

Date: 5 March 2018

Item: Treasury Management and Derivative Investments Policies

This paper will be considered in public

1 Summary

- 1.1 This paper asks the Committee to recommend to the Board that it approves the proposed Treasury Management Policies and the proposed TfL Group Policy Relating to the Use of Derivative Investments. This paper supports our commitment to financial prudence through risk management.

2 Recommendations

- 2.1 **The Committee is asked to note the paper and recommend that the Board approves:**
- (a) the proposed Treasury Management Policies in Appendix 1; and**
 - (b) the proposed TfL Group Policy Relating to the Use of Derivative Investments in Appendix 2.**

3 Treasury Management Policies

- 3.1 The Treasury Management Policies have been prepared having regard to the Local Government Act 2003 and the Local Authorities (Capital Finance and Accounting) Regulations 2003 (as amended), as well as the key recommendations of: (i) the Code of Practice and Cross-Sectoral Guidance Notes for Treasury Management in the Public Services (the 'Treasury Management Code') issued by the Chartered Institute of Public Finance & Accountancy (CIPFA) and last updated in 2017; (ii) the Prudential Code for Capital Finance in Local Authorities (the 'Prudential Code') issued by CIPFA and last updated in 2017; and (iii) the Statutory Guidance on Local Authority Investments (the 'Investments Guidance') issued by the Department for Communities and Local Government (DCLG) in 2010.
- 3.2 CIPFA recommends that all public service organisations adopt a series of clauses for effective treasury management. Such clauses include the need for public service organisations to create and maintain:
- (a) a treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities; and
 - (b) suitable treasury management practices, setting out the manner in which

the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

- 3.3 Under the Treasury Management Code, we are required to adopt Prudential Indicators and Treasury Management Indicators (together the 'Prudential Indicators') that support planned capital expenditure, borrowing and treasury management activities. Our Prudential Indicators will be the subject of an item on the agenda for the meeting of the Board on 20 March 2018.
- 3.4 The Treasury Management Policies require us to have a Treasury Management Strategy (TMS) approved by the Board on at least an annual basis. The TMS for 2018/19 is included as a separate item on the agenda for this meeting. A copy of the proposed policies is included in Appendix 1.

4 TfL Group Policy Relating to the Use of Derivative Investments

- 4.1 The TfL Group Policy Relating to the Use of Derivative Investments must be reviewed annually. A copy of the proposed policy is included in Appendix 2.

List of appendices to this report:

Appendix 1: Treasury Management Policies

Appendix 2: TfL Group Policy Relating to the Use of Derivative Investments

List of background papers:

None

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TRANSPORT FOR LONDON

TREASURY MANAGEMENT POLICIES

TREASURY MANAGEMENT POLICIES

1 BACKGROUND

- 1.1 The establishment and review of a policy for TfL in relation to treasury management is a matter reserved to the Board. This document (including the Treasury Management Policy Statement, Treasury Management Policies, Treasury Authorities and Delegations and Treasury Management Practices) is therefore subject to Board approval.
- 1.2 This document has been prepared having regard to the Local Government Act 2003 and the Local Authorities (Capital Finance and Accounting) Regulations 2003 (as amended), as well as the key recommendations of (i) the Code of Practice and Cross-Sectoral Guidance Notes for Treasury Management in the Public Services (the 'Treasury Management Code') issued by the Chartered Institute of Public Finance & Accountancy (CIPFA) and last updated in 2017, (ii) the Prudential Code for Capital Finance in Local Authorities (the 'Prudential Code') issued by CIPFA and last updated in 2017, and (iii) the Statutory Guidance on Local Authority Investments (the 'Investments Guidance') issued by the Department for Communities and Local Government (DCLG) in 2010.
- 1.3 This document sets out TfL's policies and practices, including approach to risk management of its treasury management activities. It also sets out authorities and delegations for treasury management activities.

