INTRODUCTION

The purpose of this document is to set forth specific investment policy and strategy guidelines for the City of Coppell in order to achieve the goals of safety, liquidity, yield, and public trust for all investment activity. The City Council of the City of Coppell shall review its investment strategies and policy not less than annually. This policy serves to satisfy the statutory requirement of Chapter 2256, Texas Government Code as amended, to define, adopt and review a formal investment strategy and policy.

INVESTMENT STRATEGY

The City of Coppell maintains portfolios utilizing four specific investment strategy considerations designed to address the unique characteristics of the fund groups represented in the portfolios:

A. Investment strategies for operating funds and commingled pools containing operating funds have as their primary objective to assure that anticipated cash flows are matched with adequate investment liquidity. The secondary objective is to create a portfolio structure which will experience minimal volatility during economic cycles. This may be accomplished by purchasing high quality, short-to-medium-term securities which will complement each other in a laddered or barbell maturity structure. The dollar weighted average maturity of 365 days or less will be calculated using the stated final maturity date of each security.

B. Investment strategies for debt service funds shall have as the primary objective the assurance of investment liquidity adequate to cover the debt service obligation on the required payment date. Securities purchased shall not have a stated final maturity date that exceeds the debt service payment date, or funds shall be maintained in an investment pool to be available for debt service payments.

C. Investment strategies for debt service reserve funds shall have as the primary objective the ability to generate a dependable revenue stream to the appropriate debt service fund from securities with a low degree of volatility. Securities should be of high quality and, except as may be required by the bond ordinance specific to an individual issue, of short to intermediate-term maturities. Volatility shall be further controlled through maturity and quality range, without paying premium, if at all possible. Such securities will tend to hold their value during economic cycles.

D. Investment strategies for special projects or special purpose fund portfolios will have as their primary objective to assure that anticipated cash flows are matched with adequate investment liquidity. These portfolios should include at least 10% in highly liquid securities to allow for flexibility and unanticipated project outlays. The stated final maturity dates of securities held should not exceed the estimated project completion date.

INVESTMENT POLICY

I. SCOPE

This investment policy applies to all financial assets of the City of Coppell. This policy includes all funds listed and accounted for in the City's Comprehensive Annual Financial Report (CAFR) and include:

* General Fund
* Special Revenue Funds
* Debt Service Funds
* Capital Projects Funds
* Proprietary Funds
* Trust and Agency Funds
* Component Units

II. OBJECTIVES

The City of Coppell shall manage and invest its cash with four objectives, listed in order of priority: Safety, Liquidity, Yield, and Public Trust. The safety of the principal invested always remains the primary objective. All investments shall be designed and managed in a manner responsive to the public trust and consistent with State and Local law.

The City shall maintain a comprehensive cash management program that includes collection of accounts receivable, vendor payment in accordance with invoice terms, and prudent investment of available cash. Cash management is defined as the process of managing monies in order to insure maximum cash availability and maximum yield on short-term investment of pooled idle cash.

Safety

The primary objective of the City's investment activity is the preservation of capital in the overall portfolio. Each investment transaction shall be conducted in a manner to avoid capital losses, whether they are from securities default or erosion of market value.

Liquidity

The City's investment portfolio shall be structured such that the City is able to meet all obligations in a timely manner. This shall be achieved by matching investment maturities with forecasted cash flow requirements and by investing in securities with active secondary markets.

Yield

The City's cash management portfolio shall be designed with the objective of regularly exceeding the average rate of return on three-month U.S. Treasury Bills. The investment program shall seek to augment returns above this threshold consistent with risk limitations identified herein and prudent investment policies.

Public Trust

All participants in the City's investment process shall seek to act responsibly as custodians of the public trust. Investment officials shall avoid any transaction that might impair public confidence in the City's ability to govern effectively.

