UTILITY DEBT SECURITIZATION AUTHORITY
GUIDELINES FOR INVESTING, SECURING, MONITORING
AND REPORTING ON AUTHORITY FUNDS AVAILABLE FOR INVESTMENT
ADOPTED BY THE BOARD OF TRUSTEES OF THE
UTILITY DEBT SECURITIZATION AUTHORITY ON
NOVEMBER ___, 2013

ARTICLE I

STATEMENT OF PURPOSE: TITLE

Section 101. Statement of Purpose. These Guidelines are adopted pursuant to the provisions of the Act and Section 2925 of the Public Authorities Law of the State. These Guidelines shall cover all funds of the Utility Debt Securitization Authority (the “Authority”). These Guidelines are within the legal investment parameters established by the Act and Section 2925 of the Public Authorities Law of the State.

Section 102. Title. Outside of this document, these Guidelines may be referred to as the “Investment Guidelines”.

ARTICLE II

DEFINITION OF TERMS

Section 201. Definitions. Any capitalized terms used but not defined in these Guidelines shall have the meanings set forth in the Indenture (as defined below). For all purposes of these Guidelines, the terms listed below shall have the following meanings:


“Administrator” shall mean Long Island Lighting Company d/b/a LIPA as “Administrator” under an Administration Agreement to be entered into between the Authority and Long Island Lighting Company d/b/a LIPA.

“Authority Trustees” shall mean the trustees of the Authority pursuant to the Act.

“Bank” shall mean any bank or its holding company which in either case is (i) a member of the Federal Reserve, (ii) has a capital of at least $50,000,000, (iii) is rated at least within the second highest rating category without regard to gradations within such category by Moody’s Investors Service or Standard & Poor’s, and (iv) has been approved by the Chair or the Chief Financial Officer of the Authority. Wholly owned subsidiaries of such banks or holding companies shall be included within this definition, provided that the obligations of said wholly owned subsidiaries are guaranteed by such banks or holding companies. “Bank” shall also mean any foreign bank which is a member of the Federal Reserve Board or is required to report to the Comptroller of the Currency or the Banking Commissioner of the state where the branch of the foreign bank is located.
“Bond Proceeds” shall mean the Bond proceeds of the Authority available for investment.

“Bonds” shall mean any bonds issued by the Authority pursuant to the Act.

“Bond Trustee” shall mean The Bank of New York Mellon, as trustee under the Indenture.

“Certificate of Deposit” shall mean a deposit of account by the Authority at a Bank with a defined dollar amount, term, rate and place of payment, which shall be collateralized as set forth herein.

“Counsel” shall mean the General Counsel of the Long Island Power Authority or such other counsel as may be appointed by the Authority Trustees.

“Custodian” shall mean a Bank designated or approved by the Authority to hold collateral pertaining to investments by or securities purchased by the Authority. With respect to the holding of securities purchased pursuant to a Repurchase Agreement, or securing a deposit of funds of the Authority, such Custodian may not be the party, or an agent of the party, with whom the Authority has entered into such Repurchase Agreement or deposit arrangement.

“Demand Deposit” shall mean any funds invested by the Authority with a Bank.

“Depository” shall mean a Bank designated by the Authority to hold deposits of the funds of the Authority.

“Eligible Investments” shall have the meaning as set forth in the Indenture, a copy of the definition of which shall be attached hereto as Appendix A upon the execution and delivery of the Indenture.

“Financial Advisor” shall mean any investment banker, broker, agent, dealer or other financial advisor or agent engaged in rendering advice to the Authority regarding its Bonds and/or the investment of funds of the Authority.

“Guidelines” shall mean these guidelines, as they may be amended from time to time.

“Indenture” shall mean the Utility Debt Securitization Authority Bond Indenture to be entered into between the Authority and The Bank of New York Mellon, as trustee with respect to Bonds, as it may be amended and supplemented, and in effect from time to time.

“Investment Advisor” shall mean any investment banker, broker, agent, dealer or other investment advisor or agent engaged in rendering advice pursuant to a personal services contract to the Authority regarding the investment of the Authority’s moneys.

“Primary Dealer” shall mean any governmental bond dealer reporting to, trading with and recognized as a primary dealer by the Federal Reserve Bank of New York and included
in the most current “List of the Primary Government Securities Dealers Reporting to the Market Reports Division of the Federal Reserve Bank of New York”.

“Recording Agent” shall mean the Federal Reserve Bank, the Depository Trust Company or any other nationally recognized firm authorized to hold securities in book entry form.

“Repurchase Agreement” shall mean two simultaneous transactions, one the purchase of securities by the Authority from a Bank or a Primary Dealer, the other the commitment on the Bank’s or Primary Dealer’s part to repurchase the securities at an agreed price at some mutually agreed upon future date.

“State” shall mean the State of New York.

“Time Deposits” shall mean any funds invested by the Authority with a Bank for a specified period of time other than in a Certificate of Deposit.

Section 202. Construction of Language. Except where the context otherwise requires, words importing the singular number shall include the plural number and vice versa.

