



Cash investment policy framework

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Creating a solid foundation for future cash investment decisions

A well-stated cash investment policy (hereinafter ‘investment policy’) is an essential tool for an organization to provide a clear and documented view of its objectives and permissible investments. An investment policy communicates a common understanding of guidelines to all stakeholders and ensures a consistent approach to investing through all market conditions.

Many organizations are continually updating their investment policies to reaffirm investment goals, and provide the framework flexibility to adjust to changing markets.

To help with this process, this framework outlines the most common elements in a typical investment policy, including the scope, objectives, definition of tolerance for risk and volatility, roles and responsibilities, benchmarks, permissible investments, credit quality, maximum maturity, duration, taxable versus tax-exempt investing, realized gains/losses, reporting, evaluation and compliance, and custody.

It also includes sample language for your consideration that can be customized to fit any organization’s needs.

An investment policy provides precise documentation of an organization’s objectives and permissible investments.

CASH INVESTMENT POLICY SECTION EXAMPLE

Scope

This policy shall apply to **XYZ Corp.** and the following legal entities **list each legal entity** and all future legal entities of **XYZ Corp.** This policy applies to short-term cash managed by:

(Choose all that apply)

- Internal staff of **XYZ Corp.**
- Internal staff of all related legal entities of **XYZ Corp.**
- External manager(s)

Short-term cash is defined as operating capital necessary for daily operations and reserve, restricted and strategic cash. This policy does not cover long-term or pension assets of the organization. All investments covered under this policy will be:

- Purchased in U.S. dollars
- List currencies or state that local currencies may be used by legal entities where applicable and desired to hedge asset exposure and minimize foreign exchange risk

Objectives

The primary objectives of **XYZ Corp.** are:

(Rank all that apply)

- Preservation of capital and protection of principal
- Safety of funds and investments
- Maintenance of sufficient liquidity to avoid unreasonable or avoidable risks
- Yield
- Provide a high level of current income consistent with low volatility of principal
- Achieve a total return consistent with the benchmark

The portfolio should be managed in a way that is deemed prudent under the outline of this policy.

Roles and responsibilities

Within the organizational structure, the following have been given authorization to carry out the responsibilities as shown below:

(Choose the appropriate responsibilities for each role from the list below)

ROLE:

- Board of directors
- Investment committee
- CEO
- CFO
- Treasurer
- Assistant treasurer
- Cash manager
- Treasury analyst
- Treasury department

RESPONSIBILITIES:

- Approve investment policy
- Authorize revisions and recommend changes to the investment policy
- Provide investment oversight
- Execute policy
- Interpret policy and ensure conformity
- Approve exceptions to the policy in writing
- Open investment accounts
- Establish custody relationships
- Select and change external managers
- Execute investment documents
- Update and review policy on a predetermined periodic basis
- Invest cash
- Monitor the investment results of all external investment management firms, as well as any in-house investment activities

Annual or **other time frame** review of the policy is required.

Benchmarks

XYZ Corp. intends to use the following benchmarks for each applicable currency:

(Choose the appropriate benchmark[s] for each applicable currency. Please note that this is not an exhaustive list of available benchmarks.)

USD BENCHMARKS

(BoFA Merrill Lynch and Barclays Capital are the most frequently used index providers.)

- 3-Month US Treasury Bill Index
- 6-Month US Treasury Bill Index
- 9- to 12-Month US Treasury Bill Index
- 1-3 Year Treasury Index
- 1-3 Year Government Index
- 1-3 Year Government/Credit Index
- 1-5 Year Treasury Index
- 1-5 Year Government Index
- 1-5 Year Government/Credit Index

EUR BENCHMARKS

- 3-Month Euro Government Bill Index
- 3-Month German Government Bill Index
- Euro Government Bill Index
- German Government Bill Index
- 0-1 Year Euro Government Index
- 0-1 Year AAA Euro Government Index
- 0-1 Year AAA-AA Euro Government Index
- 1-3 Year Euro Government Index

