

RESOLUTION NO. 15-47

**A RESOLUTION ADOPTING AND ESTABLISHING AN INVESTMENT POLICY FOR DRAPER CITY.**

**WHEREAS**, Draper City does not currently have a written Investment Policy for its funds; and

**WHEREAS**, the City Council of Draper City wishes to institutionalize good financial management practices; and

**WHEREAS**, the City Council of Draper City hereby finds this action in the best interest of the public's health, safety and general welfare.

**NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF DRAPER CITY, STATE OF UTAH AS FOLLOWS:**

**Section 1.** Purpose. The purpose of this Resolution is to adopt the Draper City Investment Policy, as approved and finalized by Draper City Resolution No. 15-47.

**Section 2.** Severability. If any section, part, or provision of this Resolution is held invalid, or unenforceable, such invalidity or unenforceability shall not affect any other portion of this Resolution, and all sections, parts, and provisions of this Resolution shall be severable.

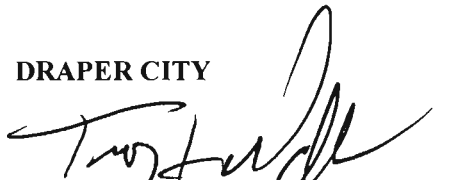
**Section 3.** Effective Date. This Resolution shall become effective immediately upon its passage.

**PASSED AND ADOPTED BY THE CITY COUNCIL OF DRAPER CITY, STATE OF UTAH, ON THIS 18<sup>th</sup> DAY OF AUGUST, 2015.**

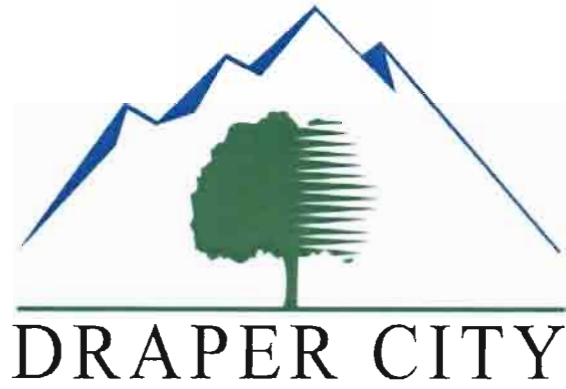
ATTEST:

  
\_\_\_\_\_  
City Recorder

DRAPER CITY

  
\_\_\_\_\_  
Mayor





# **Investment Policy**

# Draper City Investment Policy

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# Draper City Investment Policy

## 1.0 POLICY

Draper City seeks to invest public funds in securities and deposits that provide a high degree of safety and liquidity along with a competitive yield based on prevailing market conditions while meeting the daily cash flow demand of the city. All investments and deposits are placed subject to applicable City and State ordinances and laws pertaining to investment of public funds in the State of Utah, specifically the Utah Money Management Act, which provisions are hereby incorporated as part of this policy.

## 2.0 SCOPE

This investment policy covers investment of all financial assets reported in the Comprehensive Annual Financial Report for the Draper City and the Draper Redevelopment Agency (RDA). The scope includes the General, Special Revenue, Capital Projects, Enterprise, Debt Service, Special Assessment and Internal Service funds for the City and RDA.

### 2.1 FUNDS:

- General Fund
- Class B&C Roads Fund
- Cemetery Fund
- Municipal Building Authority
- Capital Projects
- Fire Impact Fees Fund
- Transportation Impact Fund
- Park Impact Fee Fund
- Police Impact Fee Funds
- Water Fund
- Storm Water Fund
- Solid Waste Fund
- Draper City Redevelopment Agency
- Water Impact Fee Fund
- Storm Water Impact Fee Fund
- Risk Management Internal Service Fund

Any new funds created will also be subject to this investment policy, to State statute, and rulings of the State Money Management Council.

### **3.0 PRUDENCE**

The standard of prudence applied by the City's investment officials is the "prudent person" and/or "prudent investor" rule. "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 benefits to be derived, and the probable duration for which such investment may be made, and considering the investment objectives specified in section 4.0" This standard shall be applied in the context of managing the overall investment portfolio of the City. The City Treasurer acting in accordance with the investment policy 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.

