

## City of Redmond Investment Policy

### 1.0 Policy:

It is the policy of the City of Redmond to invest public funds in a manner which will provide the maximum security of the principal, meet the daily cash flow demands of the City, and strive for a high investment return while conforming to all laws and regulations governing the investment of public funds.

### 2.0 Scope:

This investment policy applies to all financial assets of the City of Redmond and any applicable pension funds pooled with City assets but no other City Fiduciary funds including: the Municipal Employees Benefit Trust and Deferred Compensation Plan funds managed externally; Contractors' Deposit funds; and such funds excluded by law or bond covenant.

The applicable funds are pooled together for investment purposes and accounted for in the City's Comprehensive Annual Financial Report and include:

#### 2.1 Funds:

- 2.1.1 General Fund
- 2.1.2 Special Revenue Funds
- 2.1.3 Capital Project Funds
- 2.1.4 Enterprise Funds
- 2.1.5 Debt Service Funds\* (Monies related to proceeds of municipal securities and/or pledged reserve amounts will be placed separately by the City and not invested through an approved broker/dealer relationship. See Section 10, Diversification, for additional information.)
- 2.1.6 Internal Service Funds
- 2.1.7 Any new fund created by Council, unless specifically exempted by Council
- 2.1.8 Pension Funds – if pooled with City assets

\*The City contracts with a Municipal Advisor for debt issues, however the scope of responsibilities does not include investment advice.

### 3.0 Prudence:

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

3.1 The standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

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### 4.0 Objective:

The primary objectives, in priority order, of the City's investment activities shall be:

4.1 Safety: Safety of principal is the foremost objective of the City of Redmond. Investments of the City shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

4.2 Liquidity: The City's investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements which might be reasonably anticipated.

4.3 Return on investment: The City's investment portfolio shall be designed with the objective of attaining a market rate of return given the City's risk constraints and cash flow requirements.

### 5.0 Delegation of Authority:

Management responsibility for the investment program is hereby delegated to the Investment Committee, who shall establish and monitor written procedures for the operation of the investment program, consistent with this investment policy. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Finance Director. The Finance Director shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

5.1 Investment Committee: The investment committee shall consist of the Mayor, the chairperson of the Finance, Administration and Communications (FAC) Committee and the Finance Director. The committee shall meet quarterly (or as needed, as determined by the committee) and provide overall guidance with regard to investment transactions. The committee will review and authorize financial dealers and institutions as provided for in Section 7.

### 6.0 Ethics and Conflicts of Interest:

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose to the Mayor any material financial interests in financial institutions that conduct business within this jurisdiction, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the City's portfolio. Employees and officers shall subordinate their personal investment transactions to those of the City of Redmond, particularly with regard to the time of purchases and sales.

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### 7.0 Authorized Financial Dealers and Institutions:

The Finance Director will maintain a list of broker/dealers and financial institutions authorized to provide investment services to the City. Authorized broker/dealers and financial institutions will be limited to those that are approved by the Investment Committee and meet one or more of the following:

- Financial institutions approved by the Washington Public Deposit Protection Commission (RCW 39.58); or,
- Primary or regional dealers that qualify under the U.S. Securities and Exchange Commission Rule 15C3-1, the Uniform Net Capital Rule.

Each authorized broker/dealer or financial institution will be selected by creditworthiness, required to maintain an office in the State of Washington, and required to regularly submit annual reports, including audited financial statements when not available online. Additionally, broker/dealers are required to complete a broker/dealer questionnaire or provide any other information that may be required by the City to assess the qualifications of the firm.