2 TREASURY MANAGEMENT POLICY STATEMENT

- 2.1 TfL defines its treasury management activities as:
 - (i) the management of the organisation's investments and cash flows;
 - (ii) its financing, banking, money market, capital market and derivative transactions;
 - (iii) the effective control of the risks associated with those activities; and
 - (iv) the pursuit of optimum performance consistent with those risks.
- 2.2 TfL regards the successful identification, monitoring and control of treasury risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

- 2.3 TfL also acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable performance measurement techniques, always in the context of effective risk management.
- 2.4 The following sections detail TfL's overarching policies for treasury management, including high level policies for borrowing and investments, as recommended by the Treasury Management Code.

Borrowing Policy

- 2.5 As required by the Local Government Act 2003, at all times, the aggregate of all TfL's borrowings will be within the Authorised Limit set by the Mayor and adopted by the Board.
- 2.6 TfL's borrowing to fund capital expenditure is to be contained within the profile agreed with HM Treasury as part of the funding settlement. As confirmed by HM Treasury in a letter dated 2 March 2016, from the financial year 2016/17 onwards TfL is able to defer borrowing from one year to the next until needed, provided TfL informs the relevant HM Treasury officials at least eight weeks ahead of the end of the financial year.
- 2.7 Under section 2(3) of the Local Government Act 2003, TfL may not, without the approval of HM Treasury, borrow other than in Sterling. All borrowings will be in Sterling unless HM Treasury grants approval to borrow in alternative currencies, in which case TfL may borrow in any currency approved by HM Treasury.
- 2.8 Under section 13(1) of the Local Government Act 2003, TfL (the local authority) may not charge any of its property as security for money which it has borrowed or which it otherwise owes. All money borrowed by TfL (the local authority) shall be charged indifferently on all revenues of the authority. TfL subsidiaries however may charge their property as security for money which they borrow or otherwise owe, pursuant to Section 4 of the Transport for London Act 2016¹.
- 2.9 Where TfL is issuing new debt, or refinancing existing debt, it may be necessary or commercially desirable to draw the new debt prior to the repayment of the debt being refinanced, which may result in a temporary increase in liabilities above the planned incremental borrowing for the year. Borrowing in excess of the incremental amounts agreed with Central Government is permitted, provided the position is temporary and that TfL remains within the Authorised Limit at all times (i.e. it reflects the temporary utilisation of headroom between the planned incremental borrowing and the legal limit on TfL's liabilities).

Investment Policy

- 2.10 All cash balances will be invested having regard to the relevant Investments Guidance, as applicable to treasury (financial) investments, and the GLA Responsible Investment Policy.

¹ Section 4 of the Transport for London Act 2016 has not yet entered into force. It will enter into force on a day appointed by TfL.

2.11 If any investment or derivative limit applicable to a counterparty under the Treasury Management Policies or Treasury Management Strategy changes while TfL has an outstanding investment or derivative with that counterparty, it will not be considered a breach of these limits. TfL may seek to bring its exposure down to within the revised limits, or at the Corporate Finance Director's discretion, may decide to allow an investment or derivative to run its course for economic reasons.

Liquidity Policy

2.12 The TfL Group's (excluding Crossrail) minimum level of cash and short-term investments will be, on average, at least 30 days' worth of forecast annual operating expenditure. TfL may also have undrawn credit facilities in place to supplement the cash balances, as required.

2.13 TfL may borrow short-term for working capital purposes, provided the position is temporary and that TfL remains within the Authorised Limit at all times.

2.14 The statutory and managing Chief Finance Officers² will be notified of any material changes in the usage of short-term sources of liquidity.

TREASURY MANAGEMENT AUTHORITIES AND DELEGATIONS

3 RESPONSIBLE OFFICERS

3.1 The Treasury Management Policies will be implemented, operated and administered through the Treasury team within the Corporate Finance Directorate and will be applied to TfL and all its subsidiaries whose monies are under the control of Treasury.

