

POLICY		FIN-PLA-605	
Investment		Category FIN - Finance	Sub-category FIN - Financial Planning
Approval Type COUNCIL	Department/Division Financial Planning	Author and Position Senior Financial Analyst	
Date Approved August 30, 2004	Last Reviewed/Amended March 3, 2025	Next Review Date March 3, 2030	

Related Policies or Procedures

- [Municipal Act, 2001, S.O. 2001, c. 25, Part XIII, Section 418\(1\)](#)
- [Municipal Act, 2001, S.O. 2001, c. 25 O. Reg. 438/97: Eligible Investments, Related Financial Agreements and Prudent Investment](#)
- [Planning Act, R.S.O. 1990, c.P.13 O. Reg. 461/24: Surety Bonds - Section 70.3.1 of the Act](#)

Policy Purpose

It is the policy of the City of Kitchener to invest public funds in a manner that will provide the highest investment return while protecting and preserving capital, maintaining liquidity, meeting the daily cash flow demands of the City and conforming to all legislation governing the investment of public funds.

The purpose of the policy is to establish guidelines and controls related to the investment and holding of public funds to ensure funds are available when needed, while maximizing return.

Definitions

Asset-backed Securities – short- or long-term debt instruments, which are backed by high quality assets (such as loans or mortgages) of the issuer, issued under Reg. 733(50)(1) of the Loans and Trust Corporations Act

Commercial Paper – short-term notes or drafts issued by a corporation, incorporated under the laws of Canada or a province of Canada

Credit Risk – risk to an investor that the issuer of an investment will default interest or principal payments

Credit Union - community based financial co-operatives owned and controlled by members

Diversification – process of investing in a range of security types by class, sector, maturity, and quality rating

Dominion Bond Rating Service (DBRS) – a service that assesses the credit rating of institutions

Forward Rate Agreement (FRA) – contract with a qualified financial institution allowing an investor to fix the interest rate to be received on an investment for a specified term beginning at an agreed to future date

Interest rate risk – risk of an increase or decrease in the value of a fixed income security caused by declining or rising interest rates

Long-term investment – investment whose term to maturity is greater than two years.

Liquidity – measure of asset's convertibility into cash

ONE Fund Public Sector Group of Funds – pooled investment fund meeting the eligibility criteria defined by the regulations under the Municipal Act. It is operated by the Local Authorities Service Limited and CHUMS Financing Corporation

Regulation – Ontario Regulation 438/97 related to section 418 and 418.1 of the Municipal Act, 2001 “Eligible Investments, Related Financial Agreements and Prudent Investment”

Schedule I Bank – a chartered bank operating under the Bank Act. The voting shares must be widely held with no investor holding more than 10% and foreign ownership limited to 25%

Schedule II Bank – a chartered bank operating under the Bank Act. It may be wholly owned by non-residents

Schedule III Bank – a foreign bank branch of foreign institutions operating under the Bank Act under certain restrictions

Short-term Investment – investment whose term to maturity is two years or less

Supranational Institutions – an agency sponsored by highly rated foreign bank(s) or Governments issuing debt to fund loans in developing countries for large infrastructure projects. They may be owned or guaranteed by a consortium of national governments

Trust Company – financial institution which acts as a fiduciary, trustee or agent in the administration of trust funds, estates and custodial arrangements

Policy Scope

The investment policy applies to all financial assets of the City of Kitchener held within the general fund, capital fund, reserve funds, enterprise funds, and trust funds.

Application

- Employees** *(Indicate below which categories apply: All employees, Permanent full-time, Temporary full-time, Continuous part-time, Casual, Probationary, Student, Management, Non-union)*
- All employees
- Unions** *(Indicate below which categories apply: All Unions, CUPE 68 Civic, CUPE 68 Mechanics, CUPE 791, IATSE, IBEW, KPFFA)*
- Click or tap here to enter text.
- Council**
- Specified Positions:** Click or tap here to enter text.
- Other:** Local Boards and Advisory Committees

Responsibilities:

Council

Under section 224(e) of the Municipal Act 2001, Council is responsible for “maintaining the financial integrity of the municipality.” Council is required to make decisions that adhere to the financial policies and procedures that have been put in place to provide investment income for the municipality.

Chief Administrative Officer

Under section 229(a) of the Municipal Act 2001, the Chief Administrative Officer is responsible for “exercising general control and management of the affairs of the municipality for the purpose of ensuring the efficient and effective operation of the municipality.” This includes ensuring that processes are in place that support the effective administration related to investment of City funds.

