



# INVESTMENT POLICY

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## 1. Definitions

In this policy, the following words have the following meaning, unless the context indicates otherwise:

**“Act”** means the Local Government: Municipal Finance Management Act, 2003 (Act 56 of 2003), as amended.

**“Bank”** means an institution registered as a bank in terms of the Banks Act, 1990 (Act 94 of 1990).

**“City”** means the City of Tshwane, established by Notice 6770 of 2000 in terms of section 12(i) read with sections 14(2) and 90(2) of the Local Government: Municipal Structures Act, 1998 (Act 117 of 1998).

**“Corporate bonds”** means a debt security issued by a company or other corporation, and the term “commercial paper” has the same meaning.

**“Council”** means the Council of the City of Tshwane or any of the other political structures, political office bearers, councillors or staff members of the City that are duly authorised by delegation.

**“Custodian”** means the financial institution responsible for holding the City’s securities and financial instruments in safekeeping.

**“Investee”** means either an institution with which an investment is placed or its agent.

**“Investment”** means –

- (a) the placing on deposit of funds with a financial institution; or
- (b) the acquisition of monetary assets with funds that are not immediately required, with the primary aim of preserving those funds.

**“Investment manager”** means a natural person or legal entity that is a portfolio manager registered in terms of the Financial Advisory and Intermediary Act, 2002 (Act 37 of 2002) that is contracted by a municipality or municipal entity to –

- (a) advise it on investments;
- (b) manage investments on its behalf; or
- (c) both.

**“Liquidity”** means sufficient cash that is available to meet current expenditure.

**“Finance Minister”** means the cabinet member who is in charge of government finances, economic policy and financial regulation.

**“Municipal entity”** means any municipal entity as defined in section 1 of the Local Government: Municipal Systems Act, 2000 (Act 32 of 2000) and Regulations.

**“Regulations”** means the National Treasury’s Municipal Investment Regulations in terms of section 3 of the Act (Government Notice R308 Government Gazette 27431, 1 April 2005);

**“Sovereign rating”** means the credit rating of the national government.

**“Trust money”** means money held in trust on behalf of third parties in a trust contemplated in terms of section 12 of the MFMA.

## **2. Purpose**

- 2.1 The purpose of this policy is to ensure sound and sustainable management of the City of Tshwane's investments by complying, amongst others, with section 13 of the Municipal Financial Management Act, 2003 (Act 56 of 2003) (MFMA), which requires that a municipality must establish an appropriate and effective investment policy in accordance with the frameworks prescribed by the Minister of Finance as set out in the Municipal Investment Regulations (Government Notice R308, Government Gazette 27431, 1 April 2005). The policy must also guide the manner in which the City conducts the management of its cash and investments (investment of money not immediately required by the City).
- (a) This policy is an update of the current investment policy updated and adopted in November 2005.
  - (b) It must be noted that, in terms of section 13(2) of the Municipal Financial Management Act, 2003 (Act 56 of 2003) and the Municipal Investment Regulations, a municipality must establish an appropriate and effective cash management and investment policy in accordance with any framework that may be prescribed in terms of section 13(1) of the MFMA that stipulates that the Minister, acting with the concurrence of the cabinet member responsible for local government, may prescribe a framework within which municipalities must –
    - (i) conduct their cash management and investments; and
    - (ii) invest money that is not immediately required.

## **3. Strategic objectives**

- 3.1 Ensure the preservation and safety of the City's investments by investing money that is not immediately required for the City's operations.
- 3.2 Ensure diversification of the City's investment portfolio across acceptable investees, permitted types of investment, and investment maturities.
- 3.3 Ensure compliance with the relevant legal and statutory requirements that relate to cash management and investments.
- 3.4 Ensure that the liquidity needs of the City are properly addressed.
- 3.5 Ensure timeous reporting of the investment portfolio as required by the MFMA in accordance with generally recognised accounting practice (GRAP).

