CITY OF SURREY
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CORPORATE REPORT

NO: **F017** COUNCIL DATE: **April 22, 2013**

FINANCE COMMITTEE

TO: **Mayor & Council** DATE: **April 18, 2013**

FROM: **General Manager, Finance & Technology** FILE: **0340-05**

SUBJECT: **Revisions to the City's Investment Policy**

RECOMMENDATION

That Finance Committee recommend that Council approve the revised "Investment Policy" No. Q-2 that is attached in Appendix "B" to this report and which is generally described in this report.

BACKGROUND

Council adopted an Investment Policy for the City on January 9, 1978 as "Investment Policy" No. Q-2 (the "Policy"). Revisions to the Policy have been approved by Council on March 18, 1991, July 31, 1995, February 12, 1996, and most recently on February 26, 2007.

This report recommends and provides information about additional amendments to the Policy.

DISCUSSION

The "Investment Policy" is reviewed annually. During such a review in late 2012, amendments were identified as being reasonable to respond to changes in the financial markets, changes in the regulatory environment, and the evolving composition of the City's investment portfolio. A number of housekeeping amendments to the Policy were also identified.

Proposed amendments that have been incorporated in the revised Policy, which is attached as Appendix "B" to his report, are described in the following sections:

1. <u>Section 7.0 – Authorized Investment Dealers and Institutions:</u> This section has been revised to remove reference to the Investment Dealers Association (IDA) and in its place make reference to the Investment Industry Regulatory Organization of Canada (IIROC). On June 1, 2008, the IDA was consolidated with Market Regulations Services Inc. (RS) to establish the IIROC. The IIROC is the national regulatory organization which oversees all investment dealers and trading activity on debt and equity marketplaces in Canada.

   This section has also been amended to include criteria for conducting business with investment dealers who are not registered with IIROC.

2. <u>Section 8.0 – Portfolio Constraints: This section</u> replaces section 10.0 of the current Policy and has been revised to remove the requirement to operate three separate investment portfolios. The consolidation to one investment portfolio will streamline the

administration of investments and will result in costs savings through reduced banking fees. Additionally, the total value of all investments maturing within three to ten years is no longer limited to the aggregate of the City's statutory and non-statutory reserves.

This section also now includes a stipulation that investments must be assessed using ratings issued by an approved credit rating organization, such as Dominion Bond Rating Service Limited (DBRS).

3. <u>Section 9.0 – Investment Limitations: This section</u> replaces section 8.0 of the current Policy and has been improved to include credit rating limitations, which are more commensurate with the nature of the securities regularly purchased by the City and with the counterparties to the investment transactions. An explicit distinction has been included which differentiates between issuer ratings and security credit ratings when observing limitations on Schedule I and II Canadian banks. The 75% portfolio mix limit on Schedule I banks has been removed. Additionally, the maximum term to maturity for Schedule II Canadian bank-issued securities has been increased from two to five years.

   The maximum portfolio mix limitation on BC Credit Unions has been increased from 15% to 30%. A new formula has also been created which sets investment limits for BC Credit Unions based on the Credit Union's assets as reported on their financial statements. The current methodology, which uses credit ratings to set limits on Credit Union investments, is not considered appropriate.

   Limitations on overnight investments have been removed as they were found to be redundant when considered against other investment limitations in the Policy. A new section for limitations on investments in Federal and Provincial government securities has also been added. A restriction against investing in foreign currency-denominated securities has been included as well.

4. <u>Section 10.0 – Diversification: This section</u> replaces section 9.0 of the current Policy and includes an updated strategy for portfolio diversification to meet the Policy's objectives of Safety, Liquidity, and Return on Investment.

5. <u>Section 11.0 – Sales of Investments Prior to Maturity:</u> This section has been included as a new section and outlines the circumstances under which divesting securities prior to maturity is acceptable.

6. <u>Section 12.0 – Competitive Bids:</u> This section replaces section 11.0 of the current Policy. The reference to substantiation of value through market data information services has been removed. In circumstances where competitive bids are unavailable, value can now be substantiated through evaluation of yield spreads above equivalent government of Canada securities.

7. <u>Section 13.0 – Safekeeping and Custody:</u> This section replaces section 12.0 of the current Policy. The reference to Central Deposit System (CDS) has been removed and replaced with reference to "street name." Guidance on the safekeeping of securities, which are not held with the City's custodial bank, has been included in this section.

8. <u>Section 17.0 – Securities Lending:</u> This section has been included as a new section and provides authorization for participation in a securities lending program administered by

the City's custodial bank. Securities lending provides a passive investment income source and is used to offset the banking fees associated with the investment portfolio.

9. Schedule 4 – Credit Rating definitions: This schedule has been included as a new schedule and provides definitions for DBRS credit ratings.

10. Schedule 5 – Glossary of Investment Terminology: This schedule has been updated to include the definitions for several new terms. Some of the definitions that were part of the previous schedule were updated as well.

The current Policy is included as **Appendix "A"** to this report**.** A copy of the amended "Investment Policy" is included as **Appendix "B",** which includes the amendments that are described above. The Policy will continue to be reviewed on an annual basis as part of the Financial Planning process.

The City's internal auditor has reviewed the draft Policy and is in agreement with the recommended changes. Staff has also reviewed this policy, including the proposed amendments in Appendix "B", with experts in the investment field.

SUSTAINABILITY CONSIDERATIONS

The recommendations of this report support the achievement of the objectives as contained within the City's Sustainability Charter; more particularly, the following action item:

- EC1 – Corporate Economic Sustainability

CONCLUSION

A review of the Investment Policy was conducted in late 2012. During this review, a number of revisions were identified as being reasonable based on changes in the economic and regulatory environments along with the evolving nature of the City's investment portfolio. These proposed amendments have been included in a revised version of the Policy, which is attached as **Appendix "B"** to this report and recommended for approval by Council.

