The Town of Niagara-On-The-Lake

Telephone (905) 468-3266
Facsimile (905) 468-2959

1593 Four Mile Creek Road
P.O. Box 100
Virgil, Ontario
L0S 1T0

Report:	**CS-17-024**	**Committee Date:**	**July 10, 2017**
		Due in Council:	July 17, 2017

Report To: **Corporate Services Advisory Committee**
Subject: **Investment Policy**

1. RECOMMENDATION

It is respectfully recommended that:

1.1 The Investment Policy, attached to this report as Appendix A, be forwarded to Council for approval; and

1.2 The Clerk prepare a by-law to adopt the Investment Policy subject to the review of the Policy by the Town's Solicitor and Auditor.

2. PURPOSE / PROPOSAL

The purpose of this report is request Council's approval of the attached Investment Policy which will provide guidance for investing activities as it relates to idle funds under the care, custody, and control of the Corporation of the Town of Niagara-on-the-Lake.

3. BACKGROUND

In order for the Town to invest idle funds into different prescribed securities, it must first adopt an investment policy as per Section 7 of Ontario Regulation 438/97 (attached as Appendix B), which states:

"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"

4. DISCUSSION / ANALYSIS

The attached policy considers the Town's need for a diversified portfolio, risk tolerance, and ensures that capital is maintained in order to meet current and future financial obligations. Investment planning will be closely linked to cash flow needs, ensuring that when funds are invested the maturity date is matched as closely as possible to when the funds are required.

The types of securities and the institutions that the Town is allowed to invest in is prescribed under Ontario Regulation 438/97 and detailed in the attached policy. A brief summary of institutions include (but are not limited to):

- Federal Government, Provincial Governments
- Schedule I, II or III banks listed in the Bank Act of Canada
- Credit Unions which the Credit Unions and Caisses Populaires Act, 1994 applies
- Universities or Colleges included in the Post-Secondary Education Choice and Excellence Act, 2000 or the Ontario Colleges of Applied Arts and Technologies Act, 2002
- Public Hospitals within the meaning of the Public Hospitals Act
- Joint Municipal Investment Programs permitted under the Municipal Act, 2001 (examples include AMO's ONE fund, managed by LAS and CHUMS)

Securities must also be rated by a recognized rating house. The attached policy designates The Dominion Bond Rating Service as the rating house to be used. All securities must have a minimum rating as specified in Ontario Regulation 438/97, and depending on the type of security, will have a different rating system.

5. OPTIONS
N/A

6. FINANCIAL IMPLICATIONS
Investing is a new source of revenue for the Town. The additional revenues will assist with meeting the Town's financial obligations. After a cash flow analysis staff will be able to determine what funds can be invested and for what period of time. Due to Municipal Act requirements and the types of investments that the Town can invest in, it is expected that Town funds will earn slightly better returns then what they earn in the Town's bank account. Staff will be able to determine estimated investment income after a detailed cash flow analysis and selecting appropriate securities.

7. COMMUNICATIONS
The Treasurer will prepare annual reports to Council disclosing the nature of the Town's investment portfolio, including:

(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

8. CONCLUSION

Investing will provide a new revenue source for the Town and the attached Policy will guide investment planning and decision making when selecting appropriate investments.

Prepared by,

Kyle Freeborn, CPA, CMA
Manager of Finance / Treasurer

Holly Dowd
Chief Administrative Officer

ATTACHMENTS

Appendix A - Draft Investment Policy.pdf

Appendix B - O. Reg 438-97.pdf

WEB ATTACHMENTS

ATTACHMENTS FOR LINK

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Telephone (905) 468-3266
Facsimile (905) 468-2959

1593 Four Mile Creek Road
P.O. Box 100
Virgil, Ontario
L0S 1T0

POLICY

Policy No.: Draft

Approved on:

By-Law No.:

Effective on:

Supersedes:

Report To: **Corporate Services Advisory Committee**
Title/Subject: **Investment Policy**

PURPOSE

The purpose of this policy is to establish procedures and practices that maximize the use of Town funds through a program of term investments. Investments are to earn the highest return with the maximum security and appropriate level of liquidity while meeting the Town's daily cash flow demands and conforming to all legislation governing the investment of public funds.

POLICY STATEMENT

To provide guidance with respect to investing activities as it relates to idle funds under the care, custody, and control of the Corporation of the Town of Niagara-on-the-Lake.

APPLICATION AND ADMINISTRATION

Authority: Legislative authority for the Town of Niagara-on-the-Lake to invest funds is provided in Section 418 of the *Municipal Act, 2001* . Section 420 permits the Town to enter into agreements to invest money jointly with other municipalities and prescribed bodies. The prescribed rules governing investments are contained in the Ontario Regulations 438/97, as amended.

