



A Tradition of Stewardship
A Commitment to Service

NAPA COUNTY
STATEMENT OF INVESTMENT POLICY
EFFECTIVE APRIL 1, ~~2016~~2017

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NAPA COUNTY STATEMENT OF INVESTMENT POLICY

In accordance with the California Government Code and under the authority delegated to the County Treasurer-Tax Collector (Treasurer) by the Board of Supervisors, the following sets forth the investment policy of the County of Napa.

1. POLICY

It is the policy of Napa County to invest all public funds held within its pooled investment fund in a manner which will provide the highest reasonable investment return within the boundaries of maximum security and safety of principal while meeting the daily cash flow demands of all pool participants and conforming to all state and local statutes governing the investment of public funds.

2. SCOPE

This investment policy applies to all financial assets held in the Pooled Investment Fund of the County Treasury. These funds include, but are not limited to the following fund types:

- General Fund
- Special Revenue Funds
- Capital Project Funds
- Enterprise Funds
- Trust and Agency Funds
- School Funds
- Internal Service Funds
- Debt Service Funds

3. STANDARDS OF CARE

The County Treasurer is considered the Trustee of the Pooled Investment Fund and, therefore, a fiduciary subject to the "prudent investor" standard, which states that:

"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."

The County Treasurer, the Assistant Treasurer, and the members of the Pooled Investment Oversight Committee shall refrain from all personal business activity that could conflict with the management of the investment program, or that could impair their ability to make

impartial investment decisions. All individuals involved will be required to report all gifts and income in accordance with California State law. When investing, reinvesting, purchasing, acquiring, exchanging, selling and managing public funds, the County Treasurer shall act with the care, skill, prudence and diligence to meet the aims of the investment objectives listed in the "Policy".

4. INVESTMENT OBJECTIVES

All funds on deposit with the County Treasurer shall be invested in accordance with the objectives set out by California Government Code Sections 27000.5 and 53600.5 to ensure:

- A. **Safety:** The preservation of capital is the primary objective of the investment program. Each transaction shall seek to ensure that capital losses are avoided, whether they are from securities default or erosion of market value.
- B. **Liquidity:** Secondly, the Pooled Investment Fund should remain sufficiently liquid and flexible to ensure the County Treasurer meets all operating requirements which may be reasonably anticipated in any depositor's funds.
- C. **Yield:** Thirdly, the investment portfolio should be designed with the objective of attaining a reasonable rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow characteristics of Napa County's portfolio.

5. PARTICIPANTS

Statutory Participants are those government agencies within the County of Napa for which the Napa County Treasurer is statutorily designated as the Custodian of Funds.

Voluntary Participants are other local agencies that may participate in the Pooled Investment Fund, such as Special Districts and Cities, for which the Treasurer is not the statutorily designated Custodian of Funds. Such participation is subject to the consent of the County Treasurer and subject to California Government Code Section 53684. Voluntary Participants must authorize in writing the Napa County Pooled Investment Fund as an investment and must accept the County of Napa's Statement of Investment Policy.

6. DELEGATION OF AUTHORITY

In accordance with California Government Code Sections 27000.1 and 53607, and Napa County Ordinance No. 1103, and in conjunction with its annual adoption of the Investment Policy, the Napa County Board of Supervisors has delegated investment responsibility for the Napa County Pooled Investment Fund to the Treasurer. Such delegation remains in effect until the Board of Supervisors either revokes its delegation of authority by ordinance, or decides not to renew the annual delegation.

The responsibility to execute investment transactions may be further delegated to the Assistant Treasurer-Tax Collector under the direction of the Treasurer.

7. PERMITTED INVESTMENTS AND LIMITS

The investment of money on deposit in the Treasury is limited to those investments specified by California Government Code Sections 53601, et seq.; 53635, et seq.; and 16429.1. As the California Government Code is amended, this Policy shall likewise become amended. The Treasurer may place further restrictions upon the types of investments for which money on deposit in the Treasury may be invested. Permitted investments and investment parameters for the Pooled Investment Fund are:

A. U.S. Treasury Obligations -United States Treasury notes, bonds, bills, or certificates of indebtedness, or those for which the faith and credit of the United States are pledged for the payment of principal and interest.

