

Board Policy: **Interest Rate Exchange Agreements**
Policy Type: **Compliance Policies**
Monitored by: **Finance and Audit Committee**
Board Resolution: **#1353, approved March 29, 2017**
#1539, 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;

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- 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.