NSW GOVERNMENT | Treasury

January 2022

TPP21- 14

NSW Government Financial Risk Management Policy

NSW GOVERNMENT

Preface

NSW Treasury (Treasury) has prepared TPP21-14, the NSW Government Financial Risk Management Policy (the Policy or FRM Policy) as part of a broader suite of measures in the NSW Financial Management Framework. The Policy supports and reinforces the principles of sound financial management laid out in the *Government Sector Finance Act 2018* (GSF Act) and the *Fiscal Responsibility Act 2012* (FRA 2012).

The purpose of the FRM Policy is to strengthen and update the existing financial risk management functions of Government and provide guidance to General Government Sector Agencies and Government Businesses (together, known as "Government Entities") in that management. The Policy sets out core requirements for Government Entities to follow in managing their financial risk exposures. The Policy addresses interest rate risk, debt management (including re-financing risk), foreign exchange risk and commodity price risk.

The Policy applies to all Government Entities from January 2022.

The Policy supersedes TPP07-7 and TPP 18-03, as they relate to the management of interest rate risk, debt management (including re-financing risk), foreign exchange risk and commodity price risk. In doing so, the Policy:

- sets out principles and requirements that align with the GSF Act and FRA 2012,
- helps Government Entities to identify and assess their own financial risk exposures, and
- promotes efficient and effective oversight arrangements for the whole-of-State through NSW Treasury (Treasury) and New South Wales Treasury Corporation (TCorp).

TPP21-14 should be read alongside the other Policy and Guideline papers that apply to internal audit and risk management, including the Risk Management Toolkit for the NSW Public Sector (TPP12-03) and the Internal Audit and Risk Management Policy for the General Government Sector (TPP20-08).

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Note
General inquiries concerning this document should be initially directed to:
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This publication can be accessed through Treasury's website www.treasury.nsw.gov.au.

Contents

1. Executive Summary

The objective of the Policy is to improve central visibility of the State's financial risks and ensure that these risks are effectively managed from a whole-of-State perspective. It refreshes the State's approach to financial risk management and supports the GSF Act and the FRA 2012.

The focus of the Policy is on the following market risks:

- **interest rate risk,**
- **debt management (including re-financing risk),**
- **foreign exchange risk, and**
- **commodity price risk.**

The Policy is designed to ensure that exposures are managed effectively and at the most efficient cost to the State. Achieving the Policy's objective relies on:

- Government Entities accurately identifying and reporting relevant financial risk exposures to Treasury and New South Wales Treasury Corporation (TCorp) within 5 business days,
- Government Entities continuing to monitor their financial risk exposures, once identified, and informing Treasury and TCorp of any material changes,
- Treasury's centralised oversight of the State's outstanding risk exposures and advising on Government's risk tolerance, and
- TCorp's expertise in advising on and devising financial risk management strategies (as well as in their execution).

This approach ensures exposures can be managed from a whole-of-State perspective at the most efficient cost to the State.

The Policy sets out two Core Requirements for Government Entities to follow.

Core Requirement 1	**Identify and report financial risk exposures to TCorp and Treasury in a timely manner and monitor them once identified** Government Entities must monitor their operations and expenditures for any financial risks and report all material financial risk exposures to TCorp and Treasury, where material is defined to be aggregate exposures exceeding a Threshold Amount. Government Entities must also report on their exposures when they change by a material amount (the Threshold Amount for a given category). Refer to **section 4.1** for the Threshold Amounts.
Core Requirement 2	**Manage material exposures with TCorp's assistance** 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[1] where possible.

[1] *In situations where TCorp does not trade a particular product, Government Entities may execute their Management Strategy with another counterparty, providing they have the authority to enter into that financial arrangement under the GSF Act.*

For aggregate exposures below the Threshold Amount, there is no mandatory requirement for Government Entities to develop a management strategy. However, where Government Entities with smaller exposures do wish to manage their exposures, they are encouraged to engage with TCorp to develop a management strategy, in the same manner as if they were captured by the Policy.

Important Note: The GSF Act requires that prior to entering into a financial arrangement, that arrangement be authorised. If a GSF agency requires a financial arrangement as part of its management strategy, it must be authorised, pursuant to Part 6 of the GSF Act[2]. The Policy **does not** constitute approval to enter financial arrangements.

