Administrative Procedure **3007R**
Investment Guidelines

1. **The Preservation of Capital**

The preservation of capital is accomplished through the placement of funds with institutions esteemed in the marketplace as having the highest creditworthiness. In the investment of public money it is not satisfactory to place funds with institutions who have earned a public reputation as merely a good credit. The following criteria should be considered:

(a) financial instruments with a maturity of one year or less and guaranteed as to repayment of interest and principal by the Government of Canada or by any of the Provinces of Canada;

(b) financial instruments with a maturity of one year or less and guaranteed as to repayment of interest and principal by chartered banks and trust companies incorporated under the laws of Canada;

(c) financial instruments with a maturity of one year or less and guaranteed as to repayment of interest and principal by a credit union incorporated under the Credit Union Act (British Columbia).

Investments should reflect the creditworthiness of the institution. For instance, financial leverage, capital base, income generation and overall financial stability should be taken into consideration. Where an institution has received a credit rating it could be from any one of the following agencies:

- Dominion Bond Rating Service (D.B.R.S.)
- Canadian Bond Rating Service (C.B.R.S.)
- Standard and Poor's (S&P)
- Moody's

The appropriateness of retaining investment holdings which are liquid and undergo a downward credit rating revision by one of the recognized security rating institutions should be reviewed.

Credit risk minimization is also achieved through diversification. It is not prudent to invest all funds with one institution but rather to spread the risk. It is recognized, however, that there may be situations where this is not practicable or desirable.

Prudent investment management requires sound financial judgement and the above factors should be considered for all investments.

2. **The Assurance of Liquidity**

The assurance of liquidity is the ability to fund operating commitments through the drawdown of the investment portfolio. Because the creditworthiness of Canadian financial institutions has declined in the decade of the eighties and exhibits dramatic fluctuation, it is only satisfactory to hold liquid investments. The following instruments are considered liquid, subject to the preservation of capital requirements above:

(a) treasury bills;

(b) demand deposits;

(c) term deposits with a call feature;

(d) bankers' acceptances;

(e) bankers' deposit notes, and;

(f) tradeable promissory notes

3. **The Achievement of High Returns**

The achievement of high returns is obtained through an exhaustive survey of the opportunities in the marketplace subject to the constraints of the preservation of capital requirement and the assurance of liquidity requirement. Acceptable yield spreads between different financial credits and different terms to maturity should adequately reflect the perceived credit risks and market conditions at the time of investment.

4. A consequence of the first priority to preserve capital is the obligation to ensure the safe delivery and settlement of securities. To this end, the following procedures describe the prudent approach:

(a) Purchase securities for delivery only. Do not accept the offer of an investment dealer to provide the permanent safekeeping function and do not accept a letter of undertaking from an investment dealer promising to deliver securities at a future date. Securities must be held for safekeeping in any chartered bank or trust company qualifying as an excellent credit risk under the preservation of capital requirements.

(b) Enter into repurchase agreements for the purpose of overnight investments only if there is same day physical delivery and there are precise terms negotiated in advance as to the sale price and the resale price.

(c) Do not enter into any call loan agreements for the purpose of overnight investments even if the borrower posts excellent quality collateral. It has not been established in the civil courts whether in the event of the borrower's bankruptcy another person with a call loan outstanding might have an equal or higher claim to the securities.