III. RESPONSIBILITY AND CONTROL

Investment Committee

An Investment Committee, consisting of the City Manager, Deputy City Manager, the Director of Finance, and Assistant Director of Finance, shall meet at least quarterly to determine operational strategies and to monitor results. The Investment Committee shall include in its deliberation such topics as: performance reports, economic outlook, portfolio diversification, maturity structure, potential risk to the City's funds, authorized brokers and dealers, annually adopt the qualified bidders list, and the target rate of return on the investment portfolio.

Delegation of Authority and Training

Authority to manage the City's investment program is derived from a resolution of the City Council. The Director of Finance, the Assistant Finance Director and the Chief Accountant are designated as the investment officers of the City and are responsible for investment decisions and activities. The Director of Finance shall establish written procedures for the operation of the investment program, consistent with this investment policy. The investment officers shall attend a training session not less than once in a two-year period that begins on the first day of the City's fiscal year and consists of the two consecutive fiscal years after that date, and receive not less than 8 hours of training approved by the governing body relating to the officer's responsibility under the Act. The investment officers must also receive 10 hours of training within 12 months after taking office or assuming duties. This training must include education in investment controls, security risks, strategy risks, market risks, diversification of investment portfolio and compliance with the Texas Public Funds Investment Act.

Sources of authorized independent training are those sponsored by:

- Government Finance Officers Association (G.F.O.A.)
- Government Finance Officers Association of Texas (G.F.O.A.T.)

- Government Treasurers Organization of Texas (G.T.O.T.)
- University of North Texas - Center for Public Management
- Texas Tech - Center for Professional Development
- TEXPO – Alliance of Texas Treasury Associations
- Texas Municipal League
- Any online training (affiliated with Texas Municipal League).

Internal Controls

The Director of Finance is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the entity are protected from loss, theft or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation costs and benefits require estimates and judgements by management.

Accordingly, the Director of Finance shall establish a process in conjunction with the annual financial audit to assure compliance with policies and procedures. The internal controls shall address the following points:

A. Control of collusion.
B. Separation of transaction authority from accounting and record keeping.
C. Custodial safekeeping.
D. Avoidance of physical delivery securities.
E. Clear delegation of authority to subordinate staff members.
F. Written confirmation for telephone (voice) transactions for investments and wire transfers.
G. Development of a wire transfer agreement with the depository bank or third party custodian.

Prudence

The standard of prudence to be applied by the investment officer shall be the "prudent investor" rule, which states: "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." In determining whether an investment officer has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration:

A. The investment of all funds, or funds under the City's control, over which the officer had responsibility rather than a consideration as to the prudence of a single investment.
B. Whether the investment decision was consistent with the written investment policy of the City.

The investment officer, acting in accordance with written procedures and exercising due diligence, shall not be held personally responsible for a specific security's credit risk or market price changes, providing that these deviations are reported immediately and that appropriate action is taken to control adverse developments.

Ethics and Conflicts of Interest

City staff involved in the investment process shall refrain from personal business activity that could conflict with the proper execution of the investment program, or which could impair the ability to make impartial investment decisions. City staff shall disclose to the City Manager any material financial interests in financial institutions that conduct business with the City and they shall further disclose positions that could be related to the performance of the City's portfolio. City staff shall subordinate their personal financial transactions to those of the City, particularly with regard to timing of purchases and sales.

An investment officer of the City who has a personal business relationship with an organization seeking to sell an investment to the City shall file a statement disclosing that personal business interest. An investment officer who is related within the second degree by affinity or consanguinity to an individual seeking to sell an investment to the City shall file a statement disclosing that relationship. A statement required under this subsection must be filed with the Texas Ethics Commission and the governing body of the entity.

IV. REPORTING

Quarterly Reporting

The Director of Finance shall submit a signed quarterly investment report that is in compliance with this policy and the Texas Public Funds Investment Act and summarizes current market conditions, economic developments and anticipated investment conditions. The report shall summarize investment strategies employed in the most recent quarter, and describe the portfolio in terms of investment securities, maturities, risk characteristics, and shall explain the total investment return for the quarter.