3.2 The managing Chief Finance Officer is responsible for advising the Board on investments, borrowing, derivatives, financial risk management, capital financing and also for the establishment and operation of banking arrangements necessary for the TfL Group business. On an operational basis, this will be discharged through the Corporate Finance Director.

3.3 The statutory CFO is responsible for ensuring the execution of the Treasury Management Policies, as the designated Section 127 officer under the Greater London Authority Act 1999. On an operational basis, this will be discharged through the Corporate Finance Director.

3.4 The Corporate Finance Director and Treasury officers will implement, execute, operate and administer a Treasury Management Strategy (TMS).

3.5 The arrangements for the implementation, execution, operation and administration of the TMS, including the arrangements for banking, cash management, investment of cash balances, borrowing, liquidity management and financial risk management are delegated to the managing Chief Finance Officer and the Corporate Finance Director, provided no decision contravenes the TMS, the

² References to statutory Chief Finance Officer in this document mean the Chief Finance Officer under sections 114 and 115 of the Local Government and Finance Act 1988 and section 127 of the Greater London Authority Act 1999. References to managing Chief Finance Officer mean the Managing Director (Chief Finance Officer) or any successor post.

Treasury Management Policies, the TfL Group Policy Relating to the Use of Derivative Investments or the approved Counterparty Exposure Limits. Subject as otherwise provided for in the TMS, the Treasury Management Policies, the TfL Group Policy Relating to the Use of Derivative Investments or the approved Counterparty Exposure Limits, the Treasury officers will enter into any appropriate documentation.

- 3.6 The statutory or managing Chief Finance Officers or the Corporate Finance Director will appoint relevant Treasury officers to be authorised signatories for the purposes of paragraph 3.5.
- 3.7 Subject as otherwise provided for within these policies, no investments, borrowings or entry into credit arrangements (including, but not limited to any lease or other such arrangement that might count towards TfL debt or liabilities under relevant accounting standards) shall be permitted without the consent of the statutory or managing Chief Finance Officer or Corporate Finance Director.
- 3.8 The managing Chief Finance Officer or Corporate Finance Director will provide guidance for accepting financial guarantees, performance bonds, letters of credit and other credit enhancing products, and this must be followed by TfL and/or its subsidiaries at all times.
- 3.9 For the purposes of this document, TfL Officers means the Commissioner, managing Chief Finance Officer, General Counsel and Corporate Finance Director.

4 BORROWING

- 4.1 The managing Chief Finance Officer is authorised to approve, notwithstanding the value of the borrowing, any new borrowings (subject to this falling within the TfL's Authorised Limit). The Corporate Finance Director is authorised to approve, notwithstanding the value of the borrowing, any new borrowings (subject to this falling within the TfL's Authorised Limit) for a tenor of not more than 12 months.
- 4.2 Without further reference to the statutory or managing Chief Finance Officer, Treasury officers will use the Euro Commercial Paper programme and any other short-term facilities (e.g. overdraft, commercial paper back-stop facilities or revolving credit facilities) to manage its liquidity requirements.
- 4.3 Approval of, and entry into any required agreements or other documentation in relation to the implementation of permitted borrowing is delegated from the Board to TfL Officers.
- 4.4 The managing Chief Finance Officer may approve the pre-payment or refinancing of loans or re-purchase or redeeming of existing debt instruments.

5 INVESTMENTS

- 5.1 The Corporate Finance Director and Treasury officers may enter into investment related agreements and/or documentation required to execute the TMS.
- 5.2 The managing Chief Finance Officer or Corporate Finance Director will set individual investment counterparty exposure limits, which will be within any limits approved by the Board in the Treasury Management Strategy.

5.3 The managing Chief Finance Officer or Corporate Finance Director will approve investment and derivative counterparties.