The Policy **does not** permit speculative behaviour by Government Entities and any derivative arrangements entered into must not be executed with an intention to generate profit.

Any policies and procedures created at the Government Entity level must be consistent with the Financial Risk Management Policy and the GSF Act.

[2] *Transitional provisions under the GSF Act permit some GSF agencies to enter into certain types of financial arrangements which were authorised under the Public Authorities (Financial Arrangements) Act 1987. These transitional provisions will expire on 30 November 2021. If a GSF agency wishes to continue participating in those arrangements, it must seek approval from the Treasurer before that date via its Treasury Relationship Lead.*

2. Definitions

A$ means Australian Dollars.

Attestation Statement is a statement in which the CFO attests to the Government Entity's compliance with the Core Requirements of the Policy. The statement is made using the template provided in the Policy (**Appendix A**).

Borrowing has the same meaning as in section 6.8 of the GSF Act.

Chief Financial Officer (CFO) is the most senior position in the Government Entity with the primary responsibility and accountability for the financial management of the Government Entity, including the preparation of external and internal financial reports and the delivery of other financial management support functions.

Commitment refers to when a Government Entity completes a sale, purchase, or other transaction (through contract or otherwise).

Contingent Exposure is the Face Value of a potential borrowing, investment or transaction that has a high probability of occurring.

Contracted Risk means the Foreign Exchange risk arising from known exposure after making a Commitment or signing a contract.

Commodity Price Risk is the risk that a movement in the price of a commodity leads to a change in costs or revenues.

Compliant means that the agency has implemented and maintained practices consistent with the Core Requirements of the Policy for the previous financial year.

Derivative arrangement has the same meaning as in section 6.10 of the GSF Act.

Embedded Risk means the Foreign Exchange risk arising from making a Commitment denominated in A$, and/or spending expected to continue over future years, where goods and services are sourced outside of Australia.

Exemption Requirements means the requirements a Government Entity must demonstrate it has met to seek exemption from using TCorp to execute its management strategy.

Face Value in the context of the Policy refers to the aggregate $ value of each Financial Risk Exposure category or aggregate Borrowing/s for a Government Entity.

Financial Arrangement has the same meaning as in section 6.7 of the GSF Act.

Foreign Exchange Risk (FX risk) is the risk that a change in currency exchange rates leads to a change in costs or revenues.

Foreign Exchange (FX) exposure is exposure that is subject to FX risk.

FRA 2012 means the *Fiscal Responsibility Act 2012*.

General Government Sector has the same meaning as in section 1.4 of the GSF Act.

Government Businesses means, but is not limited to:

- State Owned Corporations (noting the application of the Policy is subject to the *State Owned Corporations Act 1989*),
- Government Entities within the Total State Sector Accounts classified as public financial corporations, and
- Corporations Act 2001 companies where the Treasurer is a designated majority shareholder.

Government Entity is a General Government Sector agency or a Government Business. Note that Government Entities are GSF agencies for the purposes of the GSF Act.

Government Money has the same meaning as in section 1.4 of the GSF Act.

GSF Act means the *Government Sector Finance Act 2018* and its associated Regulation.

Hedging is a form of risk management used to reduce the probability of financial variability from fluctuations in prices (e.g. currencies, interest rates or commodities).

Natural Hedge is a reduction of risk that may be identified through matching opposite risk exposures against each other. For example, TCorp may be able to identify that an exposure to US$ revenue in one Government Entity is offset by an exposure to US$ expenses in another Government Entity within a similar timeframe.

New South Wales Treasury Corporation (TCorp) means the New South Wales Treasury Corporation constituted by the *Treasury Corporation Act 1983.*

In transition is where the agency is in the process of transitioning its arrangements to meet requirements in the Policy or is impacted by Machinery of Government changes for which transitional arrangements have been provided.

Interest Rate Risk is the risk that a change in interest rates leads directly to a change in future cash flows.

Investment has the same meaning as in section 6.9 of the GSF Act.

Non-compliant means the agency has not been compliant with one or more Core Requirements of the Policy for the whole or part of the financial year.