#### **4. Strategic pillars**

- 4.1 A City that facilitates economic growth and job creation
- 4.2 A City that care for residents and promotes inclusivity
- 4.3 A City delivers excellent services and protects the environment
- 4.4 A City that keeps residents' safe
- 4.5 A City that is open, honest and responsible

#### **5. Background**

In accordance with the vision of the City of Tshwane adopted on 25 May 2017, Tshwane is a prosperous capital city through fairness, freedom and opportunity. The vision is institutionalised through the City's Integrated Development Plan (IDP) process adopted in 2017 and anchored in certain strategic pillars in an effort to attain its mission and vision.

- 5.1 In order to achieve this vision in relation to investments, the City must ensure the following:
  - (a) Compliance with the relevant legal and statutory requirements related to cash management and investments
  - (b) The preservation and safety of the City's investments
  - (c) Diversification of the City's investment portfolio across acceptable investees and permitted types of investments and their maturities
  - (d) Timeous reporting of the investment portfolio as required by the MFMA in accordance with generally recognised accounting practice
  - (e) Proper addressing of the City's liquidity needs
  - (f) Appropriate and cost-effective investments in accordance with the framework and guidelines as presented by relevant legislation and the National Treasury
  - (g) Disclosure of all relevant information to all relevant parties and prescription of the process to be followed in making investments
  - (h) Investment decisions that are all made by the appropriate delegated authority
  - (i) Regular reporting on the status of the City's investments
  - (j) Prohibition of investment of funds for speculative purposes
  - (k) Transparency and compliance with regard to all processes

- (l) Assistance in the City's endeavours to achieve operational and strategic objectives through the investment of surplus funds

## **6. Discussion**

This policy governs the investment of money not immediately required by the City to pay operational and other expenditure. However, the policy does not apply to trust monies administered by the City, where the trust deed prescribes how the trust money is to be invested.

### **6.1 Legal compliance – the act and regulations**

6.1.1 Chapter 1 of the MFMA defines an investment in relation to the funds of a municipality as follows:

- (a) *“Investment”, in relation to funds of a municipality, means-*
  - (i) *The placing on deposit of funds of a municipality with a financial institution; or*
  - (ii) *The acquisition of assets with funds of a municipality not immediately required, with the primary aim of preserving those funds.*

6.1.2 Short-term investments are funds that are not immediately required to expunge the municipality's commitments and are deposited for a period that does not exceed one year, whereas long-term investments are funds that are not immediately required to expunge the municipality's commitments and are deposited for a period that exceeds one year, either as security to loan obligations or as an interest-earning investment.

No fee, commission or reward for investments made or referred may be paid to an official or councillor, or to a spouse or close family member of such councillor or official of the City in respect of any investment made by the City. Any fee paid to an investment manager by an investee must be declared by means of a certificate. Performance-related fees may be negotiated and paid based on agreed benchmarks and set targets; these fees or expenditure must also be budgeted for.

### **6.2 Investments**

6.2.1 The following investments may be undertaken, after the appropriate need for future funds of a municipality has been investigated:

- (a) Securities issued by the national government
- (b) Listed corporate bonds with an investment grade rating from an internationally recognised credit rating agency

- (c) Deposits with banks that are registered in terms of the Banks Act, 1990 (Act 94 of 1990)
- (d) Deposits with the public investments commissioners as contemplated by the Public Investment Commissioners Act, 1984 (Act 46 of 1984)
- (e) Banker's acceptance certificates or negotiable certificates of deposit of banks registered in terms of the Banks Act, 1990 (Act 94 of 1990)
- (f) Guaranteed endowment policies with the intention of establishing a redemption or sinking fund
- (g) Repurchase agreements with banks that are registered in terms of the Banks Act, 1990 (Act 94 of 1990)
- (h) Municipal bonds that are issued by a municipality
- (i) Any other investment type as the Minister of Finance, acting with the concurrence of the cabinet member responsible for local government, may identify by regulation in terms of section 168 of the MFMA.
  - (i) The Minister of Finance may also, by notice in the Government Gazette and after consultation with the Financial Sector Conduct Authority, determine investments other than those mentioned above.
  - (ii) The City is prohibited from making investments in the following financial instruments:
    - (aa) Listed or unlisted shares or unit trusts
    - (bb) Investments denominated in foreign currency
    - (cc) Market-linked endowment policies
    - (dd) Credit-linked notes

The City may not borrow money for investment or buy and sell money market instruments with a view to making profit.