- | | | |
|----|-------------------------------|-------------|
| 1. | Maximum maturity: | 5 years |
| 2. | Maximum % of portfolio: | not limited |
| 3. | Maximum par value per issuer: | none |
| 4. | Credit: | N/A |

B. U.S. Agency Obligations - Federal agency or United States government-sponsored enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by Federal agencies or United States government-sponsored enterprises.

- | | | |
|----|-------------------------------|-------------|
| 1. | Maximum maturity: | 5 years |
| 2. | Maximum % of portfolio: | not limited |
| 3. | Maximum par value per issuer: | none |
| 4. | Credit: | N/A |

C. Bankers' Acceptances (BA) - (Domestic and Foreign) – Bankers' acceptances otherwise known as bills of exchange or time drafts that are drawn on and accepted by a commercial bank.

1. Maximum maturity: 180 days
2. Maximum % of portfolio: 40%
3. Maximum par value per issuer: 30%
4. Credit: "Prime" quality domestic and foreign Commercial banks

D. Negotiable Certificates of Deposit (CDs) – Negotiable certificates of deposit issued by a nationally or state chartered bank, a savings association or a federal association (as defined by Section 5102 of the Financial Code), a state or federal credit union, or by a state-licensed branch of a foreign bank, including CDs that use a private sector entity that assists in the placement thereof, as allowed by Government Code Sections 53601(i), 53601.8, and 53635.8.

1. Maximum maturity: 5 years
2. Maximum % of portfolio: 30%
3. Maximum par value per issuer: N/A
4. Credit: Must be issued by a nationally or state-chartered bank or a savings association or federal association or a state or federal credit union or by a state-licensed branch of a foreign bank, subject to the conflict of interest provision described in the Government Code Section 53601(i).

E. Commercial Paper – Unsecured short-term debt obligations issued by corporations, limited to those issuers as defined in Government Code Sections 53601(h) and 53635 (a).

1. Maximum maturity: 270 days
2. Maximum % of portfolio: 40%
3. Maximum par value per issuer: May not exceed 10% of the outstanding paper of an issuing corporation
4. Credit: Commercial paper must be of "prime" quality of the highest ranking or of the highest letter and numerical rating as provided by Moody's Investor Service ("A-1"), Standard & Poor's Financial Services, LLP ("P-1") or Fitch Ratings ("F-1"). Eligible paper is further limited to issuing corporations that are organized and operating within the United States, having total assets in excess of five hundred million dollars (\$500,000,000) and having an "A" or higher rating for the issuer's debt other than commercial paper, if any, as provided by Moody's Investors Service (Moody's), Standard & Poor's Financial Services, LLP (S&P), or Fitch Ratings (Fitch).

F. Repurchase Agreements (Repo) – Purchase of securities pursuant to an agreement by which the counter-party seller will repurchase the securities on or before a specified date and for a specified amount.

1. Maximum maturity: 1 year
2. Maximum % of portfolio: none
3. Maximum par value per issuer: N/A
4. Credit: Counterparties will be limited to (i) primary government securities dealers who report daily to the Federal Reserve Bank of New York, or (ii) banks, savings and loan associations or diversified securities broker-dealers subject to regulation of capital standards by any State or Federal regulatory agency. A master repurchase agreement must be in place with the bank or dealer.
5. Collateralization: Collateral for repurchase agreements shall have a market value of at least 102% of the amount invested. Term repos must be marked to market on a regular basis, no less than quarterly. Collateral for term repos must be delivered to the county's custodial agent for safekeeping.

G. State of California Obligations – Registered state warrants or treasury notes or bonds of this state, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the state or by a department, board, agency, or authority of the state.

1. Maximum maturity: 5 years
2. Maximum % of portfolio: not limited
3. Maximum par value per issuer: N/A
4. Credit: "A" rated or better by Moody's, S&P or Fitch

H. California Local Agency Obligations - Bonds, notes, warrants or other evidence of indebtedness of any local agency within the State of California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency, or by a department, board, agency, or authority of the local agency.