Annual Report

Within 90 days of the end of the fiscal year, the Director of Finance shall present an annual report on the investment program and investment activity. This report may be presented along with the Comprehensive Annual Financial Report to the City Manager and City Council.

Methods

The quarterly investment report shall include a succinct management summary that provides a clear picture of the status of the current investment portfolio and transactions made over the last quarter. This management summary will be prepared in a manner that will allow the City to ascertain whether investment activities during the reporting period have conformed to the investment policy. The reports shall be formally reviewed at least annually by an independent auditor, if investments are other than those offered by the City's depository. The portfolio shall be marked to market monthly. The market value of the securities is to be provided by the City's depository or by a third-party valuation service.

The report will be provided to the City Manager and City Council. The report will include the following:

A. A listing of individual securities (investment position) held at the end of the reporting period.
B. Unrealized gains or losses resulting from appreciation or depreciation by listing the beginning and ending book and market value of securities for the period.
C. Additions and changes to the market value during the period.
D. Average weighted yield to maturity of portfolio on entity investments as compared to applicable benchmark.
E. Listing of investment by maturity date.
F. The percentage of the total portfolio each type of investment represents.
G. Statement of compliance of the City's investment portfolio with State Law and the investment strategy and policy approved by the City Council. H. Prepared and signed by the investment officers.
I. Fully accrued interest for the period.
J. States account or fund for each investment.

V. INVESTMENT PORTFOLIO

The City shall pursue an active versus a passive portfolio management philosophy. That is, securities may be sold before they mature if market conditions present an opportunity for the City to benefit from the trade. The investment officer will routinely monitor the contents of the portfolio, the available markets, and the relative value of competing instruments, and will adjust the portfolio accordingly.

Investments

Assets of the City of Coppell may be invested in the following instruments; provided, however, that at no time shall assets of the City be invested in any instrument or security not authorized for investment under the Act, as the Act may from time to time be amended.

I. Authorized

A. Obligations, including letters of credit, of the United States of America, its agencies and instrumentalities (including Government Sponsored Enterprises).
B. Direct obligations of the State of Texas or its agencies and instrumentalities.
C. Other obligations, the principal of and interest on which are unconditionally guaranteed by the State of Texas or United States of America.

D. Obligations of the State, agencies thereof, Counties, Cities, and other political subdivisions of any state having been rated as investment quality by a nationally recognized investment rating firm and having received a rating of not less than "A" or its equivalent.

E. Interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund or its successor

F. Interest-bearing banking deposits other than those described by (E) above if:

(1) the funds invested in the banking deposits are invested through:

(i) a broker with a main office or branch office in Texas that has been approved by the investment committee or

(ii) a depository institution with a main office or branch office in Texas that the investment committee approves;

(2) the broker or depository institution selected as described by (1) above arranges for the deposit of the funds in the banking deposits in one or more federally insured depository institutions, regardless of where located, for the City of Coppell's account;

(3) the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States; and

(4) the City of Coppell appoints as it's custodian of the banking deposits issued for the City's account:

(i) the depository institution selected as described by (1) above;

(ii) A custodian must be approved by the City and be:

(a) a state or national bank that:

- is designated by the comptroller as a state depository;
- has its main office or a branch office in this state; and
- has a capital stock and permanent surplus of $5 million or more

(b) the Texas Treasury Safekeeping Trust Company;

(c) a Federal Reserve Bank or a branch of a Federal Reserve Bank;

(d) a federal home loan bank; or

(e) a financial institution authorized to exercise fiduciary powers that is designated by the comptroller as a custodian; or

(iii) a clearing broker dealer registered with the Securities and Exchange Commission and operating under Securities and Exchange Commission Rule 15c3-3.

G. Certificates of Deposit of state and national banks with a branch in Texas, guaranteed or insured by the Federal Deposit Insurance Corporation, collateralized or secured by obligations described in A through D above or in accordance with Chapter 2257 or in any other manner provided by law, which are intended to include all direct agency or instrumentality issued mortgage backed securities rated AAA by at least one nationally recognized rating agency and that have a market value of not less than the principal amount of the certificates.