- 6.2.2 Investments must be made without internal or external negative interference, that is, none of the following people or organisations should negatively interfere with the City's investment transactions: officials, councillors, agents, investees or any external bodies.
- 6.2.3 Although alternative interest rates on offer need to be disclosed when negotiating a rate on an investment with individual investees, officials must not share such information with anyone. Officials must also discuss neither the City's cash position nor its projected future cash flows with investees.
- 6.2.4 All investments must be denominated in rand and not be indexed to or affected by fluctuations in the value of the rand against any foreign currency.



Note that no investments that were permitted at the time of purchase should be liquidated: only non-permitted investments that contravened the MFMA and/or regulations when the investments were made must be liquidated.

By diligently adhering to the prescripts of this section, the City will ensure that its investment portfolio is diversified across acceptable investees, permitted types of investments, and investment maturities. The City will also ensure that its liquidity needs are properly addressed.

### **6.3 Delegations**

The delegation of authority approved by the City for investments assigns the responsibility for making short-term investments to the City Manager who, in turn, sub-delegates the same to the Chief Financial Officer.

The Accounting Officer –

- (a) reviews and updates the policy statement on investments for approval by Council;
- (b) manages the risk and cost associated with investments by –
  - (i) approving the list of financial institutions used for the placement of investments;
  - (ii) determining the percentage of exposure or allocation to each financial institution;
  - (iii) analysing and determining the surplus amounts to be invested;
  - (iv) making recommendations to Council on taking up loans to be invested in the City's long-term capital projects;
  - (v) evaluating and making decisions on any other matter in relation to the management of cash and required loans for investment on capital projects; and
  - (vi) sourcing external service providers for specialised services, for example, securing the services of fund managers through appropriate procurement processes as set out in the Supply Chain Management Policy in order to manage the redemption or sinking fund.

It must be noted that, according to section 117 of the MFMA, no councillor of any municipality may be a member of a municipal bid committee or any other committee that evaluates or approves tenders, quotations, contracts or other bids, nor may any councillor attend any such committee meeting as an observer.

## **6.4 Investment process**

- 6.4.1 The Accounting Officer needs to determine the surplus funds to invest and the period for which those funds can be invested.
- 6.4.2 All investments must be done with due care and through a competitive bidding process.
- 6.4.3 At least three investment quotes must be obtained from approved investment institutions before any investment can be made with any institution.
- 6.4.4 All three investment quotes must be submitted to the Accounting Officer with an approval recommendation based on the following:
  - (a) Yield
  - (b) Cost, if any
  - (c) Percentage allocation, of the total amount to be invested, across the investment institutions
  - (d) All short-term investments must meet the following objectives:
    - (i) Preservation and safety of capital
    - (ii) Liquidity
    - (iii) Yield
  - (e) The investment(s) must be made within 48 hours after receiving approval from the Accounting Officer.
    - (i) Investment documentation and certificates must be entered into a register and safely stored.
    - (ii) Monthly reconciliations must be performed on all investment accounts and signed off by the appropriate manager.
    - (iii) It must be ensured that, for all long-term investments, future debt obligations are met and addressed in accordance with the requirements of section 48 of the MFMA that deals with the provision of securities.
    - (iv) The City may appoint an investment manager to assist the City with managing its investments, following appropriate procurement procedures.

## **6.5 Investment managers**

- 6.5.1 No fee, commission or other reward for investments made or referred to is payable to an official or councillor of the City by an investee or an investment manager. Any fee paid to an investment manager by an investee must be declared through a certificate.

- 6.5.2 Performance-related fees may be negotiated and paid based on agreed benchmarks and set budgeted targets provided for such expenditures. Agreed benchmarks may not be lower than the benchmarks set in the policy.

The investment processes under 6.4 above do not apply to appointed investment managers where their mandates do not specifically require them to adhere thereto.

## **6.6 Performance review**

- 6.6.1 The performance of all short-term investments must be managed according to an appropriate and suitable benchmark that should at least equal to a minimum risk rate return such as that of JIBAR or SAFEX less ten basis points (0,10%). In the case of investments made with the objective of long-term liability redemption, such minimum return may be set with reference to the liabilities in question.
- 6.6.2 Performance of all short-term investments must be based on an agreed benchmark measured on a three-monthly basis and must be reported to the Chief Financial Officer.