### 8.0 Authorized Investments:

Authorized investments are securities and investments authorized by state statute as defined in RCWs 39.58, 39.59 and 43.250. Authorized investments include:

- 8.1 Investment deposits, including certificates of deposit, with qualified public depositories as defined in RCW 39.58.
- 8.2 Certificates, notes, or bonds of the United States, or other obligations of the United States or its agencies, or of any corporation wholly owned by the government of the United States.
- 8.3 Obligations of government-sponsored corporations which are eligible as collateral for advances to member banks as determined by the Board of Governors of the Federal Reserve System. (These include but are not limited to Federal Home Loan Bank notes and bonds, Federal Farm Credit Bank consolidated notes and bonds, and Federal National Mortgage Association notes, bonds and guaranteed certificates of participation.)
- 8.4 Bankers' acceptances purchased on the secondary market.
- 8.5 Bonds of the State of Washington and any local government in the State of Washington which have, at the time of investment, one of the three highest credit ratings of a nationally recognized rating agency.
- 8.6 Repurchase agreements for securities listed in 2, 3, and 4 above, provided that the transaction is structured so that the City of Redmond obtains control over the underlying securities and a Master Repurchase Agreement has been signed with the bank or dealer.
- 8.7 State Investment Pool.

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- 8.8 Commercial Paper purchased in the secondary market and having received the highest rating by at least two (2) Nationally Recognized Statistical Rating Organizations (NRSROs) at the time of purchase and adhering to the investment policies and procedures adopted by the State Investment Board.
- 8.9 Mutual funds, escrow accounts, public fund money market accounts or cash type accounts used specifically for proceeds of municipal securities.
- 8.10 State of Washington Separately Managed Account.

9.0 Safekeeping and Custody:

All security transactions, including collateral for repurchase agreements, entered into by the City of Redmond shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held by a third party custodian designated by the Finance Director.

Certificates of Deposit in the City's name, or confirmations of them, will be delivered to and held in the Finance Department.

10.0 Diversification:

The City will diversify its investments by security type and institution. The following schedule provides the maximum holdings in any one type of investment or with any one issuer.

<u>Type of Security</u>	<u>Maximum Holdings</u>
Certificates of Deposit	50% of Portfolio 10% per Issuer 20% of Issuer's Net Worth
U.S. Treasury Notes, Bonds or Certificates	100% of Portfolio
U.S. Government Sponsored Corporations	100% of Portfolio
Bankers' Acceptances	25% of Portfolio 10% per Issuer
State of Washington or Local Government Bonds	25% of Portfolio 10% per Issuer
Repurchase Agreements	25% of Portfolio 25% per Dealer
State Investment Pool	100% of Portfolio
Commercial Paper	10% of Portfolio 10% per Issuer
Public Fund Money Market Accounts, Escrow Accounts, Cash Type Accounts	Minimum amount to be pledged as debt reserves, or other debt related monies.
Mututal Funds	Arbitrage related only
State of Washington Separately Managed Account	Funds intended for long-term investment and not needed for liquidity.

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Separate guidelines containing additional or more restrictive limitations for certain investment instruments are contained in the investment procedures document.

Monies related to proceeds of municipal securities and/or pledged reserve amounts will be placed separately by the City and not invested through an approved broker/dealer relationship.

### 11.0 Maturities:

To the extent possible, the City will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, or restricted by state guidelines, the City will not directly invest in securities maturing more than five years from the date of purchase. However, the City may collateralize its repurchase agreements using longer-dated investments.

Separate guidelines containing additional or more restrictive limitations for certain investment instruments are contained in the investment procedures document.

### 12.0 Internal Control:

The Finance Director shall establish a process of independent review by an external auditor. This review will provide internal control by assuring that policies and procedures are being complied with. Such review may also result in recommendations to change operating procedures to improve internal control.

### 13.0 Performance Standards:

The City of Redmond's investment portfolio will be designed with the objective of attaining a rate of return commensurate with the City's investment risk constraints and the cash flow characteristics of the portfolio.

13.1 Average Rate of Return: The basis used by the Finance Director to determine whether an average rate of return is being achieved shall be the 2-Year Treasury Note.

### 14.0 Reporting:

The Finance Director is charged with the responsibility of including a report on investment activity and returns in the City's Quarterly Financial Report.

### 15.0 Investment Policy Adoption:

The City of Redmond's investment policy shall be adopted by resolution of the City Council. The policy shall be reviewed on a biennial basis by the FAC Committee and any modifications made thereto must be approved by the City Council.

## GLOSSARY

**ACCRUED INTEREST** - The interest accumulated on a bond since issue date or the last coupon payment. The buyer of the bond pays the market price and accrued interest, which is payable to the seller.