### **4.0 OBJECTIVES**

Funds of the City and RDA will be invested in accordance with the Utah Money Management Act found at U.C.A. Chapter 51 Title 7. These objectives of the Money Management Act and the City in order of priority are:

**4.1 Safety of Principal:** Safety of principal/capital is the foremost objective of the investment program. Investments shall be made to ensure the preservation of capital in the overall portfolio. Investments will be diversified by security type, by industry, by issuer, and maturity date to spread potential investment risks.

**4.2 Liquidity:** The investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements which might be reasonably anticipated. Efforts to achieve this objective will be focused on matching the term to maturity of investments with the period of availability of funds.

**4.3 Return on Investment:** The investment portfolio will be designed with the objective to earn a market rate of return throughout budget years and economic cycles, taking into account investment risk, legal requirements and cash flow needs.

## **5.0 DELEGATION OF AUTHORITY**

Authority to manage the City's investment program is derived from Utah Annotated, 10-6-141 1953, as amended. The City Council and Mayor have assigned the responsibility for conducting investment transactions to the City Treasurer. The City Treasurer is responsible for investment decisions and activities. The City Treasurer shall develop and maintain administrative procedures for the operation of the investment program consistent with these policies. In the event of an emergency and the unavailability of the City Treasurer, the Finance Director is authorized to conduct the City's investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the general policies and procedures as adopted by the City.

## **6.0 ETHICS AND CONFLICTS OF INTEREST**

Those 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. The overall program shall be designed and managed with a degree of professionalism worthy of the public trust. Employees and investment officials shall disclose to the City Manager any material financial interests in financial institutions that conduct business within the City, 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, particularly with regard to the time of purchases and sales.

## **7.0 AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS**

Financial institutions and investment broker/dealers who desire to become qualified bidders or qualified depositories must be certified thru the State and meet all requirements imposed by the Utah State Department of Financial Institutions and the requirements of the Utah Money Management Council, and Act (Rule 16). The Utah Money Management Council quarterly issues a list of certified dealers, and a list of qualified depositories authorized by state statute to conduct transactions with public treasurers. Transactions involving authorized deposits or investments of public funds may be conducted only through Issuers of securities authorized by Section 51-7-11(3), Qualified Depositories included in the current state list, or Certified Dealers included in the current state list. All securities purchased from a certified dealer are required to be delivered to the City Treasurer or to the City's safekeeping bank.

## **8.0. AUTHORIZED AND SUITABLE INVESTMENTS**

The City may place public money in investments/deposits authorized by the Utah Money Management Act (U.C.A. 51-7-11). The Treasurer shall ensure that all purchases and sales of securities are settled within 15 days of the trade date. In general these investments can be any of the following subject to restrictions specified in the Act:

1. Obligations of the U.S. Treasury and most Government-Sponsored Agencies
2. Commercial paper
3. Bankers Acceptances
4. Publicly traded fixed rate corporate obligations
5. Certain variable rate securities and deposits
6. Deposits with the State Public Treasurer's Investment Fund
7. Certain fixed rate negotiable deposits with a certified depository
8. Master Repurchase Agreement:

Repurchase and Reverse-repurchase Agreements are not allowed by this policy. Draper City shall not enter into a Master Repurchase Agreement, a repurchase agreement, or a reverse-repurchase agreement.

## **9.0 INVESTMENT POOLS/MUTUAL FUNDS**

The City upon thorough investigation of the pool/fund will require the following from the Utah Public Treasurers' Investment Fund or similar qualified pool/fund prior to any investing with said pool:

- A. Monthly statement detailing all transactions on each investment account held by the city such as:
  1. Date and account number for each account.
  2. Reference date for each transaction.
  3. All deposits and withdrawals listed by date.
  4. Report period covered.
  5. Balance for each account.
  6. Account Summary: Beginning balance, deposits in the period, withdrawals in period, ending balance, gross earnings, fee (0%), net earnings, average daily balance, gross earnings rate, net earnings rate.
- B. Every six months, provide a statement of how the Pool/Fund invests said funds and how often the securities are priced and how often the Pool/Fund is audited.