Vivienne Wilke, CGA
General Manager,
Finance & Technology

Attachments:
Appendix A – Current "Investment Policy" No. Q-2
Appendix B – Proposed "Investment Policy" No. Q-2

SURREY
CITY OF PARKS

CITY POLICY

No. Q-2

REFERENCE:

REGULAR COUNCIL MINUTES
9 JANUARY 1978
PAGE 34

APPROVED BY: **CITY COUNCIL**

DATE: PROPOSED 26 FEB 2007

HISTORY: 12 FEB 1996 (RES.96-440); 31 JULY 1995 (Res.95-2012);
18 MARCH 1991; 9 JAN 1978

TITLE: INVESTMENT POLICY

1.0 POLICY

It is the policy of the City of Surrey ("the City") to invest City funds in a manner, which will provide the optimal blend of investment return and security while meeting the daily cash flow demands of the City and complying with the statutory requirements of the Community Charter.

To meet overall investment objectives, the City shall continue to operate within a clearly defined and written investment policy. This document identifies the criteria for instrument suitability, portfolio configuration and delineates individual responsibilities.

2.0 SCOPE

This investment policy applies to all cash assets of the City. The investment portfolio will be maintained within the General Operating Fund (GOP). Investment income from the GOF will be allocated to specific funds as identified within the Revenue and Surplus Policy (No. Q-25) and accounted for in the Annual Report, in accordance with generally accepted accounting principles (GAAP). These funds include:

2.1 Funds

2.1.1 General Operating Fund
2.1.2 General Capital Fund
2.1.3 Water Operating Fund
2.1.4 Water Capital Fund
2.1.5 Sewer/Drainage Operating Fund
2.1.6 Sewer/Drainage Capital Fund
2.1.7 Reserve Funds
2.1.8 Trust Funds

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 Standard of Prudence: 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 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

The investment of City funds must reflect a conservative management philosophy based on three fundamental objectives, in priority order, as follows:

4.1 Safety: Investments shall be undertaken in a manner that seeks to ensure the **preservation of capital** in the overall portfolio, with the objective of minimizing credit and interest rate risk.

4.1.1 Credit Risk: This is loss due to the failure of the counter party (issuer) and can be minimized by:

- Limiting investments to the safest types of securities;
- Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors with which the city will do business, and
- Diversifying the investment portfolio in order that potential losses on individual securities will be minimized wherever possible.

4.1.2 Interest Rate Risk: This is the risk of a decline in the market value of securities in the portfolio due to changes in general interest rates and can be minimized by staggering maturity dates and product type.

4.2 Liquidity: The investment portfolio will remain sufficiently liquid to enable the municipality to meet all operating and capital requirements, which might be reasonably anticipated. Hence, the portfolio structure should be in such as manner that maturities coincide with cash needs. Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active or secondary resale markets. Investments will be purchased intention of being held to maturity. However, an investment may be sold prior to maturity should market conditions change.

4.3 Return on Investment: The investment portfolio shall be designed with the objective of attaining a fair market rate of return by maximizing opportunities through budgetary and economic cycles, taking into account the investment constraints and liquidity requirements.

5.0 DELEGATION OF AUTHORITY

Authority to manage the City's investment program is derived from Section 149 of the Community Charter (***Schedule 1***).

5.1 Management Responsibility: Management responsibility for the investment program is hereby delegated to the General Manager, Finance & Technology, per Bylaw 15913, who shall establish and maintain written procedures for the operation of the investment program consistent with this investment policy. Procedures should include references to safekeeping, communication of instructions to custodial bank, cash management techniques, and accounting entries related to investment transactions. 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 General Manager, Finance & Technology. The General Manager, Finance & Technology, shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate employees.

6.0 ETHICS AND CONFLICT OF INTEREST

Officers and employees involved in the investment process shall refrain from personal business activity with the same individual with whom business is conducted on behalf of the City. Individuals involved with the investment process shall refrain from personal business activity that could conflict with proper execution and management of the investment program, or which could impair their ability to make impartial investment decisions. Investment employees and officials shall disclose to the City Clerk any material financial interests in financial institutions and/or investment dealers that conduct business with the City. Investment officers and employees must conduct themselves in accordance with the provisions of Surrey Code of Conduct By-law, 1994, No. 12196.

7.0 AUTHORIZED INVESTMENT DEALERS AND INSTITUTIONS

A list will be maintained of approved financial institutions and investment dealers authorized to provide investment services. All qualified bidders for investment transactions will be members in good standing of the Investment Dealers Association, and will provide certification of having read and understood this investment policy.

8.0 AUTHORIZED & SUITABLE INVESTMENTS

The City is empowered by Section 183 of the Community Charter (***Schedule 2***) and the Municipal Finance Authority Act, Section 16 (***Schedule 3***). No other investments are acceptable outside these parameters.

The City chooses to impose percentage limits and investment term limits, where applicable, on investments to ensure diversification limitations as follows:

8.1 Limitations on Major Schedule "I" Chartered Banks: The following maximum % limits apply to the Canadian major Schedule "I" chartered banks:

DBRS rating of r-1-high	20% of total portfolio
DBRS rating of r-1-mid	15% of total portfolio
DBRS rating of r-1-low	10% of total portfolio

Maximum portfolio mix for Schedule "I" Chartered banks is 75% of the total portfolio.

8.2 Limitations on Schedule "II" Chartered Banks and Trust Companies: Investment in Schedule "II" banks and trust companies must:

(a) be fully and unconditionally guaranteed as to principal and interest by the parent bank;
(b) have a maximum term to maturity of two years, and
(c) be rated a minimum of R-1 mid by Dominion Bond Rating Services.

The following maximum % limits apply to Schedule "II" chartered banks and trust companies:

DBRS rating of r-1-high	10% of total portfolio
DBRS rating of r-1-mid	5% of total portfolio

Maximum portfolio mix for Schedule "II" chartered banks and trust companies is 25% of the total portfolio.