TBS means the Treasury Banking System

TCorp Managed Funds is either an investment in TCorp Investment Funds or any investments where TCorp is the investment manager or the investment advisor.

TCorp Term Deposit is a deposit with TCorp made for an agreed term, greater than 30 days.

Threshold Amount is the value that the Policy defines as material and above which a Government Entity should report individual financial risk exposures to TCorp and Treasury, for a particular type of financial risk. It also represents an aggregate amount which if a risk exposure changes by, should also be reported to TCorp and Treasury.

Translation Risk is the balance sheet exchange rate risk which is measured by the exposure of underlying goods or services to exchange rate movements.

Treasury Banking System (TBS) is any bank account included as part of the State Financial Services Agreement and under the State Set-Off Account.

3. Introduction

The NSW Government has implemented several policies aimed at ensuring best practice financial management is applied across the NSW public sector. In 2013, Treasury began the Financial Management Transformation program, which led to the GSF Act being implemented in 2018. The FRM Policy (this Policy) supports the GSF Act and refreshes the State's approach to financial risk management, aligning with Government's preferences. The FRM Policy also helps to reinforce the objectives outlined in the FRA 2012 to support sound financial management.

3.1. Financial Risk Management

Financial risk management is central to ensuring that government money is managed effectively and prudently. Effective financial risk management reduces the likelihood that expenditure will be above or below budget due to the volatility of financial market variables. This provides a more certain budget position for Government, helping ensure the ongoing provision of services for the State.

The Policy recognises that individual Government Entities are best placed to identify and monitor their financial risk exposures and they should have processes in place to ensure this is done effectively across their operations.

Government Entities must report their material exposures to TCorp and Treasury within 5 business days of being identified, using the online **Financial Risk Management Reporting Form**, so that a management strategy can be developed and implemented. TCorp's involvement in setting the management strategy for Government Entities' exposures is critical for the exposures to be managed from a consolidated, whole-of-State perspective.

Government Entities will often have been granted budget, or approval to transact, prior to incurring an actual exposure. These contingent financial risks, with a high likelihood of occurring, are also covered by the Policy and should be reported to Treasury and TCorp to consider as part of a management strategy.

The approach to financial risk management in the Policy ensures that financial risk exposures can be managed from a whole-of-State perspective (including utilising any potential Natural Hedges) and at the most efficient cost to the State. As a general principle, known and actual material exposures must be hedged no later than the signing of a contract, with the primary goal of providing budget certainty. Further, potential exposures with a high probability of occurring prior to contractual commitment should be hedged, where appropriate (for example, where ERC approval has been received for a project or purchase). Ongoing exposures such as regular expenditure on commodities or borrowings, should be managed within a robust, long-term framework that balances risk management with the aim of creating budget certainty.

3.2. Principles of Financial Risk Management

The following general principles underpin the Policy:

3.2.1. Accountability

Government Entities are accountable for all financial risk exposures that are created from their operations, as well as the ongoing identification, monitoring and reporting of those exposures. Government Entities are also accountable for the costs associated with managing their exposures.

3.2.2. Accurate and timely identification and reporting of financial risk exposures

Government Entities are best placed to identify and monitor the financial risk exposures that are, and will be, generated from their operations. Accurate and timely identification will ensure the State's exposure is managed in the most appropriate way, with minimal risk. To assist with this task, Government Entities should ensure appropriate processes are in place across their organisations and operations. See **section 6** for the reporting requirements of the Policy.

3.2.3. Centralised oversight of whole-of-State financial risk exposures

TCorp and Treasury require visibility over the whole-of-State financial position to assist in managing the State's finances and financial risks effectively. Management strategies for a particular risk may be adapted by TCorp, if necessary, to better fit the broader, whole-of-State risk management approach[3].

3.2.4. Centralised market interaction by TCorp and elimination of duplication

The elimination of duplication throughout the government sector with respect to financial risk management functions will reduce costs and ensure that a consistent, best practice approach is taken. Significant economies of scale can be realised through using the technical expertise and comprehensive financial risk management systems that TCorp maintains.

