

CITY OF WELLAND

POLICY

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| Policy Title: Letters of Credit | |
| Date of Approval: May 15, 2012 | Policy Number: FIN-001-0008 |
| Lead Role: Director of Finance/City Treasurer | Support Role: Infrastructure Services Department and Planning and Development Services Department |
| Cross Reference: FIN-001-0017 | Next Review Date: January 1, 2027 |
| Council File Number: 12-90 | Revision Date: September 20, 2022 |

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 Welland.

PROCEDURE

Letter of Credit

A Letter of Credit is a legal undertaking by a bank, trust company, credit union or caisse populaire to honor, 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

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A Letter of Guarantee is less liquid than Letters of Credit. Since payment is dependent on proof of damage (for example 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.

ACCEPTABLE ALTERNATIVES

Acceptable alternatives to a Letter of Credit are cash, valid certified cheque, bank draft, money order, or Surety Bonds.

If any of the above are provided in lieu of a Letter of Credit, the funds must be forwarded to Corporate Services - Finance Division, 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 or Surety Bonds. No interest will be paid.

ADMINISTRATION

Corporate Services – Finance Division 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. All Letters of Credit are to be sent by registered mail to the attention of the City Treasurer. The City Treasurer will inform the requesting department upon receipt of an acceptable Letter of Credit.

FORMAT

Letters of Credit accepted by the City of Welland 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 Welland;
- disclose the project name and municipal address or legal description; and
- include an automatic renewal clause requiring the bank to provide 30 days advance notice to the Director of Finance/City Treasurer, by registered mail, if it intends not to renew.

A copy of a standard Letter of Credit acceptable to the City of Welland is available on the City's website.

ISSUING INSTITUTION

Letters of Credit may be accepted from any of the following institutions with the maximum acceptable Letter of Credit amount, if applicable:

- Schedule 1 bank under the Bank Act (R.S.C. 1985, C.B-2 and any amendments thereto) - dollar amount at the discretion of the City Treasurer
- Credit union, trust company, and caisse populaire with assets over \$200 million – up to \$25,000

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- Credit union, trust company, and caisse populaire with assets over \$500 million – up to \$50,000
- Credit union and caisse populaire with assets over \$1 billion – up to \$750,000

For one development or project, a Letter of Credit or multiple Letters of Credit accumulating to more than the limits stated above, may be accepted at the discretion of the City Treasurer or Deputy Treasurer and provided that the issuing financial institution has a Dominion Bond Rating Service of R-1. It is the responsibility of the issuing financial institution to provide the City with proof of this rating.

A Letter of Credit from any other financial institution may be accepted but only on the approval of the City 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-2 and any amendments thereto) having a Dominion Bond Rating Service rating of R-1, and on the approval of the City Treasurer or Deputy Treasurer. It is the responsibility of the issuing Financial Institution to provide the City with proof of its rating.

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 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 Welland policies that address similar reimbursements and payments.

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

ADMINISTRATION

Finance Division will be responsible for keeping this policy up to date.