8.3 Limitations on BC Credit Unions: Deposits in BC credit unions are limited to a maximum term of one year and an aggregate limit of 15% of the total portfolio for term deposits. The following maximum % of portfolio limits apply to the BC Credit Unions:

DBRS rating of r1 – high	10% of total portfolio
DBRS rating of r1 – mid	5% of total portfolio
DBRS rating of r1 – low	2% of total portfolio
Not Rated	2% of total portfolio

8.4 Limitations on Overnight Investments: There is no limit for overnight investments with Schedule "I" chartered banks. Over and above the limits as described in Section 8.2 (Limits on Schedule "II" chartered banks and trust companies) and Section 8.3, (Limits on BC credit unions), the following maximum percentage of portfolio limits apply to the overnight investments with Schedule "II" Chartered Banks, Trust Companies and Credit Unions:

DBRS rating of r1 – high	5% of total portfolio
DBRS rating of r1 – mid	5% of total portfolio
DBRS rating of r1 – low	3% of total portfolio
Not Rated	nil

9.0 DIVERSIFICATION

The City will diversify its investments by security type and institution. There is no limit on the purchase of securities issued and/or guaranteed by the Government of Canada. However, not more than the lesser of 25% of the City's total investment portfolio, or the percentage limits outlined in Section 8.2 through 8.4 of this policy will be invested with a single province, regional district, or financial institution.

10.0 PORTFOLIO CONSTRAINTS

The City will operate a Money Market portfolio, an Intermediate portfolio and a Bond portfolio. To the extent possible, the City will match its investments with anticipated cash flow requirements to the next taxation due date.

10.1 Money Market Fund: The maximum maturity of securities in the money market fund is one year. Securities callable within one year are eligible for inclusion in the money market fund

10.2 Intermediate Fund: The maximum term to maturity in the intermediate fund is two years. Securities callable within two years are eligible for inclusion in the intermediate fund.

10.3 Bond Fund: The value of the City's bond portfolio shall not exceed the aggregate of the City's statutory and non-statutory reserves. The City will not directly invest in securities maturing more than ten (10) years from the date of purchase

11.0 COMPETITIVE BIDS

The City shall solicit competitive verbal quotations for the purchase and sale of securities when it is prudent to do so. This policy recognizes that from time to time, offerings of value may require immediate action. Under such circumstances, competitive bids may not be sought provided that value can be substantial by market data information services (i.e. Telerate).

12.0 SAFEKEEPING AND CUSTODY

All trades will be executed through an approved list of brokers and delivery is to take place at an authorized and approved safekeeper for proper custodianship. Securities will be held by a third-party custodian as evidenced by safekeeping receipts and records. All transaction settlements will be maintained through the safekeeper in the Central Deposit System (CDS) as a book entry purchase.

12.1 Authorization: The custodial bank shall not accept delivery or payment without prior authorization and instructions from the City.

12.2 Evidence: All transactions shall be evidenced by a contract advice from the investment dealer, as well as a settlement advice from the custodial bank.

12.3 Registration: All securities that are in registerable form shall be registered in the name of the City of Surrey, or the nominee of the City's custodial bank.

13.0 INTERNAL CONTROL

An internal control structure, designed to ensure that assets of the City are protected from loss, theft or misuse, shall be established and maintained by the General Manager, Finance & Technology. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that costs of a control should not exceed the benefits likely to be derived.

The external auditors will, as part of their annual audit program, review the internal control procedures to ensure compliance with this policy and related procedures.

14.0 PERFORMANCE STANDARDS

The investment portfolio will be managed in accordance with the parameters specified within this policy. The investment portfolio will be designed to obtain a market average rate of return, taking into account the City's investment risk constraints, cash flow requirements, and active management strategy. The City will use appropriate benchmarks such as the MFA of BC pooled investment fund and any other benchmark found suitable for comparison.

These standards will take into consideration these policies and considerations that the City holds investments to maturity and does not “mark to market” the portfolio to calculate annual yields.

15.0 REPORTING

The General Manager, Finance & Technology is charged with the responsibility of reporting to Council on investment holdings as part of the Quarterly Financial Report, a summary that presents the status of the current investment portfolio. The report will identify deviations from policy and will include summary information on investment holdings.

Should the portfolio become incompliant due to circumstances beyond the control of the City, such as amalgamations of financial institutions or re-rating of security issuers, the General Manager, finance & Technology will immediately notify Council of the reason for the incompliance and the strategy the will bring it back within compliance as soon as reasonably possible.

In order to better understand this policy as well as investment portfolio schedules that may from time to time be required to comply with the reporting requirements, a glossary of common terminology is attached as ***Schedule 4***.

16.0 INVESTMENT POLICY ADOPTION

The City's investment policy shall be approved by City Council. The General Manager, Finance & Technology, shall review the policy annually and Council must approve any modifications.

17.0 LIST OF SCHEDULES

- . Schedule 1 - Community Charter, Section 149, Financial Officer
- . Schedule 2 - Community Charter, Section 183, Investment of Municipal Funds
- . Schedule 3 - Municipal Finance Authority Act, Section 16, Short term pooled investment funds.
- . Schedule 4 - Glossary

COMMUNITY CHARTER, ***SCHEDULE 1***
SECTION 149, FINANCIAL OFFICERS

Financial officer

149 One of the municipal officer positions must be assigned the responsibility of financial administration, which includes the following powers, duties and functions:

(a) receiving all money paid to the municipality;

(b) ensuring the keeping of all funds and securities of the municipality;

(c) investing municipal funds, until required, in authorized investments;

(d) expending municipal money in the manner authorized by the council;

(e) ensuring that accurate records and full accounts of the financial affairs of the municipality are prepared, maintained and kept safe;

(f) exercising control and supervision over all other financial affairs of the municipality.

COMMUNITY CHARTER, ***SCHEDULE 2***
SECTION 183, INVESTMENT OF MUNICIPAL FUNDS

Investment of municipal funds

183 Money held by a municipality that is not immediately required may only be invested or reinvested in one or more of the following:

(a) securities of the Municipal Finance Authority;

(b) pooled investment funds under section 16 of the Municipal Finance Authority Act;

(c) securities of Canada or of a province;

(d) securities guaranteed for principal and interest by Canada or by a province;

(e) securities of a municipality, regional district or greater board;

(f) investments guaranteed by a chartered bank;

(g) deposits in a savings institution, or non-equity or membership shares of a credit union;

(h) other investments specifically authorized under this or another Act.

