

**ETHEKWINI MUNICIPALITY**

**INVESTMENT FRAMEWORK**  
**POLICY AND GUIDELINES**

**MAY 2014**

# INDEX

	Page No's
1. Purpose	1
2. Problem Statement	1 - 3
3. Guidelines and Procedures	4 - 10
4. Annexure A - Investments as at 30 June 2014	11
5. Annexure B1 - Local Government Municipal Systems Act & MFMA	12 -13
6. Annexure B2 - Municipal Investments Regulations	14 - 19
7. Annexure B3.1 - Delegation of Investments Duties: Deputy Head: Finance, Pensions & Major Projects	20
8. Annexure B3.2 - Delegation of Investments Duties: Senior Manager: Investments	21
9. Annexure B3.3 - Delegation of Investments Duties: Acting Manager: Finance	22
10. Annexure C1 - BA 900	23
11. Annexure C2 - Principles of Exposure Limits to Banks	24
12. Annexure D - Report on Investments	25
13. Annexure E - Internal Controls over Cash	26 - 31
14. Annexure F - Prohibited Investments	32

# **ETHEKWINI MUNICIPALITY**

## **INVESTMENT FRAMEWORK AND GUIDELINES**

### **1. PURPOSE**

- (1) To establish a framework and guidelines for the investment of funds.
- (2) To undertake the investment of funds not immediately required for operational purposes in a prudent manner.
- (3) To ensure the safety of principal, whilst managing liquidity requirements to meet cash flow needs.
- (4) To provide the highest investment returns at minimum risk, within the parameters of authorised instruments.
- (5) To ensure diversification of permitted investments.
- (6) To ensure compliance with all legislation governing the investment of funds.

### **2. PROBLEM STATEMENT**

The Municipality invests its funds according to what is permitted by statute and regulation and also for optimal possible returns.

The investment of funds is done to ensure that the optimal amount of cash is invested at all times and that the minimum amount of cash is retained in the current account. This process is followed to ensure that the maximum interest is earned at all times. The investment process requires the daily compilation of all income anticipated to be received from all sources and the expenditure payments anticipated to be charged to the Bank account as a result of the issuance of all cheques and electronic fund payments.

The Guidelines are a necessary instrument to ensure that in the course of making investments, the market, interest rate and credit risk are prudently managed and there is preservation and safety of investments.

The relevant legislation and regulations in terms of which investment decisions are governed are:

- Local Government Municipal Systems Act 32 of 2000 (See number 1 of Annexure B1).
- Local Government Municipal Finance Management Act No. 56 of 2003 (See number 2 of Annexure B1).

- Municipal Investment Regulations (Government Gazette No. 26945 dated 29 October 2004) which is applicable to all Municipalities and Municipal Entities and is effective from 1 March 2005. (See Annexure B2).
- Sub delegations from the Chief Financial Officer to his subordinates. (See Annexure B3).

## **Definitions**

- **Bond**

A bond is an instrument used by Government, Government parastatals such as Telkom, Eskom, Transnet, Municipalities and listed corporate bonds with an investment grade rating from a nationally or internationally recognised credit rating agency, to raise loan capital on the open market. Bond holders have the right to interest, usually paid on a semi-annual basis, and the repayment of the capital amount reflected on the stock certificate held on maturity date.

The most critical variable factor in determining bond rates is the expected long term trend in inflation, in order to provide a return that equals inflation plus a risk premium. The higher the risk attached to a borrower, the higher will be the risk premium investors will demand.

During its tenure the bond will trade on the bond market at prevailing interest levels. The price of a bond trading at any given time on the market is a function of prevailing interest rates. Bond prices move inversely to movements in interest rates.

Investments in bonds are made in terms of the Municipal Investment Regulations which forms part of the Municipal Finance Management Act. See Annexure B2, Permitted Investments clause 6.

In terms of the above legislation the Municipality can invest, inter alia, in the following bonds:

### **Sovereign RSA Exposure**

- All RSA issued Bonds

### **AAA rated Bonds with RSA Guarantee**

- Lesotho Highlands Development Authority
- S.A. Rail Commuter Corporation
- S.A. National Roads Agency Ltd.

- S.A. Housing Trust
- Telkom S.A. Ltd (TK01)
- Trans-Caledon Tunnel Authority (TCTA)
- Transnet Ltd
- Landbank Stock

### **AAA rated Bonds without RSA Guarantee**

- Telkom SA Ltd - Other Bonds
- DBSA Bonds
- Eskom Ltd.

### **Corporate Bonds with an investment grade rating from nationally or internationally recognised credit rating agencies.**

In addition the Municipality may also invest in its own bonds.

- **Call/Short Call, Fixed Deposits and Money Market Instruments**

The eThekweni Municipality invests funds on call (overnight) to meet its daily operating costs. This type of investment is authorised in terms of the Municipal Investment Regulations, see Annexure B2, clause 6. Funds not required for immediate use are invested for longer periods in accordance with the funding requirements evidenced from the cash flow forecast and Investment Plan.

As a standard practice investments are only made directly with the Banks and not through intermediaries. The payment of any commission is not acceptable. Funds on call, being short term and therefore liquid investments earn lower interest rates and are kept to minimum levels.

The utilisation of different financial instruments and maturities, properly balanced, ensures liquidity and reduces risk of interest rate volatility and loss of principal. Diversifying investments and maturities avoid unreasonable risks in the Investment portfolio regarding specific security types, issuers or individual Banks.

