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CITY OF SACRAMENTO

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November 20, 1980

**FILED**  
By the City Council  
Office of the City Clerk

**DEC 9 1980**

City Council  
Sacramento, California

Honorable Members in Session

SUBJECT: New Investment Program - Foreign Bankers Acceptances

SUMMARY

The investment authority for local agencies has included "Bankers Acceptances" (BA's) which are eligible for discount at the Federal Reserve Bank, do not exceed 270 days in maturity or exceed 30 per cent of the agencies' investable funds. As it pertains to the investment authority for local agencies, a BA is a draft or bill of exchange, payable in U.S. dollars, accepted by a bank or trust company to finance the import or export of goods. Heretofore, Bankers Acceptances drawn or accepted on domestic U.S. banks have been purchased by the City of Sacramento from time to time.

Foreign Bankers Acceptances (FBA's) which generally provide +.50% to +.75% greater yield than BA's and generally +.40% greater yield than other short-term investments currently authorized and purchased, have not been purchased by the City of Sacramento. FBA's are identical in structure to BA's and differ insofar as they are drawn on or accepted by a foreign bank (primarily Japanese Bank). However, an agency of this foreign bank is domiciled in the U.S. and regulated under appropriate Federal and State banking laws. Discussions with responsible domestic and foreign banking officials revealed that FBA's, just like BA's, are used about equally to finance both the import or export of goods.

FBA's are eligible for discount at the Federal Reserve Bank. Furthermore, the State Treasurer's investment operation as well as the investment operation of numerous cities and counties in California as well as other institutional investors purchase FBA's.

It is estimated that FBA's can increase the investment income earned by the City of Sacramento at least \$102,000 annually. Such estimate considers that only 15% of the City of Sacramento's investment portfolio (\$25,500,000) will be invested in FBA's at an increase in yield of +.40%. Furthermore, since no additional costs would be incurred for research support or staff time, the \$102,000 would be a net benefit to the City of Sacramento investment funds.

~~APPROVED~~  
~~BY THE CITY COUNCIL~~  
~~DEC 9 1980~~  
~~OFFICE OF THE~~  
~~CITY CLERK~~

BACKGROUND

Section 53601 (f) of the Government Code authorized BA's and FBA's as authorized investments for law cities. Subject to stipulations that such investments must be eligible for purchase by the Federal Reserve System, may not exceed 270 days in maturity and exceed 30% of an agency's investable funds, no other requirements exist.

At the present time the total amount of BA's outstanding in the U.S. is \$49.0 billion. Of this amount, \$17.0 billion represents FBA's which are primarily comprised of Japanese banks that have agencies domiciled and regulated in the United States.

From time to time the yield differential between FBA's and BA's has been +1.00%. Presently, the spread approximates +.50% to +.75%. The differential in yield results primarily from the expansion of the FBA portion of the BA market which has experienced geometrical growth rates.

The City of Sacramento in the past has purchased BA's in an amount equivalent to 20% of investment funds available. However, since Commercial Paper (CP) and Negotiable CD's (NCD's) were introduced as a new investment program in January 1979, the amount of BA's owned declined to less than 1% of the investment funds available of the City of Sacramento since CP and NCD's provided greater yield than BA's.

It is estimated that FBA's will exceed the available yield on CD and NCD's by approximately +.40%. However, it is not known whether FBA's will be available in the size and time requirement periods of the City of Sacramento. Therefore, it is only estimated that 15% of available City investment funds will be invested in FBA's.

In 65 years of recorded history on BA's and FBA's, no principal investment loss has been recorded as a result of a failure by a bank to pay these investments on maturity. Further, many institutional investors, including the Federal Reserve Bank, purchase FBA's and BA's as investments.

The City Treasurer's Office preliminarily implemented a Foreign Bankers Acceptances program in late May 1980, acquiring some \$3 million of these investments. However, subsequent to initiation of the program, the yields offered on these instruments were not competitive with other investments purchased. In September 1980, the favorable yield differential of FBA's again materialized and these investments have since been purchased. A report of investment activity to date in these instruments will be issued in November, followed by monthly Council Reports of activity throughout the remainder of the current fiscal year.

Respectfully submitted,

  
THOMAS P. FRIERY  
City Treasurer

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