MUNICIPAL FINANCE AUTHORITY ACT ***SCHEDULE 3***
SECTION 16, SHORT TERM POOLED INVESTMENT FUNDS

Short term pooled investment funds

16 (1) The authority may enter into agreements with public institutions and institutions prescribed under subsection (7) under which, on the terms and conditions established in the agreements, the authority, in its own name or otherwise, holds and invests money received from the institution for the purpose of investment in pooled investment funds as permitted for the institution.

(2) The authority has the power to provide for the creation and management of pooled investment funds for the purposes of subsection (1).

(3) The trustees may invest money received for investment in a pooled investment fund in any of the following:

(a) securities that are obligations of or are guaranteed by Canada, a province, or the United States of America;

(b) fixed deposits, notes, certificates and other short term paper of or guaranteed by a savings institution, including swapped deposit transactions in the currency of the United States of America;

(c) securities issued by the authority, a municipality or regional district in British Columbia, or by a local, municipal or regional government in another province;

(d) commercial paper issued by a company incorporated under the laws of Canada or of a province, the securities of which are rated in the highest rating category by at least 2 recognized security rating institutions;

(e) investments permitted under the provisions of the Trustee Act respecting the investment of trust property by a trustee;

(f) despite the provisions of the Financial Administration Act, pooled investment portfolios established under that Act.

(4) If money is to be invested in a pooled investment portfolio under subsection (3) (f), the Minister of Finance may enter into agreements with the authority to sell units of participation in a portfolio to the authority.

(5) At the first meeting of the authority in each year, the trustees must present a report respecting the previous year to the authority, stating all of the following:

(a) the pooled investment funds established;

(b) the public institutions investing in each fund;

(c) the volume of investments made in respect of each fund.

(6) The trustees may delegate to a committee of one or more of its trustees and officers its powers under this section, subject to the limitations the trustees may impose.

(7) The Lieutenant Governor in Council may, by regulation, prescribe institutions as institutions for which investments services may be provided under this section.

GLOSSARY OF TERMS ***SCHEDULE 4***

BANKER'S ACCEPTANCE (BA): A short-term debt instrument issued by a major corporation, which is guaranteed (endorsed) by a bank. It is sold at a discount, with issue periods of between 30 and 365 days, and in face value multiples of $100,000.

BEARER DEPOSIT NOTES (BDN): Bearer Deposit Notes are non interest-bearing securities sold at a discount and redeemed at face value upon maturity.

BOND: An IOU from the borrower to the lender. It refers to any interest bearing government or corporate security that obligates the issuer to pay a particular sum of money at specified intervals and to repay the principal amount of the loan upon maturity. A secured bond is backed by collateral that may be sold by the bond holder if the bond issuer fails to pay interest and principal as due.

BOND FUND: The value of the City's bond portfolio shall not exceed the aggregate of the City's statutory and non-statutory reserves. The City will not directly invest in securities maturing more than ten (10) years from the date of purchase. Earnings of the bond portfolio will be reported on total return basis, including both realized and unrealized gains.

CENTRAL DEPOSITORY FOR SECURITIES (CDS): A national clearing house for securities trading owned by the major banks, investment dealers and trust companies. CDS is regulated directly by the Provincial Securities Commissions and indirectly through the Federal Regulations of Financial Institutions. It manages the recording and clearing of the Canadian stocks, bonds, and coupons on a book basis. The physical securities are stored in the vaults of CDS and the Bank of Canada.

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.

DERIVATIVE: Financial instrument created from, or whose value depends on, one or more underlying assets or indexes of asset values.

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

INDEX LINKED NOTES: Securities that pay interest based on the performance of another market index, measured from a predetermined level.

INTERMEDIATE FUND: The maximum term to maturity in the intermediate fund is two years. Securities callable within two years are eligible for inclusion in the intermediate fund with yield. Earnings of the intermediate portfolio will be reported on a total return basis, including both realized and unrealized gains.

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.

MARK TO MARKET: Recording the price or value of a security, portfolio, or account on a daily basis, to calculate profits and losses.

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

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 (one year or less) debt instruments (treasury bills, commercial paper, bankers acceptances, etc.) are issued and traded.

MONEY MARKET FUND: The maximum maturity of securities in the money market fund is one year. Earnings of the money market portfolio will be reported on an amortized cost basis, and will include realized gains.

PORTFOLIO: Collection of securities held by an investor.

RATING: Evaluation of the likelihood of default by a security issuer. Canada Bond Rating Service and Dominion Bond Rating Service are the primary bond and money market security rating agencies in Canada. Standard and Poors, and Moody's Investor Service are American bond rating firms that also rate Canadian issuers.

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

STRIPs: A security where the bond is separated from its coupons.

YIELD: The rate of annual income return on an investment, expressed as a percentage.
(a) COUPON YIELD is the rate of annual payments to the lender expressed as a percentage of the par value of the security. (b) YIELD TO MATURITY is the interest rate that will make the present value of future cash flows from a security equal to the current price or market value of the security.

City Policy

No. Q-2

Reference:

Regular Council Minutes
9 January 1978
Page 34

Approved By: xxxxxxx

Date: Proposed 2013

History: 26 FEB 2007 (RES. xx-xxx);
12 FEB 1996 (RES.96-440);
31 JUL 1995 (RES.95-2012);
18 MAR 1991;
9 JAN 1978

TITLE: INVESTMENT POLICY

1. POLICY

It is the policy of the City of Surrey ("the City") to invest public funds in a manner which will provide the optimal blend of investment return and security while meeting the daily cash flow demands of the City and complying with the statutory requirements of the Community Charter.

To meet overall investment objectives, the City shall continue to operate within a clearly defined and written investment policy. This document identifies the criteria for instrument suitability, portfolio configuration and delineates individual responsibilities.

