

Policy and Procedures Manual

SUBJECT: BUDGET AND FINANCE

Policy 204: CSUS Board Derivative Policy

Procedure

A. Use of Derivative Products

In connection with the use of any derivative product, the Board must, by affirmative resolution, authorize the use of a swap, option, or other derivative financial product. Such use is limited exclusively to reduce the amount or duration of interest rate risk or result in an expected lower cost of borrowing when used in combination with the issuance of bonds, expected issuance of bonds, or to enhance the relationship between the CSUS's liabilities, assets and its investments or risk profile.

B. Derivatives may be used only for the following purposes:

To prudently mitigate variable rate exposure on outstanding or proposed debt.

To achieve significant savings as compared to other products available in the bond market, or to do so with a more acceptable risk profile.

To achieve more flexibility in meeting overall financial objectives than can be achieved in conventional markets.

To prudently manage the CSUS's asset/liability matching objectives.

Derivative financial products shall not be employed solely as investment instruments or for the purpose of speculation. In addition, the CSUS shall not use a derivative for which there is (a) insufficient market liquidity for its transfer or termination at market, or (b) insufficient price transparency to allow realistic valuation of its market value on an ongoing basis.

C. Evaluation of Risk

Consideration of the potential economic benefits of using any derivative financial product shall include at a minimum each of the following types of risk, as applicable:

Accounting Risk: the risk that the transaction creates any unanticipated accounting presentation issues on financial statements.

Basis Risk: the risk that the payments that the CSUS receives from the counterparty are insufficient to completely offset the debt service payments on the underlying bonds.

Support Annex to the ISDA Master, if deemed appropriate.

H. Optional Termination

The CSUS shall consider including a provision that permits it to terminate the agreement at the market value of the agreement at any time. In general, the counterparty shall not have the right to optionally terminate an agreement.

I. Accounting Treatment

Prior to execution of an agreement, the CSUS will consult with its external auditors to confirm the appropriate accounting treatment for the product being considered. The CSUS shall reflect such financial products in its financial statements in accordance with generally accepted accounting principles.

J. Monitoring and Reporting

The CSUS shall prepare a report to the Board at least annually, which shall include the following information:

1. A summary of key terms of the agreements, including notional amounts, interest rates, maturity, and method of procurement.
- 2.

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History: Policy and Procedures Manual effective October 4, 2013 by Board Resolution
Amended August 2, 2017 by Board Resolution