H. Fully collateralized direct repurchase agreements with a defined termination date secured by obligations of the United States or its agencies and instrumentalities. These shall be pledged to the City of Coppell, held in the City's name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City.

Repurchase agreements must be purchased through a primary government securities dealer, as defined by the Federal Reserve, or a bank domiciled in Texas. A Master Repurchase Agreement must be signed by the bank\dealer prior to investment in a repurchase agreement. All repurchase agreement transactions will be on a delivery versus payment basis. Securities received for repurchase agreements must have a market value greater than or equal to 105 percent at the time funds are disbursed.

I. Local government investment pools in accordance with the conditions prescribed in Section 2256.016 and that have been authorized by the governing body by rule, ordinance or resolution. The investment pool must maintain a rating no lower than AAA or AAA-M by at least one nationally recognized rating service. Investment in such pools shall be limited to 75% of the City's entire portfolio, with no more than 25% of the entire portfolio invested in any one authorized pool.

Ratings shall be monitored using nationally recognized financial information sources, including actions published on rating agency websites. Any investment currently held that does not meet the guidelines of this policy, but was authorized at the time of purchase, shall be exempted from the requirements of this policy and investment officers shall not be required to liquidate the investment. At maturity or liquidation, such monies shall be reinvested only as provided by this policy.

II. Not Authorized

The City's authorized investments options are more restrictive than those allowed by State law. State law specifically prohibits investment in the following investment securities.

A. Obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage backed security collateral and pays no principal.

B. Obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest.

C. Collateralized mortgage obligations that have a stated final maturity date of greater than 10 years.

D. Collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

Holding Period

The City of Coppell intends to match the holding periods of investment funds with liquidity needs of the City. In no case will the average maturity of investments of the City's operating funds exceed one year. The maximum final stated maturity of any investment shall not exceed five years.

Investments in all funds shall be managed in such a way that the market price losses resulting from interest rate volatility would be offset by coupon income and current income received from the volume of the portfolio during a twelve-month period.

Risk and Diversification

The City of Coppell recognizes that investment risks can result from issuer defaults, market price changes or various technical complications leading to temporary illiquidity. Risk is controlled through portfolio diversification which shall be achieved by the following general guidelines;

A. Risk of issuer default is controlled by limiting investments to those instruments allowed by the Act, which are described herein.
B. Risk of market price changes shall be controlled by avoiding overconcentration of assets in a specific maturity sector, limitation of average maturity of operating funds investments to one year, and avoidance of overconcentration of assets in specific instruments other than U.S. Treasury Securities and insured or Collateralized Certificates of Deposits.
C. Risk of illiquidity due to technical complications shall be controlled by the selection of securities dealers as described herein.
D. All prudent measures will be taken to liquidate an investment that is downgraded to less than our minimum stated required rating.

VI. SELECTION OF BANKS AND DEALERS

Depository

At least every five (5) years a Depository shall be selected through the City's banking services procurement process, which shall include a formal request for proposal (RFP). In selecting a depository, the credit worthiness of institutions shall be considered, and the Director of Finance shall conduct a comprehensive review of prospective depository bank’s credit characteristics and financial history.

Certificates of Deposit

Banks seeking to establish eligibility for the City's competitive certificate of deposit purchase program shall submit for review annual financial statements, evidence of federal insurance and other information as required by the Director of Finance.

Qualified Representatives

Investment officials shall not knowingly conduct business with any firm with whom public entities have sustained losses on investments. All qualified representatives shall provide the City with references from Public entities they are currently serving.

All financial institutions and qualified representatives who desire to become qualified bidders for investment transactions must supply the following as appropriate:

- audited financial statements
- proof of Financial Industry Regulatory Authority (FINRA) certification
- proof of state registration
- completed broker/dealer questionnaire
- Certification of having read the City's investment policy signed by a qualified representative of the organization .
- Acknowledgement that the organization has implemented reasonable procedures and controls in an effort to preclude imprudent investment transactions conducted between the entity and the organization that are not authorized by the entity’s investment policy.