2. SCOPE

This investment policy applies to all financial assets of the City. The investment portfolio will be maintained within the General Operating Fund (GOF). Investment income from the GOF will be allocated to specific funds as identified within the Revenue and Surplus Policy (No. Q-25) and accounted for in the Annual Report, in accordance with Generally Accepted Accounting Principles (GAAP). These funds include:

2.1. Funds

- All Operating Funds
- All Capital Funds
- Reserve Funds
- Trust Funds

3. 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. Standard of Prudence

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 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. OBJECTIVES

The investment of public funds must reflect a conservative management philosophy based on three fundamental objectives, in priority order, as follows:

4.1. Safety

Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio, with the objective of minimizing default and interest rate risk. To attain this objective, the City will diversify its investments through the methods listed in Section 10 of this policy.

4.2. Liquidity

The investment portfolio will remain sufficiently liquid to enable the City to meet all operating and capital requirements, which might reasonably be anticipated. The portfolio structure should be such that maturities coincide with cash requirements, as much as reasonably possible. Since all possible cash requirements cannot reasonably be anticipated, the portfolio should consist largely of securities with active secondary markets.

4.3. Return on Investment

The investment portfolio shall be designed with the objective of attaining, at minimum, a benchmark rate of return throughout varying budgetary and economic cycles, taking into account investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the preceding safety and liquidity objectives.

5. DELEGATION OF AUTHORITY

Authority to manage the City's investment program is derived from Section 149 of the Community Charter (Schedule 1).

5.1. Management Responsibility

Management responsibility for the investment program is hereby delegated to the General Manager, Finance & Technology, per Bylaw 15913, who shall establish and maintain written procedures for the operation of the investment program consistent with this investment policy. Procedures should include references to safekeeping, communication of instructions to custodial bank, cash management techniques, and accounting entries related to investment transactions. 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 General Manager, Finance & Technology. The General Manager, Finance & Technology, shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate employees.

6. ETHICS AND CONFLICT OF INTEREST

Officers and employees involved in the investment process shall refrain from personal business activity with the same individual(s) with whom business is conducted on behalf of the City. Individuals involved with the investment process shall refrain from personal business activity that could conflict with proper execution and management of the investment program, or which could impair their ability to make impartial investment decisions. Investment employees and officials shall disclose to the City Clerk, any material financial interests in financial institutions and/or investment dealers that conduct business with the City. Investment officers and employees must conduct themselves in accordance with the provisions of Surrey Code of Conduct By-law, 1994, No. 12196.

7. AUTHORIZED INVESTMENT DEALERS AND INSTITUTIONS

A list will be maintained of approved financial institutions and investment dealers authorized to provide investment services. All approved bidders for investment transactions will be members in good standing of the Investment Industry Regulatory Organization of Canada (IIROC) and will provide certification of having read and understood this investment policy.

Where an investment dealer is not a registered member of IIROC, the dealer may still be considered a qualified bidder for investment transactions provided all of the following conditions are met:

- The dealer is an employee of a Canadian Schedule "I" bank;
- The dealer does not actively provide investment recommendations to the City;
- The dealer does not directly solicit investment business from the City, but rather, responds to specific requests originating from the City.

8. PORTFOLIO CONSTRAINTS

8.1. **Types of Securities**

The City may only purchase those securities listed in Section 183 of the Community Charter (Schedule 2) and Section 16 of the Municipal Finance Authority Act (Schedule 3), subject to the limitations set out in Section 9.6 of this policy.

8.2. Terms to Maturity

Short term investments will have a maximum term of 365 days. Long term investments are those with terms exceeding 365 days. The City will not directly invest in securities maturing more than ten years from the date of purchase.

8.3. Credit Ratings

Issuers of authorized and suitable investments shall be assessed using the ratings provided by an approved credit rating organization (ACRO). An ACRO shall mean Standard & Poor's Corporation (S&P), Moody's Investors Service Inc. (Moody's), Dominion Bond Rating Service Limited (DBRS), and any of their respective successors. In addition to in-house credit analysis, the City shall rely on DBRS as their primary credit rating agency given their prominence in the Canadian market.

It is recognized that ACRO ratings are opinions on an issuer's creditworthiness and ability and willingness to make timely payments on outstanding obligations. It is understood that the use of in-house or rating agency credit analysis information provides a measure of safety of principal but is not a guarantee of the creditworthiness of individual issuers or securities.

Definitions of DBRS credit ratings are included in Schedule 4.

9. INVESTMENT LIMITATIONS

9.1. Schedule I Chartered Banks

The total dollar amount of all Schedule I Chartered Bank issued securities held in the City's investment portfolio shall not be subject to a maximum "percent of portfolio" limit.

The term to maturity of Schedule I Chartered Bank issued securities shall not exceed ten years.

The total dollar amount of Schedule I Chartered Bank securities originating from any one issuer shall not exceed the following limits:

DBRS Long-Term Issuer Rating	Maximum Allocation
AAA, AA(High), AA	20% of total portfolio
AA (Low)	15% of total portfolio
A (High) – A (Low)	10% of total portfolio
BBB (High)	5% of total portfolio
BBB	2% of total portfolio

9.2. Schedule II Chartered Banks and Trust Companies

The total dollar amount of all Schedule II Chartered Bank and Trust Company issued securities held in the City's investment portfolio shall not exceed 25% of the total dollar amount of the City's investment portfolio, inclusive of all current cash balances.

Investments in securities issued by Schedule II Banks and Trust companies must:

- Be fully and unconditionally guaranteed as to principal and interest by the parent bank, and;
- Have a maximum term to maturity of no more than five years.

The total dollar amount of Schedule II Chartered Bank and Trust Company securities originating from any one issuer shall not exceed the following limits:

DBRS Short-Term Security Rating	DBRS Long-Term Security Rating	Maximum Allocation
R-1 High	AAA – AA(High)	10% of total portfolio
R-1 Mid	AA – AA (Low)	5% of total portfolio
R-1 Low	A (High) – A (Low)	2% of total portfolio

9.3. British Columbia Credit Unions

This section shall apply to British Columbia (BC) Credit Unions whose deposits are 100% guaranteed by the Credit Union Deposit Insurance Corporation.