The current investments in Call Deposits and Fixed Deposits are reflected on Annexure A.

### **3. GUIDELINES AND PROCEDURES**

- **Responsibility of investment officials**

- Investment officials must conduct their duties in a prudent manner and must be familiar with the investment matters.
- There must be full adherence to the written procedures and these guidelines.
- Officials must exercise due diligence.
- All reports must be prepared timeously.
- There must be strict compliance with all legislation.

- **General approach to investments**

- The responsibility and risk arising from any investment transaction vests in the relevant Municipality or Municipal Entity.
- All investments must be made in the name of eThekweni Municipality.
- Investments may not be undertaken with a view to speculation.
- The preservation and safety of investments is the foremost objective of the investment program. To attain this objective, diversification is required to ensure that the Chief Financial Officer prudently manages market, interest rate and credit risk.
- Investment shall be made with care, skill, prudence and diligence. The approach must be that of a prudent person acting in a like capacity and familiar with investment matters would use in the investment of funds of like character and with like aims, to safeguard the principal and maintain the liquidity needs of the Municipality. The standard of prudence to be used by the Investment officials shall be the “prudent person” standard and shall be applied in the context of managing an overall investment portfolio.
- The Investment portfolio must remain sufficiently liquid to enable the Municipality to meet all operating requirements that may be reasonably anticipated.
- The investments shall be structured to obtain the optimal possible returns, taking into account investment risk constraints, cash flow needs and the parameters determined for authorised investments.

- **Authorised investments**

- The investment strategy should incorporate a wide range of potential investment options available in the market within the confines of the Municipal Investment Regulations (See Annexure B2) and target appropriate investments given the need for liquidity, safety of principal, and the need for investment diversification.
- Cash flow forecasting and an Investment Plan are utilised to ascertain the available amount of funds for investment and the time period or duration for which it is appropriate to invest these funds.
- Strict investment ethics must be adhered to and investments made in terms of this

- framework without external and internal interference or inducements of any sort.
- Bonds, Call/Short Call, Fixed Deposits and Money Market Instruments are utilised by the eThekweni Municipality.
  - There are prohibited investments and practices (Annexure F).
- **Investment process**
    - The daily activities pertaining to the investment process entail investing surplus cash on the basis of maximising returns or disinvesting sufficient funds to meet daily expenditure.
    - The investment process ensures that the optimal amount of cash is invested at all times and that the minimum amount of cash is retained in the current account; this ensures that the maximum interest is earned at all times.
    - The investment process requires the daily compilation of all income anticipated to be received from all sources and the expenditure payments anticipated to be charged to the Bank account as a result of the issuance of all cheques and electronic fund payments.
    - Quotations are obtained from the Banks for the amount of funds, and for the term for which the investment is to be placed.
    - The interest rates from the various Banks are tabulated on a call rate schedule and fixed deposit schedule where applicable with the respective schedules depicting the name of the Bank, their contact person who provided the quote and the terms and interest quoted.
    - Having obtained the necessary number of quotations, the decision is then made based on the best rates offered and the Bank is identified with whom the investment is to be placed.
    - Taking account of the investment principles contained in this policy, it is customary to accept the best quote received within the exposure limits: the Banks are fully aware that the rate quoted must be their best rate, as the Municipality will under no circumstance negotiate or “horse trade” on a quoted rate.
- The criteria applied by the investment officials in placing funds:
    - (i) Cash requirements of eThekweni Municipality.
    - (ii) Interest rate trends.
    - (iii) Imminent changes in interest rates.
    - (iv) Risks involved given existing exposure of individual Banks.
    - (v) Quoted rates.
  - The Banks BA900, (See Annexure C1), a summary of their capital and reserves, together with their credit rating is used to determine the maximum exposure and limits for investment purposes with each individual Bank.

- The cash forecast caters for the fully estimated inflows and outflows of funds and the information is reviewed by the Investment officials to best determine the investment or disinvestment of funds.
  - All investments are made via the Electronic Funds Transfer (E.F.T) and the relevant documentation is transmitted by facsimile to the individual Banks confirming investment or disinvestment transactions.
  - Annexure C2, sets out the basis for the determination of the maximum exposure limits permitted to each Bank, and reflects the capital and reserves extracted from the BA 900 and also records the latest credit rating.
- **Banking and Investment Policy**
    - This policy deals with the interest earned on investments, and may state, for example, that the interest accrued on all the municipality's investments, will, in compliance with the requirements of GRAP, be recorded in the first instance in the municipality's operating account as ordinary operating revenues, and thereafter be appropriated to the reserve or account in respect of which the investments were made.
    - As part of its cash management programme and policy, the management of inventory will form part of the banking and investment policy. The requirement in this instance could be that each Cluster must ensure that the department's inventory levels do not exceed normal operational requirements in the case of items which are not readily available from suppliers, and emergency requirements in the case of items which are readily available from suppliers.
    - Periodically review the levels of inventory held.
- **Intra month cash forecast**
    - The Intra-Month Cash Forecast spreadsheet has been designed to reflect the day to day movement of income and expenditure taking cognisance of the opening cash balances and finishing with the closing cash balances and the actual call account and current account balances are compared to the budgeted balances.
    - Material variances are investigated and explanations of the large variances are reported monthly to Management.
    - The Intra-Month Cash Forecast is a micro forecast and it is linked to the Annual Cash Forecast, and is informed by the Investment Plan.
    - The following steps are performed by the Accountant: CIF in producing the Intra-Month Cash Forecast spreadsheets:
      - (i) Analyse the Annual Cash Flow Forecast based on operating estimates and capital estimates.
      - (ii) For the month concerned extract the closing call account balance from the Call Rate Sheet and the current account balance from the daily Cash Forecast.



