

# Roundtable on District Investing

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TASBO Summer Conference  
June 2009

# Objectives

<u><b>SAFETY</b></u>	<u><b>LIQUIDITY</b></u>	<u><b>DIVERSIFICATION</b></u>	<u><b>YIELD</b></u>
cash flow	cash flow	cash flow	cash flow
information	information	information	Information
controls		controls	controls
diversification	diversification	diversification	diversification
documentation			
contracts			
competition		competition	competition
documentation			
procedures	procedures	procedures	
credit quality			

# Procedures and Controls

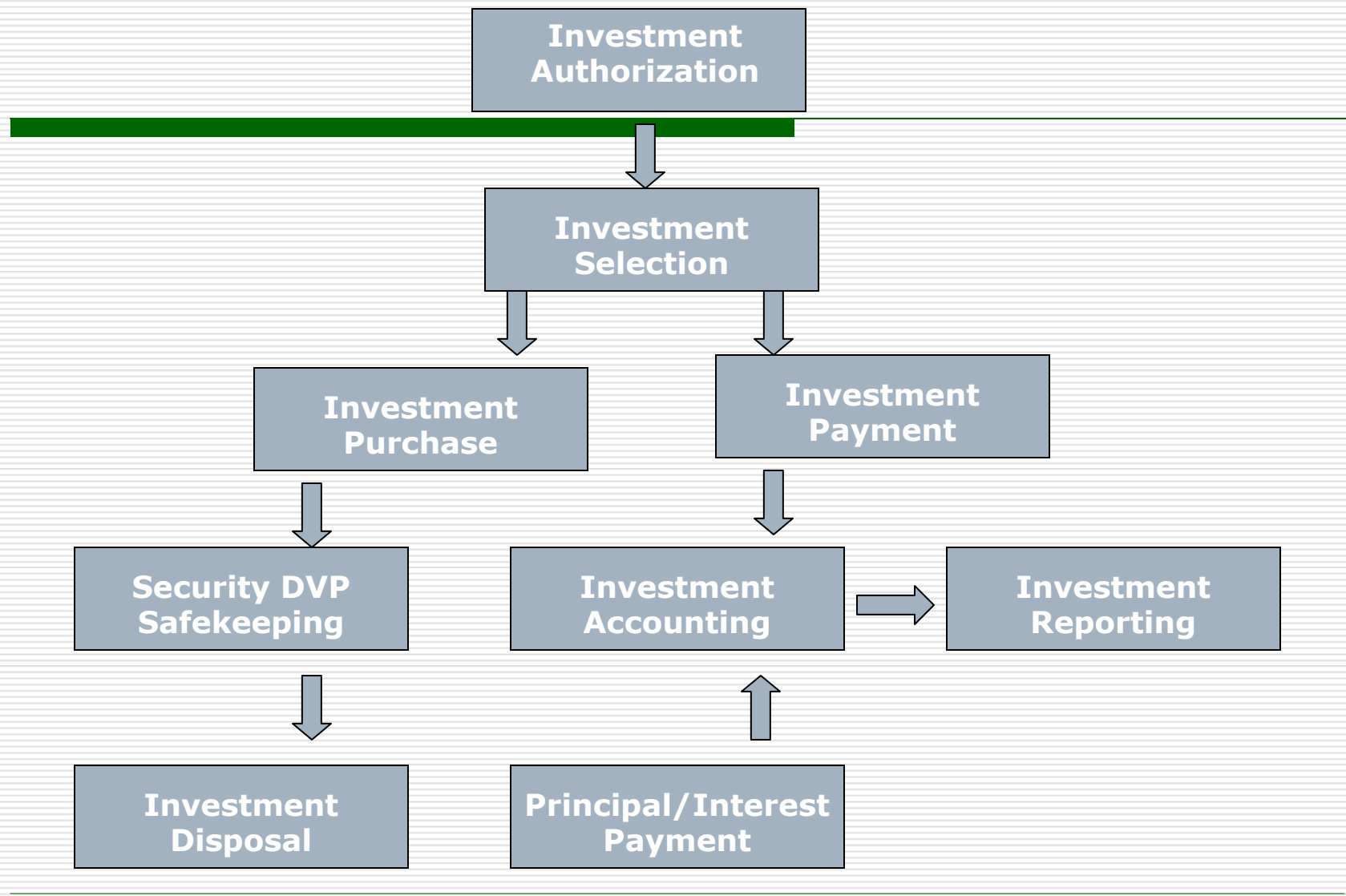
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- ❑ **All investments involve risk: always**
  - ❑ Risks change with circumstances:
    - internal and external
  - ❑ Procedures design controls
  - ❑ Controls manage risk
  - ❑ Controls must change with circumstances
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# Key Portfolio Controls

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- Competitive Bids
  - Cash flow analysis and basis
  - Diversification
    - (by maturity, sector, broker)
  - Delivery versus Payment (DVP) Settlement
  - WAM Control
  - Documentation on All Trades and Custody
  - Benchmarks
  - Broker Information
  - Market Information
  - Reporting
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# Investment Selection

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- You must have a market view
  - Compare liquid alternatives
    - Banks, pools, MMA, repo
    - These will change dynamically
  - Compare all your alternatives
    - CDs are good now while usually duds
  - Always use competitive bidding
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# Investment Settlement

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- Always use delivery versus payment
  - Never use broker safekeeping
  - Do not use you bank as a broker
  - Trade tickets protect you
    - Build your audit trail seriously
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# Investment Accounting

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- Use amortized/accreted values
  
  - Weight your information
  
  - Calculate your yield correctly
    - Use amortized value for calculation
  
  - Use a benchmark to measure risk
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# Brokers/Dealers and Banks

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- Chose the right number for your use
    - At least 3 required – not more than x?
  