6 BANKING

6.1 The Corporate Finance Director shall as and when necessary be authorised to:

- (a) supply to TfL's financial institutions, lists of officials authorised to sign in respect of each and any account(s) of TfL and/or any TfL subsidiary together with specimen signatures;
- (b) open further accounts for and on behalf of TfL and/or any TfL subsidiary and supply to the financial institutions, details of the signatories together with specimen signatures in respect of such account(s);
- (c) notify the financial institutions of any restrictions on the operation of any such accounts; and,
- (d) agree on behalf of TfL and/or any TfL subsidiary the terms of any facility or service provided by the financial institutions including but not limited to general banking services, bonds, guarantees and credit limits.

6.2 The financial institutions shall be entitled to rely on any such details or notifications supplied by the Corporate Finance Director or any Corporate Finance officer confirmed in writing as having the same authority as the Corporate Finance Director.

TREASURY MANAGEMENT PRACTICES (TMPs)

7 TREASURY RISK MANAGEMENT – TMP1

7.1 The Corporate Finance Director will:

- (a) design, implement and monitor all arrangements for the identification, management and control of treasury management risk;
- (b) report annually to the Finance Committee on the adequacy/suitability thereof, and on any specific issues as directed by the Finance Committee; and,
- (c) report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the organisation's objectives in this respect to the statutory and managing Chief Finance Officers.

8 PERFORMANCE MEASUREMENT – TMP2

8.1 TfL is committed to the pursuit of value for money in its treasury management activities, and to the use of performance methodology in support of that aim within the framework set out in its Treasury Management Policy Statement.

8.2 The actual performance of the treasury management function will be measured using criteria to be agreed by the managing Chief Finance Officer.

9 DECISION-MAKING AND ANALYSIS – TMP3

- 9.1 TfL will maintain records of its key treasury management decisions and for demonstrating that reasonable steps were taken to ensure that issues relevant to those decisions were taken into account at the time.

10 APPROVED INSTRUMENTS, METHODS AND TECHNIQUES – TMP4

- 10.1 TfL will undertake its treasury management activities by employing recognised and approved instruments, methods and techniques and within the limits and parameters defined in its policies and practices.
- 10.2 Where TfL uses derivative instruments for the management of risks, these will be approved in accordance with the TfL Group Policy Relating to the use of Derivative Investments.
- 10.3 TfL and relevant subsidiaries intend to maintain their classification as professional clients with financial institutions under MiFID II in respect of all products and services that they receive.
- 10.4 All decisions on capital/project financing, borrowing, investment and derivatives will be made in accordance with TfL Standing Orders and relevant policies and strategies.

11 ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES, AND DEALING ARRANGEMENTS – TMP5

- 11.1 TfL considers it essential, for the purposes of effective control and monitoring of its treasury management activities, for the pursuit of optimum performance, and for the reduction of the risk of fraud or error, that activities are structured and managed in a fully integrated manner, and that there is at all times clarity of treasury management responsibilities.
- 11.2 The principle on which this will be based is a clear distinction between those charged with setting Treasury Management Policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury management function.
- 11.3 If for any reason there is intended to be or has been any departure from these principles, the Corporate Finance Director will ensure that the reasons are properly reported in accordance with TMP6 Reporting requirements and management information arrangements (below), and the implications properly considered and evaluated.
- 11.4 The Corporate Finance Director will ensure that there are clear lines of responsibilities, objectives and guidance for each post engaged in treasury management, and that arrangements are in place for absence cover. The Corporate Finance Director will also ensure that at all times those engaged in treasury management will follow the policies and procedures set out.

11.5 The Corporate Finance Director will ensure all transactions are recorded, and that procedures exist for the effective transmission of funds. The Corporate Finance Director will fulfil all such responsibilities in accordance with TfL's Treasury Management Policy Statement and Treasury Management Practices.

12 REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS – TMP6

12.1 TfL will ensure that regular reports are prepared and considered on the implementation of its Treasury Management Policies; on the effects of decisions taken and the transactions executed in pursuit of those policies; on the implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function.