- (iii) Provide for Abnormal income:-
  - a) Direct debits on the 1<sup>st</sup> working day and the 15<sup>th</sup> of each month
  - b) Investment interest income on the 1<sup>st</sup> working day of each month.
  - c) Post Office receipts and Transwitch income (daily including Saturday).
  - d) Equitable Share (3 times per annum July, November and March)
  - e) Bulk Electricity (3<sup>rd</sup> week of each month).
  - f) Peaks in income at the beginning of the month and at the end of the month are also considered.
  - g) Grants/subsidies as reflected on the Annual Cash Forecast.
  - h) Receipt of long term borrowings.
  - i) Investment maturities.
  - j) Pension Fund investments.
  
- (iv) Normal income after adjustment of abnormal income is apportioned accordingly, taking into account the total income received as reflected on the Annual Cash Forecast.
- (v) Changes in trends pertaining to income received are factored into future Intra Month Forecast.
- (vi) Provide for Abnormal Expenditure II
  - a) Provide for Eskom, 15<sup>th</sup> of each month.
  - b) Salaries on the 25<sup>th</sup> of each month.
  - c) Staff Benefits payments. Medical Aid (3<sup>rd</sup>) PAYE (7<sup>th</sup>), UIF (7<sup>th</sup>), Skills Development Levy (7<sup>th</sup>), Pension Fund (25<sup>th</sup>) and Housing Bonds (25<sup>th</sup>).
  - d) Provide for VAT payment, last working day of each month.
  - e) Umgeni Water, last working day of each month.
  - f) Other expenses, Telkom, Fuel, Security payments, last working day of each month.
  - g) Loan repayments as per Accountant's schedule.
  - h) Pension Fund disinvestments.
  
- (vii) Normal expenditure, after adjusting for abnormal expenditure is apportioned accordingly, taking into account the total expenditure as reflected on the Annual Cash Forecast.
- (viii) Changes in trends pertaining to expenditure are factored into future Intra Month Forecast.
- (ix) Capital expenditure and funding receipts are also provided on Intra-Month Cash Forecast. Historical capital expenditure patterns are used. Adjustments are also made for the payments profile for larger capital contracts in progress.
- (x) After budgeted figures are accounted for, the actual figures for balances on call and current account are entered on the spreadsheet.

(xi) Variances are reflected and explained.

- **Internal control procedures**

- The internal control procedures involve Internal Audit and the Auditor General reviewing and testing the systems of the Investments Department on a regular basis in order to prevent losses arising from fraud, misrepresentations, error, conflict of interest or imprudent action, a system of internal controls governs the administration and management of the Investment portfolio.

- **Controls deemed most important include:**

- (i) Control of collusion, separation of duties.
- (i) Custodial safekeeping.
- (ii) Rotation of duties.
- (iii) Written confirmation of telephone transactions.
- (iv) Minimising the number of authorised Investment officials.
- (v) Checking and verification by senior officials of all investment transactions.
- (vi) Documentation of transactions and strategies.
- (vii) Code of ethics and standards.
- (viii) Strict adherence to Investment Framework Policy and Guidelines.
- (ix) Limits placed on investments by the various officials.
- (x) Procedure manuals.
- (xi) Electronic Funds Transfer limits and a detailed cash controls for the system (See Annexure E).
- (xii) Monthly reporting to Committee of all investments.  
(See Annexure D)
- (xiii) Exercise strict compliance with all legislation.
- (xiv) Regular reconciliation of bank accounts and interest due.

- **Reporting and monitoring requirements**

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

➤ **Daily activities**

- (i) The current account bank balances and investment cash forecast is reviewed by the Manager : Finance and the Senior Manager : Investments
- (ii) The Investment officials monitor the prevailing market conditions, economic developments and anticipated investment conditions and any other activities warranting possible revisions of current or planned investment options in order to inform decision making.
- (iii) The current account bank balances and investment activities are e-mailed to the Deputy Head: Finance, Pensions and Major Projects.
- (iv) All investments are made via Electronic Funds Transfer (EFT) with very stringent controls (See Annexure E).

➤ **Weekly activities**

- (i) The cash balances report and graphs are submitted to the Deputy Head: Finance, Pensions and Major Projects.

➤ **Monthly activities**

- (i) All functions and tasks carried out by the various officials in the Investments Department are reviewed by the Manager: Finance, Senior Manager: Investment and the Deputy Head : Finance, Pensions and Major Projects.
- (ii) The Investment portfolio and cash balances report are submitted to the Deputy Head: Finance, Pensions and Major Projects.
- (iii) Review of Investment Plan.
- (iv) Reconciliation of bank accounts.
- (v) Accounting transactions for purchase and sale of investments.
- (vi) Reconciliation of all interest due.
- (vii) Comparison of the cash flow forecast to actual.
- (viii) A report on the Investment portfolio is furnished to the Executive Committee, within ten working days of each month. (See Annexure D).
- (ix) Rotation of duties (ad hoc), minimum twice monthly.

➤ **Quarterly activities**

- (i) Analysis of Banks BA900 to determine exposure limits of banks
- (ii) Report to Executive Committee on investments purchased.

