



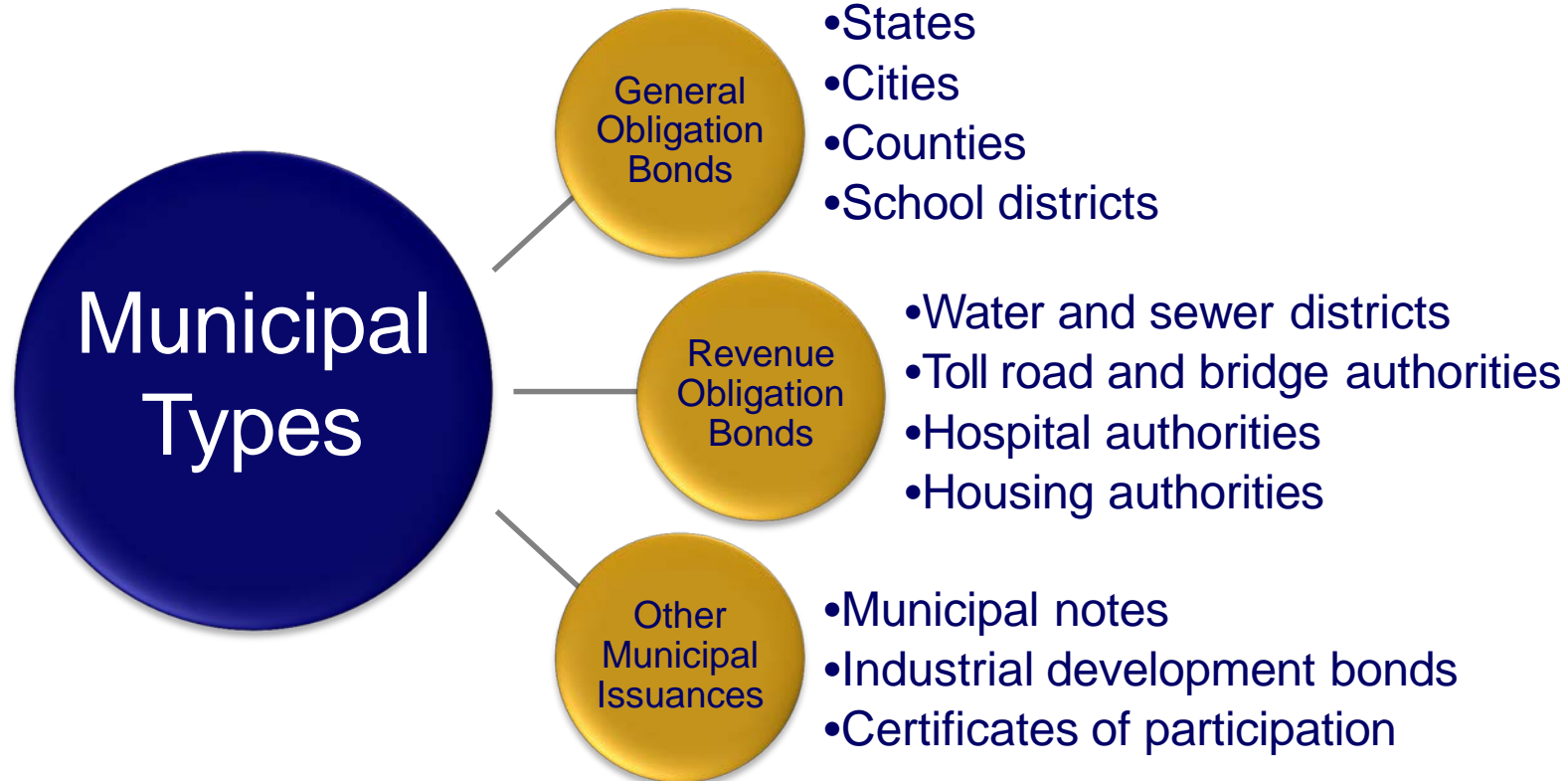
Evaluation of Municipal Securities

II. Investment Policies & Procedures

Policy Content

- Portfolio objectives
- Authorized investments
- Lines of authority and responsibility
- Risk limits
- Guidelines for pre-purchase analysis and ongoing monitoring
- Measurement and reporting
- Accounting and taxation
- Independent review

Authorized Municipal Investments



Risk Limits



Pre-purchase Analysis & Ongoing Monitoring

- Define the scope of pre-purchase analysis and ongoing monitoring
- Establish underwriting criteria to meet safety and soundness standards
- Outline acceptable use of third-party analysis
- Determine the potential use of NRSRO ratings as a component of the overall analysis

NRSRO: Nationally Recognized Statistical Rating Organization

Measurement & Reporting

- **Risk Measurement Systems**

- ◆ Identify higher-risk securities
- ◆ Measure portfolio credit, liquidity, and interest rate risks
- ◆ Summarize portfolio diversification

- **Board Reporting**

- ◆ Summarize investment activity, risk measures, and compliance with policy limitations
- ◆ Document management oversight in board minutes

Independent Review

- Appropriateness of risk management practices
- Compliance with policies, procedures, and limits
- Timeliness, integrity, and usefulness of measurement and reporting systems
- Exceptions noted and corrective action implemented

Summary

- **Investment policies should provide specific guidance, and include common elements:**
 - ◆ Authorized investments
 - ◆ Portfolio risk limits
 - ◆ Pre-purchase analysis and ongoing monitoring expectations
 - ◆ Measurement and reporting requirements
- **Policy depth and detail varies based on the nature and complexity of investment activities**