



# City of Richmond

## Report to Committee

**To:** Finance Committee

**Date:** February 6, 2019

**From:** Jerry Chong  
Director, Finance

**File:** 03-0900-01/2019-Vol  
01

**Re:** Investment Policy 3703 Amendment

### Staff Recommendation

That Council Policy 3703 (Investment Policy) be amended as proposed in the staff report titled "Investment Policy 3703 Amendment" dated February 6, 2019 from the Director, Finance.

Jerry Chong, CPA, CA  
Director, Finance  
(604-276-4064)

<b>REPORT CONCURRENCE</b>	
<b>CONCURRENCE OF GENERAL MANAGER</b>	
<b>REVIEWED BY STAFF REPORT / AGENDA REVIEW SUBCOMMITTEE</b>	<b>INITIALS:</b>  CJ
<b>APPROVED BY CAO</b>	

## Staff Report

### Origin

Investment Policy 3703 (“Investment Policy”) was last amended and approved by Council on November 12, 2013. The Investment Policy is reviewed on a periodic basis and is updated as necessary to reflect material changes in the market or the investment industry. Due to recent changes in the banking and financial industry, staff are proposing that the City’s Investment Policy be amended to reflect the changes, alongside with making a few other minor housekeeping changes to the existing Investment Policy.

### Findings of Fact

In 2012, the Government of Canada put in place a framework that allowed provincial credit unions to apply to become federal credit unions. Coast Capital Savings Federal Credit Union (formerly known as Coast Capital Savings Credit Union) made its application to become a federal credit union in 2016 and obtained final approval to become the first federal credit union in B.C. effective November 1, 2018. As a federal credit union, Coast Capital will now be regulated by the Office of the Superintendent of Financial Institutions (OSFI), which is the same federal agency that governs and regulates Canada’s major chartered banks and financial institutions.

### Impact to the City as a result of Coast Capital’s federal continuation

All pre-existing deposits made with Coast Capital prior to November 1, 2018 are grandfathered whereby the Canada Deposit Insurance Corporation (CDIC) will provide to members of Coast Capital Savings the same unlimited insurance coverage provided by the Credit Union Deposit Insurance Corporation of British Columbia (CUDIC). All existing deposits held by the City at Coast Capital (current balance at approximately \$87.5 million) were made prior to November 1, 2018, thus the unlimited insurance coverage is still available until they mature.

New deposits made on or after November 1, 2018 are covered separately under CDIC’s standard deposit insurance of up to \$100,000 per financial institution per eligible insured category, in case of an unlikely failure of its member institution. The City does not have any deposits at Coast Capital that were made after November 1, 2018.

As the City’s Investment Policy (3703) currently does not have provision for investments in federal credit union issuers, staff is proposing that the City’s Investment Policy be amended to reflect the addition of a new financial institution category (i.e. federal credit union), alongside with making a few other minor housekeeping changes to the existing Investment Policy.

## **Analysis**

### Permitted Investments

All investments held by the City must fall into one of the permitted investments categories under Section 183 of the *Community Charter*:

- 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.

Coast Capital Federal Credit Union continues to fall within section 183(g) of the *Community Charter*.

### Investment Objectives

The City follows four fundamental objectives as outlined in the City's Investment Policy in managing its investment activities, which include:

- Adherence to statutory requirements;
- Safety of Capital;
- Liquidity of Investments; and
- Earning reasonable return on investments.

Coast Capital Federal Credit Union is regulated by OSFI, which is an independent agency of the Government of Canada reporting to the Minister of Finance. The same standards are used by OSFI in regulating Federal Credit Unions and all Canadian Banks. With Coast Capital's requirement to operate under the more stringent OSFI regulations and capital requirements, the City can still meet its investment objectives after Coast Capital's conversion from a B.C. credit union to a federal credit union.

### **Proposed Amendments to Investment Policy 3703**

#### Proposed Amendment: Addition of Federal Credit Union Issuer Type and Limits

Currently, Section 8 of the City's Investment Policy specifies permission for credit union investments only in B.C. credit unions. In order to allow added flexibility and increased diversification of municipal investment funds, staff is proposing that a new asset class called "Federal Credit Unions" be added to section 8 of the Investment Policy.