## **6.7 Liquidity requirements**

- (i) The City must be guaranteed 24 hours' availability and access of at least 30% of all short-term funds invested
- (ii) The investment period of all short-term investments must not exceed 90 days.
- (iii) These liquidity requirements may be amended where suitable or necessary in respect of mandates of the appointed investment managers.

## **6.8 Risk management**

- (a) Credit risks associated with investment institutions must be managed through the following:
- (b) Investments can only be placed with institutions with the following credit ratings done by any reputable and accredited credit rating agency:
  - (i) Institutions with a short-term rating investment of A1+ and higher
  - (ii) Institutions with a long-term rating investment of AA- and higher
- (c) However, investments can be placed with institutions with investment rating grades lower than the above-mentioned ones in order to permit investment managers to meet their mandated investment or other objectives.
- (d) The City must liquidate any investment with any institution that no longer has an acceptable minimum investment rating.
- (e) All investments must be made in the name of the City.

- (f) The City may not borrow funds with the aim of investing.
- (g) Investments must be spread across different investment types and maturities.
- (h) The City must ensure that it invests with credit-worthy investees, and the credit worthiness of each investee must be monitored continuously.
- (i) Derivatives, including swaps, may be used to hedge or manage risk.

## **6.9 Competitive selection process**

- (a) The selection of an investee for any investment shall be competitive.
- (b) Quotations shall be invited telephonically from at least three eligible investees.
- (c) Recommended quotations shall be recorded in writing and signed for by an official in Group Financial Services.
- (d) Written confirmation of the terms of the investment shall be prepared and confirmed with the investee in all cases.
- (e) The above-mentioned competitive selection processes will not apply to the appointed investment managers, since their mandates do not specifically require them to adhere thereto.

## **6.10 Obtaining quotations and concluding deals**

- 6.10.1 Written mandates signed by the Accounting Officer shall be issued to all investees with whom the City invests funds, and these shall set out the following:
  - (a) Authorised dealers: The names and particulars of the City officials who are authorised to transact telephonically with the investees with regard to investment deals
  - (b) Authorised signatories: The names and particulars of the City officials who are authorised to sign written confirmations or any other correspondence in respect of investment deals.
- 6.10.2 The investment dealing sheet, detailing the quotations received and the recommended investee, shall be prepared daily and appropriately signed for.
- 6.10.3 An authorisation of investments made and/or withdrawn form, which details the terms of each new investment, shall be prepared daily and appropriately signed for.
- 6.10.4 If the City's investment portfolio or any part thereof is managed by the appointed investment managers, the above-mentioned process will not apply, since their mandates do not specifically require them to adhere thereto.

## **6.11 Electronic funds transfer (EFT) and withdrawal of investments**

6.11.1 Investments shall be made electronically by EFT. Strict segregation of duties shall be maintained between the creator of a payment file and the payment authoriser/releaser.

6.11.2 For withdrawals, the following process applies:

- (a) The Accountant compiles and submits a daily cash flow to both the Directors of Funding & Investment Relations and Cash & Financial Control to determine how much money to withdraw to cover daily shortfalls, if any.
- (b) Both Directors of Funding & Investment Relations and Cash & Financial Control approve the amount to be withdrawn from different banks, after the Director of Funding & Investment Relations has allocated the amounts to be withdrawn from various banks.
- (c) Accountant contacts banks telephonically about the withdrawal transactions and confirms those transactions by an email to the banks.
- (d) Accountant captures withdrawal transactions on SAP and submits hard copies to the Director Funding & Investment Relations to capture the withdrawal transactions on SAP.
- (e) Director Funding & Investment Relations posts those transactions on SAP and sign hard copies submitted by the Accountant to confirm the entire withdrawal process.

## **6.12 Control over investment portfolio**

6.12.1 A proper record shall be maintained of all investments made and shall indicate, at a minimum, the investee, capital amount, interest rate and maturity date.

6.12.2 Interest must be correctly calculated and receipted timeously together with any capital which matures.

6.12.3 Investment papers and certificates must be kept in a locked fireproof safe.

6.12.4 Investments must be recorded in the name of the City by the investee.

## **6.13 Investment reporting and monitoring**

6.13.1 Regular reporting mechanisms shall be in place in order to assess the performance of the investment portfolio and to ensure that the investments comply with policy objectives, guidelines and applicable laws and regulations.

