Corporate Policy

Finance-Accounting

Investment Policy

Approved by Council on: 11/28/2012

Report Number: F-41-12

Effective: 11/28/2012

Reviewed on: 05/19/2016, 11/02/2017, 11/01/2018, 05/06/2019, 11/25/2020

Amended: 12/11/2017, 06/17/2019,12/10/2020

Next Review: 11/01/2021

Note: Report F-50-17, F-23-19, F-19-20 for amendments

This policy formalizes the Investment Policy and prescribes the limits for investing.

Policy Statement:

This policy has been designed to provide an effective framework for optimal utilization of the cash resources of the City of Burlington within the statutory limitations and the basic need to protect and preserve capital while maintaining solvency and liquidity to meet on-going fiscal requirements.

Scope:

This policy applies to the Coordinator of Financial Reporting.

Objectives:

Basic objectives of the investment policy shall, in order of priority, be as follows:

- Adherence to legislative and statutory requirements
- Preservation of principal
- Maintenance of liquidity
- Rating the risk of securities and institutions

- Competitive return on investments
- Safeguarding of investments certificates and detail record keeping
- Regular review of the effectiveness of the policy in meeting the above objectives

Adherence to Legislative and Statutory Requirements

All investments are made in accordance to the Ontario *Municipal Act 2001 S. 418-420*. Eligible investments are prescribed by the *Ontario Regulation 438/97* and all investments must be invested in Canadian dollars.

Preservation of Capital

Preservation of capital is a key requirement for managing public funds. This objective can be achieved by diversification of the portfolio and by maintaining a substantial portion of the portfolio in risk-free investments.

Maintenance of Liquidity

Portfolio is structured to meet cash flow requirements for regular disbursement and other scheduled obligations. This is accomplished by matching the maturation of securities with predicted cash demands. To account for unpredictable cash demands, the portfolio will be largely composed of securities with active secondary or resale markets. Part of the portfolio may be placed in local government pools that offer liquidity for short-run funds.

Rating the Risk of Securities and Institutions

Credit rating criteria are established by the Canadian Bond Rating Service (CBRS). Bonds are rated by agencies such as: Dominion Bond Rating Service (DBRS), Fitch Ratings, Moody's Investors Service Inc., and Standard & Poor's, as follow:

AAA or Aaa	Highest Credit Quality
AA or Aa	Very Good Credit Quality
A	Good Credit Quality

Money Market Instruments are rated by agencies such as: Dominion Bond Rating Service (DBRS), Fitch Ratings, Moody's Investors Service Inc., and Standard & Poor's, as follow:

R1 High or F1	Highest Credit Quality
R1 Middle	Superior Credit Quality
R1 Low	Satisfactory Credit Quality

Competitive Return on Investments

Obtaining competitive return on investments commensurate with constraints as outlined in the provincial regulations. The City will monitor trends in macro-economics which include interest rates and inflation as affected through the political arena & foreign developments and perceptions.

Restrictions in exposure to credit, sector or term risk will ensure diversification and safety, and will provide opportunities to enhance investments returns of the City's portfolio through prudent and timely adjustments to portfolio mix.

Safeguarding of Investment Certificates and Detail Record Keeping

The Chief Financial Officer or delegate shall be authorized to enter into arrangements with banks, investments dealers and brokers, and other financial institutions for the purchase, sale, redemption and safekeeping of securities and to execute and sign documents on behalf of the City of Burlington and perform all other related acts in the day to day operation of the investment program.

Investments are done through custodian banking to ensure safekeeping of investments certificates. Detailed records shall be kept and regular investment reports prepared.

Regular review of the effectiveness of the policy in meeting the above objectives. Relevant Acts and Regulation Amendments will also be reviewed to ensure the validity and accuracy of this policy.

Definitions:

For the purpose of this policy, unless otherwise stated, the following definitions shall apply:

Term	Definition
Money Market Instruments	Money Market Instruments are short-term debt securities, such as bankers' acceptances, bearer deposit notes, discount deposit notes and term deposit notes, with maturity of one year or less. These instruments are liquid, safe investments with a low interest rate yields.
Banks Acceptance (BA's)	These instruments are essentially a commercial bank draft drawn by a borrower for payment on a specified date

Term	Definition
	and ‘accepted’ by the bank that will assumes risks. BA’s are issued in discount form, usually in multiple denominations of $100,000 and are widely traded and extremely liquid.
Bearer Deposit Notes (BDN’s)	These instruments are obligations that are secured by the general credit of the issuing bank. BDN’s are sold at a discount to mature at par. Minimum amount for investment is $100,000.
Discount Deposit Notes	The bank is responsible for making payment of a note at maturity, with interest payment expressed as a percentage of the note's face value.
Term Deposit Note	Term Deposit Notes are funds deposited in a savings account of the bank to earn interest. The terms of the note impose a financial penalty if funds are withdrawn before a specified date.

Principles:

QUALITY, TERMS, AND HOLDING RESTRICTIONS ON INVESTMENTS

References:

The following are quality, terms, and holding restrictions on City of Burlington investments. The standards set have met or exceeded the requirements as prescribed by O. Reg. 438/97 and amendment O. Reg. 655/05, O. Reg. 292/09, and O. Reg. 52/11.

Bonds

Bonds are financial instruments issued by federal, provincial and municipal governments, and banks with terms over a year, with fixed interest rates and specified end dates. Bonds are guaranteed by the institutions that issued them.

Maple bonds are Canadian dollar-denominated bonds issued by non-Canadian entities in the Canadian market.

- There shall be no quality, term and holding restrictions on securities offered by the Government of Canada, Province of Ontario, and guaranteed agencies.