The table below summarizes the proposed section 8 of the Investment Policy pertaining to permitted investments at credit unions:

Asset Class	Asset Category	Current Investment Policy	Proposed Change
B.C. Credit Unions	B.C. credit unions with total assets more than \$10 billion	The greater of: (i) 10% of total portfolio balance per credit union, or (ii) \$75 million per credit union	No change.
	B.C. credit unions with total assets between \$500 million and \$10 billion	The greater of: (i) 10% of total portfolio balance per credit union, or (ii) \$50 million per credit union	No change.
Federal Credit Unions	Federal credit unions with: <ul style="list-style-type: none"> <li>• Long-term DBRS credit rating under A (low); and</li> <li>• Short-term DBRS credit rating higher than R-1 (low)</li> </ul>	N/A	The greater of: (i) 5% of total portfolio balance per credit union, or (ii) \$50 million per credit union (With terms not exceeding 1-year)
	Federal credit unions with: <ul style="list-style-type: none"> <li>• Long-term DBRS credit rating under A (low); and</li> <li>• Short-term DBRS credit rating R-1 (low)</li> </ul>	N/A	The greater of: (i) 3% of total portfolio balance per credit union, or (ii) \$30 million per credit union (With terms not exceeding 1-year)
	Federal credit unions with: <ul style="list-style-type: none"> <li>• Long-term DBRS credit rating A (low) or higher; and</li> <li>• Short-term DBRS credit rating R-1 (low) or higher</li> </ul>	N/A	Follow the equivalent per issuer limits under the Chartered Bank section based on its long-term and short-term DBRS credit rating.
<b>Total Credit Union Limit</b>		<b>Maximum 30% of Total</b>	<b>Maximum 30% of Total</b>

\*DBRS is a global credit rating agency that provides independent credit ratings for financial institutions and corporate entities. DBRS is one of the major credit rating agencies that provides forward-looking opinions about credit risks that reflect the creditworthiness of an entity.

The Provincial legislature passed amendments to the *Financial Institutions Act* in 2008 to provide unlimited deposit insurance protection (regulated by the Financial Institutions Commissions and administered by CUDIC) on all deposits of B.C. credit unions in the unlikely event of a credit union failure. Despite the availability of the full guarantee, the City will continue to take into consideration the financial health and credit risks of each credit union that the City invests in. To remain diversified, the Investment Policy imposes the same maximum allowable limit in credit unions (B.C. and federal credit unions combined) of not more than 30% of the City’s total investment portfolio balance.

The proposed policy limits will ensure that the City’s investment portfolio will remain risk-diversified in securing safe and liquid investment products while allowing the City in realizing the more attractive deposit rates offered by the credit unions.

The proposed policy amendment will have the following impact to the City’s investments at Coast Capital:

- Under the proposed limit, Coast Capital Federal Credit Union that has a current long-term DBRS credit rating of BBB (high) and short-term DBRS credit rating of R-1 (low) will continue to qualify as permitted investments under the proposed Investment Policy.
- Due to its credit ratings, the proposed investment limit at Coast Capital will be capped at \$30 million (or 3% of portfolio, whatever is greater) for deposit terms of less than 1 year.
- The proposed limits set out under the federal credit union asset class are consistent with the limits for chartered banks with the equivalent short-term DBRS ratings.
- Coast Capital’s current BBB (high) long-term rating is defined by DBRS as “adequate credit quality” where the capacity for the payment of financial obligations is considered acceptable. With this, no deposits greater than 1-year will be permitted to be placed at Coast Capital Federal Credit Union until its long-term credit rating meets the Investment Policy’s DBRS long-term credit rating A (low) requirement.

Proposed Amendment: Other Minor Housekeeping Changes

A few minor housekeeping changes are proposed to update some wordings and enhance the overall clarity of the Investment Policy, as summarized below:

Section	Proposed Change(s)	Reasons for Change
Permitted Investment Table in Section 8	That the “Federal Issuers – Federal & Federally Guaranteed” Asset Class be reworded to “Securities issued or backed by the Government of Canada”.	The rewording of the asset class helps ensure that the wordings in the Policy are consistent with those contained in Section 183 of the <i>Community Charter</i> .
Permitted Investment Table in Section 8	That the specific mention of the current DBRS short term / long term ratings for federal issuers be removed (i.e. delete reference to “R-1 (high) / AAA” from the table and replace with “No minimum requirement”).	The removal of the specific ratings can prevent future administrative revision of the Investment Policy in the event of future changes in Government of Canada’s DBRS credit ratings.
Diversification in Section 9	That all references to the various “DEX” indices be reworded to “FTSE Canada” to reflect the rebranding of the benchmark indices.  That a reference be made in this section to ensure that from time-to-time as the name of the benchmark indices change due to rebranding purposes, that the current prevailing indices should be used for benchmark purposes.	DEX bond indexes have been rebranded to “FTSE Canada”. The transition to the new index names commenced in mid-2018 and will be completed by April 2019.  The indices’ methodology remains the same.