- 1-3 Year AAA Euro Government Index
- 1-3 Year AAA-AA Euro Government Index
- 1-3 Year Euro Aggregate Bond Index
- 1-3 Year Global Government Bond Index Hedged to EUR

GBP BENCHMARKS

- 0-1 Year UK Gilt Index
- 1-3 Year Sterling Broad Market Index
- 1-3 Year AAA Sterling Broad Market Index
- 1-3 Year AAA-AA Sterling Broad Market Index
- 1-3 Year Global Government Bond Index Hedged to GBP

SGD BENCHMARKS

- 1-3 Year Singapore Government Index
- 1-3 Year Global Government Bond Index Hedged to SGD

AUD BENCHMARKS

- 1-3 Year Australia Government Index
- 1-3 Year Australia Broad Market Index

Permissible investments

While different countries will have different investment options, the permissible investments section of an investment policy defines the types of securities that are permitted along with parameters for credit quality, maturity and diversifica-

tion. This section should be updated periodically to reflect market changes and the organization's evolving investment philosophy. The following chart is provided for illustrative purposes only, and does not represent all investments or parameters. Based upon objectives, the organization would assign an appropriate parameter from the suggested ranges below.

Security type ¹	Minimum credit rating ^{2,3}	Maximum maturity	Maximum portfolio exposure ³	Maximum issuer exposure ³
U.S. Treasury Securities	N/A	0 - 5 years	No limit	No limit
U.S. Government Agency Obligations	N/A	0 - 5 years	50% - No limit	No limit
Obligations of Non-U.S. Agencies, Governments and Supranational Organizations	All investment grade ratings from AAA to BBB-, or the equivalent, depending on credit risk tolerance	0 - 5 years	50% - No limit	5% - No limit
Commercial Paper ⁴	All investment grade ratings from A-1+ to A-2, or the equivalent, depending on credit risk tolerance	0 - 397 days	50% - No limit	3% - 5%
Asset-Backed Commercial Paper	All investment grade ratings from A-1+ to A-2, or the equivalent, depending on credit risk tolerance	0 - 397 days	50% - No limit	3% - 5%
Certificates of Deposit (Domestic, Eurodollar and Yankee)	All investment grade ratings from A-1+ to A-2, or the equivalent, depending on credit risk tolerance ⁵	0 - 5 years	50% - No limit	3% - 5%
Time Deposits, including Eurodollar Deposits	All investment grade ratings from A-1+ to A-2, or the equivalent, depending on credit risk tolerance ⁵	0 - 3 months	50% - No limit	3% - 5%
Money Market Funds (Institutional)	SEC Rule 2a-7 compliant, Institutional Money Market Funds Association (IMMFA) compliant ⁶ European Securities and Markets Authority (ESMA) ST MMF ⁶	N/A	50% - No limit	No greater than 5% to 10% of total assets of the money market fund
Private Placement Funds, including 3(c)(7) funds, Lux Specialized Investment Funds (SIF)	N/A	N/A	50% - No limit	No greater than 5% to 10% of total assets of the fund
Variable NAV Short-Term Fixed Income Funds	Not generally applicable	N/A	50% - No limit	No greater than 5% to 10% of total assets of the fund
Corporate Debt Securities, including Corporate Notes, Bonds and Medium-Term Notes (fixed and floating rate)	All investment grade ratings from AAA to BBB-, or the equivalent, depending on credit risk tolerance	0 - 5 years	0% - 50%	3% - 5%
Asset-Backed Securities, including, but not limited to, securities backed by credit card, auto, and other assets	AAA/Aaa/AAA	0 - 5 years weighted average life	0% - 30%	3% - 5%
Mortgage-Backed Securities, limited to agency mortgage-backed securities, including agency-collateralized mortgage obligations	N/A	0 - 5 years weighted average life	0% - 30%	3% - 5%
Commercial Mortgage-Backed Securities	AAA/Aaa/AAA	0 - 5 years weighted average life	0% - 30%	3% - 5%
Traditional Repurchase Agreement, collateralized fully by cash or U.S. Government Securities ⁷	All investment grade ratings from A-1+ to A-2, or the equivalent, depending on credit risk tolerance	Overnight to 95 days	50% - No limit	0% - 25%
Non-Traditional Repurchase Agreement, collateralized by corporate debt securities, sovereign debt, municipal debt, private mortgages, asset-backed securities, money market securities and equity	All investment grade ratings from A-1+ to A-2, or the equivalent, depending on credit risk tolerance	Overnight to 95 days	50% - No limit	0% - 10%
Variable Rate Demand Notes (VRDN)	A-1+/P-1/F1, SP-1+/Variable Municipal Investment Grade (VMIG) 1/F1 A-1/P-1/F1, SP-1/VMIG 1/F1 ⁸	0 - 397 days ⁹	0% - 100%	3% - 10%
Municipal Securities	All investment grade ratings from AAA to BBB-, or the equivalent, depending on credit risk tolerance ^{8,10,11}	0 - 5 years	0% - 100%	3% - 10%
Covered Bonds	AAA/Aaa/AAA	0 - 5 years	0% - 50%	3% - 5%

