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An Effective Investment Policy in a Changing Regulatory Environment

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Why have a Policy

- **Framework for making investment decisions and acting on external events such as downgrades**
- **Develops internal consensus on such topics as risk tolerance**
- **Gives comfort to bank lenders and rating agencies**

Investment Policy Definition

- A document drafted by a firm that outlines general investment rules and parameters for specific accounts designed to protect a company from the financial risks associated with its business activities. This statement provides general investment goals and objectives of a firm and describes the strategies that the firm should employ to meet these objectives. It addresses such matters as asset allocation, risk tolerance and liquidity requirements.

Investment Policy Items to Consider:

- **One Single Investment Policy or Many**
- **Security Types and Characteristics**
- **Ratings Requirements**
- **Liquidity Requirements**
- **Periodic Review**

Regulatory Changes to Consider:

- **Rule 2a7 MMF 2010 Amendments**
- **Rule 2a7 MMF 2013 Proposed Changes**
- **PWG & FSOC changes regarding rating requirements**

One or Many Investment Policies:

- Liquidity or Short-Term Investment Policy
- Pension Investment Policy
- Project Finance Investment Policy

Regulatory Change Impact

Security Types and Characteristics:

- **Maturity**
- **Quality**
- **Diversification**
- **Taxability**
- **Domicile**
- **Sovereign Tolerances**
- **Currencies**

**Better to reference a rule rather than
the rule's requirements?**

Ratings Requirements:

- **Current references in Rule 2a7**
- **Historical references in Rule 2a7**
- **PWG & FSOC changes regarding ratings requirements**

Liquidity Requirements:

- **CNAV or VNAV**
- **Tiering?**

Regulatory Change Impact

Periodic Review:

- **Annually or more often?**
- **As needed due to regulatory change**
- **Steering Committee**
- **Other Committees**