**AGENCY** - A debt security issued by a federal or federally sponsored agency. Federal agencies are backed by the full faith and credit of the U.S. Government. Federally Sponsored Agencies (FSAs) are backed by each particular agency with a market perception that there is an implicit government guarantee. (Also see FEDERAL AGENCY SECURITIES and GOVERNMENT SECURITY)

**AMORTIZATION** - In portfolio accounting, periodic charges made against interest income on premium bonds in anticipation of receipt of the call price at call or of par value at maturity.

**ASSET** - Available property, as for payment of debts.

**AVERAGE MATURITY** - A weighted average of the expiration dates for a portfolio of debt securities. An income fund's volatility can be managed by shortening or lengthening the average maturity of its portfolio.

**BANK WIRE** - A virtually instantaneous electronic transfer of funds between two financial institutions.

**BANKERS' ACCEPTANCES (BAs)** – Bankers' Acceptances generally are created based on a letter of credit issued in a foreign trade transaction. They are used to finance the shipment of commodities between countries as well as the shipment of some specific goods within the United States. BAs are short-term, non-interest bearing notes sold at a discount and redeemed by the accepting bank at maturity for full face value. These notes trade at a rate equal to or slightly higher than Certificates of Deposit (CDs), depending on market supply and demand.

Bankers' Acceptances are sold in amounts that vary from \$100,000 to \$5,000,000, or more, with maturities ranging from 30 - 270 days. They offer liquidity to the investor as it is possible to sell BAs prior to maturity at the current market price.

**BASIS POINT** - A measure of an interest rate, i.e., 1/100 of 1 percent, or .0001.

**BID** - The indicated price at which a buyer is willing to purchase a security or commodity. When selling a security a bid is obtained. (See Offer)

**BOND** - A long-term debt security, or IOU, issued by a government or corporation that generally pays a stated rate of interest and returns the face value on the maturity date.

**BOOK ENTRY SECURITIES** - U.S. government and federal agency securities that do not exist in definitive (paper) form; they exist only in computerized files maintained by the Federal Reserve Bank.

**BOOK VALUE** - The amount at which an asset is carried on the books of the owner. The book value of an asset does not necessarily have a significant relationship to market value.

**BROKER** - A broker brings buyers and sellers together for a commission paid by the initiator of the transaction or by both sides.

**CERTIFICATES OF DEPOSIT** - Certificates of Deposit, familiarly known as CDs, are certificates issued against funds deposited in a bank for a definite period of time and earning a specified rate of return. Certificates of Deposit bear rates of interest in line with money market rates current at the time of issuance.

**COLLATERAL** - Property (as securities) pledged by a borrower to protect the interest of the lender.

**COMPETITIVE BID PROCESS** - A process by which three or more institutions are contacted to obtain interest rates for specific securities.

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**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 another party to an investment transaction will not fulfill its obligations. Credit risk can be associated with the issuer of a security, a financial institution holding the entity's deposit, or a third party holding securities or collateral. Credit risk exposure can be affected by a concentration of deposits or investments in any one investment type or with any one party.

**CUSTODIAN** - An independent third party (usually bank or trust company) that holds securities in safekeeping as an agent for the city.

**DEALER** - A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.

**DEFEASE** - To discharge the lien of an ordinance, resolution, or indenture relating to a bond issue, and in the process, render inoperative restrictions under which the issuer has been obliged to operate. Comment: Ordinarily an issuer may defease an indenture requirement by depositing with a trustee an amount sufficient to fully pay all amounts under a bond contract as they become due.

**DELIVERY** - The providing of a security in an acceptable form to the city or to an agent acting on behalf of the city and independent of the seller. Acceptable forms can be physical securities or the transfer of book entry securities. The important distinction is that the transfer accomplishes absolute ownership control by the city.

**DELIVERY VS. PAYMENT** - There are two methods of delivery of securities: Delivery vs. payment and delivery vs. receipt (also called free). Delivery vs. payment is delivery of securities with an exchange of money for the securities. Delivery vs. receipt is delivery of securities with an exchange of a signed receipt for the securities.