The following reports shall be prepared by the dealer:

- (a) Administration

- (i) A daily summary of current investments, actual against limits, by investees
- (ii) A detailed schedule of the expected interest income of the capital invested
- (iii) A daily summarised schedule of future maturities for all investments
- (iv) A monthly reconciliation of all interest accrued with interest actually received
- (v) Calculated monthly, quarterly, half-yearly and annual weighted average actual return earned on investments, preferably, using the following benchmarks:
  - (aa) The bank cash management scheme rate, which is the guaranteed interest rate available on the City's current account bank balance throughout the year, or the short-term fixed interest rate that reflects the actual performance of money market instruments in the market; or
  - (bb) The Alexander Forbes composite short-term fixed interest rate.

(b) Governance

- (i) Submission of a monthly investment portfolio report to the Mayoral Committee within ten working days of each month that includes the following details:
  - (aa) The market value of investment as at the beginning of the reporting period;
  - (bb) Changes in the investment portfolio during the reporting period;
  - (cc) The market value of the investment at the end of the reporting period; and
  - (dd) Fully accrued interest and the yield for the reporting period.
- (ii) Submission of a quarterly report to Council within 30 days after the end of each quarter, in accordance with section 11.4(a) of the MFMA with regard to cash withdrawals made for investing.

(c) External parties

- (i) Notification of the Auditor-General, within 30 days after the end of the financial year, of all investments made by the City in that financial year.

- (ii) Notification of the Auditor-General and the Provincial Treasury of new bank account(s) opened by the City, if any, within 90 days upon opening such an account(s).

The policy will be reviewed annually by the Investment Committee.

## **7. Cash management**

### **7.1 Cash collections**

The collection of cash is handled in terms of the cash and receipts banking policy approved by Council on 21 July 2016.

### **7.2 Payment of creditors**

Money may be withdrawn from a municipal bank account only in terms of section 11(1) of the MFMA.

## **8. Municipal bank accounts**

Municipal bank accounts are handled in terms of the cash receipts and banking policy approved by Council on 21 July 2016

## **9. Use of investment managers**

- (a) The City may employ investment managers for advice and the management of specific investments.
- (b) Appointment of an investment manager shall be made in accordance with the City's supply chain management policy.
- (c) All investments made by the investment manager on behalf of the City must comply with this policy and the National Treasury's investment regulations. Failure to do so should constitute a breach event pursuant where to the investment managers may be held liable for such damages suffered by the City, as provided for in the agreement with the investment managers, should the breach not be remedied in accordance with the terms of the agreement.
- (d) If an investee pays any fee or commission to an investment manager in respect of the City's investments, both the investee and the investment manager must declare such payment to the City through a certificate that discloses full details of the payment.
- (e) Investment managers that are found guilty of non-compliance with this policy as well as the Municipal Investment Regulations, where applicable, shall be held liable for any loss or penalty suffered by the City.

- (f) The City shall monitor and peruse the investment managers' portfolio summary report on a monthly basis.
- (g) The City shall ensure that all charges billed to the bank account managed by the fund managers are in terms of the agreed tariff structure of the City's main banker.

## **10. Accounting for investments**

- 10.1 To be in accordance with the City's approved accounting policies and GRAP, the City's investments shall be accounted for as follows:
- (a) At amortised costs where there is an intent to hold the investment to maturity; and
  - (b) At fair value where there is no intent to hold the investment to maturity.