¹Where applicable, specify if it is permissible to purchase instruments in broad range of currencies. ²Order of ratings is S&P/Moody's/Fitch. ³At time of purchase. ⁴Including Euro Commercial Paper (ECP). ⁵Depending upon the tenor of the certificates of deposit, long-term ratings may be more appropriate than the short-term ratings shown here. ⁶Details on requirements are included in the Reference Guide. ⁷Repurchase agreements are referred to as reverse repurchase agreements outside the United States. ⁸Or, if unrated, have been determined to be of comparable quality. ⁹For VRDNs, most commonly used maturity limits are reset dates with most being puttable either daily or weekly, in which case an investor would receive its principal back within 1-5 business days stating a similar effective maturity. ¹⁰Depending on the tenor of municipal securities, short-term ratings may need to be included here as well, such as A-1+/P-1 or the equivalent. ¹¹It is common to use short-term ratings, especially with notes, i.e., Bond Anticipation Notes, Tax Anticipation Notes and Tax and Revenue Anticipation Notes.

Credit quality

The minimum average credit quality of the portfolio will be (choose one from the list below) or the equivalent:

- AAA
- AA+
- AA
- AA-
- A+
- A
- A-
- BBB+
- BBB
- BBB-

The minimum credit quality for individual securities with short-term ratings will be (choose one from the list below) or the equivalent:

- A-1+/P-1/F1+
- A-1/P-1/F1
- A-2/P-2/F2

The minimum credit quality for individual securities with long-term ratings will be (choose one from the list below) or the equivalent:

- AAA/Aaa/AAA
- AA+/Aa1/AA+
- AA/Aa2/AA
- AA-/Aa3/AA-
- A+/A1/A+
- A/A2/A
- A-/A3/A-
- BBB+/Baa1/BBB+
- BBB/Baa2/BBB
- BBB-/Baa3/BBB-

For securities with split ratings, the (choose one from the list below) will prevail:

- Lowest rating
- Middle rating
- Highest rating

Each individual security held within the portfolio must be rated by:

(Choose one)

- At least one nationally recognized statistical ratings organization such as S&P, Moody's or Fitch
- At least two nationally recognized statistical ratings organizations such as S&P, Moody's or Fitch
- Unrated securities may be included if the investment manager assigns an equivalent rating to the required minimum

Such ratings are required:

(Choose one)

- At time of purchase
- At all times

Maximum maturity

At the time of purchase only, maximum maturity of individual securities is X years. For securities with puts or mandatory tenders, the put date or mandatory tender date will be used as the final maturity. For amortizing assets (such as asset-backed securities and mortgage-backed securities), the weighted average life (WAL) will be used as the measure of maturity. At the time of purchase only, the maximum WAL will not exceed X years.