12.2 As a minimum, the following reports will be produced:

- (a) an annual report to the Board on the strategy to be pursued in the coming year;
- (b) a mid-year report to the Finance Committee on the performance of the treasury management function; and,
- (c) an annual report to the Finance Committee on the performance of the treasury management function, on the effects of decisions taken and the transactions executed in the past year, and on any non-compliance with the organisation's Treasury Management Policy Statement and Practices.

12.3 The statutory and managing Chief Finance Officers will receive regular monitoring reports on treasury management performance, activities and risks.

12.4 In addition to the regular reporting requirements set out above, any non-compliance with the Treasury Management Policies or the Treasury Management Strategy must be immediately reported to the statutory and managing Chief Finance Officers. If the breach is material in the view of either the statutory or managing Chief Finance Officer, it must be reported to the Finance Committee as soon as practicable.

13 BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS – TMP7

13.1 The Corporate Finance Director will prepare and, if necessary, from time to time will amend, an annual budget for treasury management, which will bring together all of the costs involved in running the treasury management function, together with associated income.

13.2 TfL will account for its treasury management activities, for decisions made and transactions executed, in accordance with accounting practices and standards, and with statutory and regulatory requirements in force for the time being.

13.3 TfL will ensure that its auditors, and those charged with regulatory review, have access to all information, and papers supporting the activities of the treasury management function for the proper fulfilment of their roles, and that such

information and papers demonstrate compliance with external and internal policies and practices.

- 13.4 The Audit and Assurance Committee will have responsibility for the scrutiny of Treasury Management Policies and this responsibility will be discharged through its regular scrutiny of the reports received from internal audit.

14 CASH AND CASH FLOW MANAGEMENT – TMP8

- 14.1 Unless statutory or regulatory requirements demand otherwise, all monies (with the exception of London Transport Insurance (Guernsey) Limited and London Transport Museum Limited) in the hands of the TfL Group will be under the control of the Corporate Finance Director, and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the Corporate Finance Director will ensure that these are adequate for the purposes of monitoring compliance with the policy statement.

15 MONEY LAUNDERING – TMP9

- 15.1 TfL is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, if required by law or regulation, it will maintain procedures for verifying and recording the identity of counterparties and reporting suspicions, and will ensure that staff involved in this, are properly trained.

16 TRAINING AND QUALIFICATIONS – TMP10

- 16.1 TfL recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The Corporate Finance Director will recommend and implement the necessary arrangements.

17 USE OF EXTERNAL SERVICE PROVIDERS – TMP11

- 17.1 TfL recognises that it retains responsibility for treasury management decisions at all times. TfL recognises that there may be potential value in employing external providers of treasury management services, in order to acquire access to specialist skills and resources. When it employs such service providers, it will ensure it does so for reasons, which will have been submitted to a full evaluation of the costs and benefits. It will also ensure that the terms of their appointment and the methods, by which their value will be assessed, are properly agreed and documented, and subjected to regular review. The monitoring of such arrangements rests with the Corporate Finance Director.

18 CORPORATE GOVERNANCE – TMP12

- 18.1 TfL is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which

this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.

18.2 TfL has adopted and implemented the key principles and recommendations of the Treasury Management Code. This document is considered vital to the achievement of proper corporate governance in treasury management. The Corporate Finance Director will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

TRANSPORT FOR LONDON GROUP

TFL GROUP POLICY RELATING TO THE USE OF DERIVATIVE INVESTMENTS

1 INTRODUCTION

- 1.1 TfL promoted a Bill in Parliament which included a range of provisions clarifying existing legislation and introducing new powers. The Bill completed its passage through Parliament in April 2008 and was granted Royal Assent on 22 May 2008 to become the Transport for London Act 2008 (as amended by the Transport for London Act 2016, the TfL Act) . Section 49 of the TfL Act relates to powers to make arrangements for risk mitigation in respect of the prudent management of the financial affairs of TfL and its subsidiaries. The provision came into force on 22 July 2008.
- 1.2 TfL agreed with the House of Commons Committee considering the original Bill promoted by TfL that a TfL Board approved annual policy on the use and governance of derivative investments to be entered into pursuant to section 49 of the TfL Act would be put in place.
- 1.3 Any amendments to this policy are subject to prior approval from the TfL Board. Compliance with this policy is mandatory. It is primarily for the internal use and guidance of TfL and its subsidiaries only.