  - Get the certification
    - But don't depend on it
  
  - Get the information on each trade
  
  - Get a selection of market information
  
  - Do not use your bank as a broker
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# Bank Issues

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- Special Assessment
  - Continuing additional FDIC assessments
  - Review of account analyses
  - New services use
    - Remote deposit
    - RCK
    - Image lockbox
    - Accounts payable
    - Pay cards
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# Collateral Pooling – New in 2009

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- Each bank creates own collateral pool
    - Covers all clients on a pro rata basis
  - Securities are not pledged to individual entities
    - No further contact/control on ongoing basis
  - Participation is voluntary (bank and client)
  - 102% margins set
  - Comptroller approves the agreement form
  - Comptroller monitors the program
    - Audit issues are unclear
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# Your Considerations

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- The key agreement terms
    - *Events of default*
    - Expenses
  - Amount of funds maintained in bank
  - Risk tolerance levels
    - A 2% margin of error
  - Earnings
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# Purpose for Procedures

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- Setting the Goal
  - Identifying the Controls
  - Clarity of Purpose
  - Providing Continuity
  - Managing and Establishing Expectations
  - Delegation of Responsibility by Task
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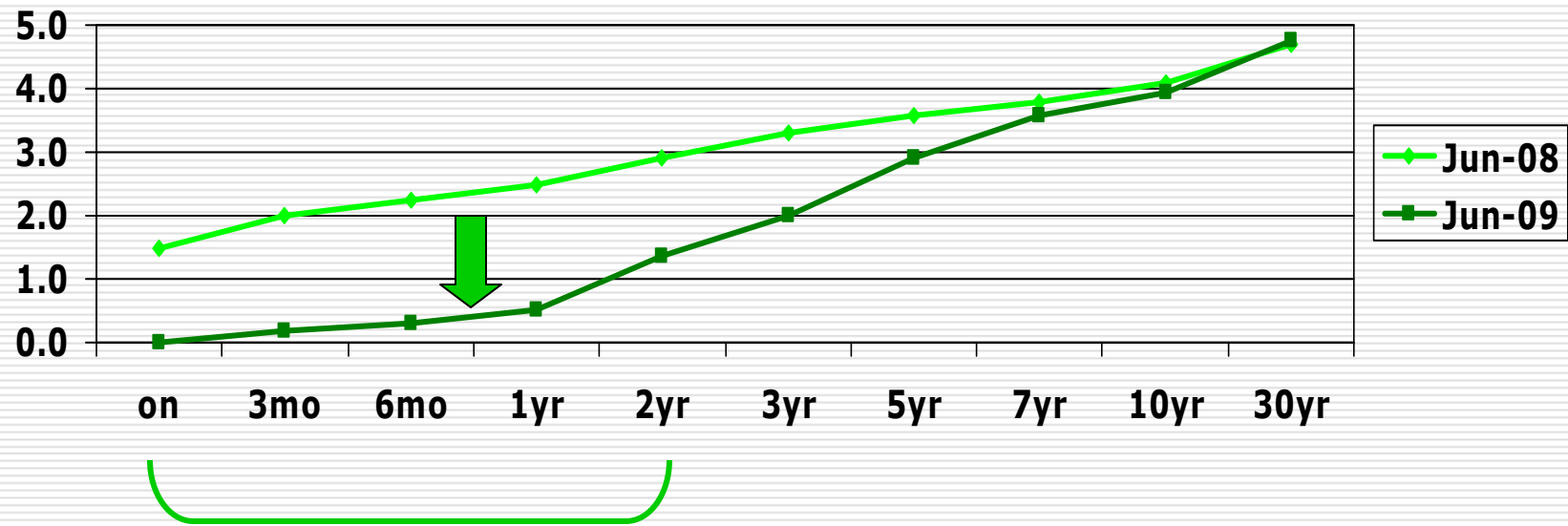
# Common Internal Procedures

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- **Wires for investment in Pools and Funds**
- Wires for Buying CDs
- Outgoing Wires (excluding investments)
- **Cash Flow Analysis**
- **Debt Service Payments**
- Establishing and Maintaining a Broker/Dealer List
- Purchasing US Treasuries from the US Treasury
- **Settling Security Purchases from Broker/Dealers or Banks**
- Determining Idle Depository Cash for Investment
- Choosing Pools and Funds (Relative Value Analysis)
- Withdrawing Funds from Pools and Funds
- Purchasing CDs
- **Establishing Depositories for Purchase of CDs**
- Monitoring Collateral for Time and Demand Deposits
- Monitoring Existing Time and Demand Deposits
- **Creating and Using a Trade Ticket**
- Creating General Ledger Entries for Investments
- **Creating an Investment Calendar**
- Choosing Investment through Relative Value Analysis
- Investing in Repurchase Agreements and Flex Repurchase Agreements
- **Creating an Investment Strategy**
- Establishing Securities Lending Arrangements
- **Monthly and Quarterly Reporting**
- Choosing and Using Benchmarks
- Establishing a Portfolio Management System
- **Establishing and Investment Policy**
- **Establishing and Maintaining Safekeeping Arrangements**
- Obtaining Market Information for Investment Decisions
- Downgrades
- Establishing Treasury Controls

# Choose Wisely It *will* make a Difference

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