Duration

The maximum interest rate duration of the portfolio will be no longer than year(s).

Taxable versus tax-exempt investing

This item is applicable to U.S. investors only. Other countries may have similar considerations:

The organization will invest on a tax-aware basis to maximize after-tax return, subject to any net operating losses (NOLs) or other tax implications that may preclude the use of tax-exempt securities, and subject to all other criteria required by the policy. Because the organization’s tax situation may change over time, its tax basis for the coming year will be determined annually by the Tax Department. Additionally, each portfolio must be reviewed with its portfolio managers to ensure it meets the organization’s tax needs at that time. The determination regarding purchase of a taxable security versus a tax-exempt security shall be made at the time of purchase of each security.

Realized gain/loss

(Choose all that apply)

- Organization will establish an appropriate threshold for the potential realization of investment net gains and/or losses
- Net realized gains and/or losses will be kept to percentage or dollars per month/quarter
- Currently does not apply because the strategy is buy-and-hold, and securities are held to maturity

Reportings

(Choose all that apply)

- The investment manager
- The custodian
- The broker
- The internal treasury personnel

responsible for the management of cash will provide statements, including transactions, market valuation, Financial Accounting Standards Board (FASB)/International Accounting Standards Board (IASB)/generally accepted accounting principles (GAAP) valuations, cash accruals and a review of the performance of the portfolio assets versus appropriate benchmarks.

The reports should include the following:

- List of all securities held in the portfolio including CUSIP, coupon and maturity dates, yield to maturity, and ratings of the securities
- Mark-to-market details with unrealized gain/loss of each security in the portfolio
- Performance total returns for the month, year-to-date, rolling 1-year and 3-year periods as well as all periods since inception
- Certification of compliance with investment policy

(Choose the frequency for each of the appropriate reports)

- Monthly
- Quarterly
- Semi-annually
- Annually

For investments in money market mutual funds, a detailed holdings report and fact sheet will be obtained monthly.

Evaluation and compliance

This policy has been approved by the **(choose one from list A)**. This policy is subject to amendment from time to time. The **(choose one)** is responsible for implementing, overseeing and reviewing this policy and for making recommendations to the **(choose one)** for modifications thereto. Furthermore, the **(choose one)** has the authority to appoint qualifying outside managers. Should an exception need to be made, the **(choose one)** must approve. Any modifications or updates to this policy must be approved by the **(choose one)**.

(List A – choose one)

- Board of directors
- Investment committee
- CEO
- CFO
- Treasurer
- Assistant treasurer
- Cash manager
- Treasury analyst
- Treasury department

The **(choose one from list A)** will review the following on a:

(Choose one)

- Quarterly basis
- Semi-annual basis
- Annual basis
- Other

- Investment results for the most recent fiscal quarter
- Investment allocations among instruments
- Allocation of assets among investment solutions (money market mutual funds, bank deposits, individual securities)
- Credit ratings for the investment solutions and investment providers
- Current strategy given the outlook on interest rates, market conditions and liquidity needs
- Compliance with the investment policy

In the event a security is downgraded below minimum acceptable rating levels by any of the nationally recognized statistical rating organizations (NRSROs):

The external investment manager and/or treasury personnel responsible for the internal management of the corporate cash will provide the **(choose one from list A)** with a recommended course of action within a reasonable period of time. This may include selling the security. However, if the decision is made to hold the security, the reason for the decision must be documented.

Custody

All institutions with whom the organization is permitted to place investments are eligible to provide custodial services. The organization will use custody services provided by:

(Choose one)

- External investment manager
- Broker-dealer
- Third-party custodian

Prior to contracting for custodial services, the external investment manager, broker-dealer or third-party custodian must agree to provide reporting as required by the organization in this policy along with an annual SAS 70 or similar statement.

Approved as of _____, 2016.

XYZ Corp.

By: _____

Name: _____

Title: _____

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