

TC98-7 Structured Finance Transactions

Treasury Circular

STRUCTURED FINANCE TRANSACTIONS

Summary:

This Circular outlines requirements to be observed by agencies when considering involvement in complex financing transactions.

As transactions of this nature normally involve the State incurring substantial long term liabilities or contingent liabilities, all proposals must be referred to the Treasury for assessment before entering into commitments.

The Circular is an addition to Treasurer's Directions issued under Section 9(1) of the *Public Finance and Audit Act 1983*.

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Acting Secretary

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STRUCTURED FINANCE TRANSACTIONS

Background:

This Circular is to clarify practices and procedures with respect to agencies' involvement in complex financing transactions including:

- operating leases
- finance leases
- cross-border leases
- securitisations
- structured asset acquisitions; and
- other similar transactions.

Such transactions, which for the purpose of this Circular are all deemed to be "structured finance transactions", are generally characterised by their size, complexity and relative infrequency and may involve significant risks for the agency and, ultimately, the Government.

This Circular draws on existing policy documents, ie NSW Treasury Circular TC 96/11 of 10 October 1996 regarding Cross Border Leasing and the "Treasury Management Policy" document released by the Treasury (Commercial Sector Division) in December 1996. This Circular replaces TC 96/11 and amplifies comments regarding structured financing in the "Treasury Management Policy" document.

The Treasury utilises NSW Treasury Corporation ("TCorp") in assessing and, where appropriate, implementing structured finance transactions. TCorp, through its Corporate Finance activities, has been involved in many of the State's structured finance transactions since the Corporation's inception in 1983 and is the State's central point of expertise for structured financings. TCorp's up-to-date market knowledge, contacts and specialised skills and experience are utilised to maximise the financial result achievable within acceptable risk parameters, in accordance with Government policy and objectives. TCorp's involvement also ensures a consistency of approach and terms with the market.

Additionally, TCorp through its Treasury and Risk Management services is able to advise on other financial aspects of structured finance transactions, such as interest rates and foreign exchange risks. If required, TCorp can then implement the appropriate strategy to manage and control these associated financial risks.

Operating leases have not been specifically mentioned in previous Circulars on structured financings, but are included within the scope of this Circular given their growing importance in agencies' asset procurement arrangements. It is not intended that the Circular apply to the leasing of office accommodation owned by a third party and a contract threshold amount of \$1,000,000 has been set in order to exclude the leasing of smaller assets from the ambit of the Circular. It is expected, however, that agencies will continue to observe standing policy and procedural requirements in relation to the leasing of office accommodation and assets of smaller value.

In general, infrastructure projects do not fall within the scope of this Circular. The Government has issued the publication "Guidelines for Private Sector Participation in the Provision of Public Infrastructure" which sets out the requirements and respective roles of agencies, the Treasury and the Department of State & Regional Development. As appropriate, the Treasury will involve TCorp in any structured finance elements of infrastructure projects.

Requirements:

- all proposals for structured finance transactions (as defined above) are to be submitted to the Treasury for assessment, prior to any in-principle decision being made on whether to proceed or any tender document being issued. In assessing any proposal, consideration will be given to features including the relative costs and benefits and the level of risk, if any, involved. TCorp will act as the Treasury's financial adviser in each transaction and agencies are encouraged to approach TCorp prior to the submission of proposals to the Treasury;
- the Treasury will assess all proposals in terms of implications for the agency concerned, consistency with all relevant Government policies, and the effective financing cost compared to the cost of direct funding from TCorp;
- as many of these transactions will qualify as "financial accommodation" under the Public Authorities (Financial Arrangements) Act, a further submission to the Treasury for formal approval may be necessary prior to final commitment;
- where cross-border lease proposals or similar cross-border transactions are assessed as appropriate to proceed, all approaches to financial markets for cross-border transactions are to be co-ordinated by TCorp. Prior to approaching markets, the approval of the Treasurer will be required and then again once the terms of the transaction are finalised;
- where other structured finance proposals are assessed as appropriate to proceed, TCorp will, if it considers it is in a position to add value, offer its advisory services to the agency concerned on a non-compulsory basis.