

**BOARD AGENDA SUMMARY SHEET**

<b>Committee or Board:</b> Board	<b>Date:</b> June 12, 2020	<b>Board Meeting Date:</b> June 24, 2020
-------------------------------------	-------------------------------	---

**For All Board Voting Items:**

**Title of Agenda Item:** Approval of Amendments to the Board Policy on Interest Rate Exchange Agreements

**Consent Agenda:** Yes No

**Accompanying Presentation:** Yes No

**Recommendation from Committee:** N/A  F&A;  GP&P;  Oversight & Clean Energy

**LIPA Presenter:** N/A

**PSEG Long Island Presenter:** N/A

**Enterprise Risk Management Discussion:** Yes No

<b>Requested Action:</b>	The Board is requested to adopt a resolution amending the Board Policy on Interest Rate Exchange Agreements.
<b>Summary:</b> <b>(include proposed amendments to Board Policies, if applicable)</b>	By Resolution No. 1353, dated May 29, 2017, the Board adopted the Policy to properly manage the interest rate risks associated with its assets and debt portfolio. The objective of the interest rate exchange agreement program is to provide LIPA with the ability to diversify its debt portfolio, mitigate potential risks, and/or lower the cost of borrowings.  LIPA Staff proposes minor amendments to the Policy, including clarifying the name of the Power Supply Risk Management Committee.

## **FOR CONSIDERATION**

June 24, 2020

**TO:** The Board of Trustees

**FROM:** Thomas Falcone

**SUBJECT:** Approval of Amendments to the Board Policy on Interest Rate Exchange Agreements

---

### **Requested Action**

The Board of Trustees (the “Board”) of the Long Island Power Authority (“LIPA”) is requested to adopt a resolution amending the Board Policy on Interest Rate Exchange Agreements (the “Policy”), which resolution is attached hereto as **Exhibit “A”**.

### **Background**

By Resolution No. 1353, dated May 29, 2017, the Board adopted the Policy to properly manage the interest rate risks associated with its assets and debt portfolio. The objective of the interest rate exchange agreement program is to provide LIPA with the ability to diversify its debt portfolio, mitigate potential risks, and/or lower the cost of borrowings.

### **Recommended Changes to the Policy**

LIPA Staff proposes minor amendments to the Policy, including clarifying the name of the Power Supply Risk Management Committee (“PRMC”). All proposed amendments are more particularly shown on **Exhibit “B”**.

### **Recommendation**

Based upon the foregoing, I recommend approval of the above requested action by adoption of a resolution in the form attached hereto.

### **Attachments**

**Exhibit “A”** Resolution

**Exhibit “B”** Policy (redline)

**Exhibit “C”** Policy (clean)

**RESOLUTION APPROVING AMENDMENTS TO THE BOARD POLICY ON  
INTEREST RATE EXCHANGE AGREEMENTS**

---

**WHEREAS**, the Board Policy on the Interest Rate Exchange Agreements (the “Policy”) was originally approved by the Board of Trustees Resolution No. 1353, dated May 29, 2017; and

**WHEREAS**, the Board has reviewed the Policy and approves the amendments to the Policy as recommended by Staff in the accompanying memorandum.

**NOW, THEREFORE, BE IT RESOLVED**, that consistent with the accompanying memorandum, the Board hereby approves the amendments to the Policy.

Dated: June 24, 2020

Board Policy: **Interest Rate Exchange Agreements**  
 Policy Type: **Compliance Policies**  
 Monitored by: **Finance and Audit Committee**  
 Board Resolution: **#1353, approved March 29, 2017**  
**#xxxx, amended June 24, 2020**



## Board Policy on Interest Rate Exchange Agreements

It is the policy of the ~~Board of Trustees (the "Board") of the~~ Long Island Power Authority ("LIPA") to ~~ensure that the Authority~~LIPA 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~~LIPA ~~with the ability to diversify its debt portfolio, mitigate potential risks, and/or lower the cost of borrowings.~~

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

- Manage ~~the Authority's~~LIPA's exposure to interest rates on a particular financial transaction, or in the context of ~~the Authority's~~LIPA'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 PRMC will consider and document the associated risks of the agreement, including LIPA's exposure to counterparty risk, termination risk, basis risk, tax-event or tax-basis risk, mismatched amortization, and rollover risk. Additionally, the PRMC will confirm that:

~~The ERMCP~~PRMC ~~will ensure that agreements entered into:~~

- ~~Consider and document the associated risks, including the Authority~~LIPA's ~~exposure to counterparty risk, termination risk, basis risk, tax event or tax basis risk, mismatched amortization, and rollover risk;~~
- the agreement m~~Meets~~ — the ~~Authority's~~LIPA's administrative, procurement, and documentation requirements;
- accounting for the agreement considers ~~Meet all~~ Generally Accepted Accounting Standards;
- ~~Are executed with~~ counterparties ~~that~~ comply with ~~the Authority's~~LIPA's counterparty selection criteria and are eligible counterparties;
- ~~Have been~~the agreement will be executed consistent with LIPA's internal policies relating to contract execution authorization;~~within in a process that complies with the Authorities guidelines for designated management and responsibilities and involvement for interest rate swap transactions;~~

Board Policy: **Interest Rate Exchange Agreements**  
Policy Type: **Compliance Policies**  
Monitored by: **Finance and Audit Committee**  
Board Resolution: **#1353, approved March 29, 2017**  
**#xxxx, amended June 24, 2020**



- 
- ~~the agreement will c~~omply with the Dodd-Frank Act and other regulatory requirements; and
  - ~~the agreement is Are~~-based on the ISDA Master Agreement, with a related Confirmation and Credit Support Annex.

The ~~ERM~~PRMC 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 or collateral posting requirement;
- ~~Credit terms within ISDA documentation, such as ratings-based termination events 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.

Board Policy: **Interest Rate Exchange Agreements**  
Policy Type: **Compliance Policies**  
Monitored by: **Finance and Audit Committee**  
Board Resolution: **#1353, approved March 29, 2017**  
**[#xxxx], amended June 24, 2020**

---



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

It is the policy of the Long Island Power Authority (“LIPA”) to properly manage the interest rate risks associated with its assets and debt portfolio.

This Policy authorizes LIPA to enter into interest rate exchange agreements if LIPA’s Power Supply Risk Management Committee (“PRMC”) has made a determination that such agreements meet one or more of the following objectives. Such agreements must:

- manage LIPA’s exposure to interest rates on a particular financial transaction, or in the context of LIPA’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 PRMC will consider and document the associated risks of the agreement, including LIPA’s exposure to counterparty risk, termination risk, basis risk, tax-event or tax-basis risk, mismatched amortization, and rollover risk. Additionally, the PRMC will confirm that:

- the agreement meets LIPA’s administrative, procurement, and documentation requirements;
- accounting for the agreement considers Generally Accepted Accounting Standards;
- counterparties comply with LIPA’s counterparty selection criteria and are eligible counterparties;
- the agreement will be executed consistent with LIPA’s internal policies relating to contract execution authorization;
- the agreement will comply with the Dodd-Frank Act and other regulatory requirements; and
- the agreement is based on the ISDA Master Agreement, with a related Confirmation and Credit Support Annex.

The PRMC 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;

Board Policy: **Interest Rate Exchange Agreements**  
Policy Type: **Compliance Policies**  
Monitored by: **Finance and Audit Committee**  
Board Resolution: **#1353, approved March 29, 2017**  
**[#xxxx], amended June 24, 2020**

---



- credit terms within ISDA documentation, such as ratings-based termination events 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.