

KING TOWNSHIP CORPORATE POLICY INVESTMENT POLICY



POLICY NO.:
COR-POL-145

Finance Department	Issue Date: 2008-04-14
	Reviewed Date: 2021-01-01
Authored by: Finance Department	Issue No.: 1
Approved by: Council	Next Review: 2025-01-01

1 PURPOSE STATEMENT

- 1.1 The purpose of this investment policy is to establish and maintain practices and procedures to invest in public funds with the highest return on investment with the maximum security and appropriate liquidity while meeting the daily cash flow demands and conforming to all legislation governing the investment of public funds.

2 POLICY OBJECTIVE

- 2.1 The objective of the Investment Program is to ensure full compliance by adhering to statutory requirements as per the legislative authority for the investment guidelines of municipal funds is provided in Section 418 of the Municipal Act 2001.

3 APPLICATION/SCOPE

- 3.1 This investment policy applies to all investments of the Operating, Capital Reserves, Reserve Funds and any new fund created by the Township of King.

4 DEFINITIONS

- 4.1 See Appendix "A" – Glossary of Terms

5 PRESERVATION OF CAPITAL

- 5.1 Safety of principal is a primary objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. Risk will be mitigated by investing in high quality securities and ensuring there is sufficient diversification among the assets in the portfolios.
- 5.2 Credit Risk: The Township will minimize credit risk, the loss due to the failure of the security issuer or backer, by:
- limiting investments to the safer types of securities;
 - diversifying the investment portfolio so that potential losses on individual securities will be minimized.
- 5.3 Interest Rate Risk: The Township will minimize the risk that the market value of securities in the portfolio will fall due to the changes in the general interest rates, by Investing operating funds primarily in shorter-term securities or approved investment pools.

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6 LIQUIDITY

6.1 The investment portfolio shall remain sufficiently liquid to meet all operating or cash 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.

7 INVESTMENT RETURNS

7.1 The Township shall maximize the rate of return earned on the investment portfolio without compromising the other objectives listed above. Investments are generally limited to relatively low risk securities in anticipation of earning a fair return relative to the assumed risk.

8 STANDARDS OF CARE

8.1 Prudence

8.1.1 Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

8.1.2 Investment officers acting in accordance with this investment policy and exercising due diligence, shall be relieved of personal responsibility for an individual security's credit risks or market price changes.

8.2 Ethics and Conflict of Interest

8.2.1 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/investment positions that could be related to the performance of the investment portfolio shall be disclosed. Employees and officers shall not undertake personal investment transactions with the same individual with whom business is conducted on behalf of the Township.

8.3 Delegation of Authority

8.3.1 The Director of Finance and Treasurer have overall responsibility for the

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prudent investment of the Township’s portfolio and is responsible for the implementation of the investment program and the establishment of investment procedures consistent with this policy. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. Authority to manage and implement the investment program is granted to the Deputy Treasurer, or in the absence of the Deputy Treasurer, the Manager of Budgets and Accounting, or in the absences of the Manager of Budgets and Accounting, the Manager of Revenue. Who shall act in accordance with established procedures and internal controls consistent with this investment policy. No person may engage in an investment transaction except as provided under the terms of this Policy. The Director shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials and shall exercise control over that staff. Those investments governed by the provisions of the “ONE – The Public Sector Group of Funds” agreement shall be deemed delegate to that Agent.

9 SAFEKEEPING AND CUSTODY

9.1 All investments, including those under external management, will be held by a third party custodian. All securities shall be held in the name of the municipality. The depositor shall issue a safekeeping receipt to the municipality listing the specific instrument, rate, maturity and other pertinent information. On a monthly basis, the depository will also provide reports, which list all securities held by the municipality, the book value of holdings, the market value as of month-end and income earned by the investments.

10 ELIGIBLE INVESTMENTS

10.1 The portfolio aims for both diversification and near risk-free investments to ensure security of the capital. Emphasis is placed on securities offered by or unconditionally guaranteed by the following institutions will be permitted by this policy, as deemed eligible by Ontario Regulation 438/97 or as authorized by subsequent provincial regulations:

- The Government of Canada.
- The Province of Ontario
- A municipality, school board or local board as defined in the *Municipal Affairs Act* or a conservation authority established under the *Conservation*

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Authorities Act.