- C. A current copy, at least annually, of the State Money Management Act and Rules of the State Money Management Council.
- D. Receive quarterly, a copy of the approved list of depository institutions that have been Qualified as depositories to receive public funds. Also included will be a listing of allowable Maximum Amount of Public Funds allowed per institution.
- E. Receive quarterly, a copy of the listing of Certified Dealers and their Agents who are certified to receive Public Funds.

## **10.0 COLLATERALIZATION**

In the State of Utah, the collateralization of public funds is not required.

## **11.0 SAFEKEEPING AND CUSTODY**

All security transactions by Draper City shall be conducted on a delivery-versus-payment basis. All security transactions shall be held in safekeeping by a third-party institution which has been certified by the Utah Money Management Council and designated by the City Treasurer. Securities held in safekeeping will be evidenced by a safekeeping receipt issued to the City Treasurer within a few business days following the purchase.

## **12.0 DIVERSIFICATION**

Investments entered into by the City will be diversified by security type, industry, institution and maturity to spread potential investment risk and return among many classes of investments. As measured by cost, the portfolio will be invested no more than 50% in any one class of investments (This restriction does not apply to U.S. Treasury Bonds, Notes, and Bills; U.S. Government Agency Obligations; and the Utah State Public Treasurer's Investment Fund). Diversification of investments with a single institution must comply with applicable rules of the Act, specifically;

- A. No more than 20% of funds may be invested in any one permitted qualified out-of-state depository institution. (Rule 10, 5)
- B. No more than 10% of the total portfolio with a single Commercial Paper or corporate Notes issuer if the portfolio is \$10,000,000 or less (Rule 17, 5)
- C. No more than \$1,000,000 in a single Commercial paper or Corporate Notes issuer if the portfolio is greater than \$10,000,000 but less than \$20,000,000 (Rule 17, 5)
- D. No more than 5% of the total portfolio with a single Commercial Paper or corporate Notes issuer if the portfolio is \$20,000,000 or more (rule 17, 5)



Further, for issuers which are not covered by rules or statute, the City will restrict investments to no more than 20% with a single issuer with the exception of funds invested with the Utah State Treasurers' Pool (referred to hereafter as "The State Pool"), U.S. Treasury securities, U.S. Government Agency Securities, or funds held in trust (i.e. construction, sinking, or reserve bond funds, etc.).

### **13.0 MAXIMUM MATURITIES**

As stated in the Utah State Money Management Act, "the remaining term to maturity of the investment may not exceed the period of availability of the funds to be invested." The operating and capital funds of the City are pooled to obtain maximum return on investment and to simplify administration of the investment program. Recognizing the overall short-term (one year and under) duration of the budget cycle and normally anticipated cash flow, maturities will not exceed a maximum of ~~three~~-five years and will most often be one year or less.

### **14.0 INTERNAL CONTROL**

The City Treasurer is responsible for establishing and maintaining an internal control structure designed to ensure that the funds of the City 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 of costs and benefits requires estimates and judgments by management.

Accordingly, the City Treasurer shall establish a process for independent review by such means as established by the general financial policies and procedures of the City. This review shall address the following points:

- Control of collusion
- Separation of transaction authority from accounting and recordkeeping
- Custodial safekeeping
- Avoidance of physical delivery securities
- Written confirmation of transactions for investment and wire transfers
- Development of a wire transfer agreement with the lead bank and third-party custodian

## **15.0. PERFORMANCE STANDARDS**

Market yields will be sought throughout the budget and economic cycle consistent with the overriding objectives stated. In keeping with the State of Utah statutes and the city's investment strategy, funds will be placed for investment and not speculation, (i.e. technically referred to as a passive investment strategy). The benchmark standard for rate of return on the City portfolio will be the average rate of return on similar investments and portfolios such as 6 month U.S. Treasury bills and the Utah State Public Treasurer's Investment Fund.