1. Maximum maturity: 5 years
2. Maximum % of portfolio: not limited
3. Maximum par value per issuer: N/A
4. Credit: "A" rated or better by Moody's, S&P or Fitch

I. California State Local Agency Investment Pool (LAIF)

- | | | |
|----|-------------------------|---------------------------------------------------------------------------------------------------------------------|
| 1. | Maximum maturity: | N/A |
| 2. | Maximum % of portfolio: | N/A |
| 3. | Maximum par value: | Dollar limit set by the state (the <u>current</u> limit effective 11/16/2009 is \$ <u>5065</u> ,000,000) |
| 4. | Credit: | N/A |

J. **Medium Term Notes** – all corporate and depository institution debt securities with a maximum remaining maturity of five years or less, issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States.

- | | | |
|----|------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. | Maximum maturity | 5 years |
| 2. | Maximum % of portfolio | 30% |
| 3. | Maximum par value per issuer | N/A |
| 4. | Credit | “A” rated or better by Moody’s, S&P or Fitch and issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. |

8. COMPETITIVE TRANSACTIONS

On all instruments purchased on the secondary market, the Treasurer shall obtain competitive bid information from at least two separate brokers and/or financial institutions or through the use of a nationally recognized trading platform.

9. SAFEKEEPING AND CUSTODY

All trades of marketable securities will be executed on a delivery vs. payment (DVP) basis, and held by the third-party custodian designated by the Treasurer. Non-marketable securities, such as non-negotiable C/D’s and notes of local agencies, may be held in the Treasurer’s safe.

10. BROKERS AND FINANCIAL INSTITUTIONS

A list will be maintained of approved broker/dealers and financial institutions authorized to provide investment services to the Napa County Pooled Investment Fund.

Approved security broker/dealers will be selected by conducting a process of due diligence. These may include “primary” dealers or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15c3-1 (uniform net capital rule).

The Treasurer shall determine which financial institutions are authorized to provide investment services to the Napa County Pooled Investment Fund. Institutions eligible to transact investment business include:

- Primary government dealers as designated by the Federal Reserve Bank;
- Nationally or state-chartered banks;
- The Federal Reserve Bank;
- Direct issuers of securities eligible for purchase.

Selection of broker/dealers and financial institutions authorized to engage in transactions with the Napa County Pooled Investment Fund shall be at the sole discretion of the Treasurer. The Treasurer will monitor the financial condition, certification, and registration of approved firms and employees on an annual basis.

In accordance with California Government Code Section 27133(c), any broker, brokerage, dealer, or securities firm that has exceeded the political contribution limitations contained in Rule G-37 of the Municipal Securities Rulemaking Board, within any consecutive 48-month period, to the County Treasurer or any member of the governing board of the local agency or any candidate for those offices, is disqualified for selection.

11. HONORARIA, GIFTS AND GRATUITIES

With respect to honoraria, gifts and gratuities, the County Treasurer, the Assistant Treasurer, and any member of the Oversight Committee are subject to California law and the limits set forth by the California Fair Political Practices Commission. The County Treasurer, the Assistant Treasurer, and each member of the Oversight Committee, shall file an annual Statement of Economic Interests (CA Form 700) with the Elections Division of the Napa County Assessor-Clerk-Recorder’s Office.

12. WITHDRAWALS

A. For **Statutory Participants**, the County Treasurer will honor all requests to withdraw funds for normal cash flow purposes that are approved by the Napa County Auditor-Controller at a one-dollar net asset value. Pursuant to California Government Code Section 27136, any Statutory Participant that seeks to withdraw funds for the purpose of investing or depositing those funds outside the county treasury pool shall submit a written request for withdrawal to the County Treasurer for approval. When determining whether to approve the withdrawal request, the County Treasurer will consider any adverse effects such a withdrawal would have on the Pooled Investment

Fund, its yield or its participants. The County Treasurer will also assess the effect of the proposed withdrawal on the stability and predictability of the investments in the County treasury. Any withdrawal for such purposes may be paid based upon the market value of the Pooled Investment Fund as of the date of withdrawal.