TCorp's primary functions are to act as the State's central borrowing authority, funds manager and to face the market with respect to derivative transactions. TCorp is best placed to achieve the lowest transaction costs in derivative market execution due to its market power and its ability to collateralise any open positions.

TCorp also reports on the State's consolidated, open, derivatives position to the Commodity Futures Trading Commission, to transact with banks domiciled in the United States[4].

3.2.5. Derivatives only to be used for risk management

Derivatives may only be used as part of a financial risk management strategy to reduce risks faced by Government Entities and the State. Prior to entering into a derivative arrangement, Government Entities require that arrangement be authorised[5], pursuant to Part 6 of the GSF Act. Government Entities are not permitted to enter derivative arrangements for speculative purposes.

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[3] *In situations where TCorp recommends an approach to risk management with consideration for the whole-of-State, the Entity may approach Treasury if it disagrees with the approach, as laid out in section 4.2.*

[4] *As a result of the implementation of the Dodd-Frank Act in the United States, NSW is required to comply with new reporting conditions if it transacts derivatives with banks subject to United States regulation. TCorp is required, on behalf of the State, to disclose the amount of the State's consolidated derivative position to the Commodity Futures Trading Commission (CFTC).*

[5] *A financial arrangement approval (derivatives) has been granted by the Treasurer for all GSF agencies to enter into derivative arrangements with TCorp to manage their financial risks. Please ensure this remains valid before executing with TCorp.*

3.3. Legislative Provisions

The GSF Act provides the legislative basis for GSF agencies to enter into financial arrangements. The GSF Act, which was enacted in December 2018, updates and improves the financial management framework set out in:

- the *Public Authorities (Financial Arrangements) Act 1987*,
- the *Public Finance and Audit Act 1983*,
- the *Annual Reports Act (Departments) 1985*, and
- the *Annual Reports Act (Statutory Bodies) 1984*.

The objectives of the GSF Act are set out in section 1.3 of the Act and are listed below:

a) to promote and support sound financial management, budgeting, performance, financial risk management, transparency and accountability in the government sector and by GSF agencies and government officers,

b) to facilitate the effective devolution of roles and responsibilities in connection with financial management to support efficient and effective government,

c) to require the efficient, effective and economical use and management of government resources and related money in accordance with the principles of sound financial management,

d) to promote appropriate stewardship of government resources and related money,

e) to facilitate cooperation and collaboration within and between GSF agencies for the purpose of achieving common objectives and whole of Government objectives, and

f) to facilitate the keeping and sharing of performance information in the government sector for the purposes of decisions about resource allocation.

The FRA 2012 outlines the fiscal responsibilities of the State. The FRA 2012 lists three principles of sound financial management as listed below:

- Principle No 1 is responsible and sustainable spending, taxation and infrastructure investment,
- Principle No 2 is effective financial and asset management, including sound policies and processes, and
- Principle No 3 is achieving intergenerational equity.

The Policy supports the objectives of the GSF Act, as well as the management of financial arrangements that GSF agencies enter. Section 6.22 of the GSF Act requires that all GSF agencies have authorisation before entering into a financial arrangement. The Treasurer can grant approval to enter into financial arrangements individually, or generally; to a range of GSF agencies. These financial arrangements include:

- investments,
- borrowings,
- derivative arrangements,
- joint financing arrangements, and
- joint venture arrangements.

3.4. Application of the Policy

3.4.1. Who does the policy apply to?

The Policy applies to all Government Entities, including General Government Sector Agencies and Government Businesses. The policy is not intended to limit Government Businesses' operations, but rather, complement their financial management practices to ensure they align with Government's risk appetite.

3.4.2. Roles and Responsibilities

Government Entities are responsible for the financial risk exposures which arise as a result of their operations. They are responsible for:

- ensuring that internal management policies are sufficient to support the application of the Policy,
- identifying financial risk exposures related to their activities,
- the reporting of material financial risk exposures as they arise, as well as when they change, by more than the Threshold Amount, as outlined in the Policy,
- working with TCorp to quantify the risk and devise a management strategy,
- ensuring they have sufficient resources to meet any transaction costs that are directly related to the Government Entity's operations and management strategy,
- ensuring financial risk exposures are appropriately managed, in collaboration with TCorp and Treasury, as appropriate, and
- the ongoing monitoring of their financial risk exposures.

