Backgrounder – Investing under the Municipal Act

Based on the *Municipal Act, 2001* there are two ways municipalities can invest:

- Section 418, known as the 'Legal List', sets out the investments a municipality is allowed to make. It applies to every Ontario municipality.
- Section 418.1 is an optional 'Prudent Investor' approach.

Ontario Regulation 438/97 sets out the detailed rules: Part I covers the *Legal List* and Part II covers *Prudent Investor*.

This backgrounder provides a high-level overview of how both investment regimes work.

Legal List (Section 418): A Specific List of Eligible Investments

Under Section 418, a municipality may only invest in the securities named in the regulation. If an investment is not on the list, the municipality cannot own it. The 'Legal List' is reviewed periodically by the Government of Ontario, as market factors warrant it. Typically, this is every 4-8 years, but there is no required frequency for review.

The list of available investments is limited to Canadian products, and focuses on lower-risk, fixed-income products, such as:

- **Government and public-sector debt:** bonds and similar securities issued or guaranteed by Canada, the provinces, municipalities, school boards, and certain universities, colleges, and hospitals.
- **Bank and credit union products:** deposits and term investments with Schedule I, II or III banks, credit unions, and certain other institutions.
- **Other approved options:** certain asset-backed securities, corporate bonds (with certain restrictions) and pooled investment options set up for municipalities, such as those offered by ONE Investment.

The regulation also sets guardrails related to investments. These include minimum credit ratings for many securities, limits on how much can be placed in certain types of investments, and rules for investments held in Canadian dollars.

Under the legal list, a municipality can invest in Canadian Equity or longer term Canadian corporate bonds, but only through ONE Investment.

Council's Role Under Legal List (Section 418)

- **Set the rules:** Council adopts an investment policy, covering matters such as investment principles, risk tolerance, and cash flow (liquidity).
- **Receive reports:** the Treasurer provides Council with an investment report at least once a year.
- **Monitor:** the Treasurer must advise Council about any investment that is inconsistent with the investment policy or the Act/Regulation.

Who is ONE Investment?

ONE Investment is a not-for-profit organization that has been supporting municipal investment needs for more than 30 years.

ONE Investment is operated by two organizations: LAS - the Business Services arm of the Association of Municipalities of Ontario (AMO), and CHUMS - a subsidiary of the Municipal Finance Officers Association of Ontario (MFOA).

Since 1993, ONE Investment has offered Ontario municipalities competitive investment options. These options are safe and credible, with a focus on reducing investor risk and complying with legislation. Under the Legal List program, except for our HISA offering, all ONE Investment Legal List products are offered as a 'comingled' investment portfolio.

Investors have access to an investment vehicle for most investment horizons – short horizons via a high-interest savings account (HISA), a Government Bond portfolio and Corporate Bond portfolio for medium term horizons, and a Canadian Equity Portfolio which is recommended for investment horizons longer than 5 years. Investments that exhibit elevated volatility of returns, like the Canadian Equity Portfolio, are only recommended for longer investment horizons.

More than 200 municipalities and public bodies invest with ONE, which manages $6 billion in both its Legal List and Prudent Investor programs.

Prudent Investor (Section 418.1): A Broader Offering but with a Higher Governance Standard

Section 418.1 of the Municipal Act is optional. It allows a qualifying municipality to have investments in a much wider range of securities than the Legal List, if it meets the 'Prudent Investor' standard. This means using the care, skill, diligence, and judgment that a prudent investor would use.

A prudent investor looks at the whole portfolio, not each investment on its own. They consider things like economic conditions, inflation, expected returns, and the need for cash and steady income. The goal is a more diversified portfolio that can earn better returns for the level of risk over the long term.

What is required to opt into Prudent Investor (Section 418.1)

Section 418.1 is only related to long-term reserves - also known as money not required immediately (MNRI). Leveraging Prudent Investor comes with more governance requirements. Under Part II of the regulation, a municipality must:

- Pass a by-law to adopt the Prudent Investor standard.
- Set up an independent Investment Board or join an existing Joint Investment Board (for example, ONE JIB), to invest its long-term reserves / MNRI.
- Adopt an investment policy that sets out its goals, risk tolerance, cash needs, and defines what is MNRI. This policy acts as the guardrails for the investment board to develop a unique investment plan for the municipality.
- Receive/review reports from the Treasurer and the Investment Board
- Review the investment policy annually and update as needed.

Who Sits on an Investment Board? Rules on Composition

The rules are designed to keep the investment board (or joint investment board) independent and professional. In either case:

- **Limited municipal staff:** municipal treasurers only, and they can make up no more than 25% of the members of the board.
- **No Council members:** members of Council cannot sit on an investment board
- **Expertise:** the Board should be comprised of investment professionals.

What is ONE JIB?

To meet provincial rules, ONE Investment and six founding municipalities created the ONE Joint Investment Board (ONE JIB). ONE JIB brings independent, professional expertise to manage investments for every municipality in ONE's Prudent Investment (PI) Program. It acts as a Municipal Services Board for all participating municipalities.

This turnkey solution gives Ontario municipalities of any size access to much broader investment powers under the Prudent Investor Standard.

ONE Investment provides all management, administrative and other services to ONE JIB. ONE uses PH&N Institutional as its outside investment manager. PH&N builds each municipality's portfolio from a set of funds that includes domestic and international securities, fixed income products, and alternative investments.

As of November 2026, ONE JIB serves twenty-seven municipalities and manages more than $3 billion.

Key Takeaways

- **Legal List (Section 418)** applies to every Ontario municipality. It is a fixed list of allowable Canadian investments, with minimum credit worthiness requirements. Investments are guided by a Council-approved investment policy.
- **ONE Investment** offers short and longer-term investment options under the Legal List.
- **Prudent Investor (Section 418.1)** is optional. It allows eligible municipalities with access to a broader investment portfolio but requires an independent Investment Board and a higher governance standard.
- Through **ONE JIB**, any municipality can leverage prudent investment to support your municipal investment journey.
- Council sets the investment policy direction and receives periodic reports.
- To learn more about ONE Investment or your investment options, you can contact us at ONE@ONEinvestment.ca

This document is intended for general education only. Please consult the Municipal Act, regulation, and municipal staff for further details.