



David Jeter
ASSISTANT COMPTROLLER
ASSET MANAGEMENT

CITY OF NEW YORK
OFFICE OF THE COMPTROLLER
SCOTT M. STRINGER

BUREAU OF ASSET MANAGEMENT

MUNICIPAL BUILDING
ONE CENTRE STREET, ROOM 736
NEW YORK, N.Y. 10007-2341

TEL: (212) 669-8539
FAX: (212) 815-8537
DJETER@COMPTROLLER.NYC.GOV

To: Bureau of Asset Management

From: David Jeter

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Subject: **Policy Guidelines For Short Term Investments For
The New York City Treasury and Related Health Accounts**

The following represents our short-term investment policy for The New York City Treasury and related accounts. This policy reflects the legal and internal requirements of the accounts.

I. ELIGIBLE SECURITIES

The New York City Treasury and related accounts. This policy reflects the legal and internal requirements of the accounts.

1. U.S. Treasury Securities;
2. U.S. Agency Securities;
3. Repurchase Agreements for eligible securities;
4. High Grade Commercial Paper;
5. High Grade Banker Acceptances

II. QUALITY GUIDELINES

- A. Short-term New York City Treasury and related accounts assets are invested within the following quality guidelines for the major investment categories.

1. Repurchase Agreements for eligible securities:

- (a) The transactions shall be considered a sale of securities and a contract to repurchase securities for a specific period of time.
- (b) The securities must be in bearer or book-entry form so that possession is perfected for immediately to fully secure investments.
- (c) The securities must be a U.S. Treasury or Agency Securities.
- (d) To secure the repurchase of the securities, for overnight investments underlying securities must have a market value at least equal to purchase price. For term investments (i.e. maturities exceeding one business day), margin is required. Margin percentages apply to the repurchase price, i.e. maturity value of repurchase agreement. The margin requirements are:

Original Margin requirement for Repurchase Agreements (Margin calculations include accrued interest, if any, of underlying securities)

<u>Maturity of Repurchase Agreement</u>	<u>Required Margin Percentage</u>
Overnight	100.0%
Term (exceeding 1 business day)*	102.0%
Term (exceeding 30 business days)*	103.0%
Term (exceeding 1 business day and collateral under 2 years)*	101.0%

*Margin requirements for repurchase agreements with terms of less than 5 business days can be waived at the discretion of either the Trading Division Chief or Bureau Chief. If in no case will margin requirements be permitted below 100%.

Margin Maintenance Requirements for Term Repurchase Agreements*

<u>Margin Percentage at which Comptroller may request additional margin</u>	<u>Margin Percentage at which dealer may request additional margin reduction</u>
101.0%	103.0%



*Compliance with margin requirements will be reviewed in the aggregate per counter-party via a daily custodian bank pricing report

- (e) Repurchase agreements will be entered into only with dealers who
 - 1) are on the current Federal Reserve Bank of N.Y. Primary Dealer List
 - 2) have signed the Comptroller's Master Repurchase Agreement and
 - 3) meet minimum capital requirement as determined by the Comptrollers Office. In addition, the bank offering short-term custody services for these accounts may also be used when other investment counterparty options are unavailable, provided that it has signed the Comptroller's Master Repurchase Agreement.
- 2. U.S. Treasury securities and U.S. Treasury guaranteed securities
- 3. U.S. agency securities guaranteed by the respective agencies e.g., Federal National Mortgage Association (FNMA), Federal Home Loan Bank (FHLB), and Federal Home Loan Mortgage Corp (FHLMC).
- 4. High Grade Commercial Paper and Bankers Acceptances;
 - (a) Must have the highest rating if two nationally recognized rating organizations (NRRO's) – e.g. A1/P1/F1
 - (b) Maximum 270 day maturity

While the quality standards listed above assure that New York City & related accounts assets are invested only in high quality securities, they are considered minimum standards. Investments that may be eligible under the guidelines will be avoided if the Comptroller is concerned about current financial developments.

III. MATURITY GUIDELINES

The New York City Treasury and related accounts are invested within maturity constraints provided by the respective account managers. Traders may exercise discretion to invest for shorter



periods than specified by the account managers.

IV. CONCENTRATION GUIDELINES

Repurchase Agreements:

1. A maximum daily total repurchase agreement investment amount will be established for each primary dealer eligible to do repurchase agreement business with the Trading Division. These maximum amounts will be continuously monitored and modified to reflect any significant changes in the financial conditions of the various eligible dealers. However, should conditions necessitate exceeding the guidelines, an explanation will be noted and initialed by either the Trading Division Chief or the Trading Division assistant Chief and subsequently reviewed by the Bureau Chief.
2. **U.S. Treasury Securities:** As much as 100% may be invested in U.S Treasury Securities.
3. **U.S. Agency Securities:** A maximum of \$250 million in any one agency.
4. **Commercial Paper:** A maximum of \$250 million invested in obligations of any one issuer (\$500 million aggregate maximum for all related issuers combined).

V. CONTROLS

- A. Payment for investments is made only upon receipt of the securities purchased.
- B. After the close of trading each day, the Division Chief will review the day's investments for compliance with guidelines and initial. If the Division Chief is absent, investments will either be reviewed daily by the Bureau Chief or reviewed upon the Division Chief's return.

VI. CUSTODIAL BANK

A. Statutory Requirements



1. The bank must be eligible to act as custodian of municipal corporations under the laws of New York State. The requirements are set forth in Article 2§II-3 of the New York State General Municipal Law.
2. The bank must be a member of a Federal Reserve Bank and the New York Automated Clearing House.
3. The bank must be a participant in the Depository Trust Company.

B. Minimum Size Criteria

In addition to legal requirements for eligibility, the Comptroller sets additional minimum bank criteria to insure the safety of the assets and the efficiency of custody operations as follows:

1. The bank's short-term assets currently under custody are in excess of \$5 billion.
2. The bank's average daily volume of short-term custody service activities is in excess of \$2 billion.
3. The bank's average daily short-term transaction volume is in excess of 60.

C. City Registration Requirements

The bank must maintain current status as a designated New York City depository as established by the New York City Banking Commission.

D. Custodial Arrangements

The short-term investments custody contract includes two features that are critical to minimizing risk:

1. All securities are held by our custodial bank and are audited by both internal and external auditors. Payment for purchase of securities is not released until the securities are received by the custody bank.
2. The custody bank will, upon instructions from the Bureau Chief or Deputy Comptroller, release to the Comptroller's office all purchased securities including those subject to repurchase. This permits us to sell such securities, if necessary.



NATIONALLY RECOGNIZED RATINGS ORGANIZATIONS (NRRO) RATING SCALES

NRRO

Moody's
Standard & Poor's
Fitch

SHORT-TERM SCALE*

P1;P2:P3
A1+/A1;A2;A3
F1+/F1;F2;F3

LONG TERM SCALE

Aaa;Aa;A
AAA;AA;A
AAA;AA;A

* Short Term defines as an original maturity not exceeding one year.