## **11. Investment Committee**

- 11.1 The Investment Committee of the City shall consist of the following people:
- (a) Divisional Head: Treasury Office
  - (b) Director: Funding and Investment Relations
  - (c) Director: Cash and Financial Control
  - (d) Deputy Director: External Loans and Investments Management
- 11.2 The Investment Committee's responsibilities shall include the following:
- (a) Coordinating and overseeing the investment portfolio
  - (b) Evaluating the investment performance
  - (c) Ensuring compliance with investment policies, regulations, and guidelines
  - (d) Evaluating actual returns with other benchmarks
  - (e) Determining the City's tolerance to risk
  - (f) Periodically reviewing and assessing the adequacy of the investment policy



## **Annexure A**

**STAATSKOERANT, 1 APRIL 2005**

### **GOVERNMENT NOTICE**

### **NATIONAL TREASURY**

**No. R. 308**

**1 April 2005**

### **LOCAL GOVERNMENT: MUNICIPAL FINANCE MANAGEMENT ACT 2003 MUNICIPAL INVESTMENT REGULATIONS**

The Minister of Finance, acting with the concurrence of the Minister for Provincial and Local Government, has in terms of Section 168, read with Section 13 and 99 (2)(g), of the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003), made the regulations as set out in the Schedule.

### **SCHEDULE**

#### **Definitions**

1. In these regulations, unless the context indicates otherwise, a word or expression to which a meaning has been assigned in the Act, has the same meaning, and-

**“Act”** means the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003);

**“investee”** means an institution with which an investment is placed, or its agent;

**“investment manager”** means a natural person or legal entity that is a portfolio manager registered in terms of the Financial Markets Control Act, 1989 (Act No. 55 of 1989) and Stock Exchanges Control Act, 1985 (Act No. 1 of 1985), contracted by a municipality or municipal entity to: -

- (a) advise it on investments;
- (b) manage investments on its behalf; or
- (c) advise it on investments and manage investments on its behalf.

**“trust money”** means money held in trust on behalf of third parties in a trust contemplated in terms of Section 12 of the Act.

#### **Application**

2. (1) These regulations apply to: -
  - (a) all municipalities
  - (b) all municipal entities; and
  - (c) all investment managers acting on behalf of, or assisting, a municipality or municipal entity in making or managing investments.
- (2) These regulations do not apply: -
  - (a) to a pension or provident fund registered in terms of the Pension Funds Act, 1956 (Act No. 24 of 1956), or any subsequent legislation; or
  - (b) in respect of trust money administered by a municipality or municipal entity where a trust deed prescribes how the trust money is to be invested.
- (2) Municipal pension or provident funds which do not comply with sub regulation (2)(a) are exempted from these regulations until 30 June 2005.
- (3) The accounting officer of a municipality and municipal entity must provide the National Treasury with details of all pension or provident funds that do not comply with sub regulation (2)(a) within 30 days of promulgation of these regulations.

### **Adoption of Investment Policies**

3. (1) The investment policy to be established by a municipality in terms of Section 13(2) of the Act, must be: -
  - (a) adopted by the Council of the municipality; and
  - (b) consistent with the Act and these regulations.
- (2) The board of Directors of a municipal entity must adopt an investment policy for the entity consistent with the Act and these regulations.
- (3) All investments made by a municipality or municipal entity, or by an investment manager on behalf of a municipality or municipal entity, must be in accordance with the investment policy of the municipality or entity and these regulations.

### **Core elements of Investment Policies**

4. The investment policy of a municipality or municipal entity must: -

- (a) be in writing;
- (b) give effect to these regulations; and
- (c) set out: -
  - (i) the scope of the policy;
  - (ii) the objectives of the policy, with due regard to the provisions of these regulations relating to: -
    - (aa) the preservation and safety of investments as the primary aim;
    - (bb) the need for investment diversification; and
    - (cc) the liquidity needs of the municipality or municipal entity;
  - (iii) a minimum acceptable credit rating for investments, including: -
    - (aa) a list of approved investment types that may be made, subject to regulation 6;
    - (bb) a list of approved institutions where or through which investments may be made, subject to regulation 10;
  - (iv) procedures for the invitation and selection of competitive bids or offers in accordance with Part 1 of Chapter 11 of the Act;
  - (v) measures for ensuring implementation of the policy and internal control over investments made;
  - (vi) procedures for reporting on and monitoring of all investments made, subject to regulation 9;
  - (vii) procedures for benchmarking and performance evaluation;
  - (viii) the assignment of roles and functions, including any delegation of decision making powers;
  - (ix) if investment managers are to be used, conditions for their use, including their liability in the event of non-compliance with the policy or these regulations; and

- (x) procedures for the annual review of the policy.

