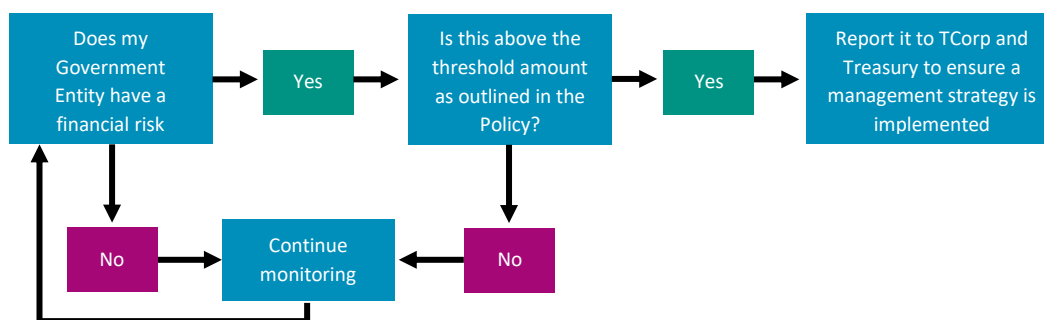


TPP21-14: Financial Risk Management Policy Guidance Paper

This is a guidance paper on TPP21-14, the NSW Government Financial Risk Management Policy. This paper summarises the main steps that Government Entities should take in order to effectively implement the Policy. Note, that readers should refer back to the full Policy for further details.

The process for following TPP21-14 is summarised in the chart below:



1. Financial risks captured by the Policy

The Policy covers financial risk exposures related to the below risks. For more information, refer to section 5 of TPP21-14. For each risk, Government Entities can ask themselves the related questions, to assist in determining whether they have a relevant exposure.

- **Foreign Exchange Risk**
 - Would a future move in foreign exchange rates result in a change to your Entity's cash flows over the forward estimates period? This risk may arise if your Government Entity is:
 - buying or selling, or intending to buy or sell, goods or services in a foreign currency,
 - buying or selling, or intending to buy or sell, goods or services that are ultimately sourced from overseas or foreign companies/suppliers, including when the price is in AUD, or
 - have actual or budgeted income, expenses, assets or liabilities that are affected by changes in the value of foreign currencies.
- **Commodity Price Risk**
 - Would a future move in commodity prices result in a change to your Entity's cash flows over the forward estimates period? This risk may arise if your Government Entity requires:
 - the ongoing use of a commodity for operations (e.g. electricity or fuel), or
 - has a significant need for a commodity for a large procurement (e.g. steel to build a pipeline).
- **Interest Rate Risk**
 - Would a future move in interest rates result in a change to your Entity's cash flows over the forward estimates period? This risk may arise if your Government Entity has:
 - current (for floating) or future borrowings on which interest is paid, or will be paid,
 - derivatives whose cash flows and/or value are a function of interest rates, which are not already part of a hedging transaction,

- interest bearing investments (excluding deposits in the TBS and investments with, or managed by, TCorp, such as TCorp IM Funds or TCorp Term Deposits), or
 - any other financial arrangements that generate an interest rate exposure for the State (e.g. leases or availability payments which have floating rate exposure).
- **Debt Management (Re-financing Risk)**
 - Do you have forecast refinancing or borrowings? What is the forecast drawdown or repayment profile of your Government Entity's debt? In respect of the Policy, this includes:
 - current floating rate borrowings,
 - expected new borrowings, and
 - expected re-financing of existing borrowings.

2. Identifying your exposures

- Government Entities are responsible for **identifying exposures as they arise. Government Entities must have appropriate processes in place to ensure that these are identified in a timely manner.**
- The finance team of each Government Entity (the team responsible for consolidating and reporting the risks to TCorp and Treasury) must ensure that it can identify each type of risk as it arises, including liaising with internal teams to ensure that exposures are monitored.
- **The identified exposures should be recorded in the [Financial Risk Reporting Form](#) found on the Treasury website.**

3. Report your exposures

- **Government Entities are required to report their current and forecast financial risk exposures within 5 business days of becoming aware of them**, when the aggregate of any individual financial risk exposure category exceeds a materiality threshold listed below, or when it changes by that amount. Exposures should be reported on the [Financial Risk Reporting Form](#) found on the Treasury website.
- **Materiality:** Financial risk exposures are considered material if the **aggregate** face value of the Government Entity's exposure exceeds the Threshold Amounts listed below:
 - Borrowings: A\$ 20 million face value,
 - Interest Rate Exposure: A\$ 20 million face value of borrowings,
 - Foreign Exchange: A\$ 500 thousand face value (the face value in foreign currency should be converted back to A\$ at the RBA-published spot rate when identified),
 - Commodities: A\$ 20 million face value, or
 - As mutually agreed between Treasury and the Government Entity.

* Note that face value refers to the nominal value of a security (for instance, a bond may have a A\$1,000 face value which is the amount the bondholder will receive at maturity) or the nominal amount on which derivative instruments are based on.

- Agencies should submit their exposures list to TCorp (frs@tcorp.nsw.gov.au) and Treasury (sbsm@treasury.nsw.gov.au) using the following naming format:
 - Prime Code – Name of Agency – YYYY MM DD
 - e.g. EC1101.EB1102 – Treasury – 2022 11 30

4. Manage your exposures

- **Government Entities must work with TCorp to determine an appropriate management strategy for their financial risk exposures.** If the strategy involves hedging using derivative products, then execution of the hedging strategy must be undertaken through TCorp.
- **The management strategy must be approved in writing by the Government Entity's Chief Financial Officer (CFO),** as the individual with the primary responsibility for the finances of the Government Entity.
- Once identified, **Government Entities are responsible for the ongoing monitoring and management of their exposures.**
- For aggregate exposures below the Threshold Amount, there is no mandatory requirement for Government Entities to develop a management strategy. Government Entities with smaller exposures, however, are strongly encouraged to report those exposures and work with TCorp to develop a management strategy, in the same manner as if they are captured by the Policy, to mitigate those risks.

5. Compliance with Policy

- **Annual Attestation:** The Policy requires the Chief Financial Officer for each Government Entity, or their delegate, to provide to Treasury a TPP21-14 Attestation Statement for the prior financial year by no later than 31 October each year. Refer to the full Policy for further details on this step.
- For more information on reporting and compliance, please refer to section 6 of TPP21-14.

Further information and contacts

For further information or clarification on issues raised, please contact:

- Your Treasury Relationship Lead
- Treasury's Balance Sheet Management Division: sbsm@treasury.nsw.gov.au

For assistance in managing financial risk exposures, please contact:

- Your TCorp Relationship Lead: clientservices@tcorp.nsw.gov.au
- TCorp Financial Risk Solutions team: frs@tcorp.nsw.gov.au
- Your Treasury Relationship Lead
- Treasury's Balance Sheet Management Division: sbsm@treasury.nsw.gov.au