The investment officers are precluded from purchasing an investment from a representative who has not delivered the written certification

An annual review of the financial condition and registration of qualified bidders will be conducted by the Director of Finance.

Competitive Bids

Competitive quotes must be taken from at least three (3) qualifying financial institutions or broker/dealers for any investment transaction involving an individual security. Investment transactions should include written confirmation of offers on the Investment Bid Tabulation form.

VII. SAFEKEEPING AND CUSTODY

Insurance or Collateral

All deposits and investments of City funds other than direct purchases of U.S. Treasuries or Agencies shall be secured by pledged collateral. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be 105% of market value of principal and accrued interest on the deposits or investments less an amount insured by the FDIC or FSLIC. Evidence of the pledged collateral shall be maintained by the Director of Finance or a third party financial institution. The City’s Depository Agreement shall specify the acceptable investment securities for collateral, the substitution or release of investment securities, ownership of securities, and the method of valuation of securities. Repurchase agreements shall be documented by a specific agreement noting the collateral pledge in each agreement. Collateral shall be reviewed monthly to assure that the market value of the pledged securities is adequate.

Safekeeping Agreement

Collateral pledged to secure deposits and investments, and investment securities purchased by the City shall be held by a safekeeping institution in accordance with the Safekeeping Agreement. The Safekeeping Agreement clearly defines the procedural steps for gaining access to the collateral should the City of Coppell determine that the City's funds are in jeopardy. The safekeeping institution, or Trustee, shall be the Federal Reserve Bank or an institution not affiliated with the firm pledging the collateral. The safekeeping agreement shall include the signatures of authorized representatives of the City of Coppell, the firm pledging the collateral, and the Trustee.

Collateral Defined

The City of Coppell shall accept only the following securities as collateral:

A. FDIC and FSLIC insurance coverage.
B. A bond, certificate of indebtedness, or Treasury Note of the United States, or other evidence of indebtedness of the United States that is guaranteed as to principal and interest by the United States.
C. Obligations, the principal and interest on which, are unconditionally guaranteed or insured by the State of Texas.
D. A bond of the State of Texas or of a county, city or other political subdivision of the State of Texas having been rated as investment grade (investment rating no less than "A" or its equivalent) by a nationally recognized rating agency with a remaining maturity of five (5) years or less.

Subject to Audit

All collateral shall be subject to inspection and audit by the Director of Finance or the City's independent auditors.

Delivery vs. Payment

Treasury Bills, Notes, Bonds and Government Agencies' securities shall be purchased using the delivery vs. payment method. That is, funds shall not be wired or paid until verification has been made that the correct security was received by the Trustee. The security shall be held in the name of the City or held on behalf of the City. The Trustee's records shall assure the notation of the City's ownership of or explicit claim on the securities. The original copy of all safekeeping receipts shall be delivered to the City.

VIII. INVESTMENT POLICY ADOPTION

The City of Coppell's investment policy shall be adopted annually by the City Council. The policy shall be reviewed for effectiveness on an annual basis by the Investment Committee and any modifications will be recommended for approval to the City Council.

GLOSSARY
of
COMMON TREASURY TERMINOLOGY

Agencies: Federal agency securities.

Ask: The price at which securities are offered.

Bid: The price offered for securities.

Broker: A broker brings buyers and sellers together for a commission paid by the initiator of the transaction or by both sides. In the money market, brokers are active in markets, in which banks buy and sell money, and in interdealer markets.

Certificate of Deposit (CD): A time deposit with a specific maturity evidenced by a certificate. Large-denomination CD's are typically negotiable.

Collateral: Securities, evidence of deposit or other property that a borrower pledges to secure repayment of loan. Also refers to securities pledged by a bank to secure deposits of public monies.

Comprehensive Annual Financial Report (CAFR): The official annual report for the City of Coppell. It includes combined statements and basic financial statements for each individual fund and account group prepared in conformity with GAAP. It also includes supporting schedules necessary to demonstrate compliance with finance-related legal and contractual provisions, extensive introductory material, and a detailed Statistical Section.