TCorp is responsible for:

- providing advice and guidance to Government Entities on identifying their financial risk exposures,
- ensuring the whole-of-State position is considered when recommending measures to help manage Government Entities' financial risk exposures,
- assisting with the development of Government Entities' management strategies,
- endorsing management strategies,
- providing reported exposures and hedges to Treasury,
- assisting Treasury and Government Entities with the reporting of consolidated exposures, and
- entering into financial arrangements with Government Entities, and the financial markets, where appropriate.

Treasury is responsible for:

- reviewing the Policy and making adjustments from time to time, as appropriate,
- advising TCorp with regard to the Government's risk appetite to guide the development of management strategies,
- working with Government Entities during the transition period to ensure successful implementation of the Policy,
- maintaining oversight of the State's consolidated financial risk exposures as reported,
- liaising with Government Entities with respect to their financial arrangements and approvals, and
- acting as arbiter where the Government Entity and TCorp do not agree on a management strategy.

3.4.3. Cost of managing financial risk exposures

Managing financial risks effectively is critical to controlling budget spending and maintaining value in the provision of services for the State. Managing financial risks should be a part of every business plan or project, and Government Entities must ensure they have sufficient resources to cover the cost of managing their financial risk exposures.

Section 13(1)(g) of the *Government Sector Finance Regulation 2018* provides that returns from derivative arrangements be deemed appropriation money, pursuant to section 4.7(3) of the GSF Act. This permits Government Entities to use any gains from those arrangements to cover the underlying exposure they are managing[6]. Similarly, any losses from hedging can be recouped from the lower costs of the underlying transaction. In these situations, Government Entities should contact their Treasury relationship lead to discuss any changes to their budget controls which may be needed, such as their Capital Expenditure Authorisation Limit (CEAL) or Net Cost of Service (NCOS).

3.4.4. Exclusions from the policy

Exclusions from the Policy can be found at section 5.5.

[6] *Assuming the Government Entity has appropriate delegation from its Minister to spend deemed appropriation moneys.*

4. Core Requirements

Government Entities are required to adhere to two Core Requirements when managing their financial risk exposures.

4.1. Core Requirement 1 - Identify and report financial risk exposures to TCorp and Treasury in a timely manner and monitor them once identified

Government Entities are responsible for the financial risk exposures that arise as a result of their operations, whether they affect the Government Entity itself, or the State more broadly.

Government Entities are required to identify their current and forecast financial risk exposures as listed in the Policy. Government Entities should consult TCorp or Treasury when they are unsure about an exposure.

Exposures may be either contingent, where a contract has yet to be signed, but there is a high probability of the exposure developing, or committed, where a decision has given rise to an actual exposure.

Threshold Amounts have been considered from the impact that exposures would have to the State. Government Entities with exposures below the Threshold Amounts, while not required to report these, are encouraged to.

Materiality: *Financial risk exposures are considered material if the aggregate face value*[7] *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,*
- *Commodities: A$ 20 million face value, or*
- *As mutually agreed between Treasury and the Government Entity.*

Government Entities are required to report their current and forecast financial risk exposures within 5 business days of being identified, when the aggregate of any individual financial risk exposure category exceeds the Threshold Amount for the given type of risk, or when it changes by that amount.

Government Entities must report their identified exposures to TCorp and Treasury within 5 business days, using the online **Financial Risk Management Reporting Form**.

Once identified, Government Entities are responsible for the ongoing monitoring and management of their exposures. TCorp will provide Treasury with the State's aggregate financial risk exposures, as reported to them, on a monthly basis.

[7] *Including applicable taxes, for life of contract or exposure.*

4.2. Core Requirement 2 – Manage material exposures with TCorp's assistance

Government Entities are required to develop a succinct management strategy, in conjunction with TCorp, to manage any reported exposures. Management strategies for a Government Entity will include its approach to managing all its reported exposures. TCorp has the financial risk management expertise, and visibility of whole-of-State exposures, to ensure management strategies are appropriate for Government.