## **16.0 REPORTING**

Management reports on the City's portfolio are generated and distributed monthly to all City department heads, the City Manager and the Mayor and City Council for review and comment. The first report gives a breakdown of the balances and allocation of interest for each city fund which has money invested through the City Investment Fund (exhibit F). The second report is the current month copy of the list of investments and deposits as sent to the state semi-annually (exhibit G). The third report lists the G/L account balances in the Investment Fund and associated earnings (exhibit H). The list of investments and deposits is provided semi-annually to the Utah Money Management Council for compliance review as required by 51-7-15 of the Money Management Act. The investment portfolio and deposits are included in the Comprehensive Annual Financial Report for the City.

## **17.0 INVESTMENT ADVISORS**

The Draper City Treasurer will follow RULE 19 of the Rules of the Money Management Act when retaining an Investment Adviser for the city.

1. The City Treasurer may use an investment advisor to conduct investment transaction on behalf of the city treasurer as permitted by statute, rules of the Money Management Council, and as permitted by Draper City Investment policy.
2. The City Treasurer using an investment adviser to conduct investment transactions on behalf of the City Treasurer is responsible for full compliance with the Act and rules of the Council.
3. The City Treasurer will use due diligence in the selection of an investment adviser and in monitoring compliance with the Act and Rules of the Council by the investment advisor.

4. The City Treasurer shall assure compliance with the following minimum standards.
  - (a) The treasurer may use a certified investment adviser who is properly designated pursuant to R628-15.
  - (b) The treasurer's use of a certified investment adviser shall be governed by a written investment advisory services agreement between the city and the certified investment adviser. Terms of the agreement shall conform to the requirements of R628-15, and shall be adopted pursuant to the service procurement policy of Draper City.
  - (c) Prior to entering into an investment advisory services agreement the City Treasurer shall request and the investment adviser shall furnish the SEC Form ADV Part II for review and consideration by the City Treasurer.
  - (d) All investment transactions and activities of the City Treasurer and the Certified investment adviser must be in full compliance with all aspects of the Money Management Act and Rules of the Council particularly those requirements governing criteria for investments, safekeeping, utilizing only certified dealers or qualified dealers, and purchasing only the types of securities listing in 51-7-11, 51-7-12 and 51-7-13 as applicable.
  - (e) Prior to entering into an investment advisory services agreement with a Certified investment adviser, the City Treasurer shall request and the investment adviser shall furnish a clear and concise explanation of the investments adviser's program, objectives, management approach and strategies used to add value to the portfolio and return, including the methods and securities to be employed.
5. If selection of a Certified investment adviser to provide investment advisory services to the city is based upon the investment adviser's representation of special skill or expertise, the investment advisory services agreement shall require the Certified investment adviser to act with the degree of care, skill, prudence, and diligence that a person having special skills or expertise acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with like aims.
6. If the City has contracted with an investment adviser for the management of public funds the City Treasurer shall provide the detail of those investments to the Council, pursuant to Section 51-7-18.2.

## **18.0 INVESTMENT POLICY ADOPTION**

Investment policies are developed by the City Treasurer and reviewed with the Finance Director, City Manager, Mayor and City Council subject to the rules of the Money Management Act. The City's investment policy shall be adopted by the Draper City Council. Any modifications made to this policy must be approved by the City Council.

## 19.0 GLOSSARY

**AGENCIES:** Federal agency securities and/or Government-sponsored enterprises.

**ASKED:** The price at which securities are offered.

**BANKERS' ACCEPTANCE (BA):** A draft or bill of exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

**BENCHMARK:** A comparative base for measuring the performance or risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio's investments.

**BID:** The price offered by a buyer of securities. (When you are selling securities, you ask for a bid.) See Offer.

**BROKER:** A broker brings buyers and sellers together for a commission.

**CERTIFICATE OF DEPOSIT (CD):** A time deposit with a specific maturity evidenced by a certificate. Large-denomination CD's are typically negotiable.

**CERTIFIED INVESTMENT ADVISER:** A federal covered adviser, as defined in Section 61-1-13, or an investment adviser, as defined in Section 61-1-3, who is certified by the director as having met the applicable criteria of council rule.

**COLLATERAL:** Securities, evidence of deposit or other property which a borrower pledges to secure repayment of a 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 government entity. It includes five combined 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:** (a) The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value. (b) A certificate attached to a bond evidencing interest due on a payment date.