A copy of the black-lined version of the amended Investment Policy 3703 that include all the proposed changes has been attached in Attachment 1 of this report.

**Financial Impact**

None.

**Conclusion**

The updated Investment Policy changes will allow the City to continue to effectively manage its municipal investment funds while complying with all statutory requirements and meeting the City's investment objectives.



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Manager, Treasury and Financial Services  
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Att. 1: Black-lined Version of Investment Policy 3703 Amendment



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	Adopted by Council: June 25, 2007 Amended by Council: June 8, 2009, November 12, 2013	

**POLICY 3703:**

It is Council policy that:

**1. POLICY**

The purpose of this policy is to ensure that the City's practices and procedures in the investment of public funds are in compliance with statutory requirements of the *Community Charter*, while ensuring safety of capital, maintaining appropriate liquidity in meeting anticipated cash flow demands, and attaining a reasonable rate of return after taking into account the investment constraints and liquidity requirements.

**2. OBJECTIVES**

Conservative management philosophy is followed in investment activities of all public funds held by the municipality. Four fundamental objectives, in priority order, are as follows:

(i) Adherence to Statutory Requirements

Authority for investment guidelines of municipal funds is provided in section 183 of the *Community Charter*.

(ii) Safety of Capital

Investment activities will be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. Preservation of capital will be accomplished through:

- Diversification, as outlined in section 9, and
- Risk control, whereby portfolio components are limited to conservative types of investments as defined in section 8.

(iii) Liquidity of Investment

The investment portfolio will be administered to ensure adequate cash flow is available to meet all reasonably anticipated operating and capital requirements.

(iv) Return on Investment

The investment portfolio will be designed with the objective of maximizing the rate of return through budgetary and economic cycles, taking into account the investment constraints and liquidity requirements. The Financial Officer will take into account these constraints and objectives in the selection of investments to be included in the City's portfolio. The portfolio will be structured to attain optimum performance results as directed by the Policy, and to create maximum value to the City, net of any costs incurred in the investment process.



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### 3. PRUDENCE

Investments will be made with judgement and care, under circumstances then prevailing, by persons of prudence, discretion and intelligence exercised in the management of other people's affairs, not for speculation, but for investment, considering the probable safety of capital as well as the probable income to be derived. Where external managers are engaged to perform trading activity, the external managers will be required to exercise the degree of care, diligence, and skill which a prudent investment counsel would exercise in similar circumstances. The Financial Officer acting in accordance with this policy and exercising due diligence will be relieved of personal responsibility for an individual security's credit risk or market price changes.

### 4. AUTHORIZATION

Authority to manage the City's investment program is derived from section 149 of the *Community Charter*, as follows:

"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."

The Financial Officer is the portfolio administrator and has the ultimate responsibility for the prudent investment of the portfolio. The Financial Officer may retain a professional investment manager(s) ("Investment Manager(s)") to provide investment advice and carry out the instructions of the Financial Officer.

The Financial Officer will:

- administer the Policy;
- review the Policy annually, which will include a reassessment of the fund's objectives, the benchmark portfolio and the impact of any changes in liquidity requirements if necessary;
- select the Investment Manager(s) and City's custodial bank;
- regularly review the quantitative and qualitative performance of the Investment Manager(s) including an evaluation of the rates of return, an analysis of the areas where the Investment Manager(s) added or reduced value, and a review of the Investment Manager(s) in the context of the criteria for their selection;





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- be responsible for regularly monitoring the asset mix of the portfolio and taking the action necessary, to correct any breaches of applicable legislation or the permitted asset mix ranges set out in this Policy;
- provide information on significant cash flow changes to the Investment Manager(s);
- be responsible for the oversight of any professional Investment Manager(s).
- have the authority to appoint and terminate the Investment Manager(s).