### **Standard of Care to be exercised when making Investments**

- 5. Investments by a municipality or municipal entity, or by an investment manager on behalf of a municipality or entity: -
  - (a) must be made with such judgment and care, under the prevailing circumstances, as a person of prudence, discretion and intelligence would exercise in the management of that person's own affairs;
  - (b) may not be made for speculation but must be a genuine investment; and
  - (c) must in the first instance be made with primary regard being to the probable safety of the investment, in the second instance to the liquidity needs of the municipality or municipal entity and lastly to the probable income derived from the investment.

### **Permitted Investments**

- 6. A municipality or municipal entity may invest funds only in any of the following investment types: -
  - (a) securities issued by the national government;
  - (b) listed corporate bonds with an investment grade rating from a nationally or internationally recognised credit rating agency;
  - (c) deposits with banks registered in terms of the Banks Act, 1990 (Act No. 94 of 1990);
  - (d) deposits with the Public Investment Commissioners as contemplated by the Public Investment Commissioners Act, 1984 (Act No. 45 of 1984);
  - (e) deposits with the Corporation for Public Deposits as contemplated by the Corporation for Public Deposits Act, 1984 (Act No. 46 of 1984);
  - (f) banker's acceptance certificates or negotiable certificates of deposit of banks registered in terms of the Banks Act, 1990;
  - (g) guaranteed endowment policies with the intention of establishing a sinking fund;
  - (h) repurchase agreements with banks registered in terms of the Banks Act, 1990;

- (i) municipal bonds issued by a municipality; and
- (j) any other investment type as the Minister may identify by regulation in terms of Section 168 of the Act, in consultation with the Financial Services Board.

### **Investments denominated in foreign currencies prohibited**

- 7. A municipality or municipal entity may make an investment only if the investment is denominated in Rand and is not indexed to, or affected by, fluctuations in the value of the Rand against any foreign currency.

### **Payment of Commission**

- 8. (1) No fee, commission or other reward may be paid to a Councillor or Official of a municipality or to a Director or Official of a municipal entity or to a spouse or close family member of such Councillor, Director or Official in respect of any investment made or referred by a municipality or municipal entity.
- (2) If an investee pays any fee, commission or other reward to an investment manager in respect of any investment made by a municipality or municipal entity, both the investee and the investment manager must declare such payment to the Council of the municipality or the board of directors of the municipal entity by way of a certificate disclosing full details of the payment.

### **Reporting requirements**

- 9. (1) The accounting officer of a municipality or municipal entity must within 10 working days of the end of each month, as part of the Section 71 report required by the Act, submit to the mayor of the municipality or the board of directors of the municipal entity a report describing in accordance with generally recognised accounting practice the investment portfolio of that municipality or municipal entity as at the end of the month.
- (2) The report referred to in sub regulation (1) must set out at least:-
  - (a) the market value of each investment as at the beginning of the reporting period;
  - (b) any changes to the investment portfolio during the reporting period;
  - (c) the market value of each investment as at the end of the reporting period; and
  - (d) fully accrued interest and yield for the reporting period.

## **Credit Requirements**

10. (1) A municipality or municipal entity must take all reasonable and prudent steps consistent with its investment policy and according to the standard of care set out in regulation 5, to ensure that it places its investments with credit worthy institutions.
- (2) A municipality or municipal entity must: -
  - (a) regularly monitor its investment portfolio; and
  - (b) when appropriate liquidate an investment that no longer has the minimum acceptable credit rating as specified in its investment policy.

## **Portfolio Diversification**

11. A municipality or municipal entity must take all reasonable and prudent steps, consistent with its investment policy and according to the standard of care prescribed in regulation 5, to diversify its investment portfolio across institutions, types of investment and investment maturities.

## **Miscellaneous Provisions**

12. (1) The responsibility and risk arising from any investment transaction vests in the relevant municipality or municipal entity.
- (2) All investments made by a municipality or municipal entity must be in the name of that municipality or municipal entity.
- (3) A municipality or municipal entity may not borrow money for the purpose of investment.

## **Existing Investments**

13. Nothing in these regulations compels a municipality or municipal entity to liquidate an investment which existed when these regulations took effect merely because such investment does not comply with a provision of these regulations.

## **Commencement**

14. These regulations take effect on 1 April 2005.