The management strategy must consider the Government Entity's forecast financial risk exposures over the forward estimates period. The management strategy should consider any business-specific requirements (such as a need for flexibility to cater for uncertain cash flows), as well as the broader risk management goals of the State (such as Budget certainty). It will need to be updated as risk exposures change by the Threshold Amount for any exposure.

The management strategy must set out a Government Entity's approach to managing its reported financial risk exposures and should include (but not be limited to):

i. a description and quantification of the risk,
ii. the objective to be achieved by the management strategy (at both the agency and whole-of-State level), for example, to lock in certainty of cost, or to align risk with future revenues,
iii. whether the risk will be hedged, partially hedged or accepted, as well as the rationale for this decision (including any costs involved),
iv. the types of hedging instrument(s), if any, to be used, including any relevant limits or controls,
v. any relevant accounting impacts, at both the agency and the whole-of-State level, and
vi. whether the management strategy has been endorsed by TCorp.

The management strategy must be approved by the Government Entity's Chief Financial Officer (CFO)[8], as the most senior person in the Government Entity with the primary responsibility and accountability for the financial management of the Government Entity.

The management strategy must be reviewed at least annually. It should also be reviewed at any point where a revision to the forecast or actual exposures of the Government Entity, that exceeds the Threshold Amount, has occurred.

For aggregate exposures below the Threshold Amount, there is no mandatory requirement for Government Entities to develop a management strategy. However, where Government Entities with smaller exposures do wish to manage their exposures, they are encouraged to engage with TCorp to develop a management strategy, in the same manner as if they were captured by the Policy.

Procurement Proposals: *If the financial risk relates to a procurement proposal, then the Government Entity is required to ensure their management strategy is applicable to the procurement proposal (for example, when procuring goods or services from overseas, or entering into a leasing arrangement).*

Government Entities must use TCorp to execute their management strategies where possible. Using TCorp to implement management strategies improves Government outcomes by:

i. reducing costs by using natural hedges (where available) and economies of scale,
ii. reducing the collateral holding requirements across the State,

[8] *TPP17-06 defines the Chief Financial Officer as the most senior person in the agency with the primary responsibility and accountability for the financial management of an agency.*

iii. improving visibility and reporting at the whole-of-State level, and
iv. ensuring qualified and experienced personnel are managing the State's financial risk exposures.

If a Government Entity wants to manage its exposure without TCorp's advice, it must seek approval from Treasury[9]. To gain such approval, a Government Entity must show that it meets the following Exemption Requirements:

i. it has staff with the appropriate expertise to implement the management strategy (including succession planning around key individuals),
ii. it has appropriate systems, controls and processes for monitoring and reporting,
iii. there is a net benefit to the State of having these exposures managed by a party other than TCorp (including the Government Entity itself), and
iv. how it plans to manage those financial risk exposures.

If the management strategy relates to any financial arrangements, then the Government Entity must ensure it is authorised to enter into those financial arrangements pursuant to Part 6 of the GSF Act[10]. If approval has been granted to manage its exposures outside of TCorp, the Government Entity must ensure it continues to meet the Exemption Requirements. The Government Entity must provide details of their authorisation to enter into financial arrangements, or their authorisation to manage their exposure without TCorp, in the annual attestation using the template provided at **Appendix A**.

In the case where the Government Entity and TCorp cannot reach an agreement on an appropriate Management Strategy then the agency may refer the decision to Treasury for assistance, or exemption. If the Government Entity wishes to obtain an exemption from engaging TCorp, then it may seek exemption by filling out the template in **Appendix B** and providing it to its Treasury relationship lead.

[9] *For current exposures already being managed without TCorp's advice, agencies should seek advice from TCorp on those exposures and whether their management is sufficient.*
[10] *A financial arrangement approval (derivatives) has been granted by the Treasurer for all GSF agencies to enter into derivative arrangements with TCorp to manage their financial risks. Please ensure this remains valid before executing with TCorp.*

5. Types of Financial Risk Covered by the Policy

The Policy covers financial risk exposures related to the following types of risk:

5.1 Foreign Exchange Risk

The risk that a change in currency exchange rates (i.e. the change in value of A$ with respect to another currency) leads to a change in costs or revenues of a Government Entity. This policy applies when Government Entities:

i. buy or sell, or intend to buy or sell, goods or services in a foreign currency,

ii. buy or sell, or intend to buy or sell, goods or services that are ultimately sourced from overseas or foreign companies/suppliers, and

iii. have actual or budgeted income, expenses, assets or liabilities that are affected by changes in the value of foreign currencies.