**CUSTODY:** A banking service that provides safekeeping for the individual securities in a customer's investment portfolio under a written agreement which also calls for the bank to collect and pay out income, to buy, sell, receive and deliver securities when ordered to do so by the principal.

**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.

**DERIVATIVES:** (1) Financial instruments whose return profile is linked to, or derived from, the movement of one or more underlying index or security, and may include a leveraging factor, or (2) financial contracts based upon notional amounts whose value is derived from an underlying index or security (interest rates, foreign exchange rates, equities or commodities).

**DISCOUNT:** The difference between the cost price of a security and its maturity when quoted at lower than face value. A security selling below original offering price shortly after sale also is considered to be at a discount.

**DISCOUNT SECURITIES:** Non-interest bearing money market instruments that are issued at a discount and redeemed at maturity for full face value, e.g., U.S. Treasury Bills.

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

**DUE DILIGENCE:** Such a measure of prudence, activity, assiduity, as is properly to be expected from, and ordinarily exercised by, a reasonable and prudent person under the particular circumstances; not measured by any absolute standard, but depending on the relative facts of the special case.

**FEDERAL CREDIT AGENCIES:** Agencies of the Federal government set up to supply credit to various classes of institutions and individuals, e.g., S&L's, 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 pegged by the Federal Reserve through open-market operations.

**FEDERAL HOME LOAN BANKS (FHLB):** Government sponsored wholesale banks (currently 12 regional banks) which lend funds and provide correspondent banking services to member commercial banks, thrift institutions, credit unions and insurance companies. The mission of the FHLBs is to liquefy the housing related assets of its members who must purchase stock in their district Bank.

**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 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 about 5,700 commercial banks that are members of the system.

**GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA or Ginnie Mae):** Securities influencing the volume of bank credit 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 the FHA, VA or FmHA mortgages. The term "pass-throughs" is often used to describe Ginnie Maes.

**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.

**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.

**MARKET VALUE:** The price upon which a security is trading and could presumably be purchased or sold.

**MASTER REPURCHASE AGREEMENT:** A written contract covering all future transactions between the parties to repurchase—reverse repurchase agreements that establishes each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller-borrower.

**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, etc.) are issued and traded.

**OFFER:** The price asked by a seller of securities. (When you are buying securities, you ask for an offer.) See Asked and Bid.

**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 who 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. In some states the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by the custody state—the so-called legal list. In other states the trustee may invest in a security if it is one which would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

**QUALIFIED PUBLIC DEPOSITORIES:** 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.

**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 OR 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 the terms of the agreement are structured to compensate him for this. Dealers use RP extensively to finance their positions. Exception: When the Fed is said to be doing RP, it is lending money, that is, increasing bank reserves.

**SAFEKEEPING:** A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vaults for protection.

**SECONDARY MARKET:** A market made for the purchase and sale of outstanding issues following the initial distribution.

**SECURITIES & EXCHANGE COMMISSION:** Agency created by Congress to protect investors in securities transactions by administering securities legislation.

**SEC RULE 15C3-1:** See Uniform Net Capital Rule.

**STRUCTURED NOTES:** Notes issued by Government Sponsored Enterprises (FHLB, FNMA, SLMA, etc.) and Corporations which have imbedded options (e.g., call features, step-up coupons, floating rate coupons, derivative-based returns) into their debt structure. Their market performance is impacted by the fluctuation of interest rates, the volatility of the imbedded options and shifts in the shape of the yield curve.

**TREASURY BILLS:** A non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months, or one year.

**TREASURY BONDS:** Long-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities of more than 10 years.

**TREASURY NOTES:** Medium-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities from 2 to 10 years.

**UNIFORM NET CAPITAL RULE:** Securities and Exchange Commission requirement that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called net capital rule and net capital ratio. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

**YIELD:** The rate of annual income return on an investment, expressed as a percentage. (a) INCOME YIELD is obtained by dividing the current dollar income by the current market price for the security. (b) NET YIELD or YIELD TO MATURITY is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.