ARTICLE III

PERMITTED INVESTMENTS - SPECIFIC FUNDS

Section 301. Authority Funds. All available Bond Proceeds and other Authority monies, including without limitation, all monies held under the Indenture shall be invested only in Eligible Investments.

ARTICLE IV

INVESTMENT AND COLLATERAL REQUIREMENTS

Section 401. Eligible Investments. Eligible Investments which are purchased directly by the Authority must be delivered to the Authority or its Custodian or the Bond Trustee, and payment for Eligible Investments shall only be made upon delivery of such Eligible Investments. If the Eligible Investments are in book-entry form, the Authority shall require that the record books of the Recording Agent be adjusted to record the interests of the Custodian or the Bond Trustee and the record books of the Custodian or the Bond Trustee be adjusted to record the interest of the Authority.

Section 402. Demand Deposits; Time Deposits; Certificates of Deposit.

(a) Demand Deposits, Time Deposits and Certificates of Deposit shall be collateralized in accordance with the following provisions:

(i) Eligible Investments which serve as collateral for any Demand Deposit, Time Deposit or Certificate of Deposit shall be delivered to either the Bond Trustee or a
Custodian selected and approved in writing by the Authority, except as otherwise authorized in Section 403(c).

(ii) A written agreement shall be entered into with each Bank from which the Authority purchases a Certificate of Deposit or with which it establishes a Demand Deposit or Time Deposit specifying the type and nature of the collateral to be provided by each Bank. Such written agreement shall at a minimum include the following:

(aa) The type of collateral, which may include cash or securities, to be provided.

(bb) The frequency of the collateral’s valuation to market, such valuation to be provided at least monthly.

(cc) The right and ability of the Bank to substitute like securities as collateral.

(dd) Description of events of default which would permit the Authority or its Custodians or Bond Trustee to liquidate or purchase the underlying securities.

(ee) Description of the party who is to have title to the underlying securities during the terms of the agreement.

(ff) Margin maintenance,

(gg) Certificates of Deposit for amounts in excess of FDIC insurance limits shall be collateralized by an amount, equal to 103% of the total outstanding amount of the Certificate of Deposit.

(hh) Demand Deposits and Time Deposits shall be collateralized by an amount equal to at least 103% of the outstanding principal balance.

(b) The Chair or the Chief Financial Officer may change or waive the collateral requirements at any time.

(c) Any investments entered into by the Authority pursuant to this subparagraph shall not exceed the terms authorized by law.

Section 403. Custodians; Valuation of Collateral or Security.

(a) Custodians whose function is to hold collateral shall receive authorization from the Authority or the Bond Trustee (as appropriate) prior to delivering or transferring obligations held as collateral out of the Authority’s or the Bond Trustee’s account. Delivery or transfer of collateral shall be made only upon receipt of funds or substitute collateral. Such Custodians shall confirm to the Administrator whenever activity has occurred in the Authority’s custodial accounts.
(b) A Custodian holding collateral for the Authority shall be a member of the Federal Reserve Bank or shall maintain accounts with member banks to accomplish book-entry transfer of securities to the credit of the Authority. Transfer of securities, whether by book-entry or physical delivery, shall be confirmed in writing to the Authority by such Custodian.

(c) For any investment required to be collateralized, the collateral must be delivered to the Custodian. This requirement may be waived by the Chair or the Chief Financial Officer for all such investments, except Repurchase Agreements. All collateral must be valued to market at least monthly, unless otherwise provided.

ARTICLE V

CERTAIN REQUIREMENTS FOR BANKS ACTING AS CUSTODIANS AND/OR BOND TRUSTEES

Section 501. Required Reports.

(a) The Authority shall require that each Bank with which the Authority has Demand Deposits, Time Deposits or Certificates of Deposit shall deliver to the Authority at least annually, (i) a copy of the Bank’s FDIC annual report and, if applicable, the Federal Reserve Bank annual report and (ii) an audit report prepared by such Bank’s external auditor in accordance with generally accepted auditing standards.

Section 502. Access for Authority Auditors. The Authority shall require that any Custodian which is holding securities for the account of or in trust for the Authority, or pledged to the Authority or the Bond Trustee, permit the Authority or its agents to access such Custodian’s books and records to conduct an audit of such securities.

Section 503. Record of Investments. A record of each of the Authority’s investments shall be maintained by the Administrator. Such records shall identify the security, the fund for which the investment is held, the place where the investment is maintained, the date of disposition and amount realized, and the market value of collateral and the Custodian of collateral.

ARTICLE VI

DIVERSIFICATION OF INVESTMENTS; APPROVAL OF INVESTMENTS; SELECTION OF INVESTMENT FIRMS

Section 601. Diversification Standard. To the extent that more than 35% of the Authority’s total invested funds are invested with any single institution, the Administrator shall so advise the Trustees.

Section 602. Approval of Investments. All investments shall be reviewed and recommended by the Administrator and shall be approved by the Chief Financial Officer or any Trustee or by such other persons as the Authority may provide by resolution and are subject to the approval of the Administrator in accordance with the Indenture. The Administrator shall be
responsible for the development and maintenance of an operating procedures manual relating to investments.