Investment of funds held in trust must also consider the provisions of the *Trustee*

Act , as amended. Section 27 provides the criteria for investing trust funds.

Joint Investments: The Regional Municipality of Niagara's investment policy accommodates requests from area municipalities to make investments on their behalf, subject to adequate forms of disclaimers for liability. The *Municipal Act, 2001* permits such joint investments, and the Treasurer is hereby authorized to sign agreements with the Regional Municipality of Niagara on behalf of the Town of Niagara-on-the-Lake for the purposes of purchasing joint investments.

Policy Considerations: Any investment held that does not meet the guidelines of this policy shall be exempted from the requirements of this policy. Such investments shall be reinvested at maturity or liquidated only as provided by this policy.

This policy shall be reviewed periodically. Amendments may be made at any time at the recommendation of the Treasurer and must be approved by Council.

Notwithstanding that an approved list of investment institutions is in effect, the Treasurer may restrict investments to fewer institutions if it is determined that economic or market conditions warrant such action.

OBJECTIVES

The objectives of the investment policy are as follows:

Preservation of Capital: Safety of principal is an important objective when investing funds under the care, custody, and control of the Town. Credit risk and interest rate risk will be mitigated as follows:

<u>Credit Risk:</u> The Town will minimize the risk of loss due to the failure of the security issuer or backer by limited investments to safer (i.e., higher rated) types of securities. The investment portfolio is also to be diversified to minimize potential losses on individual securities.

<u>Interest Rate Risk:</u> The Town will minimize the risk that the market value of securities in the portfolio will fall due to changes in interest rates by structuring securities to mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity. General operating funds should be invested primarily in shorter-term securities.

Liquidity: Investments shall meet the daily flow requirements that may be reasonably anticipated. This shall be done where possible by structuring the portfolio so that securities mature concurrent with anticipated cash demands. The portfolio should consist largely of securities with active secondary or resale markets. Investments may also be placed in local government investment pools that offer liquidity for short-term funds.

Yield: The goal shall be to maximize the yield earned on investments without compromising the objectives of authority, safety, and liquidity listed above. The returns anticipated are relative to the level of assumed risk. Investment returns provide revenues for the Town and reduce the reliance on taxation. The total portfolio should obtain a market average rate of return that is commensurate with the investment risk constraints and cash flow needs of the Town. Market yields should be higher than the benchmark of the rate given by the Town's bank.

Diversification: Investments shall be diversified by limiting concentration in securities from a specific issuer or business sector (excluding Government of Canada securities). Limiting reinvestment in securities that have higher credit risk, investing in securities with varying maturities, and investing in mainly liquid, marketable securities that have an active secondary market to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.

In order to ensure maximum security and proper diversification of the portfolio, additional limitations shall apply as set out in Appendix A. The limitations include reference to the maximum allowable exposure for each category as a percentage share of the total portfolio. Limitations are also set out for each individual institutional issuer in a category as a percentage of the total portfolio. Portfolio percentage restrictions apply at the time an investment is made. At specific times, the portfolio limitations may be exceeded as a result of the timing of maturities.

Investment Horizon: In general, the term of an investment will be based on a term strategy, comprising of short and mid-term duration. Longer terms may be considered where the expected use has longer horizons and maximizing investment income is a primary consideration. The term of the investment will be determined by analyzing the anticipated cash flow requirements.

ELIGIBLE INVESTMENTS AND PARAMETERS

Eligible Investments: Investments will be made only in those instruments permitted by this policy, and deemed eligible by the Municipal Act, 2001 or as authorized by subsequent provincial regulation. Only those investments issued or guaranteed by the following institutions are permitted:

1. The Government of Canada, including agencies.

2. The Provincial Governments of Canada, including agencies.

3. A municipality or school board as defined in the *Municipal Affairs Act* or a conservation authority established under the *Conservation Authorities Act* .

4. Schedule I banks subject to a minimum DBRS rating of R-1 middle or AA. Schedule I banks are set out by Section 14 of the Bank Act.

5. Schedule II banks subject to a minimum DBRS rating of R-1 high or AAA. Schedule II banks are set out by Section 14 of the Bank Act.

6. Loan or trust corporations, registered under the Loan and Trust Corporation Act and subject to a minimum DBRS rating of R-1 middle or AA.

7. Credit unions or leagues to which the Credit Unions and Caisses Populaires Act applies, subject to a minimum DBRS rating of R-1 middle or AA.

8. Bonds, debentures, promissory notes and other evidences of indebtedness of a corporation incorporated under section 142 of the Electricity Act, 1998.