B. For **Voluntary Participants**, where the County Treasurer is not the statutorily designated Custodian of Funds and their Board of Directors has adopted the Napa County Investment Policy, any withdrawal request shall be submitted in writing to the County Treasurer, who will determine the timing of the payout (normally within 48 hours), in order to mitigate any adverse effects such a withdrawal would have on the Pooled Investment Fund, its yield or its participants. Withdrawals may be paid based upon the market value of the Pooled Investment Fund as of the date of the withdrawal. Withdrawals will generally be limited to once per week and will be paid by wire transfer. The withdrawing entity will be billed for any wire transfer(s) initiated on its behalf.

13. SPECIAL INVESTMENTS

Napa County operates a Pooled Investment Portfolio. All monies from all units of government, schools, agencies, and districts deposited into the treasury are combined into one pool. The purpose of the combined pool is to increase the participants' liquidity and not limit them to specific investments. This pool is invested as a unit based on a calculated combined cash flow of all the participants. No exceptions to the combined pool are allowed and no special investment is permitted for any agency.

14. APPORTIONMENT OF INTEREST AND COSTS

Interest shall be apportioned to all pool participants quarterly based upon the ratio of the average daily balance of each individual fund to the average daily balance of all funds in the investment pool. The amount of interest apportioned shall be determined using the cash method of accounting whereby interest will be apportioned for the quarter in which it was actually received. The Treasurer shall deduct from the gross interest received those administrative costs related to investing, depositing or handling of funds and of distribution of such interest or income, including salaries and other compensation, banking costs, equipment purchased, supplies, costs of information services, audits, Oversight Committee costs and any other costs as provided by Government Code Section 27013. Such cost reimbursement shall be paid into the County's general fund.

15. INTERNAL CONTROLS

Internal control procedures shall be established and maintained by the Treasurer that provide reasonable assurance that the investment objectives are met and to ensure that the assets are

protected from loss, theft, misuse, or mismanagement. The internal controls shall be reviewed as part of the regular annual independent audit. The controls and procedures shall be designed to prevent employee error, misrepresentations by third parties, and imprudent or illegal actions by employees or officers of the County.

16. REPORTING

The Napa County Treasurer will provide the following:

Monthly, an investment report to the Treasury Oversight Committee, the Board of Supervisors, and any participating agency making such a request in writing. The report shall include all of the elements as required by California Government Code Section 53646(b).

Annually, a statement of investment policy to the Board of Supervisors for approval; and to the Treasury Oversight Committee or any participating agency (making such a request in writing) for review and monitoring.

17. SOCIAL ISSUES/RESPONSIBILITY

Issues of public social concern and benefit will be evaluated on a case by case basis. While consideration will be given to various social concerns, transactions must meet the Policy objectives of safety, liquidity, and yield when compared to investments permitted by state law.

Any decision to conduct financial transactions with an entity shall be made exercising the care, skill, prudence and diligence under the circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs.

FINAL NOTE: All participants in the investment process shall act as custodians of the public trust. Investment officials shall recognize that the investment portfolio is subject to public review. The overall program shall be designed and managed with a degree of professionalism that is worthy of the public trust.

18. GLOSSARY OF SELECTED INVESTMENT TERMINOLOGY

ACCRUED INTEREST: Coupon interest accumulated on a bond or note since the last interest payment or, for a new issue, from the dated date to the date of delivery.

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

ASKED: The price at which securities are offered.

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

BASIS POINTS: Refers to the yield on bonds. Each percentage ~~point~~^{point of} yield in bonds equals 100 basis points (1/100% or 0.01%). If a bond yield changes from 4.20% to 4.25%, that is a change of 5 basis points.

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

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

BROKER: A person or firm that acts as an intermediary by purchasing and selling securities for others rather than for its own account.

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

COLLATERAL: Securities, evidence of deposit or other property, which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

COLLATERALIZATION: Process by which a borrower pledges securities, property, or other deposits for the purpose of securing the repayment of a loan and/or security.

COMMERCIAL PAPER: An unsecured short-term promissory note issued by corporation, with maturities ranging from 2 to 270 days.