The Investment Manager(s) will:

- provide the Financial Officer with monthly reports of actual portfolio holdings, detailing each class of assets and how they conform to policy maximums as defined in section 8 and 9;
- present to the Financial Officer a quarterly review of investment performance, including an explanation of any shortfalls of their investment results compared to the investment objectives;
- provide estimates of future returns on investments and review proposed investment strategies that may be used to meet the objectives;
- attend a meeting with the Financial Officer at least once each year to review the results they have achieved;
- inform the Financial Officer promptly of any element of the Policy that could prevent attainment of the Plan's objectives;
- give prompt notice to the City's custodial bank of all purchases and sales of securities;
- report all investment transactions quarterly to the Financial Officer;
- provide the Financial Officer with a quarterly certificate of compliance with the Policy for the quarter just ended.

## 5. ETHICS AND CONFLICT OF INTEREST

The Investment Manager(s), Financial Officer and any individuals involved in the investment process will refrain from personal business activity that could conflict with the proper execution of the investment program or impair ability to make unbiased investment decisions. Parties will disclose any material personal financial interest in investments involved or in financial institutions that conduct business with the City. Any deviation is to be reported to the City Solicitor immediately.

## 6. IMPLEMENTATION

An active or passive investment style may be adopted, depending on suitability of each in meeting the City's investment objectives.



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**7. AUTHORIZED INVESTMENT DEALERS AND INSTITUTIONS**

The Investment Manager(s) will be registered with a regulated securities commission. They will be responsible for maintaining a list of approved financial institutions and brokers/dealers authorized to provide investment services. An annual review of this list will be completed by the Investment Manager(s), whereupon, the recommendations for any additions and deletions will be discussed and approved by the Financial Officer.

**8. PERMITTED INVESTMENTS**

Under the *Community Charter* Section 183, a municipality may invest money that is not immediately required 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.

The following table sets out the City's permitted investments, minimum credit rating requirements and their limits:

Asset Class	Dominion Bond rating services limited (DBRS) <sup>1</sup> <i>Short Term / Long Term Rating</i>	Limits per issuer (as a % of total portfolio)
<b>Federal Issuers</b>		
Federal & Federally guaranteed Securities issued or backed by the Government of Canada	R-1 (high) / AAA No minimum requirement	No limit
<b>PROVINCIAL ISSUERS</b>		
All Provinces	R-1 (high) / AAA, AA (high), AA	25% per province
All Provinces	R-1 (middle) / AA (low)	20% per province
All Provinces	R-1 (middle) / A (high)	10% per province
All Provinces	R-1 (low) / A, A (low)	5% per province
<b>TOTAL PROVINCES</b>		Maximum 50%
<b>Chartered Banks</b>		
Schedule I, II & III banks	R-1 (high) / AAA, AA	15% per bank
Schedule I, II & III banks	R-1 (middle) / AA, AA (low)	10% per bank
Schedule I, II & III banks	R-1 (middle) / A (high)	5% per bank
Schedule I, II & III banks	R-1 (low) / A (low)	3% per bank
<b>TOTAL CHARTERED BANKS</b>		Maximum 50%



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B.C. credit unions	
Credit unions with total assets <sup>2</sup> more than \$10 billion	The greater of: (i) 10% of total portfolio balance per credit union, or (ii) \$75 million per credit union
Credit unions with total assets <sup>2</sup> between \$500 million and \$10 billion	The greater of: (i) 5% of total portfolio balance per credit union, or (ii) \$50 million per credit union
Federal credit unions	
Deposit term cannot exceed 1 year if long-term DBRS credit rating of A (low) is not attained <sup>3</sup>	
Federal credit unions with: • Long-term DBRS credit rating under A (low); and • Short-term DBRS credit rating higher than R-1 (low)	The greater of: (i) 5% of total portfolio balance per credit union, or (ii) \$50 million per credit union
Federal credit unions with: • Long-term DBRS credit rating under A (low); and • Short-term DBRS credit rating R-1 (low)	The greater of: (i) 3% of total portfolio balance per credit union, or (ii) \$30 million per credit union
<b>TOTAL B.C. CREDIT UNIONS</b>	Maximum 30%
Pooled Investments	
Pooled funds	Maximum 20%
Other Securities	
Municipality, Regional District or Greater Board	Maximum 10%

<sup>1</sup> If DBRS credit rating is not available, the City can use an equivalent credit rating provided by an approved credit rating organization such as Standard & Poor's Corporation (S&P) and Moody's Investors Services Inc. (Moody's)

<sup>2</sup> Based on latest audited financial statements

<sup>3</sup> Federal credit union that has long-term DBRS credit rating A (low) or higher will follow the equivalent per issuer limits under the Chartered Bank section for its long-term and short-term investments, where the total investments in all credit unions cannot exceed a combined total of 30% of the City's investment portfolio.