Section 603. Selection of Investment Firms. The Administrator is authorized to and shall maintain a list of firms to be selected from for each type of investment made by the Authority. Such list shall be revised from time to time, as required.

ARTICLE VII

REQUIREMENT OF INVESTMENTS BY WRITTEN CONTRACTS

Section 701. Written Contracts. With the exception of open market purchases of Eligible Investments, investments shall be made pursuant to written contracts unless the Authority Trustees by resolution waive such requirement for the Authority with respect to a specific investment or transaction because it is not practical or not a regular business practice. In the event that such written contract requirement is waived, the resolution authorizing the waiver shall detail the procedures covering such investment or transaction.

Section 702. Contract Provisions. Each written contract shall provide for sufficient security of the Authority’s financial interest as required by the provisions of these Guidelines. Each such contract shall describe (a) the use, type and amount of collateral or insurance for each investment, (b) the method for valuation of any required collateral and procedure for regular monitoring of that valuation, and (c) the monitoring, control, deposit and retention of investments and any required collateral, including, in the case of a Repurchase Agreement, physical or book-entry delivery of the purchased obligations to the Authority or its Custodian (which shall not be the party, or an agent of the party, with whom the Authority enters into such Repurchase Agreement) or other action necessary to obtain title to such obligations.

Section 703. Form of Contracts. The form of all written contracts shall be approved by the Counsel.

Section 704. Execution of Contracts. All investment contracts to which the Authority is a party shall be approved and executed by the Chair or the Chief Financial Officer or his or her designee.

ARTICLE VIII

AUDIT AND REPORTS

Section 801. Annual Independent Audit. The Authority shall secure annual independent audits of all investments.

Section 802. Quarterly Reports. Within forty-five days after the conclusion of each quarter of the Authority’s fiscal year, the Administrator shall prepare and deliver to the Authority Trustees a report on the Authority’s investments. Such reports shall include a description of new investments and the Primary Dealer(s), firms, or Bank(s) with whom the investment was transacted, the inventory of existing investments and when applicable the
selection of Investment Advisors, auditors, brokers, agents, firms for purposes of Section 603 and Primary Dealers.
Section 803. **Annual Investment Report.**

(a) Within one hundred eighty (180) days after the close of each fiscal year, the Administrator shall prepare and the Authority Trustees shall approve an annual investment report. Such report will include these Guidelines and any amendments to these Guidelines since the last investment report, an explanation of these Guidelines and any amendments to these Guidelines since the last investment report, the results of the annual independent audit of the investments, an evaluation of the portfolio of the Authority by an independent auditor, the annual investment income record of the Authority and a list of the total fees, commissions or other compensations, by payee, paid to each Investment Advisor since the last annual investment report, and an annual consolidation of any other material contained in the quarterly reports.

(b) This annual investment report, after being approved by the Authority Trustees, shall be submitted to the Division of the Budget with copies to the Department of Audit and Control, the Senate Finance Committee and the Assembly Ways and Means Committee.

(c) Copies of the Annual Investment Report shall be available to the public upon reasonable request at the Authority’s main office.

**ARTICLE IX**

**MISCELLANEOUS PROVISIONS**

Section 901. **Operating Procedures Manual.** The Authority shall cause the Administrator to develop and maintain an operating procedures manual which shall include:

(a) The establishment and maintenance of a system of internal controls;

(b) Methods for adding, changing or deleting information contained in the investment record, including a description of the documents to be created and verification tests to be conducted;

(c) A data base or record incorporating descriptions and amounts of investments, transaction dates, interest rates, maturities, bond ratings, market prices and related information necessary to manage the portfolio; and

(d) Requirements for periodic reporting and accountability.

Section 902. **Conflicting Provisions.** In the event that there is any conflict between the provisions of these Guidelines and the provisions of the Indenture, the provisions in the Indenture shall control.

Section 903. **Action by Administrator.** Any action that is required to be taken by the Authority pursuant to these Guidelines may be taken by the Administrator, as agent of the Authority.

Section 904. **Amendments.** Any modification or amendment to these Guidelines may be made by a Resolution adopted by the Authority at any duly constituted
Authority meeting; provided, however, that no such modification or amendment to these Guidelines shall abrogate the rights and duties of the existing Authority contracts with third parties; and further provided that the Chair or the Chief Financial Officer may make non-material changes in these Guidelines.

**Section 905. No Recourse under these Guidelines.** No provision in these Guidelines shall be the basis of any claim against any Authority Trustee, officer, agent or employee of the Authority in his individual or official capacity or against the Authority itself.

**Section 906. Effect upon Existing Contract.** These Guidelines shall not abrogate the rights and duties of the Authority’s contracts with third parties executed prior to the effective date of these Guidelines.

**Section 907. Effect of Failure to Comply.** Failure to comply with these Guidelines shall not invalidate any investment or affect the validity of the authorization of any Authority Trustee or the Chief Financial Officer, or their designee to make such investments.
APPENDIX A

[Indenture definition of “Eligible Investments” to be attached upon execution]