9. An Investment Program (joint municipal investment pool). Joint municipal investment pools permitted under the *Municipal Act, 2001,* provided the investment guidelines of the pool comply with the Town's statement of policies and goals contained in this policy. This includes the investment of Canadian corporate debt and equities.

Investment in asset-backed securities, negotiable promissory notes, or commercial paper requires an agreement with the Local Authority Services Limited and the CHUMS Financing Corporation to act together as the Town's agent, as the Town of Niagara-on-the-Lake's debt is not separately rated as defined in O. Reg. 399/02.

General Parameters: The Dominion Bond Rating Service (DBRS) is to be the recognized rating house for rating requirements specified above as permitted by the *Municipal Act, 2001.*

Periodic reviews of credit ratings should be carried out to determine the status of each of the above institutions as proposed in these guidelines and the Treasurer or designate shall take necessary steps to ensure investments remain with quality institutions.

The Town shall not invest in a security that is expressed or payable in any currency other than Canadian dollars.

Investment Terms: To ensure minimum liquidity levels, the investment portfolio will contain funds with a range of maturity dates, but will not exceed the following limits:

a) Less than 90 days – minimum 10% to a maximum of 100%;
b) Less than 1 year – minimum 25% to a maximum of 100%;
c) From 1 year up to 2 years – maximum 75% ;
d) From 2 years up to 5 years – maximum 25%;
e) From 5 years up to 30 years – maximum 20%.

Fully liquid investments are not included in the above and are not subject to term limitations.

ROLES AND RESPONSIBILITIES

Delegation of Authority: The Treasurer is responsible for the prudent investment of the Town's portfolio. No person may engage in an investment transaction except as provided under the terms of this policy. The Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

Approvals: Investing activities require the prior written approval of the Treasurer or designate. A signed copy of an Investment Purchase Authorization form is required to be completed prior to placing an investment. The form is to be signed by the Treasurer and Director of Corporate Services or the Chief Administrative Officer.

Review: The Town's solicitor and auditor are required to review the policy prior to adoption as a by-law, and prior to any modifications to the by-law.

STANDARD OF CARE

Prudence: Investments shall be made with judgement 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 capital as well as the probable income to be derived. Persons acting in accordance with this policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes.

Ethics and Conflicts of Interest: Officers and 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. Material interests in financial institutions with which they conduct business shall be disclosed. Further, any personal financial positions that could be related to the performance of the investment portfolio shall be disclosed. Officers and employees shall not undertake personal investment transactions with the same individual with whom business is conducted on behalf of the Town.

Competitive Selection: The purchase and sale of securities shall be transacted through a competitive process with financial institutions approved by the Treasurer. The Town will consider offers that optimize the investment objectives of the portfolio. A minimum of three quotations shall be obtained for each short-term transaction prior to placement and a reasonable number of quotations for each long-term transaction, considering the existing market conditions at the time of placement. Written records shall be retained of each transaction including the name of the institution solicited, rate quoted, description of the security, investment selected, as well as any other considerations that impacted the decision. If the highest yield security was not selected, an explanation describing the rationale shall be included in this record.

REPORTING

The Treasurer shall report investment activity annually to Council. The investment reports should contain the following:

(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

DEFINITIONS

Accrued Interest - The accumulated interest due on a bond as of the last interest payment made by the issuer.

Amortization - The systematic reduction of the amount owed on a debt issue through periodic payments of principal.

Annuity - An arrangement under which periodic payments are made to a person in return for the investment of a lump sum, usually for the purpose of providing retirement income. Each periodic payment received by the annuitant is a portion of the original lump sum, plus interest.

Arbitrage - Taking advantage of different prices in different markets, for example by purchasing an asset for a low price in one market and then selling the asset for a higher price in another market. Asset Backed Securities: fixed income securities (other than a government security) issued by a Special Purpose Entity, substantially all of the assets of which consist of Qualifying Assets.

Average Life - The average length of time that an issue of serial bonds and/or term bonds with a mandatory sinking fund feature is expected to be outstanding.

Basis Point - A unit of measurement used in the valuation of fixed-income securities equal to 1/100 of 1 percent of yield, e.g., "1/4" of 1 percent is equal to 25 basis points.

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

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.

Bond Ratings - A system for measuring the relative credit-worthiness of bond issues using rating symbols that range from the highest investment quality (least investment risk) to the lowest investment quality (greatest risk).

Book Value (Purchase Price)- 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.

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.

Capital Markets - The markets for medium- to long-term investments (in other words, investment of one year and over in securities such as shares and bonds), as distinct from the money market, which is for shorter-term investments.

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.