The total dollar amount of all BC Credit Union issued securities held in the City's investment portfolio shall not exceed 30% of the total dollar amount of the City's investment portfolio, inclusive of all current cash balances.

The term to maturity of BC Credit Union issued securities shall not exceed 365 days.

Investment maturity dates will be staggered as much as reasonably possible in order to mitigate exposure to default risk.

Each BC credit union will be assigned a maximum investment limit according to the following formula:

- If credit union assets are greater than $10 billion, the maximum investment with that credit union shall be the lesser of $75 million or one percent of credit union assets.
- If credit union assets are less than $10 billion, the maximum investment with that credit union shall be the lesser of $50 million or one percent of credit union assets.

Credit Union assets will be ascertained from the most recent audited financial statements available for each credit union.

9.4. Canadian Provinces

The total dollar amount of all securities held in the City's investment portfolio, issued by Canadian Provinces and organizations whose securities are guaranteed by Provinces of Canada, shall not be subject to a maximum "percent of portfolio" limit.

The total dollar amount of Canadian Province and Canadian Province guaranteed securities originating from any one issuer shall not exceed the following limits:

DBRS Long-Term Issuer Rating	% Limit
AAA, AA(High), AA	25% of total portfolio
AA (Low)	20% of total portfolio
A (High) – A (Low)	15% of total portfolio

9.5. Government of Canada

There are no limitations on the purchase of securities issued and/or guaranteed by the Government of Canada.

9.6. Foreign Currency Denominated Investments

The purchase of securities denominated in a currency other than Canadian Dollars is prohibited.

10. DIVERSIFICATION

In order to reduce overall portfolio risks while attaining a benchmark average rate of return, The City will diversify its investment portfolio through the following methods:

- Purchasing both government (federal and provincial) and corporate securities with a range of credit qualities;
- Purchasing securities with a variety of terms to maturity;
- Purchasing zero-coupon bonds/debentures alongside high-coupon bonds/debentures;
- Including variable interest rate securities alongside fixed interest rate securities.

11. SALE OF INVESTMENTS PRIOR TO MATURITY

The City may retract, where applicable, or sell securities prior to the maturity date. However, the approval of the General Manager, Finance & Technology is required and must be attached to the transaction record.

Securities shall generally be held until maturity with the following exceptions:

- A security with declining credit may be sold before maturity to minimize loss of principal;
- A security swap would improve the quality, yield, or target duration in the portfolio;
- Liquidity needs of the portfolio require that the security be sold.

12. COMPETITIVE BIDS

The City shall solicit competitive quotations for the purchase and sale of securities when it is prudent to do so. This policy recognizes that, from time-to-time, offerings of value may require immediate action. Under such circumstances, competitive bids may not be sought provided that value can be substantiated through evaluation of yield spreads over Government of Canada securities with similar terms to maturity. When competitive quotations are obtained, the value of the quotation and the individual providing the quotation will be documented and attached to the security transaction record.

13. SAFEKEEPING AND CUSTODY

Safekeeping and custody of securities shall be maintained with a third-party custodian.

13.1. Authorization

The custodial bank shall not accept delivery or payment without prior authorization and instructions from the City.

13.2. Evidence

All transactions shall be evidenced by a contract advice from the investment dealer as well as a settlement advice from the custodial bank.

13.3. Registration

All securities shall be registered in the name of the City of Surrey or "in street name".

Where applicable, securities purchased directly from BC credit unions shall be held in the City's name in a separate account maintained within the issuing credit union.

Where applicable, BC credit union securities purchased through an investment dealer shall be held in the City's name in a separate account maintained by the investment dealer with whom the transaction was undertaken.

Custodial holding reports from the third-party custodian, statements from BC Credit Unions and statements from investment dealers will be reconciled to the City's investment portfolio on a monthly basis.

14. INTERNAL CONTROL

An internal control structure, designed to ensure that assets of the City are protected from loss, theft, or misuse shall be established and maintained by the General Manager, Finance & Technology. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that costs of a control should not exceed the benefits likely to be derived.

The external auditors will, as part of their annual audit program, review the internal control procedures to ensure compliance with this policy and related procedures.

15. PERFORMANCE STANDARDS

The City's investment strategy is passive. To determine whether a market yield is being achieved, the City will use appropriate benchmarks which are found to be suitable for comparison to the investment portfolio. These standards will take into consideration that the City, at the time of purchase, intends to hold investments to maturity.

16. REPORTING

The General Manager, Finance & Technology is responsible for reporting on the investment portfolio as part of the Quarterly Financial Report to Council. The report will include:

- Commentary on financial markets and economic conditions
- A listing of individual securities held at the end of the reporting period by authorized investment category and by issuer
- Life and final maturity of all investments listed
- Amortized book value
- If applicable, any deviations from policy

Should the portfolio become non-compliant due to circumstances beyond the control of the City, such as amalgamations of financial institutions or credit rating downgrades of security issuers, the General Manager, Finance & Technology will immediately notify Council of the reason for the non-compliance and the strategy that will restore compliance as soon as reasonably possible.

In order to better understand this policy as well as investment portfolio schedules that may be prepared for compliance with reporting requirements; a glossary of common investment terminology is attached as Schedule 5.

17. SECURITIES LENDING

Securities lending is a common practice by owners of large blocks of lendable securities. The securities are loaned on a short-term basis to brokers or dealers who require them to cover timing gaps or take advantage of anticipated price movements in capital markets. In return, the borrower pays a fee to the owners of the securities, as well as provides collateral in case of default. The City's investment portfolio may have securities that fall into the category of lendable securities.

The City may engage in the practice of lending securities for the purpose of enhancing portfolio performance, provided the collateral is of similar term to maturity, similar investment grade, and greater market value than the lent securities.

18. INVESTMENT POLICY ADOPTION

The City's investment policy shall be approved by City Council. The General Manager, Finance & Technology shall review the policy annually and any modifications made thereto must be approved by City Council.