➤ **Annual activities**

- a) Preparation of the cash flow forecast.
- b) Preparation of the annual budget.
- c) Preparation of Annual Financial Statements.

- d) Regular reviews by Internal Audit and the Auditor General.
- e) Review of Investment Policy.
- f) Prior to year end details of bank accounts submitted to Auditor General and National Treasury.

CASH BALANCE AT 2014-04-30

CASH DEPOSITS

Daily Balance  
Periodic

83 449 857  
175 000 000 258 449 857

FIXED DEPOSITS

<i>Institution</i>	<i>Rate</i>	<i>Maturity Date</i>	
Absa	6.025%	30-Jun-14	50 000 000
Nedbank	5.970%	15-May-14	100 000 000
Nedbank	5.970%	15-May-14	100 000 000
Nedbank	5.980%	15-May-14	100 000 000
Nedbank	5.980%	15-May-14	200 000 000
Nedbank	5.980%	23-May-14	300 000 000
Nedbank	5.970%	23-May-14	100 000 000
Nedbank	5.980%	30-May-14	100 000 000
Nedbank	5.970%	30-May-14	150 000 000
Nedbank	5.950%	25-Jun-14	150 000 000
Nedbank	6.030%	25-Jun-14	200 000 000
Nedbank	6.040%	30-Jun-14	200 000 000
Nedbank	6.000%	7-Jul-14	100 000 000
Nedbank	6.320%	15-Aug-14	400 000 000
Standard Bank	6.155%	31-Jul-14	150 000 000
Standard Bank	6.850%	30-Jun-15	500 000 000
Standard Bank	7.535%	31-Aug-16	500 000 000
Rmb	5.830%	13-Jun-14	600 000 000
Rmb	6.150%	30-Jun-14	100 000 000
Rmb	6.150%	15-Jul-14	450 000 000
Rmb	6.150%	15-Jul-14	200 000 000
Rmb	6.150%	15-Jul-14	150 000 000
Rmb	6.300%	15-Aug-14	450 000 000
Investec	6.100%	30-Jun-14	400 000 000
Investec	5.975%	18-Jul-14	100 000 000

6 108 449 857

LESS : DURBAN PENSION FUND

13 200 000

TOTAL INVESTMENT AS AT 2014-04-30

6 095 249 857

For Circulation to :-

- (1) SENIOR MANAGER: INVESTMENTS: E.S.S
- (2) DEPUTY HEAD : FINANCE, PENSIONS & MAJOR PROJECTS : J.K.B
- (3) DEPUTY CITY MANAGER : TREASURY : K.A.K
- (4) ACCOUNTANT (INV) B.M

PLEASE DON'T FORGET TO SEND INVESTMENT REPORT TO EXCO

### **1. Local Government Municipal Systems Act 32 of 2000**

Section (60) (2).

The council may only delegate to an Executive Committee or Executive Mayor or Chief Financial Officer decisions to make investments on behalf of the Municipality within a policy framework determined by the Minister of Finance.

### **2. Local Government Municipal Finance Management Act No. 56, 2003**

#### **Part 1 : Municipal bank accounts**

##### **Bank account details to be submitted to provincial treasuries and Auditor-General**

The accounting officer of a municipality must submit to the relevant provincial treasury and the Auditor-General, in writing -

- (a) within 90 days after the municipality has opened a new bank account, the name of the bank where the account has been opened, and the type and number of the account; and
- (b) annually before the start of the financial year, the name of each bank where the municipality holds a bank account, and the type and number of each account.

#### **Part 2 : Cash, Investment and Asset Management**

##### **Cash Management and Investments**

- (1) The Minister, acting with the concurrence of the Cabinet member responsible for local government, may prescribe a framework within which municipalities must -
  - (a) conduct their cash management and investments; and
  - (b) invest money not immediately required.
- (2) 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 subsection (1).

- (3) A bank where a municipality at the end of a financial year holds a bank account, or held a bank account at any time during a financial year, must -
- (a) Within 30 days after the end of that financial year notify the Auditor-General, in writing, of such bank account, including
    - (i) The type and number of the account, including -
    - (ii) The opening and closing balances of that bank account in that financial year; and
  - (b) Promptly disclose information regarding the account when so requested by the National Treasury, or the Auditor-General.
- (4) A bank, insurance company or other financial institution which at the end of a financial year holds, or at any time during a financial year held, an investment for a municipality must
- (a) within 30 days after the end of that financial year, notify the Auditor-General, in writing, of that investment, including the opening and closing balances of that investment in that financial year; and
  - (b) promptly disclose information regarding the investment when so requested by the National Treasury or the Auditor-General.

STAATSKOERANT, 1 APRIL 2005

**GOVERNMENT NOTICES**

**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);
  - a) “**investee**” means an institution with which an investment is placed, or its agent;
  - b) “**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.
- (3) Municipal pension or provident funds which do not comply with subregulation (2)(a) are exempted from these regulations until 30 June 2005.
- (4) 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 subregulation (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 judgement and care, under the prevailing circumstances, as a person of prudence, discretion and intelligence would exercise in the management of that persons' 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 subregulation (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 took effect on 1 April 2005.