**DEPOSITARY** - A person to whom something is entrusted, a depository.

**DEPOSITARY BANK** - A local bank used as the point of deposit for cash receipts.

**DEPOSITARY INSURANCE** - Insurance on deposits with financial institutions. For purposes of this policy statement, depository insurance includes: a) Federal depository insurance funds, such as those maintained by the Federal Deposit Insurance Corporation (FDIC) AND Federal Savings and Loan Insurance Corporation (FSLIC); and b) Public Deposit Protection Commission.

**DISCOUNT** - 1. (n.) selling below par; e.g., a \$1,000 bond selling for \$900. 2. (v.) anticipating the effects of news on a security's value; e.g., "The market had already discounted the effect of the labor strike by bidding the company's stock down."

**DIVERSIFICATION** - Dividing available funds among a variety of securities and institutions so as to minimize market risk.

**EFFECTIVE RATE** - The yield you would receive on a debt security over a period of time taking into account any compounding effect.

**FACE VALUE** - The value of a bond stated on the bond certificate; thus, the redemption value at maturity. Most bonds have a face value, or par, of \$1,000.

**FEDERAL AGENCY SECURITIES** - Several government-sponsored agencies, in recent years, have issued short and long-term notes. Such notes typically are issued through dealers, mostly investment banking houses. These Federal government-sponsored agencies were established by the U.S. Congress to undertake various types of financing without tapping the public treasury. In order to do so, the agencies have been given the power to borrow money by issuing securities, generally under the authority of an act of Congress. These securities are highly acceptable and marketable for several reasons,

mainly because they are exempt from state, municipal and local income taxes. Furthermore, agency securities must offer a higher yield than direct Treasury debt of the same maturity to find investors, partly because these securities are not direct obligations of the Treasury.

The main agency borrowing institutions are the Federal National Mortgage Association (FNMA), the Federal Home Loan Bank System (FHLB), and the Federal Farm Credit Bank (FFCB).

**FNMA** - FEDERAL NATIONAL MORTGAGE ASSOCIATION - issues notes tailored to the maturity needs of the investor. Maturities range from 30 days up to 30 years. These notes are made attractive by their denominations from \$5,000 to \$1 million.

**FHLB** - FEDERAL HOME LOAN BANK SYSTEM - consists of twelve Federal Home Loan Banks, issues, in addition to long-term bonds, coupon notes with maturities of up to one year. Their attractiveness stems from their investment denominations of \$10,000 to \$1 million.

**FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC)** - A Federal institution that insures bank deposits. The current limit is up to \$250,000 per depository account.

**FEDERAL FUNDS RATE** - The rate of interest at which Fed Funds are traded between banks. Fed Funds are excess reserves held by banks that desire to invest or lend them to banks needing reserves. The particular rate is heavily influenced through the open market operations of the Federal Reserve Board. Also referred to as the "Fed Funds rate."

**FEDERAL HOME LOAN BANKS (FHLB)** - The institutions that regulate and lend to savings and loan associations.

**FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA)** - FNMA, like GNMA, was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a Federal corporation working under the auspices of the Department of Housing and Urban Development, HUD. It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans, in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

**FEDERAL RESERVE SYSTEM** - The central bank of the United States which has regulated credit in the economy since its inception in 1913. Includes the Federal Reserve Bank, 12 district banks and the member banks of the Federal Reserve, and is governed by the Federal Board.

**FINANCIAL INSTITUTIONS** - Establishments that include the circulation of money, the granting of credit, the making of investments, and the provision of banking facilities.

**FISCAL AGENCY** - A financial institution that handles certain bond and coupon redemptions on behalf of the city.

**GINNIE MAES (GNMAs)** - Mortgage securities issued and guaranteed, as to timely interest and principal payments, by the Government National Mortgage Association, an agency within the Department of Housing and Urban Development (HUD).

**GOVERNMENT SECURITY** - Any debt obligation issued by the U.S. government, its agencies or instrumentalities. Certain securities, such as Treasury bonds and Ginnie Maes, are backed by the government as to both principal and interest payments. Other securities, such as those issued by the Federal Home Loan Mortgage Corporation, or Freddie Mac, are backed by the issuing agency.

