MEMORANDUM TO: Superintendents of Business and Finance

FROM: Andrew Davis
Director
Transfer Payments and Financial Reporting

DATE: September 26, 2008

SUBJECT: Eligible Investments

I am writing to you today to advise you that the Ministry is reviewing the definition of eligible investments for Ontario school boards. The recent volatility in financial markets has prompted this review.

School boards are permitted to invest their funds in a limited range of investment products as outlined in O. Reg. 471/97 of the Education Act. The regulation currently permits school boards to purchase asset-backed securities and commercial paper, assuming certain rating requirements are satisfied. However, given conditions in the market, the Ministry of Education is undertaking a review of the definition of eligible investments. Some of the changes being considered include:

- Prohibiting investment in asset-backed securities;
- Prohibiting investment in negotiable promissory notes or commercial paper; and
- Prohibiting investment in bonds, debentures, promissory notes or other evidence of indebtedness issued by a school board or similar entity in Canada.

In general, the proposed changes would result in school boards only being able to invest in the following instruments:

- Government bonds issued by either the federal or a provincial government in Canada or a municipality in Ontario or guaranteed by either the federal or a provincial government in Canada;
- Bank deposits, guaranteed investment certificates or similar investments in which there is no risk to the principal amount of the investment subject to the risk posed by the creditworthiness of the institution that holds the investment.
In addition to these changes, the Ministry is also assessing the extent, if any, to which school boards may be exposed to loss or liquidity challenges owing to their investments. I would like to ask school boards to complete the attached survey about their investments. The first worksheet on the survey asks school boards to detail how the amounts reported in their financial statements as cash and cash equivalents (Line 1.1 of Schedule 1) and investments (Line 1.3 of Schedule 1) are invested. The second worksheet asks school boards to detail how their sinking funds are invested. Please return the survey to Jackie Tabar at jackie.tabar@ontario.ca by October 15, 2008. In your response, you are also encouraged to express your comments on the proposed amendments to the definition of eligible investments.

For more information, or if you have any questions, please do not hesitate to contact me or Jackie Tabar.

Andrew Davis