COUPON: (a) The annual rate of interest that a bond's issuer promised to pay the bondholder on the bond's face value. (b) A certificate attached to a bond evidencing interest due on a payment date.

DEALER: A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.

DEBENTURE: A bond secured only by the general credit of the issuer.

DELIVERY VERSUS PAYMENT: There are two methods of delivery of securities: delivery versus payment and delivery versus receipt. Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

DERIVATIVE: Securities that are based on, or derived from, some underlying asset, reference date, or index.

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

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

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

FEDERAL CREDIT AGENCIES: Agencies of the Federal government set up to supply credit to various classes of institutions and individuals, *e.g.* S&L's, small business firms, students, farmers, farm cooperatives, and exporters.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): A federal agency that insures bank deposits.

FEDERAL FUNDS RATE: The rate of interest at which Fed funds are traded. This rate is currently pegged by the Federal Reserve through open-market operations.

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

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA): FNMA, like GNMA, was chartered under the Federal National Mortgage Association Act in 1938. GNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans, in addition to fixed-rate mortgages. GNMA's securities are also highly liquid and are widely accepted. GNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

FEDERAL OPEN MARKET COMMITTEE (FOMC): Consists of seven members of the Federal Reserve Board and five of the twelve Federal Reserve Bank Presidents. The President of the New York Federal Reserve Bank is a permanent member, while the other Presidents serve on a rotating basis. The Committee periodically meets to set Federal Reserve guidelines regarding purchase and sales of Government Securities in the open market as a means of influencing the volume of bank credit and money.

FEDERAL RESERVE SYSTEM: The central bank of the United States created by Congress and consisting of a seven member Board of Governors in Washington, D.C., 12 regional banks and about 5,700 commercial banks that are members of the system.

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA OR Ginnie Mae): Securities influencing the volume of bank credit guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations, and other institutions. Security holder is protected by full faith and credit of the U.S. Government. Ginnie Mae securities are backed by the FHA, VA, or FmHA mortgages. The term “pass-throughs” is often used to describe Ginnie Maes.

LIQUIDITY: A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size can be done at those quotes.

LOCAL GOVERNMENT INVESTMENT POOL (LGIP): The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

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

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

MATURITY: The date upon which the principal or stated value of an investment becomes due and payable.

MONEY MARKET: The market in which short-term debt instruments (bills, commercial paper, bankers’ acceptances, etc.) are issued and traded.

OFFER: The price asked by a seller of securities. (When you are buying securities you ask for an offer.)

OPEN MARKET OPERATIONS: Purchases and sales of government and certain other securities in the open market by the New York Federal Reserve Bank as directed by the FOMC in order to influence the volume of money and credit in the economy. Purchases inject reserves into the bank system and stimulate growth of money and credit; sales have the opposite effect. Open market operations are the Federal Reserve’s most important and most flexible monetary policy tool.

PORTFOLIO: Collection of securities held by an investor.

PRIMARY DEALER: A group of government securities dealers who submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC)-registered securities broker-dealers, banks, and a few unregulated firms.

PRUDENT PERSON RULE or PRUDENT INVESTOR STANDARD: A standard of conduct where a person acts with care, skill, prudence, and diligence when investing, re-investing, purchasing, acquiring, exchanging, selling, and managing funds. The test of whether the standard is being met is if a prudent

person acting in such a situation would engage in similar conduct to ensure that investments safeguard principal and maintain liquidity.

REPURCHASE AGREEMENT (REPO): An agreement of one party (for example, a financial institution) to sell securities to a second party (such as a local agency) and simultaneous agreement by the first party to repurchase the securities at a specified price from the second party on demand or at a specified date.

REVERSE REPURCHASE AGREEMENT: The mirror of a repurchase agreement. An agreement of one party to purchase securities at a specified price from a second party and a simultaneous agreement by the first party to resell the securities at a specified price to the second party on demand or at a specified date.

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

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

SECURITIES & EXCHANGE COMMISSION (SEC): Agency created by Congress to protect investors in securities transaction by administering securities legislation.

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

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

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

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

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

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

YIELD: The current rate of return on an investment security generally expressed as a percentage of the securities current price.