**HAIRCUT** - This term describes the way brokers and clients protect themselves from market risk in doing repos. An entity wanting to finance the purchase of \$100 million in Treasury bonds may borrow just \$98 million of the money. The two percent difference between the amount of securities purchased and the amount of money borrowed is the

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haircut. Similarly, an entity looking to borrow \$100 million may need to provide, as collateral, Treasury securities with a market price equal to \$102 million.

**LIQUIDATION** - Conversion into cash.

**LIQUIDITY** - Refers to the ease and speed with which an asset can be converted into cash without a substantial loss in value.

**LOSS** - The excess of the cost or book value of an asset over selling price.

**LOCAL GOVERNMENT INVESTMENT POOL (LGIP)** - The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

**MARK-TO-MARKET** - An adjustment in the valuation of a securities portfolio to reflect the current market values of the respective securities in the portfolio. This process is also used to ensure that margin accounts are in compliance with maintenance.

**MARKETABILITY** - Ability to sell large blocks of money market instruments quickly and at competitive prices.

**MARKET 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. The risk that the market value of an investment, collateral protecting a deposit, or securities underlying a repurchase agreement will decline.

**MARKET VALUE** - The price at which a security is trading and could presumably be sold.

**MASTER REPURCHASE AGREEMENT** - An agreement between the investor and the dealer or financial institute. This agreement defines the nature of the transactions, identifies the relationship between the parties, establishes normal practices regarding ownership and custody of the collateral securities during the term of the investment, provides for remedies in the event of a default by either party and otherwise clarifies issues of ownership.

**MATURITY** - The time when a security becomes due and at which time the principal and interest or final coupon payment is paid to the investor.

**NET WORTH** - A financial institution's available funds after their total liabilities have been deducted from their total assets.

**OFFER** - The indicated price at which a seller is willing to sell a security or commodity. (See BID) When buying a security an offer is obtained.

**PAR VALUE** - The nominal or face value of a debt security; that is, the value at maturity.

**PORTFOLIO** - Collection of securities held by an investor.

**PREMIUM** - The amount by which a bond sells above its par value.

**PRIMARY DEALERS** - A pre-approved bank, broker/dealer or other financial institution that is able to make business deals with the U.S. Federal Reserve, such as underwriting new government debt. These dealers must meet certain liquidity requirements as well as provide a valuable flow of information to the Fed about the state of the worldwide markets.

**PRIME RATE** - The interest rate a bank charges on loans to its most credit worthy customers. Frequently cited as a standard for general interest rate levels in the economy.

**PRINCIPAL** - An invested amount on which interest is charged or earned.

**PRUDENCE** - The ability to govern and discipline oneself by the use of reason. Shrewdness in the management of affairs. Able to use skill and good judgment in the use of resources.

**QUALIFIED PUBLIC DEPOSITORY** - A financial institution which does not claim exemption from the payment of any sales or compensating use or ad valorem taxes under the laws of this state, which has segregated, for the benefit of the commission, eligible collateral having a value of not less than its maximum liability and which has been approved by the Public Deposit Protection Commission to hold public deposits.

**REGISTERED SECURITY** - A security that has the name of the owner written on its face. A registered security cannot be negotiated except by the endorsement of the owner.

**REPURCHASE AGREEMENT (REPO)** - The Repo is a contractual transaction between an investor and an issuing financial institution (not a secured loan). The investor exchanges cash for temporary ownership of specific securities, with an agreement between the parties that on a future date, the financial institution will repurchase the securities at a prearranged price. An "Open Repo" does not have a specified repurchase date and the repurchase price is established by a formula computation.

**REPRICING** - The revaluation of the market value of securities.

**REVERSE REPOS** - The opposite of the transaction undertaken through a regular repurchase agreement. In a "reverse" the city initially owns securities and the bank or dealer temporarily exchanges cash for this collateral. This is, in effect, temporarily borrowing cash at a high interest rate and is also known as securities lending. Most typically, a Repo is initiated by the lender of funds. Reverses are used by dealers to borrow securities they have shorted.