**ANNEXURE B3.1**

**ETHEKWINI MUNICIPALITY  
Metropolitan Operational Entity  
Corporate Financial Services  
Office of the Executive Director**

Our Ref. :  
Your Ref.  
Enquiries :

Martin West Building  
251 Smith Street  
Durban 4001  
P O Box 828  
Durban 4000  
Tel : (031) 311 1111  
Fax : (031) 304 3879  
Website: <http://www.durban.gov.za>



14 December 2007

Deputy Head: Finance, Pensions & Major Projects  
1<sup>st</sup> Floor, Florence Mkhize Building  
DURBAN  
4001

**Attention : Mr. J Balwanth**

Dear Jay

**DELEGATION OF INVESTMENT FUNCTIONS**

In terms of the authority delegated to me by the eThekweni Council on 30-11-2004, I hereby sub-delegate the undermentioned authority to you to make investment decisions on behalf of the Municipality.

<b>Official</b>	<b>Functions Delegated</b>
1. Deputy Head: Finance, Pensions & Major Projects	<b><u>All Money Market Investments</u></b> ie. Call and Fixed Deposits  <b><u>Other Investments</u></b> - Purchase and sale of bonds  <b><u>Property Leasebacks</u></b> Approval of multi tenancy leases

It is imperative that you at all times operate within the ambit of Investment Framework Policy Guidelines and the mandates imposed by statutory requirements as amended.

Yours sincerely

**Original signed by : K. KUMAR**  
**DEPUTY CITY MANAGER: TREASURY**

**ANNEXURE B3.2**

**ETHEKWINI MUNICIPALITY  
Metropolitan Operational Entity  
Corporate Financial Services  
Office of the Executive Director**

Martin West Building  
251 Smith Street  
Durban 4001  
P O Box 828  
Durban 4000  
Tel : (031) 311 1111  
Fax : (031) 304 3879  
Website: <http://www.durban.gov.za>



Our Ref.:

Your Ref.:

Enquiries:

14 December 2007

Manager: Finance  
6<sup>th</sup> Floor, Florence Mkhize Building  
DURBAN  
4001

**Attention : Mr. E Seedat**

Dear Ebrahim

**DELEGATION OF INVESTMENT FUNCTIONS**

In terms of the authority delegated to me by the eThekweni Council on 30-11-2004, I hereby sub-delegate the undermentioned authority to you to make investment decisions on behalf of the Municipality.

<b>Official</b>	<b>Functions Delegated</b>
Senior Manager: Investments	<b><u>All Money Market Investments</u></b> ie. Call and Fixed Deposits

It is imperative that you at all times operate within the ambit of Investment Framework Policy Guidelines and the mandates imposed by statutory requirements as amended.

Yours sincerely

**Original signed by : K. KUMAR  
DEPUTY CITY MANAGER  
TREASURY**

**ANNEXURE B3.3**

**ETHEKWINI MUNICIPALITY  
Metropolitan Operational Entity  
Corporate Financial Services  
Office of the Executive Director**

Martin West Building  
251 Smith Street  
Durban 4001  
P O Box 828  
Durban 4000  
Tel : (031) 311 1111  
Fax : (031) 304 3879  
Website: <http://www.durban.gov.za>



Our Ref.:

Your Ref.:

Enquiries:

08 April 2011

Acting Manager: Finance  
6<sup>th</sup> Floor, Florence Mkhize Building  
DURBAN  
4001

**Attention : Miss V. N. Kweyama**

Dear Ebrahim

**DELEGATION OF INVESTMENT FUNCTIONS**

In terms of the authority delegated to me by the eThekweni Council on 30-11-2004, I hereby sub-delegate the undermentioned authority to you to make investment decisions on behalf of the Municipality.

<b>Official</b>	<b>Functions Delegated</b>
Acting Manager: Finance (In the absence of the Senior Manger: Investments)	<b><u>All Money Market Investments</u></b> ie. Call and Fixed Deposits (less than one month duration)

It is imperative that you at all times operate within the ambit of Investment Framework Policy Guidelines and the mandates imposed by statutory requirements as amended.