Chief Financial Officer (Treasurer)

Under section 286(1) of the Municipal Act 2001, the treasurer is responsible for “handling all of the financial affairs of the municipality on behalf of and in the manner directed by the council.” For the purpose of this policy this includes:

- Monitoring adherence to statutory requirements
- Ensuring preservation of capital
- Monitoring interest rate risk
- Ensuring liquidity of investments
- Maximizing return on investments

Director of Financial PlanningReporting & ERP Solutions

As part of their role the Director of Financial PlanningReporting & ERP Solutions has been delegated authority and is responsible for:

- Managing the City’s overall investment portfolio
- Establishing investment procedures aligned with this policy
- Monitoring cash flow to make effective investment decisions
- Ensuring proper controls are in place related to investments
- Delegating specific investment related tasks to staff where appropriate

Policy Content

Objectives:

The primary objectives, in order of priority, of the City's investment activities shall be:

a) Adherence to statutory requirements

Investment activity will be governed by the Municipal Act as amended and limited to eligible investments under the Act and associated provincial regulations

b) Preservation of capital

Safety of principal is a key objective of the investment program. Investments of the City shall be undertaken in a manner that seeks to ensure the preservation of capital including:

- Utilizing credit ratings to assess the overall credit risk related to a particular investment
- Diversifying the overall investment portfolio in accordance with this policy
- Properly assessing and mitigating risk associated with fluctuating interest rates for short- and long-term investments

c) Liquidity

The City's investment portfolio will remain sufficiently liquid to enable the City to meet all operating and capital requirements that might be reasonably anticipated and to limit temporary borrowing requirements.

d) Return on Investments

The investment portfolio shall be designed to attain the maximum rate of return while meeting the above three objectives

Eligible investments

a) Section 418 of Ontario Regulation 438/97 provides a list of eligible securities that the municipality may invest in. The regulation includes securities such as bonds, debentures, promissory notes, and other evidence of indebtedness. The City of Kitchener will consider potential investment opportunities related to all eligible securities types included in the regulation provided that:

- They align with the City's overall investment policy objectives and comply with all other aspects of this policy
- They have a credit rating of "Superior" or "Good" as defined in Schedule A and meet the minimum credit rating requirements and conditions as outlined in the regulation

- They have not been specifically restricted or excluded in this policy

b) Exclusions – Prudent Investor Standard (Section 418.1)

Part of Ontario Regulation 438/97 includes new prudent investor standards that allow municipalities that meet certain eligibility criteria the option to invest in a broader range of securities. The City of Kitchener has not opted-in to this new standard and as such, is only authorized to invest in securities described under section 418 and not section 418.1 of the regulation.

c) The City may enter Forward Rate Agreements (FRA) to reduce the risk of future interest rate changes associated with known cash inflows provided that:

- The FRA is only executed with Schedule I, II, or III Banks whose minimum DBRS rating is “A (high)” or equivalent as prescribed in the regulation
- The term of any FRA must be less than 12 months
- An agreement must specify the forward amount, settlement date, forward interest rate, reference interest rate, as well as other pertinent details as prescribed in the regulation
- The agreement must be reviewed and approved by the Treasurer and comply with all other requirements of the regulation

d) The City of Kitchener may enter into an Agency Agreement with the “ONE Fund Program” for the purpose of participating in joint municipal investment funds. Unrated municipalities are only permitted to invest in the following securities if made through the ONE Fund Program:

- Commercial paper
- Corporate debt and shares
- Asset-backed securities

A Council approved bylaw is required prior to entering into any such agreement.

Diversification

The City of Kitchener will diversify its investments by security type and institution according to Schedule B. These restrictions apply at the time an investment is made. At specific times, portfolio limitations may be exceeded as a result of timing of individual instrument maturities.

Safekeeping and custody

Backup information for the City’s Investments and letters of credit are stored physically on site or electronically on City servers.

Term of investments

To the extent possible, the City will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the City will not directly invest in securities maturing more than two years from the date of purchase. Reserve and Trust Funds may be invested in securities exceeding two years if the maturity of such investments is made to coincide as nearly as possible with the expected use of the funds.

Performance standards

The investment portfolio shall be designed with the objective of obtaining a rate of return throughout budgetary and economic cycles commensurate with the investment risk constraints and the cash flow needs. Yields on the short-term portfolio should be higher than the rate given by the City's bank for the City's general bank account.

Standard of care

a) Prudence

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.

Investment officers and employees exercising due diligence and acting in accordance with written procedures and this Policy shall be relieved of personal responsibility for an individual security's credit risks or market price changes, provided deviations from expectations are reported in a timely fashion and the liquidation or the sale of securities are carried out in accordance with the terms of the Policy.

b) Ethics and Conflicts of Interest

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Officers and employees shall not undertake personal transactions with the same individuals with whom business is conducted on behalf of the Corporation.

c) Internal Control

The Treasurer shall ensure adequate internal controls over investment policies and procedures. The Treasurer shall establish a process of independent review by an internal or external auditor.

d) Reporting

The Treasurer shall provide an investment report to Council at least twice per year.