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.

Commercial Paper - An unsecured short-term promissory note issued by corporations, with maturities usually ranging from 2 to 270 days to raise working capital.

Coupon Rate - The annual rate of interest received by an investor from the issuer of certain types of fixedincome securities. Also known as the "interest rate."

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 that some or all of the principal and or interest amount of an investment will be lost because of default by the issuer, securities broker or dealer, or financial institution.

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.

Discount - The amount by which the par value of a security exceeds the price paid for the security. It is the difference between the original offering price of a security and the price to which it may fall in the 'after offering' market

Diversification - A process of investing assets among a range of security types by sector, maturity, and quality rating. It is the spreading of investment funds among classes of securities in order to distribute and reduce risk.

Face Value - Face value is ordinarily the amount that the issuer promises to pay at maturity and is generally different from the current market value.

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.

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.

Liquidity - A measure of an asset’s convertibility to cash.
Liquidity risk - The risk of not being able to sell an investment prior to maturity in order to obtain needed cash.

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

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.

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

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

Market Value - Current market price of a security.

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.

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

Net Asset Value - The market value of one share of an investment company, such as a mutual fund. This figure is calculated by totaling a fund's assets which includes securities, cash, and any accrued earnings, subtracting this from the fund's liabilities and dividing this total by the number of shares outstanding. This is calculated once a day based on the closing price for each security in the fund's portfolio. [(Total assets) - (Liabilities)]/(Number of shares outstanding)

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

ONE Bond Funds - is an investment pool in which local governments can invest and is administered by LAS and CHUMS Financing Corporation (ONE Fund). The ONE Bond Fund may invest in government and government-backed securities, Schedule I and Schedule II banks, municipal debentures, asset-backed securities and commercial paper. The adjusted duration of the portfolio is constrained to between 70% and 130% of the Scotia Capital Short-Term All Government Bond Index and all securities must have a credit rating of ‘A’ or better. Lower rated and unrated securities are not permitted.

ONE Money Market Funds - is an investment pool in which local governments can invest and is administered by LAS and CHUMS Financing Corporation (ONE Fund). The ONE Money Market Fund is a pool of funds that can include government and government-backed securities, Schedule I and Schedule II banks, short-term municipal securities, asset-backed securities and commercial paper. The weighted average duration of the portfolio may not exceed 365 days and all securities must have a credit rating of “R1” or better. Lower rated and unrated securities are not permitted. Par - Face value or principal value of a bond, typically $1,000 per bond.

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

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.

Promissory Notes - Documents signed by a borrower promising to repay a loan under agreed-upon terms. It is an agreement to pay or repay a specified sum of money at a stated time or on demand. It is a written and enforceable promise of payment.

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.

Safekeeping - Holding of assets (e.g., securities) by a financial institution.

Serial Bond - A bond issue, usually of a municipality, with various maturity dates scheduled at regular intervals until the entire issue is retired.

Sinking Fund - Money accumulated on a regular basis in a separate custodial account that is used to redeem debt securities or preferred stock issues.

Swap - Trading one asset for another.

Term Bond - Bonds comprising a large part or all of a particular issue which come due in a single maturity. The issuer usually agrees to make periodic payments into a sinking fund for mandatory redemption of term bonds before maturity.

Total Return - The sum of all investment income plus changes in the capital value of the portfolio. For mutual funds, return on an investment is composed of share price appreciation plus any realized dividends or capital gains. This is calculated by taking the following components during a certain time period. (Price Appreciation) +

(Dividends paid) + (Capital gains) = Total Return
Treasury Bills - Short-term government non-interest bearing debt securities with maturities of no longer than one year and issued in minimum denominations of $10,000. The yields on these bills are monitored closely in the money markets for signs of interest rate trends.

Treasury Notes - Intermediate 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 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.

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 ("aaa" by S&P) to those that are highly sensitive with currently identifiable market volatility risk ("ccc-" by S&P). Weighted Average Maturity (WAM) - The average maturity of all the securities that comprise a portfolio.

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 - 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.

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.

ATTACHMENTS

Ontario

Français

Municipal Act, 2001

ONTARIO REGULATION 438/97

FORMERLY UNDER MUNICIPAL ACT

ELIGIBLE INVESTMENTS AND RELATED FINANCIAL AGREEMENTS

Consolidation Period: From March 30, 2016 to the e-Laws currency date.

Last amendment: O. Reg. 74/16.

This is the English version of a bilingual regulation.

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 Infrastructure and Lands Corporation,

   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 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. 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; O. Reg. 74/16, s. 1, 2.

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) 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 (e). 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; O. Reg. 74/16, s. 1, 3.

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.

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