Yours sincerely

**Original signed by : J. BALWANTH**

**DEPUTY HEAD: FINANCE, PENSIONS & MAJOR PROJECTS**



**ANALYSIS OF RATINGS AND BA900'S OF BANKING INSTITUTIONS**

INSTITUTION	RATING COMPANY & RATING DATE	ISSUE RATING	REASONING BY RATING AGENCY	LONG TERM RATING	DEFINITION OF LONG TERM RATING	CAPITAL RESERVE MARCH 2014 (R 800'S)	PERCENTAGE OF CAPITAL RESERVE	LIMIT BASED ON % OF CAPITAL & RESERVE	POTENTIAL MAXIMUM INVESTMENT	EXISTING MAXIMUM INVESTMENT	REFERENCE	SCOTTED NEW INVESTMENT LIMITS (MILLIONS)	NOTES
ARSA BANK	Standard & Poor's Ratings Services March 2014	A1+	Strong capacity of fully paid-up shareholders to absorb a substantial increase in debt. The bank's own regulatory risk rating is 'A'.	AA+	Very high credit quality. Provisions below are very strong. Credit portfolio is well diversified and of high quality. Assets are well secured. Provisions below are very strong.	52 052 225	7.66%	3 903 917	3 903.9	3 355.3	1 403.8	2500	
STANDARD BANK	Standard & Poor's Ratings Services March 2014	A1+	Strong capacity of fully paid-up shareholders to absorb a substantial increase in debt. The bank's own regulatory risk rating is 'A'.	AA+	Very high credit quality. Provisions below are very strong. Credit portfolio is well diversified and of high quality. Assets are well secured. Provisions below are very strong.	74 071 106	7.50%	5 555 333	5 555.3	2 755.5	2 855.3	2700	
FIRSTRAND BANK LTD	Standard & Poor's Ratings Services March 2014	A1+	Strong capacity of fully paid-up shareholders to absorb a substantial increase in debt. The bank's own regulatory risk rating is 'A'.	AA-	Very high credit quality. Provisions below are very strong. Credit portfolio is well diversified and of high quality. Assets are well secured. Provisions below are very strong.	60 738 383	7.90%	4 855 454	4 855.5	3 855.5	2 055.5	2500	
NEDCOR BANK LTD	Standard & Poor's Ratings Services March 2014	A1+	Strong capacity of fully paid-up shareholders to absorb a substantial increase in debt. The bank's own regulatory risk rating is 'A'.	AA-	Very high credit quality. Provisions below are very strong. Credit portfolio is well diversified and of high quality. Assets are well secured. Provisions below are very strong.	48 186 510	7.50%	3 613 986	3 614.0	2 855.5	1 114.0	2500	
INVESTEC BANK	Standard & Poor's Ratings Services December 2013	A1+	Strong capacity of fully paid-up shareholders to absorb a substantial increase in debt. The bank's own regulatory risk rating is 'A'.	AA-	Very high credit quality. Provisions below are very strong. Credit portfolio is well diversified and of high quality. Assets are well secured. Provisions below are very strong.	21 512 755	7.50%	1 613 457	1 613.5	1 300.5	413.5	1300	
GRINDROD BANK	Standard & Poor's Ratings Services December 2013	P-3	Low capacity of fully paid-up shareholders to absorb a substantial increase in debt. The bank's own regulatory risk rating is 'A'.	BBB+	Low credit quality. Provisions below are very weak. Credit portfolio is not diversified and of low quality. Assets are not well secured. Provisions below are very weak.	602 240	4.00%	24 080	24.1	20.5	4.1	20	

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*19 May 2014*  
 DEPUTY HEAD : FINANCE, PENSIONS & MAJOR PROJECTS  
 2014/03/19

### PRINCIPLES APPLIED TO DETERMINE EXPOSURE LIMITS OF BANKS

The salient principles applied in determining the maximum exposure to any Bank is as follows: -

- A. A maximum investment for each Bank is determined as a percentage of the total of Capital and Reserves: -
  - (a) Where Capital and Reserves are in excess of R6 bn with a short term credit rating of A1+ and a long term credit rating of A and above, the maximum investment is 7.5% of the combined total.
  - (b) Where Capital and Reserves are between R3 bn to R6 bn with a short term credit rating of A1+ and a long term credit rating of A and above, the maximum investment is 6.0% of the combined total.
  - (c) Where Capital and Reserves are less than R3 bn, with a short term rating of A2 and a long term rating of A and above, the maximum investment is 5.0% of the combined total.
  - (d) Where Capital and Reserves are less than R3 bn, with a short term rating of A2 and a long term rating of below A, the maximum investment is 4.0% of the combined total.
  
- B. Funds available for investment are split between the various Banks with a minimum of 90% of funds being invested with Banks with combined Capital and Reserves in excess of R5 bn and a long term credit rating of A and above. Whilst the remaining 10% may be invested with Banks with a lower Capital and Reserves figure and a long term credit rating of below A, the amounts invested will be dependent upon the current view taken of the trading activities and market perception of the smaller Banks.
  
- C. The process of placing funds is entirely rates driven whereby Banks are invited to submit call rates and funds are placed with the highest quotes. Banks are aware that they are required to submit their best interest rates. It is an express policy that interest rates quoted are kept strictly confidential and no negotiation whatsoever is permitted to be undertaken by Investment officials.

**ETHEKWINI MUNICIPALITY  
TREASURY CLUSTER  
REPORT TO THE FINANCE & PROCUREMENT PORTFOLIO  
COMMITTEE**

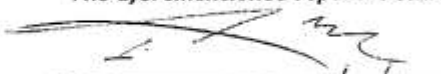
**REPORT TO THE FINANCE & PROCUREMENT  
PORTFOLIO COMMITTEE**

**REPORT ON INVESTMENTS**

In terms of the Municipal Cash Management and Investment Regulations of the Municipal Finance Management Act, 2003, the Accounting Officer is required to furnish a monthly report on Investments for the information of the Executive Committee.

INVESTMENTS	1 May 2014	1 April 2014
	R'000	R'000
Fixed and Short Term Deposits	6 095 250	6 566 141
<b>TOTAL INVESTMENTS</b>	<b>6 095 250</b>	<b>6 566 141</b>
<b>Market valuation of investments:</b>		
Investments (cost)	6 095 250	6 566 141
Average rate of return on investments	6.21%	6.10%
Accrued interest	29 826	25 919

*The aforementioned report is submitted to Committee for information*

  
E.S. SEEDAT 8/5/2014  
SENIOR MANAGER: INVESTMENTS

  
J BALWANTH 8/5/2014  
DEPUTY HEAD: FINANCE, PENSIONS  
& MAJOR PROJECTS

  
K A KUMAR 12/05/2014  
DEPUTY CITY MANAGER : TREASURY

\_\_\_\_\_  
S SITHOLE  
MUNICIPAL MANAGER

**ETHEKWINI MUNICIPALITY**  
**TREASURY CLUSTER: INVESTMENTS BRANCH**  
**INTERNAL CONTROLS OVER CASH**

**1. OVERVIEW**

The primary functions of the Investments Branch of the Treasury Cluster of Ethekewini Municipality can be divided into two main areas:

- 1.1 It is the custodian of the Municipality's cash investments, and it is therefore of paramount importance that proper and effective controls are devised and employed in the Branch to ensure that the movement of cash is monitored on a daily basis.
- 1.2 It is responsible for administration of all the Municipality's external long term loans, and in so doing, has to ensure that loans are timeously and effectively serviced.