Coupon: The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value

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

Debenture: A bond secured only by the general credit of the issuer.

Delivery versus Payment: There are two methods of delivery of securities: delivery versus payment and delivery versus receipt Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

Discount Securities: Non-interest bearing money market instruments that are issued at a discount and redeemed at maturity for full face value, such as U.S. Treasury bills.

Diversification: Dividing investment funds among a variety of securities offering independent returns.

Federal Credit Agencies: Agencies of the Federal government set up to supply credit to various classes of institutions and individuals, such as Savings and Loans, small business firms, students, farmers, farm cooperatives, and exporters.

Federal Deposit Insurance Corporation (FDIC): A federal agency that insures bank deposits, currently up to $100,000 per deposit.

Federal Funds Rate: The rate of interest at which Fed funds are traded. This rate is currently set by the Federal Reserve through open-market operations.
Federal Home Loan Banks (FHLB): The institutions that regulate and lend to savings and loan associations. The Federal Home Loan Banks play a role analogous to that played by the Federal Reserve Banks vis-a-vis member commercial banks.

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, H.U.D. 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 Open Market Committee (FOMC): Consists of seven members of the Federal Reserve Board and five of the twelve Federal Reserve Bank Presidents. The President of the New York Federal Reserve Bank is a permanent member while the other Presidents serve on a rotating basis. The Committee periodically meets to set Federal Reserve guidelines regarding purchases and sales of Government Securities in the open-market as a means of influencing the volume of bank credit and money.

Federal Reserve System: The central bank of the United States created by Congress and consisting of a seven-member Board of Governors in Washington, D.C., 12 regional banks and commercial banks that are members of the system.

Government National Mortgage Association (GNMA or Ginnie Mae): Securities guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations, and other institutions. Security holder is protected by full faith and credit of the U.S. Government. Ginnie Mae securities are backed by FHA, VA or FMHM mortgages. The term pass-throughs is often used to describe Ginnie Maes.

- **Government Sponsored Enterprises:** a financial services corporation created by the United States Congress. Examples include the following: Federal Home Loan Banks (FHLB), Federal National Mortgage Association (Fannie Mae), Federal Home Loan Mortgage Corporation (Freddie Mac), Federal Farm Credit Banks (FCB), and Federal Agricultural Mortgage Corporation (Farmer Mac)

Liquidity: A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size can be done at those quotes.

Market Value: The price at which a security is trading and could presumably be purchased or sold.

Master Repurchase Agreement: To protect investors, many public investors will request that repurchase agreements be preceded by a master repurchase agreement between the investor and the financial institution or dealer. The master agreement should define the nature of the transaction, identify the relationship between the parties, establish normal practices regarding ownership and custody of the collateral securities during the term of the investment, provide remedies in the case of default by either party and clarify issues of ownership. The master repurchase agreement protects the investor by eliminating the uncertainty of ownership and hence, allowing investors to liquidate collateral if a bank or dealer defaults during the term of the agreement.

Maturity: The date upon which the principal or stated value of an investment becomes due and payable.

Money Market: The market in which short-term debt instruments (bills, commercial paper, bankers' acceptances) are issued and traded.

Open Market Operations: Purchases and sales of government and certain other securities in the open market by the New York Federal Reserve Bank as directed by the FOMC in order to influence the volume of money and credit in the economy. Purchases inject reserves into the bank system and stimulate growth of money and credit; sales have the opposite effect. Open market operations are the Federal Reserve's most important and most flexible monetary policy tool.

Portfolio: Collection of securities held by an investor.

Primary Dealer: A group of government securities dealers that submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC) registered securities broker-dealers banks and a few unregulated firms.

Prudent Person Rule: An investment standard. 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.

Rate of Return: The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond or the current income return.

Repurchase Agreement (RP of REPO): A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security "buyer" in effect lends the "seller" money for the period of the agreement, and their terms of the agreement are structured to compensate him for this.