19. LIST OF SCHEDULES

- Schedule 1 - Community Charter, Section 149, *Financial Officer*
- Schedule 2 – Community Charter, Section 183, *Investment of Municipal Funds*
- Schedule 3 – Municipal Finance Authority Act, Section 16, *Short Term Pooled Investment Funds*
- Schedule 4 – Credit Rating Definitions
- Schedule 5 – Glossary

SCHEDULE 1

COMMUNITY CHARTER,
SECTION 149, FINANCIAL OFFICER

One of the municipal officer positions must be assigned the responsibility of financial administration, which includes the following powers, duties and functions:

a) receiving all money paid to the municipality;

b) ensuring the keeping of all funds and securities of the municipality;

c) investing municipal funds, until required, in authorized investments;

d) expending municipal money in the manner authorized by the council;

e) ensuring that accurate records and full accounts of the financial affairs of the municipality are prepared, maintained and kept safe;

f) exercising control and supervision over all other financial affairs of the municipality.

SCHEDULE 2

COMMUNITY CHARTER,
SECTION 183, INVESTMENT OF MUNICIPAL FUNDS

Money held by a municipality that is not immediately required may only be invested or reinvested in one or more of the following:

a) securities of the Municipal Finance Authority;

b) pooled investment funds under section 16 of the Municipal Finance Authority Act;

c) securities of Canada or of a province;

d) securities guaranteed for principal and interest by Canada or by a province;

e) securities of a municipality, regional district or greater board;

f) investments guaranteed by a chartered bank;

g) deposits in a savings institution, or non-equity or membership shares of a credit union;

h) other investments specifically authorized under this or another Act.

SCHEDULE 3

MUNICIPAL FINANCE AUTHORITY ACT,
SECTION 16, SHORT TERM POOLED INVESTMENT FUNDS

1) The authority may enter into agreements with public institutions and institutions prescribed under subsection (7) under which, on the terms and conditions established in the agreements, the authority, in its own name or otherwise, holds and invests money received from the institution for the purpose of investment in pooled investment funds as permitted for the institution.

2) The authority has the power to provide for the creation and management of pooled investment funds for the purposes of subsection (1).

3) The trustees may invest money received for investment in a pooled investment fund in any of the following:

   a. securities that are obligations of or are guaranteed by Canada, a province, or the United States of America;

   b. fixed deposits, notes, certificates and other short term paper of or guaranteed by a savings institution, including swapped deposit transactions in the currency of the United States of America;

   c. securities issued by the authority, a municipality or regional district in British Columbia, or by a local, municipal or regional government in another province;

   d. commercial paper issued by a company incorporated under the laws of Canada or of a province, the securities of which are rated in the highest rating category by at least 2 recognized security rating institutions;

   e. investments permitted under the provisions of the Trustee Act respecting the investment of trust property by a trustee;

   f. despite the provisions of the Financial Administration Act, pooled investment portfolios established under that Act.

4) If money is to be invested in a pooled investment portfolio under subsection (3) (f), the Minister of Finance may enter into agreements with the authority to sell units of participation in a portfolio to the authority.

5) At the first meeting of the authority in each year, the trustees must present a report respecting the previous year to the authority, stating all of the following:

   a. the pooled investment funds established;

   b. the public institutions investing in each fund;

c. the volume of investments made in respect of each fund.

6) The trustees may delegate to a committee of one or more of its trustees and officers its powers under this section, subject to the limitations the trustees may impose.

7) The Lieutenant Governor in Council may, by regulation, prescribe institutions as institutions for which investments services may be provided under this section.

SCHEDULE 4

CREDIT RATING DEFINITIONS

DBRS Credit Ratings – Short Term Debt

- R-1(high) – Highest credit quality. The capacity for payment of short-term financial obligations as they fall due is exceptionally high. Unlikely to be adversely affected by future events.

- R-1(mid) – Superior credit quality. The capacity for the payment of short-term financial obligations as they fall due is very high. Differs from R-1(high) by a relatively modest degree. Unlikely to be significantly vulnerable to future events.

- R-1(low) – Good credit quality. The capacity for the payment of short-term financial obligations as they fall due is substantial. Overall strength is not as favorable as higher rating categories. May be vulnerable to future events, but qualifying negative factors are considered manageable.

- R-2(high) – Upper end of adequate credit quality. The capacity for the payment of short-term financial obligations as they fall due is acceptable. May be vulnerable to future events.

- R-2(middle) – Adequate credit quality. The capacity for the payment of short-term financial obligations as they fall due is acceptable. May be vulnerable to future events or may be exposed to other factors that could reduce credit quality.

DBRS Credit Ratings – Long Term Debt

Rating categories other than AAA contain sub categories "(high)" and "(low)". The absence of either a "(high)" or "(low)" designation indicates the rating is in the middle of the category.

- AAA – Highest credit quality. The capacity for the payment of financial obligations is exceptionally high and unlikely to be adversely affected by future events.

- AA(high) / AA / AA(low) – Superior credit quality. The capacity for the payment of financial obligations is considered high. Credit quality differs from AAA only to a small degree. Unlikely to be significantly vulnerable to future events.

- A(high) / A / A(low) – Good credit quality. The capacity for the payment of financial obligations is substantial, but of lesser credit quality than AA. May be vulnerable to future events, but qualifying negative factors are considered manageable.

- BBB(high) / BBB – Adequate credit quality. The capacity for the payment of financial obligations is considered acceptable. May be vulnerable to future events.

SCHEDULE 5

GLOSSARY OF INVESTMENT TERMINOLOGY

Banker's Acceptance (BA)
A commercial draft (i.e. a written instruction to make payment) drawn by a borrower for payment on a specified date. A BA is guaranteed at maturity by the borrower's bank. BA's are sold at a discount and mature at their face value, with the difference representing the return to the investor. BA's may be sold before maturity at prevailing market rates.

Bond
A certificate evidencing a debt on which the issuer promises to pay the holder a specified amount of interest based on the coupon rate, for a specified length of time, and to repay the loan on its maturity. Assets are pledged as security for a bond issue, except in the case of government bonds.