Authorized investment dealers

Authorized investment dealers must be registered as Investment Dealers with the Ontario Securities Commission and be members of the Investment Dealers Association of Canada, and be approved by the Treasurer.

Securities for subdivision and Development Servicing

The objective of the securities policy is to ensure that monies to guarantee the installation of services will be available to the City when required.

The City of Kitchener shall accept only the following approved securities:

a) Cash in the form of bank draft or certified cheque, at the discretion of the Treasurer.

a)b) Letter of Credit (in prescribed form acceptable to the City Solicitor) issued by a Schedule I bank, Schedule II bank, Schedule III bank or Trust Company with a minimum DBRS rating A (low) (or equivalent).

b)c) Letter of Credit (in prescribed form acceptable to the City Solicitor) issued by a Credit Union provided that:

- The Credit Union is verified as a member of the Central 1 Credit Union
- The Central 1 Credit Union is rated A (low) (or equivalent) or higher
- The Credit Union has its Head Office in Ontario
- The cumulative Letters of Credit do not exceed 1% of the Credit Union's Tier 1 Capital as per the Credit Union's most recent audited financial statements.

d) Surety Bond (in prescribed form acceptable to the City Solicitor) in accordance with the requirements of O. Reg. 461/24: Surety Bonds - Section 70.3.1 of the Act under the Planning Act, R.S.O. 1990, c. P.13.

If a Letter of Credit or a Surety Bond was previously accepted in accordance with the above and the institution has since been downgraded and/or no longer meets the minimum

requirements, the City may request a new acceptable form of security.

Results of Review

- No Edits Required
- Housekeeping Edits
- Substantial Edits
- Repeal/Replace

Policy History

Administrative and Housekeeping Changes

Date	Nature of Change
2016-07-01	I-605 policy template re-formatted to new numbering system and given number FIN-PLA-605

Substantial Changes

Date	Council/CLT Directive
2008-04-07	Resolution passed by Council
2012-12-03	Resolution passed by Council, see report FCS-12-189
2016-06-01	I-605 policy template was re-formatted to new numbering system and given number FIN-PLA-605
2017-06-05	Resolution passed by Council, see report FCS-17-095
2021-04-26	Resolution passed by Council, see report FIN-2021-20

SCHEDULE A:

LONG-TERM CREDIT RATINGS

The following chart compares the different scales for long-term securities used by four rating agencies recognized in Ontario Regulation 438/97.

Credit Quality	DBRS	S&P	Moody's	Fitch
Superior: extremely strong capacity to repay principal and interest	AAA	AAA	Aaa	AAA
	AA (high)	AA+	Aa1	AA+
	AA	AA	Aa2	AA
	AA (low)	AA-	Aa3	AA-
Good: strong capacity to repay principal and interest	A (high)	A+	A1	A+
	A	A	A2	A
	A (low)	A-	A3	A-

SHORT-TERM CREDIT RATINGS

The following chart compares the different scales for short-term securities used by three rating agencies recognized in Ontario Regulation 438/97.

Credit Quality	DBRS	S&P	Fitch
Superior: extremely strong capacity to repay principal and interest	R-1 (high) R-1 (middle)	A-1+	F-1+
Good: strong capacity to repay principal and interest	R-1 (low)	A-1	F-1

Schedule B:

INVESTMENT POLICY DIVERSIFICATION SUMMARY – SHORT-TERM PORTFOLIO

Sector	Maximum Portfolio Share	Limits**
Government of Canada	100%	None
Provinces	100%	25%/issuer
Municipalities	20%	10%/issuer
Schedule I Banks	100%	Top 5 major chartered banks: 75%/issuer*; Other Schedule I banks: 25%/issuer
Schedule II Banks and Schedule III Banks	30%	HSBC Canada: 25%; Other Schedule II and III banks: 10%/issuer
Credit Unions and Trust Companies	20%	10%/issuer
Pooled Investment Funds	100%	None

* The minimum primary bank account balance required to obtain a preferred rate is excluded from the limit per issuer.

** Compliance with limits is required within 30 days of non-compliance.

INVESTMENT POLICY DIVERSIFICATION SUMMARY – LONG-TERM PORTFOLIO

Sector	Maximum Portfolio Share	Limits
Government of Canada	100%	None
Governments of other countries and supranationals	10%	5%/issuer
Provinces	50%	25%/issuer
Municipalities Region of Waterloo Other municipalities College, University, Housing Corp., Hospital	35% total 35% 25% 10%	10%/issuer
Incorporated Municipal Electrical Utilities	100%	Common Shares – Total issued to City at incorporation; Preferred Shares – None
Financial Schedule I banks – top 5 major chartered banks Other Schedule I, II, III banks, Trust Companies, Credit Unions	75% total 75% 20%	Top 5 - 25%/issuer Other – 10%/issuer
Pooled Investment Funds	75%	10% limit on equity portfolio