- The six major chartered banks (Royal Bank of Canada, Canadian Imperial Bank of Commerce, Bank of Montreal, Bank of Nova Scotia, Toronto Dominion Bank, and National Bank of Canada).
- Joint Municipal Investment pools permitted under the *Municipal Act*.

11 INVESTMENT PARAMETERS

11.1 Diversification

11.2 Investments shall be diversified by:

- Limiting investments to avoid over-concentration in securities from specific issuer or business sector (excluding Government of Canada and “One- The Public Sector Group of Funds”);
- Limiting investment in securities that have higher credit risks;
- 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 apply as set out in Appendix B. Column 3 sets out the maximum allowable exposure for each classification of security as a percentage of the total portfolio. Column 4 sets out the maximum allowable exposure for each specific issuer in a security class as a percentage of the total portfolio. Note that 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.

11.3 Maximum Maturity

11.3.1 To the extent possible, the Township shall attempt to match investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the Township will not invest directly in securities maturing more than 10 years from the date of purchase. Reserve funds and other funds with longer investment horizons may be invested in securities exceeding ten (10) years if the maturity of such investments is made to coincide as nearly as practicable with the expected use of funds.

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12 REPORTING

12.1 Method

12.1.1 The Treasurer shall submit an investment report (Appendix C) for Council annually, including a management summary that provides an analysis of the status of the current investment portfolio and transactions made over the last year. This management summary will be prepared in a manner that will allow Council to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report will include the following:

- Listing of individual securities held at the end of the reporting period by maturity date;
- Percentage of total portfolio which each type of investment represents
- A statement about the performance of the investment portfolio during the period covered by the report
- An estimated ratio of the long-term and short-term securities compared to the total investments and a description of the change, if any, in that proportion since the previous year’s report
- A statement by the Treasurer as to whether or not, in his or her opinion, all investments were made with the investment policies and goals adopted by the Municipality.
- Such other information that the Council may require or that, in the opinion of the Treasurer, should be included.

12.2 Performance Measures

12.2.1 The investment portfolio will be managed in accordance with the parameters specific to this policy. The portfolio should obtain a market average rate of return throughout budgetary and economic cycles that is commensurate with the investment risk constraints and cash flow needs of the Township. Market yields should be higher than the rate given by the Townships bank for the various bank accounts.

12.3 Market Value

12.3.1 The market value of the portfolio shall be calculated at least annually.

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Appendix A - Glossary of Terms

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.

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

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

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

Interest Rate Risk: the risk associated with declines or rises in interest rates that cause an investment in a fixed-income security to increase or decrease in value.

Investment-grade Obligations: an investment instrument suitable for purchase by institutional investors under the prudent person rule. Investment-grade is restricted to those obligations rated BBB or higher by a rating agency.

Liquidity: a measure of an asset's convertibility to cash.

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.

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

Market Value: current market price of a security.

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

Prudent Person Rule: an investment standard outlining the fiduciary responsibilities relating to the investment practices of public fund investors.

Qualifying Assets: financial assets, either fixed or revolving, that by their terms convert into cash within a finite time period, plus any rights or other assets designed to assure the servicing or timely distribution of proceeds to security holders.

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

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

Special Purpose Entity: a trust, corporation, partnership or other entity organized for the sole purpose of issuing securities that entitle the holders to receive payments that depend primarily on the cash flow from Qualifying Assets but does not include a registered investment company.

Weighted Average Maturity (WAM): the average maturity of all the securities that comprise a portfolio.

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Appendix B – Approved Investments, Diversifications and Ratings

Category	Minimum Credit Rating	Maximum Portfolio Share	Institutional Limit per Issuer
1. Government of Canada		100%	100%
2. Province of Ontario	R-1 middle, AA	50%	25%
3. Municipalities/Boards		50%	10%
4. Schedule 1 banks	R-1 middle, AA	100%	50%
5. Schedule 11 banks	R-1 middle, AAA	50%	15%
6. Loan/Trust Corps.	R-1 middle, AA	10%	5%
7. Credit Unions	R-1 middle, AA	10%	5%
8. Electricity Act Corps.		15%	5%
9. Pooled investment funds		100%	100%

Dominion Bond Rating Service (DBRS) provides ratings on institutional quality. A company having an R-1 rating is a high grade prime credit. It has a very high ability to repay its current liabilities as they become due. The strength of various liquidity ratios is unquestioned and alternative sources of funds to commercial paper exist. The outlook for future liquidity and the trend of these ratios should be favourable. The level of profitability has been reasonable and relatively stable with only modest fluctuations. No substantial qualifying negative factors exist, and the firm is of sufficient size to be a strong influence in its industry. DBRS also indicates where within the rating classification the company falls (high, middle, low).

