

Corporate Policies

SECTION: FINANCE		DEPT: Finance Department	
SUBJECT: Letters Of Credit			
POLICY NO. 13.7.0	SUPERCEDES POLICY DATED: N/A		PAGE: 1 OF 4
EFFECTIVE DATE: November 2001	APPROVED Council BY: CW114-2201 / C400 – 2001 AF096-2003 / C186-2003	APPROVAL DATE: October 29, 2001 Amended: May 26, 2003	

POLICY STATEMENT:

Issuing institutions of letters of credit accepted by the City for any reason must meet specific credit-rating requirements, and the letter of credit must be written in a specific form

PURPOSE:

Acceptance of only certain types of letters of credit ensures that the interests of the City are protected.

This policy identifies:

- the City's requirements for the format of letters of credit;
- the requirements which must be met by the issuing institution;
- acceptable alternatives to a letter of credit; and
- responsibility for administration of letters of credit.

SCOPE:

This policy applies whenever a Letter of Credit is required by the City of Brampton.

PROCEDURE:

Letter of Credit

A letter of credit is a legal undertaking by a bank to honour, without inquiry, and make payment on specific demand of the holder. A letter of credit normally contains a specific expiry date, but can be made to renew each year automatically. An "irrevocable" letter of credit is one which is not subject to change or cancellation by the bank. Acceptance of a letter of credit as a security is advantageous to the City since full or partial draws can be made upon the letter of credit on demand, regardless of disputes which may occur; no service charges are assessed to the City; and the letter of credit can be written so that it automatically extends from year to year.

Letter of Guarantee

A letter of guarantee is generally issued by trust companies, credit unions and finance companies. They are less liquid than letters of credit. Since payment is dependent on proof of damage (ie. default under a development agreement), time delays are often encountered before collection rights are established. Additional administrative and legal costs are also incurred.

A letter of guarantee cannot be accepted in lieu of a letter of credit, since letters of guarantee do not provide the same advantages to the City.

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ACCEPTABLE ALTERNATIVES:

Acceptable alternatives to a letter of credit are cash, valid certified cheque, bank draft or money order.

If any of the above are provided in lieu of a letter of credit, the funds must be forwarded to Finance Department, for deposit to the City's accounts. Releases or draws on the funds will be processed in the same manner as a letter of credit. No interest will be paid.

ADMINISTRATION:

Finance Department is responsible for the safekeeping of all letters of credit (or acceptable alternatives) received by the City, and for processing all draws, reductions or releases of letters of credit.

FORMAT:

Letters of credit accepted by the City of Brampton must:

- be issued in Canadian funds;
- specify that the letter of credit is irrevocable;
- be registered in the name of the Corporation of the City of Brampton;
- disclose the project file number and municipal address or legal description; and
- include an automatic renewal clause requiring the bank to provide 30 days advance notice to the Commissioner of Finance and Treasurer, by registered mail, if it intends not to renew.

A copy of a standard letter of credit acceptable to the City of Brampton is available from the Finance Department.

ISSUING INSTITUTION:

Letters of credit may be accepted from any of the following six banks set out in Schedule 1 of the Bank Act (R.S.C. 1985, C.B- 1.01, and any amendments thereto):

- Bank of Montreal;
- Bank of Nova Scotia;
- Canadian Imperial Bank of Commerce;
- Royal Bank of Canada;
- TD Canada Trust; and
- National Bank.

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A Letter of Credit from other Schedule 1 banks may be accepted but only on the approval of the Treasurer or Deputy-Treasurer.

Letters of credit may be accepted from banks listed in Schedule 2 of the Bank Act (R.S.C. 1985, C.B-1.01 and any amendments thereto) having a Dominion Bond Rating Service rating of R-1, and on the approval of the Treasurer or Deputy-Treasurer.

If the City accepts a letter of credit from a Schedule 2 bank, and the bank subsequently loses its R-1 rating, the City will require a substitute letter of credit from an eligible bank. The substitute letter of credit must be presented to the City within 60 days of the City's request.

Letters of credit from any other institutions, including trust companies and credit unions, will not be accepted.

EXCEPTION TO THE POLICY:

Notwithstanding this policy, on the approval of the Treasurer or Deputy-Treasurer, the City may accept alternate securities from the MUSH (Municipalities, Universities, Schools and Hospitals) Sector. For the purposes of this policy, the MUSH Sector includes Colleges of Applied Arts and Technology as listed under the Ontario Colleges of Applied Arts and Technology Act, 2002, Ontario Regulation 34/03.

LETTERS OF CREDIT CURRENTLY HELD BY THE CITY:

All Letters of Credit currently held by the City and not meeting the policy requirements, at the passing of this policy, will be held until their expiry date. If any of these Letters of Credit are being renewed they will need to be renewed in accordance with the stated policy ensuring that the Letter of Credit is issued by an institution identified by this policy and be written to the format as stated by this policy.

ACCOUNTABILITY:

The following steps set out the action to be taken to resolve any disputes that may arise regarding reimbursement and payments. This dispute resolution clause also applies to all other City of Brampton policies that address similar reimbursements and payments.

1. Executive Directors and Commissioners shall resolve disputes arising within their own departments.
2. The Treasurer and/or Deputy-Treasurer resolve disputes that cannot otherwise be resolved.

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ADMINISTRATION:

Treasury Services will be responsible for keeping this policy up to date.

CONTACT:

Director of Treasury Services & Deputy Treasurer