Foreign exchange risk also includes the following subcategories:

- **Contracted Risk** is Foreign Exchange Risk from known exposures, after making a Commitment,
- **Contingent Risk** is Foreign Exchange Risk that arises prior to making a Commitment but where a spending approval has been obtained,
- **Embedded Risk** is Foreign Exchange Risk arising from making a Commitment denominated A$, and/or spending expected to continue over future years, where good and services are sourced outside of Australia, and
- **Translation Risk** is Foreign Exchange Risk arising from balance sheet exchange rate risk which is measured by the exposure of underlying assets and liabilities to exchange rate movements.

Questions to assist in identifying 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?

Does your Government Entity:

- *have (or intend to have) a commitment to receive or pay in a non-A$ currency?*
- *have (or intend to have) an A$ priced commitment with an overseas supplier or have goods or services that are sourced from overseas?*
- *undertake procurement processes for large capital projects that involve bids from foreign counterparties or from counterparties that source materials from overseas?*
- *have an item reported in the financial statements, or forecast to be in the financial statements, the value of which changes with movements in the exchange rate?*

5.2 Commodity Price Risk

The risk that a movement in the price of a commodity leads directly to a change in costs or revenues to a Government Entity. In respect of TPP21-14, this includes:

i. the ongoing use of a commodity for operations (for example, electricity or fuel), and

ii. a significant need for a commodity for a large procurement (for example, steel to build a pipeline).

Questions to assist in identifying 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?

Does your Government Entity:

- *have a commitment to purchase a commodity?*
- *have a commitment for the supply of a commodity?*
- *undertake procurement for large capital projects that involve significant commodity inputs?*

5.3 Interest Rate Risk

The risk that a change in interest rates leads directly to a change in the future cash flows (including costs or revenues) of a Government Entity. In respect of TPP21-14, this includes:

i. current (for floating) or future borrowings on which interest is paid, or will be paid,

ii. derivatives whose cash flows and/or value are a function of interest rates, which are not already part of a hedging transaction,

iii. interest bearing investments (excluding deposits in the TBS and investments with, or managed by, TCorp, such as TCorp IM Funds or TCorp Term Deposits), and

iv. any other financial arrangements that generate an interest rate exposure for the State (for example, an availability payment which has floating rate exposure, or a lease. Government Entities that have smaller lease liabilities are encouraged to engage with TCorp for alternate financing solutions).

Questions to assist in identifying 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?

Does your Government Entity:

- *have future payments or receipts that adjust with interest rates over time?*
- *have outstanding borrowings (floating rate)?*
- *have a need for new borrowings?*
- *have structured finance arrangements (with interest rate exposure)?*
- *participate in Public Private Partnerships (PPPs) that contain conditional debt pay down clauses or unhedged floating rate exposure?*
- *have any current leases which will need renewal, or planned new leases?*

5.4 Debt Management (Re-financing Risk)

The risk that a Government Entity is unable to raise debt, either to re-finance existing debt, or issue new debt. In respect of TPP21-14, this includes:

i. current floating rate borrowings,
ii. expected new borrowings, and
iii. expected re-financing of existing borrowings.

> ***Question to assist in identifying re-financing Risk:***
> *What is the forecast drawdown or repayment profile of your Government Entity's debt?*

Treasury may issue further guidance from time-to-time to assist Government Entities in identifying the financial risks outlined above.

5.5 Exclusions from TPP21-14

Exclusions – Foreign Exchange Risk

The following types of foreign exchange exposures are excluded:

i. Deposits in TBS bank accounts or other A$ denominated accounts, and
ii. Investments in TCorp IM Funds.

Exclusions – Interest Rate Risk

The following types of borrowings, derivatives or investments are excluded:

i. Credit cards and purchasing cards,
ii. Deposits in TBS bank accounts, and
iii. Investments managed by TCorp as the State's centralised investment manager and TCorp Term Deposits.