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Commercial Paper and Short Term Debt: Bond and Long Term Debt:

<u>Symbol</u>	<u>Credit Quality</u>	<u>Symbol</u>	<u>Credit Quality</u>
R-1(high)	Highest	AAA	Highest
R-1(middle)	Superior	AA	Superior
R-1(low)	Satisfactory	A	Satisfactory
R-2(high)	Adequate	BBB	Adequate
R-2(middle)	Adequate	BB	Speculative
R-2(low)	Adequate	B	Highly Speculative
R-3(high)	Speculative	CCC	Very Highly Speculative
R-3(middle)	Speculative	CC	Very Highly Speculative
R-3(low)	Speculative	C	Very Highly Speculative
D	In Arrears	D	In Arrears

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Appendix C – Investment Report

Investment Summary

Institution ¹	Individual Share ²	Portfolio Share ²	Maturity Value	Policy Limit ²
Government of Canada				100%
Provincial Governments				50%
				25%
Municipalities and local boards				50%
				10%
Schedule I banks				100%
				50%
Schedule II banks				50%
				15%
Loan or Trust Corps				10%
				05%
Credit Unions				10%
				05%
Electricity Act Corps.				15%
				5%
Pooled Investment Funds				100%
TOTAL			\$0.00	

Investment Detail By Due Date:

Security Issuer (Dealer ³), Type ⁴	Settlement Date	Due Date	Term Days	Interest Rate	Maturity Value
TOTAL					\$0.00

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NOTES

¹ In accordance with section 418 of the municipal act 2001 and Ontario regulation 438/97, amended to o. reg 399/02

² The “Policy Limit” sets out the maximum share of a particular investment or investment category at the time of placement. Refer to the Township of King Investment policy, Appendix B Approved Investments, Diversifications and Ratings.

³ Security dealer noted if different that security issuer.

⁴ Investment Types – BA= Bankers Acceptance, BDN – Bearer Deposit Note, GN – Guaranteed Note

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APPENDIX D – ONTARIO REGULATION 438/97

ONTARIO REGULATION 438/97

Amended to O. Reg. 655/05

ELIGIBLE INVESTMENTS AND RELATED FINANCIAL AGREEMENTS

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 post-secondary educational institution 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 of applied arts and technology of Ontario,

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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 2 of the *Social Housing Reform Act, 2000*, 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 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 Corporation Act*,

iii. a credit union or league to which the *Credit Unions and Caisses Populaires Act, 1994* applies, or

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iv. the Province of Ontario Savings Office.

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 post-secondary educational institution 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 of applied arts and technology of Ontario, 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

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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,

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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.

3. (1) A municipality shall not invest in a security under subparagraph iii, v.1, v.2, vi.1, vi.2 or vi.3 of paragraph 1 of section 2 or under paragraph 4 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).

(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).

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(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 “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. 655/05, s. 3 (7).

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

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- (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. 655/05, s. 3 (7).

(5) A municipality shall not invest in a security under paragraph 8 of section 2 unless the promissory note or commercial paper is rated, Township of King – Investment Policy 14

- (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 paragraph 7 or 8 of section 2 falls below the standard required under subsection (3), (4) or (5), as the case may be, the municipality shall sell the investment within 30 days after the day the investment falls below the standard. O. Reg. 265/02, s. 2 (2).

(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

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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) If an investment described in subsection (1), (2.1), (4.1) or (4.2) falls below the standard required by the subsection, the municipality shall sell the investment within 90 days after the day the investment falls below the standard. O. Reg. 655/05, s. 3 (9).

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,

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(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

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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 public sector group of funds 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 operate under section 3 of the *Post-secondary Education Choice and Excellence Act, 2000*;

(d) a college established under section 5 of the *Ministry of Training, Colleges and Universities Act*;

(e) a school board; or

(f) any agent of an institution listed in clauses (a) to (d). O. Reg. 265/02, s. 3; O. Reg. 655/05, s. 4 (4).

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

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(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

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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 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.

(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.

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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.

(2) If the rating of an investment continued under subsection (1) falls below the standard required by that subsection, the municipality shall sell the investment within 90 days after the day the investment falls below the standard. O. Reg. 438/97, s. 9 (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.

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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 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

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(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,
 - 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:

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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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