**SAFEKEEPING** - A service to customers rendered by banks for a fee whereby all securities and valuables of all types and descriptions are held in the bank's vaults for protection, or in the case of book entry securities, are held and recorded in the customer's name and are inaccessible to anyone else.

**SALLIE MAES** - Pooling of student loans guaranteed by the Student Loan Marketing Association (SLMA) to increase the availability of education loans. The SLMA purchases the loans after buying them on the secondary market from lenders. SLMA stock is publicly traded.

**SECURITIES** - Bonds, notes, mortgages, or other forms of negotiable or non-negotiable instruments.

**SETTLEMENT DATES** - The day on which payment is due for a securities purchase. For stocks and mutual funds bought through an investment dealer, settlement is normally five business days after the trade date. Bonds and options normally settle one business day after the trade date. Mutual fund shares purchased directly by mail or wire settle on the day payment is received.

**SPREAD** - (a) Difference between the best buying price and the best selling price for any given security. (b) Difference between yields on or prices of two securities of differing quality or differing maturities. (c) In underwriting, difference between price realized by the issuer and price paid by the investor.

**STRIPPED TREASURIES** - U.S. Treasury debt obligations in which coupons are removed by brokerage houses, creating zero-coupon bonds.

**TRIPARTITE CUSTODIAN AGREEMENT** - An agreement that occurs when a third party or custodian becomes a direct participant in a repurchase transaction. The custodian ensures that the exchange occurs simultaneously and that appropriate safeguards are in place to protect the investor's interest in the underlying collateral.

**THIRD-PARTY SAFEKEEPING** - A safekeeping arrangement whereby the investor has full control over the securities being held and the dealer or bank investment department has no access to the securities being held.

**TIME DEPOSIT** - Interest-bearing deposit at a savings institution that has a specific maturity.

**TREASURY BILLS** - Treasury bills are short-term debt obligations of the U.S. Government. They offer maximum safety of principal since they are backed by the full faith and credit of the United States Government. Treasury bills, commonly called "T-Bills," account for the bulk of government financing, and are the major vehicle used by the Federal Reserve System in the money market to implement national monetary policy. T-Bills are sold in three, six, nine, and twelve-month bills. Because treasury bills are considered "risk-free," these instruments generally yield the lowest returns in the major money market instruments.

**TREASURY NOTES AND BONDS** - While T-Bills are sold at a discount rate that establishes the yield to maturity, all other marketable treasury obligations are coupon issued. These include Treasury Notes with maturities from one to ten years and Treasury Bonds with maturities of 10-30 years. The instruments are typically held by banks and savings and loan associations. Since Bills, Notes and Bonds are general obligations of the U.S. Government, and since the Federal Government has the lowest credit risk of all participants in the money market, its obligations generally offer a lower yield to the investor than do other securities of comparable maturities.

**UNDERLYING SECURITIES** - Securities transferred in accordance with a repurchase agreement.

**VENDOR** - A business or individual who provides a service or product at a cost.

**WHEN-ISSUED TRADES** - Typically, there is a lag between the time a new bond is announced and sold and the time it is actually issued. During this interval, the security trades "wi," "when, as, and if issued."

**Wi** - When, as, and if issued. See When-issued trades.

**YIELD** - The rate at which an investment pays out interest or dividend income, expressed in percentage terms and calculated by dividing the amount paid by the price of the security and annualizing the result.

**YIELD BASIS** - Stated in terms of yield as opposed to price. As yield increases for a traded issue, price decreases and vice versa. Charts prepared on a yield basis appear exactly opposite of those prepared on a price basis.

**YIELD SPREAD** - The variation between yields on different types of debt securities; generally a function of supply and demand, credit quality and expected interest rate fluctuations. Treasury bonds, for example, because they are so safe, will normally yield less than corporate bonds. Yields may also differ on similar securities with different maturities. Long-term debt, for example, carries more risk of market changes and issuer defaults than short-term debt and thus usually yields more.

**ZERO-COUPON BONDS** - Securities that do not pay interest but are instead sold at a deep discount from face value. They rise in price as the maturity date nears and are redeemed at face value upon maturity.