Exclusions – Debt Management

The following types of borrowings are excluded:

i. Credit cards and purchasing cards (including virtual cards), and
ii. Any inter-agency advances.

6. Reporting and Compliance

Government Entities are required to comply with TPP21-14 when managing their financial risks. Any policy established at the Government Entity level should be consistent with the Policy and the GSF Act. Any policy breaches are to be reported to the Government Entity's management and Treasury as soon as identified, along with an explanation of why the breach occurred and proposed remedial actions.

6.1. Compliance

Government Entities have a transitional period of twelve (12) months to comply with TPP21-14 from the date the Policy commences. Government Entities should engage with Treasury while they take steps to achieve compliance with the Policy. For the avoidance of doubt, the existence of a transitional period does not remove the responsibility of Government Entities to comply with the Policy.

6.2. Non-Compliance

If a Government Entity cannot comply with the requirements of the Policy and/or has reason to not comply with the Policy, it may fill out the template in **Appendix B** and contact its Treasury relationship lead to seek an exemption from the Policy.

6.3. Reporting

As part of the requirements under TPP21-14, Government Entities are responsible for the ongoing monitoring of their financial risk exposures. They must report any material changes to Treasury and TCorp using the using the online **Financial Risk Management Reporting Form**. It is important that identified risks are reported well in advance of an exposure occurring, to allow time to develop a management strategy.

Treasury may request Government Entities provide information on prospective and existing exposures from time-to-time, for Treasury's own reporting purposes. TCorp will also require Government Entities' information so that it may comply with its reporting requirements to the US Commodity Futures Trading Commission. Under the Policy, Government Entities are required to comply with such information requests from Treasury and/or TCorp.

The Policy requires the Chief Financial Officer for each Government Entity, or their delegate, to provide to Treasury a Financial Risk Management Policy Compliance Attestation Statement for the prior financial year by no later than 31 October each year. The statement should indicate whether the Government Entity was 'compliant', 'non-compliant' or 'in transition'. This attestation may be reviewed by the Audit Office. A template can be found in **Appendix A.**

6.4. Review of TPP21-14

Treasury may, on a periodic basis, or at least every five (5) years, review the Policy to ensure its continued relevance and consistency.

7. Further information and contacts

For further Information or clarification on issues raised in the TPP, please contact:

- Your Treasury Relationship Lead
- Treasury's Climate Change and Balance Sheet Division: ccbs@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 Climate Change and Balance Sheet Division: ccbs@treasury.nsw.gov.au

Appendix A – Statement of Attestation

Government Entities must use this template to attest that the Government Entity was either 'compliant' or 'non-compliant' for the relevant reporting period in relation to the core requirements and reporting requirement of TPP21-14 NSW Government Financial Risk Management Policy.

Statement of Attestation for the financial year ending 30 Jun [Year]

Core requirement 1: Identify and report financial risk exposures to TCorp and Treasury in a timely manner and monitor them once identified.

I, [Name of Chief Financial Officer or delegate], attest that [Government Entity] is Choose an item. with Core Requirement 1.

Core requirement 2: Manage material exposures with TCorp's assistance.

I, [Name of Chief Financial Officer or delegate], attest that [Government Entity] is Choose an item. with Core Requirement 2.

Where a Government Entity is non-compliant with the Policy TPP21-14, further detail is to be provided below.

	Detail of non-compliance
Core requirement 1	
Core requirement 2	
Reporting requirement	

Signature   Date

Chief Financial Officer or delegate

Please use online attestation statement. This will become available annually to Government Entities via a link emailed to them by NSW Treasury prior to the attestation due date on 31 October.

Appendix B – Exemption Template

Government Entities must use this template to seek an exemption from the requirements of TPP21-14 NSW Government Financial Risk Management Policy.

I, [Name of Chief Financial Officer or delegate], seek an exemption for [Government Entity] from the requirements of TPP21-14 NSW Government Financial Risk Management Policy.

[Please provide details of exemption sought and reasons for the exemption.]

I have attached to this document relevant information to support my request.

Kind Regards,

Signature	Date
Chief Financial Officer or delegate	

Please use online exemption document. This will be available to Government Entities via the Treasury website.