The focus of this exposition is on the controls over cash outflows and inflows in relation to cash investments, but the same principle apply to the movement of cash in the servicing of long term debt.

The Branch is staffed by:-

- Senior Manager : Investments
- Manager : Finance
- Accountant : Investments
- Accountant : External Loans
- Trainee Accountant

The primary participants in the processes involving the movement of cash are Senior Manager: Investments, Manager: Finance, Accountant: Investments and Accountant: External Loans.

**2. CASH INVESTMENTS AND DISINVESTMENTS**

The Accountant: Investments is charged with conducting a cash flow management exercise on a daily basis in order to ascertain the amount of funds available for investment (disinvestment as the case may be) and the time period or duration for which it is appropriate to invest these funds.

Stringent investment ethics are adhered to and investments are made strictly in terms of the Investment Framework Policy Guidelines and the MFMA and its regulations without external and internal interference or inducements of any sort. A full treatise of this cash

flow management exercise is not pertinent here.

## **2.1 DISINVESTMENTS**

As part of the cash flow management exercise, the Accountant: Investments will monitor the expiry of 7 day, 14 day, 30 day, 60 day, etc investments and incorporate same in the exercise when applicable in order to arrive at the net amount available for investment or disinvestment. The practice is that the institution which held the investment on maturity by way of written instruction over the signature of both Manager: Finance and Senior Manager: Investments and in the event that either is absent one of the senior officials who are also recognized signatories on the Municipality's bank accounts. This instruction is faxed to the institution.

In addition, the same written instruction to the institution will deal with the interest earned on the investment, the standard policy being that:-

- For investments which have duration of less than 30 days, interest is paid on maturity of the investment; and
- For investments which have duration of more than 30 days, interest is paid on month end as well as on maturity of the investment.

## **2.2 INVESTMENTS**

On completing the cash flow management exercise referred to above, the Accountant: Investments in conjunction with Manager: Finance and Senior Manager: Investments will determine the amount of cash available for investment or disinvestment as the case may be, and decide which institution will attract the investment. Should the exercise reveal that a longer term investment (longer than one day) is more appropriate, the Accountant: Investments in conjunction with the Manager: Finance and Senior Manager: Investments will determine the amount and the duration of this type of short call or fixed deposit investment to be made.

These forms of investment (daily call, short call and fixed deposit) are based on the quotation e-mailed from the financial institutions for the term for which the investment is to be placed. Interest rates quoted are kept strictly confidential and no negotiations whatsoever are permitted to be undertaken by any Municipality's officials. These quotations are recorded on a call rate and fixed deposit schedule which depict the name of the financial institution, the name of the financial institution's representative who provided the quote and the terms and interest quoted. Annexure A depicts call rate schedule while Annexure B illustrates short call and fixed deposit schedule. These are reviewed by the Manager: Finance and Senior Manager: Investments along with the proposal to invest or disinvest.

### **2.2.1 The Transaction**

Investments are made by way of an Electronic Funds Transfer (EFT) with the Municipality's bankers and are performed strictly in accordance the Procedure Manual.

The so-called CDI / Creditor Details Information format is used whereby details of all creditors that will be paid are captured by the Municipality's bankers and held on the bank's system. Payments can only be made to

creditors recorded in this restricted list otherwise a written instruction need to be forwarded to the bankers for the creation of the new creditor. The instruction need to be authorized by Manager: Finance and Senior Manager: Investments. Furthermore, a daily limit on the amount that can be invested with each creditor is recorded with the creditor details, which limit is determined by Senior Manager: Investments.

Each payment is described as a payment batch that is defined on line by Investments staff with the destination of the funds controlled by the predefined creditor investing institution details described above.

Investment payments are made only from the Consolidated Investment Fund (CIF) EFT bank account – as distinct from the CIF bank account, with the exact amount of the funds being transferred into this bank account from the CIF bank account sufficient only to satisfy the payment. Maximum daily payments from this account have been predefined by the Municipality's bankers, who will reject a payment batch that exceeds the daily limit.

The incumbents of various posts within the Investment department have specific duties and responsibilities defined in the EFT procedure. The process involves three tiers which are separate from each other and which, by design of Standard Bank Business on Line, cannot be performed by the same person.

The tiers in the process are:-

1. The creation of the payment;
2. The verification of the payment; and
3. The release of the payment

The Accountant: Investments is designated to **create the payment**. The function involves logging onto the BOL (Business on Line) system, employing a use operator ID that has been uniquely allocated to the Accountant: Investments together with password and one time password (found by pressing the token). The BOL system will allow admission only to the own transfer and payments for this operator ID, password and one time password combination. This means Accountant: Investments is not permitted to verify or release the payment.

In creating the payment, the Accountant: Investments instructs the bank to effect payment of an investment to an investing institution, which includes:-

- Amount of transaction;
- Name of bank to be paid; and
- The effective date of the transaction.

Once completed, the Accountant: Investments prints the interim audit report thereby preparing the payment for the next tier of operation, the verification of the payment.