## 9. DIVERSIFICATION

The City recognizes that prudence in investment selection is essential to minimize interest rate and credit risk.

- Interest Rate Risk – At each interim and annual reporting periods, the Investment Manager(s) will monitor the performance of the cash and bond components of the portfolio against the selected benchmarks. The Investment Manager(s) will also assess the duration of the bond components of the portfolio to ensure they fall within a year and a half of the duration of the benchmark against which bond performance is measured. The 91-Day T-Bill Index will be the basis for benchmarking the cash component of the portfolio. For the bond components of the portfolio, the indices within the ~~DEX Universe~~ **FTSE Canada Bond Index, or its equivalent prevailing index as amended from time-to-time by the provider of the benchmarks**, will be selected as the benchmarks. Selection of the appropriate benchmark for each bond component





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will be based on the index with the duration closest to the duration of the bond component being evaluated. The following indices fall within the ~~DEX~~ **FTSE Canada** Universe Bond Index:

- ~~DEX~~ **FTSE Canada** Universe All Government Index
- ~~DEX~~ **FTSE Canada** Short Term All Government Index
- ~~DEX~~ **FTSE Canada** Mid Term All Government Index
- ~~DEX~~ **FTSE Canada** Short/Mid All Government Index
- ~~DEX~~ **FTSE Canada** Long Term All Government Index

- Credit Risk – The Investment Manager(s) will minimize credit risk by investing in conservative types of instruments. A minimum of 90% of the portfolio’s market value is required to carry a DBRS credit rating of A (high) or higher or the equivalent R1-middle or higher.

Diversification will be achieved through:

- Setting limits on the amount of investments with a specific maturity, from a specific issuer or a specific sector;
- Investing the targeted amount of assets in liquid investments to ensure funds are readily available; and
- Selecting assets with varying maturity terms.

In addition, the Investment Manager(s) will engage in the rebalancing of the portfolio to adhere to parameters as defined in this policy or any addendums agreed upon by the Financial Officer and the Investment Manager(s).

**10. COMPETITIVE BIDS**

The Financial Officer or Investment Manager(s) will 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 substantiated by market data.

**11. SAFEKEEPING AND CUSTODY**

All transactions will be executed by the delivery-versus-payment basis to ensure securities are deposited in an eligible financial institution with the release of funds. Settlement will take place at the main branch of the City’s custodial bank in any Canadian city. Securities will be held by the City’s custodial bank or alternatively, will be registered with the Central Depository for Securities (CDS).



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- **Authorization:** The custodial bank will not accept delivery or payment without prior authorization and instructions for the City.
- **Evidence:** All transactions traded in-house will be evidenced by a contract advice from the investment dealer, as well as a settlement advice from the custodial bank.
- **Registration:** All securities that are in registerable form will be registered in the name of the City of Richmond.
- **Repurchase Agreements:** In addition to all the terms and conditions above, the City's custodial bank will be responsible for ensuring that the repurchase agreement for overnight transactions has been duly executed.

## 12. INTERNAL CONTROLS

External audits will be performed annually, including an assessment of investment effectiveness and risk management.

## 13. PERFORMANCE STANDARDS

The investment portfolio will be designed to obtain an above market benchmark, taking into account the City's investment risk constraints, cash flow requirements, and active management strategy. This policy recognizes that the reliability of performance evaluation (i.e. comparison to benchmarks) increases with the duration of the measurement period.

## 14. REPORTING

The Financial Officer will prepare an investment report on a quarterly basis to Council. The report will provide a summary of the securities held at the end of the reporting period including issuer diversification and market values.

The Investment Manager(s) will conduct at each quarter end a review of the portfolio, including strategy employed, duration, liquidity, and a forecast of upcoming market conditions.

## 15. ADOPTION AND REVIEW

The policy will be reviewed annually by the Financial Officer, and any suggested modifications will be presented to Council for adoption.