municipality shall not enter a forward rate agreement if the forward amount described in paragraph 1 of subsection (2) for the investment whose cost or risk the agreement is intended to minimize, when added to all forward amounts under other forward rate agreements, if any, relating to the same investment, would exceed the total amount of the principal of the investment. O. Reg. 655/05, s. 9.

(4) A municipality shall not enter a forward rate agreement unless the settlement day under the agreement is within 12 months of the day on which the agreement is executed. O. Reg. 655/05, s. 9.

(5) A municipality shall not enter a forward rate agreement if the settlement payment described in paragraph 5 of subsection (2) exceeds the difference between the amount of interest that would be payable on the forward amount calculated at the forward rate of interest for the period for which the investment was made and the amount that would be payable calculated at the reference rate of interest. O. Reg. 655/05, s. 9.

(6) A municipality shall not enter a forward rate agreement except with a bank listed in Schedule I, II or III to the *Bank Act* (Canada) and only if the bank's long-term debt obligations on the day the agreement is entered are rated,

(a) by Dominion Bond Rating Service Limited as "A(high)" or higher;

- (b) by Fitch Ratings as "A+" or higher;
- (c) by Moody's Investors Service Inc. as "A1" or higher; or
- (d) by Standard and Poor's as "A+" or higher. O. Reg. 655/05, s. 9.

11. (1) Before a municipality passes a by-law authorizing a forward rate agreement, the council of the municipality shall adopt a statement of policies and goals relating to the use of forward rate agreements. O. Reg. 655/05, s. 9.

(2) The council of the municipality shall consider the following matters when preparing the statement of policies and goals:

- 1. The types of investments for which forward rate agreements are appropriate.
- 2. The fixed costs and estimated costs to the municipality resulting from the use of such agreements.
- 3. A detailed estimate of the expected results of using such agreements.
- 4. The financial and other risks to the municipality that would exist with, and without, the use of such agreements.
- 5. Risk control measures relating to such agreements, such as,
 - i. credit exposure limits based on credit ratings and on the degree of regulatory oversight and the regulatory capital of the other party to the agreement,
 - ii. standard agreements, and
 - iii. ongoing monitoring with respect to the agreements. O. Reg. 655/05, s. 9.

12. (1) If a municipality has any subsisting forward rate agreements in a fiscal year, the treasurer of the municipality shall prepare and present to the municipal council once in that fiscal year, or more frequently if the council so desires, a detailed report on all of those agreements. O. Reg. 655/05, s. 9.

(2) The report must contain the following information and documents:

- 1. A statement about the status of the forward rate agreements during the period of the report, including a comparison of the expected and actual results of using the agreements.
- 2. A statement by the treasurer indicating whether, in his or her opinion, all of the forward rate agreements entered during the period of the report are consistent with the municipality's statement of policies and goals relating to the use of forward rate agreements.
- 3. Such other information as the council may require.
- 4. Such other information as the treasurer considers appropriate to include in the report. O. Reg. 655/05, s. 9.