Throughout the above, the Accountant: Investments is responsible for compiling supporting documentation for each and every payment, which includes the following:-

1. A **checklist** detailing each stage of the process, with each official involved in the process signing off as each stage is completed.

2. An **interim audit report** produced by BOL system signifying that the payment is ready for verification.
3. **Interim and final audit report** for the transfer of funds from the CIF bank account to CIF EFT bank account.
4. Two copies of **bank journal** which authorizes Bank Reconciliations department to update the Municipality's general ledger. One copy to be sent to Bank Reconciliations department and the other copy to be kept with EFT documentations.
5. A **final audit report** again produced by BOL system signifying that the batch has been released for the remittance of funds to the investment institution.

In addition the Accountant: Investments is responsible for ensuring that each investment transaction is recorded in the manual daily cash signature cashbook, which records the amounts invested with various institutions on a daily call deposits , 7 day to 28 days deposits and fixed deposit register for the amounts invested for periods more than a month.

The above registers are verified and signed by the Accountant: Investments and Senior Manager: Investments.

The Manager: Finance is designated to **verify the payment** which function confirms that the payment created by the Accountant: Investments is correct in every respect. Similarly the Manager: Finance logs onto the bank's BOL system using a uniquely allocated operator ID, password and one time password. It is important to note that the Manager: Finance is not able to alter any of the transaction details in the payment entry, but can only ensure that the details are correct. The Manager: Finance has two options:-

1. Should the details prove to be incorrect, the Manager: Finance will, via the BOL system authorize a change to the creator of the payment, to allow the Accountant: Investments to effect the change; alternatively
2. Should the details prove to be correct, the Manager: Finance will verify the payment

The Manager: Finance also confirms that the interim audit report accords with the information on the payment batch and then verifies the payment batch.

The final leg of the EFT process is the **release of the payment**, and this is performed by Senior Manager: Investments. This function has the effect of giving final instruction to the Municipality's bankers to pay the funds to the investing institution. In like manner, the Senior Manager: Investments logs onto the bank's BOL system using uniquely operator ID, password and one time password. Again the Senior Manager: Investments is not able to alter any of the transaction details in the payment batch but can only ensure that the details are correct. The Senior Manager: Investments has two options:-

1. Should the details prove to be incorrect, the Senior Manager: Investments will, via the BOL system, authorize a change to be verified of the payment,

(the Manager: Finance); in turn, the verifier of payment authorizes a change to the Accountant: Investments to allow the Accountant: Investments to effect the change that is necessary; alternatively

2. Should the details prove to be correct, the manager: Finance will "release" the batch, which has the effect of remitting the investments to the creditor investing institution; once effected, the batch is made inaccessible to all three participants in the process.

On completion of the release function, the Accountant: Investments must print the final audit report which confirms that the transaction has been successfully processed and the funds dully invested, which report is filed with the batch documentation.

In the event that the primary responsible Investments Branch official is not available to attend his/her designated function (annual leave, sick Leave etc) for each function, one or more secondary operators have been designated and are able to carry out the function. To ensure that access rights to the BOL are appropriate and to maintain conversance with the process, every secondary operator is periodically required to perform their function during a payment run.

### **3. ADDITIONAL CONTROLS**

- 3.1 The Senior Manager: Investments employs a further control whereby, on a randomly -selected day, the Accountant: Investments is relieved of all his/her duties on that day. On such an occasion, either the Accountant: External Loans or Manager: Finance takes over the cash flow management exercise for the day and determines the amount of funds available for investments (or disinvestments), the duration of the investments, etc. Also on such occasion, the EFT transition is dealt with by the secondary operators of each of tier 1 and tier 2.
- 3.2 The transitions as recorded in the two cashbooks referred to above are summarized in the Consolidated Investment Fund Cashbook, which is reconciled to the CIF Bank Account bank statement on a monthly basis.
- 3.3 Thereafter, the documentation is delivered to Bank Reconciliation department whose function is to update the Municipality's General Ledger in accordance with an appropriately authorized bank journal.



**4. CONCLUSION**

From the above outline of the controls over the movement of the investment monies, is patently evident that,

4.1 There is a clear segregation of duties

4.2 There are more than adequate controls to ensure that the cash investments of the Municipality are adequately safeguarded.

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## **Prohibited Investments**

There are a considerable number of investment instruments which the Municipality does not utilise as there is no enabling legislation which permits such investments. Some of the prohibited investments are as follows: -

- (a) Investment in Listed Shares (Equities). The amount invested fluctuates with changes in the value of the shares in the portfolio. Although the returns are higher than most other investment options, it may be difficult to realise the investment at the time funds are required and the risk of capital loss is considerable. Additionally in depth knowledge of the equity market is required.
- (b) Borrowing for investment purposes is prohibited. At any given time, with a conventionally shaped interest yield curve, long term interest rates will exceed those for the short term. In the vast majority of instances therefore funds will need to be borrowed at an interest rate which includes the lending Bank's risk and their premiums exceeding the likely short term investment returns.
- (c) The use of derivative instruments. The safety of principal is not assured. A high degree of expertise is required to utilise derivative instruments effectively, and there is a risk of losing the principal amount.
- (d) Investment in Market Linked Endowment Policies. The safety of principal is not assured as the principal will fluctuate with changes in the value of the investments underlying the policy. The funds are tied up for the duration of the investment and are illiquid.
- (e) Investments denominated in foreign currencies are prohibited; however it is possible to make an investment 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 in terms of clause 7 of the Municipal Investment Regulation.