Call Feature
A clause in a bond or preferred share agreement that allows the issuer the right to "call back" the security prior to maturity. The issuer would usually do this if they could refinance the debt at a lower rate. Calling back a security prior to maturity may involve the payment of a penalty known as a call premium.

CDS Clearing and Depository Services Inc. (CDS)
CDS provides customers with physical and electronic facilities to deposit and withdraw depository-eligible securities and manage their related ledger positions (securities accounts). CDS also provides electronic clearing services both domestically and internationally, allowing customers to report, confirm and settle securities trade transactions.

Coupon Rate
The rate of interest that appears on the certificate of a bond. Multiplying the coupon rate by the principal tells the holder the dollar amount of interest to be paid by the issuer until maturity.

Credit Union Deposit Insurance Corporation (CUDIC)
CUDIC, a statutory corporation, guarantees all deposits and non-equity shares of British Columbia credit unions as set out in the *Financial Institutions Act*. CUDIC's responsibility is to administer and operate a deposit insurance fund. The Financial Institutions Commission (FICOM), an agency of the Government of British Columbia, is responsible for administering CUDIC and for administering the regulation of financial institutions operating in the province.

Current Yield
The annual income from an investment expressed as a percentage of the investment's current value. On bonds, calculated by dividing the annual coupon amount by the current market price.

Debenture
A certificate of indebtedness of a government or company backed only by the general credit of the issuer and unsecured by mortgage or lien on any specific asset. No specific assets are pledged as collateral.

Default (Credit) Risk
The risk that a debt security issuer will be unable to pay interest on the prescribed date or the principal at maturity.

Derivative
A type of financial instrument whose value is based on the performance of an underlying financial asset, commodity, or other investment. Derivatives are available on interest rates, currency and stock indexes.

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

Duration
Measure of a bond's sensitivity to interest rate changes. The higher the bond's duration, the greater its sensitivity to the change and vice versa.

Face Value
The value of a bond or debenture that appears on the face of the certificate. Face value is ordinarily the amount the issuer will pay at maturity. Face value is not an indication of market value.

Fixed-Floater
Callable bonds issued by Canadian chartered banks. As the name suggests, the coupon rate is set for the term that precedes a call date and then floats thereafter. After the call date, the floating rate would be determined by adding a pre-specified number of basis points to a prevailing banker's acceptance rate. The bond market generally anticipates that fixed floaters will be called on the first call date. Hence, their yield is always cited to the call date rather than the maturity date.

Guaranteed Investment Certificate (GIC)
A deposit instrument requiring a minimum investment at a predetermined rate of interest for a stated term. GIC's can be redeemable or non-redeemable.

Index-Linked Securities
Securities that provide interest income based on the performance of a market index, measured from a predetermined level.

Interest Rate Risk
The risk that changes in interest rates will adversely affect the value of an investor's portfolio.

Liquidity
The ability of the market in a particular security to absorb a reasonable amount of buying or selling at reasonable price changes.

Market Value
The current price at which an asset or service can be bought or sold.

Maturity Date
The date on which a bond or debenture comes due and is to be paid off. The issuer repays the face value to the investor.

Money Market
That part of the capital market in which short-term financial obligations are bought and sold. These include treasury bills and other federal government securities, commercial paper, banker's acceptances and other instruments with one year or less left to maturity. Longer term securities, when their term shortens to the limits mentioned, are also traded in the money market.

Portfolio
Holdings of securities by an individual or institution.

Retractable
A feature which can be included in a new debt issue, granting the holder the option, under specified conditions, to redeem the security on a stated date; prior to maturity in the case of a bond.

Schedule I Bank
Schedule I banks are domestic banks and are authorized under the Bank Act to accept deposits, which may be eligible for deposit insurance provided by the Canadian Deposit Insurance Corporation.

Schedule II Bank
Schedule II banks are foreign bank subsidiaries authorized under the Bank Act to accept deposits, which may be eligible for deposit insurance provided by the Canada Deposit and Insurance Corporation. Foreign bank subsidiaries are controlled by eligible foreign institutions.

Schedule III Bank
Schedule III banks are foreign bank branches of foreign institutions that have been authorized under the Bank Act to do banking business in Canada. These branches have certain restrictions.

Securities Lending
The market practice whereby securities are temporarily transferred from one party to another with the borrowing party providing securities or cash as collateral. As payment for the loan, the parties negotiate a fee, quoted as an annualized percentage of the value of the loaned securities. The term of the loan may be open-ended or for a specific duration. At the end of the loan, the borrowed securities are returned and the lender returns the collateral to the borrower.

Street Name
Securities registered in the name of an investment dealer or its nominee, instead of the name of the real or beneficial owner, are said to be "in street name." Certificates so registered are known as street certificates.

Strip Bonds or Zero Coupon Bonds
Usually high quality federal or provincial government bonds originally issued in bearer form, where some or all of the interest coupons have been detached. The bond principal and any

remaining coupons (the residue) then trade separately from the strip of detached coupons, both at substantial discounts from par.

Term Deposit
A deposit held at a financial institution that has a fixed term. These are generally short-term with maturities ranging anywhere from a month to a few years. When a term deposit is purchased, the investor understands that the money can only be withdrawn after the term has ended or by giving a predetermined number of days notice.

Yield – Bond
Return on an investment. A bond yield is calculated using annual interest payments plus amortizing the difference between its current market price and par value over the bond's life.

Yield Curve
A graph showing the relationship between yields of bonds of the same quality but different maturities. A normal yield curve is upward sloping depicting the fact that short-term money usually has a lower yield than longer term funds. When short-term funds are more expensive than longer term funds, the yield curve is said to be inverted.

Yield to Maturity
The rate of return investors would receive if they purchased a bond today and held it to maturity. Yield to maturity is considered a long term bond yield expressed as an annual rate.

Yield Spread
The difference between the yields on two debt securities, normally expressed in basis points. In general, the greater difference in the risk of the two securities, the larger the spread.