

Board Policy: **Interest Rate Exchange Agreements**  
Policy Type: **Operating Policies**  
Monitored by: **Finance and Audit Committee**  
Board Resolution: **#1353, approved March 29, 2017**

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## **Board Policy on Interest Rate Exchange Agreements**

It is the policy of the Board of Trustees of the Long Island Power Authority to ensure that the Authority properly manages the interest rate risks associated with its assets and debt portfolio. The objective of the interest rate exchange agreement program is to provide the Authority with the ability to diversify its debt portfolio, mitigate potential risks, and/or lower the cost of borrowings.

This Board Policy authorizes the Authority to enter into interest rate exchange agreements only if the Authority's Executive Risk Management Committee ("ERMC") has made a determination that such agreements meet one or more of the following objectives. Such agreements must:

- Manage the Authority's exposure to interest rates on a particular financial transaction, or in the context of the Authority's overall debt and asset portfolios;
- Reduce borrowing costs or increase earnings relative to traditional financing or investment alternatives.

In no event shall an agreement be for speculative purposes.

The ERMC will ensure that agreements entered into:

- Consider and document the associated risks, including the Authority's exposure to counterparty risk, termination risk, basis risk, tax-event or tax-basis risk, mismatched amortization, and rollover risk;
- Meet the Authority's administrative, procurement, and documentation requirements;
- Meet all Generally Accepted Accounting Standards;
- Are executed with counterparties that comply with the Authority's counterparty selection criteria and are eligible counterparties;
- Have been executed within in a process that complies with the Authorities guidelines for designated management and responsibilities and involvement for interest rate swap transactions;
- Comply with the Dodd-Frank Act and other regulatory requirements; and
- Are based on the ISDA Master Agreement, with a related Confirmation and Credit Support Annex.

The ERMC shall monitor and provide appropriate reporting to the Finance and Audit Committee of the Board of Trustees on the following on no less than a quarterly basis:

- Status of individual agreements in effect, including notional amount, rates, terms, bases employed, and the rating of counterparties or insurers;
- Payments received or paid and interest accrued or receivable;
- Credit terms within ISDA documentation, such as ratings based termination events

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- or collateral posting requirement;
- Credit ratings and outlooks for counterparties;
  - Relevant measures of interest rate and valuation sensitivity for transactions;
  - Mark-to-market evaluations by individual agreement and collateralization, is posted by either party.