- There shall be no quality and term restrictions on securities issued by provinces, territories, and guaranteed agencies. Investment is limited to **$30 million** per province or territory, except for the Province of Ontario.

- There shall be no quality, term and holding restrictions when the City is buying back Region of Halton debentures issued to finance City of Burlington works or purchased on behalf of the Cemetery Care and Maintenance Trust Funds.

- Investment in Municipal bonds with a minimum credit rating of “A” is restricted to maximum term of **30 years,** and **$10 million** per municipality. Except as noted in the table below.

- Investment in School Board bonds with a minimum credit rating of ‘A’ is restricted to a maximum term of 10 years, and $5 million in aggregate.

- Investment in financial institution (Schedule I & Schedule II Bank) bonds with a minimum credit rating of ‘AA’ or “Aa” is restricted to maximum term of 10 years, and **$10 million** per institution.

- Investment in foreign country guaranteed maple bonds with a minimum credit rating of ‘AAA’ is restricted to a maximum term of 5 years, $5 million per country, and $15 million in aggregate.

Money Market Instruments

Money Market Instruments are short-term debt securities, such as bankers’ acceptances, bearer deposit notes, discount deposit notes and term deposit notes, with maturity of 365 days or less. The issuing institutions guarantee their money market instruments. Yields are usually lower than bonds in return for the liquidity that these instruments provide.

- Investment in Schedule I banks with a minimum credit rating of R1 Middle or F1 is restricted to $60 million per institution. Schedule I banks are widely held

"eligible Canadian financial institutions" authorized by the Ministry of Finance to conduct banking in Canada as it is defined in the federal Bank Act.

- Investment in Schedule II banks with a minimum credit rating of R1 Middle or F1 is restricted to $25 million per institution. Schedule II banks are closely held "eligible financial institutions," either Canadian or foreign, authorized to conduct banking in Canada under the federal Bank Act. Most of these banks are subsidiaries of non-Canadian financial institutions.

- Investment in **Credit Unions** guaranteed by the provinces is restricted to short term investments maturing in 365 days or less, for a total equal to the amount of requisitions paid quarterly to the Region and school boards for taxes collected on their behalf and **$60 million in aggregate**. Credit unions are financial institutions formed by an organized group with a common bond. Members pool their assets to provide loans and other financial services to each other and others.

POLICY MAINTENANCE

- The Chief Financial Officer shall develop and maintain up-to-date procedures that provide for effective control and management of investments with sufficient assurance that the City's investments are properly managed and adequately protected.

- All cash management transactions shall be properly recorded and interest earnings distributed annually to the various funds, as the case may be, in accordance with City by-laws, policies, generally accepted accounting principles, and Canadian public sector accounting standards.

- Periodic audits shall be performed to determine whether or not the investments guidelines provided herein are being followed and to evaluate the adequacy of internal controls.

- The Chief Financial Officer communicates to the custodian, in writing, all persons permitted to enter investment transactions on behalf of the City of Burlington and any subsequent changes. This also includes instruction as to who may have access to the on-line system for executing trades and reporting on investment activities, RBC Dexia.

- Provision is made to ensure insurance coverage at all times to protect against potential losses due to misappropriation, theft, or other fraudulent acts by employees through the Comprehensive Crime Policy in the amount of $1,000,000, with no deductibles.

REPORTING REQUIREMENTS

- As outlined in the *Ontario Regulation 438/97*, S. 8, the Chief Financial Officer will provide investment reports to Council each year (as part of the Quarterly Financial Status report). These investment reports shall contain:

  (a) A statement about the performance of the portfolio of investments of the City during the period covered by the report;

  (b) A description of the estimated proportion of the total investments of the City that are invested in its own long-term and short-term securities to the total investment of the City and a description of the change, if any, in that estimated proportion since the previous report;

  (c) A statement by the Chief Financial Officer as to whether or not, in his/her opinion, all investments are consistent with the investment policies and goals adopted by the City;

  (d) Such other information, and/or detail records of transactions that Council may require or that, in the opinion of the Chief Financial Officer, should be included.

If an investment made by the City is, in the opinion of the Chief Financial Officer, not consistent with the investment policies and goals adopted by the City, the Chief Financial Officer shall report the inconsistency to Council within 30 days after becoming aware of it.

Summary of Investment Restrictions

Bonds

	Minimum Rating	**Maximum Term**	**Maximum Holding**
Government of Canada, Province of Ontario, and guaranteed agencies	N/A	N/A	No restriction
Other Provinces & Territories & guaranteed agencies	N/A	N/A	**$30 million** per province, territory, or agency
Region of Halton	N/A	N/A	Size of debenture issued on behalf of the City
Municipalities (other than those listed below)	A	30 years	$10 million per municipality

Municipalities	A	30 years	$20 million for: City of Toronto Region of York Region of Peel City of Hamilton City of Ottawa
School Boards	A	10 years	$5 million in aggregate
Schedule I & Schedule II Banks	AA or Aa	10 years	$10 million per institution
Maple Bonds guaranteed by foreign countries	AAA	5 years	$ 5 million per country $15 million in aggregate

Money Market Instruments

	Minimum Rating	**Maximum Term**	**Maximum Holding**
Schedule I Bank	R1 Middle or F1	365 days	$60 million per institution
Schedule II Bank	R1 Middle or F1	365 days	$25 million per institution
Credit Unions guaranteed by provinces	N/A	365 days	$60 million in aggregate/ Amount up to the value of the requisitions to be paid to the Region and school boards for taxes collected on their behalf.

Roles:

Accountable:

Controller & Manager of Financial Services is responsible for the review of this policy and adherence to its guidelines.

Responsible:

Coordinator of Financial Reporting is responsible for the management of the policy.