2 USE OF POWERS OF DERIVATIVE INVESTMENTS

- 2.1 The TfL Act confers powers to prudently manage certain financial risks. Any derivative investment entered into must be entered into solely for the purpose of managing such a risk and speculative investment in derivative investments is not permitted. The powers are subject to various restrictions and safeguards as set out in this policy.

3 RESTRICTIONS ON THE POWERS TO ENTER INTO DERIVATIVE INVESTMENTS

- 3.1 The powers to enter into derivative investments are subject to the following restrictions:
 - (a) the powers are only exercisable for the purposes of the prudent management of the financial affairs of TfL and its subsidiaries and of limiting the extent to which any TfL body¹ would be affected by changes in the following:
 - (i) interest rates;
 - (ii) exchange rates;
 - (iii) inflation of the United Kingdom or elsewhere;

¹ TfL body means TfL, any subsidiary of TfL, a joint venture of TfL or an associated undertaking of TfL.

- (iv) rates or prices applicable to oil, electricity or any commodity which is used by any TfL body or by which a TfL body is affected or to which it is otherwise exposed under a relevant agreement;
- (v) rates or prices applicable to any securities creating or acknowledging indebtedness issued by or on behalf of:
 - the government of the United Kingdom;
 - any state outside the United Kingdom;
 - any body the members of which comprise states which include the United Kingdom or another EEA State; or
 - any body the members of which comprise bodies whose members comprise states which include the United Kingdom or another EEA State; or
- (vi) any index reflecting any of the matters referred to in paragraphs (i) to (v);
- (b) only qualifying TfL subsidiaries (as defined in section 49) can enter into derivative investments and TfL itself cannot; and
- (c) a qualifying TfL subsidiary can only enter into a derivative investment with TfL's consent and in accordance with any guidance or special or general directions given by TfL.

3.2 TfL is accountable for its subsidiaries' exercise of the powers and the usual TfL statutory requirements and safeguards apply. In particular, the exercise of the powers will fall within the statutory remit of TfL's Chief Finance Officer under sections 114 and 115 of the Local Government and Finance Act 1988 and section 127 of the Greater London Authority Act 1999.

4 CORPORATE GOVERNANCE

4.1 The following governance controls and oversight of the use of the powers apply:

- (a) any derivative investment must be in accordance with this policy;
- (b) the Finance Committee is authorised to give consent on behalf of TfL to any derivative investment or a programme of derivative investments;
- (c) the prior consent of the Finance Committee is required before a qualifying TfL subsidiary can enter into any derivative investment or a programme of derivative investments;
- (d) the Finance Committee can issue any guidance or specific or general directions to any qualifying TfL subsidiary as to the manner in which it is to exercise its functions in relation to derivative investments;
- (e) the TfL Board and Finance Committee will be provided with professional financial and legal advice, as required, in respect of their functions relating to the examination and approval of the exercise of the powers;

- (f) the approval of the statutory Chief Finance Officer ² is required before any derivative investment or programme of derivative investments is entered into, in recognition of the statutory role under local authority finance legislation;
- (g) the approval of the managing Chief Finance Officer ³ is required before any derivative investment or programme of derivative investments is entered into;
- (h) in respect of the derivative investments, the statutory and managing Chief Finance Officers will approve the types of instruments used;
- (i) any one of the managing Chief Finance Officer and Corporate Finance Director are authorised by the TfL Board to give consent on behalf of TfL to approve derivative counterparties;
- (j) any use of derivative investments will be monitored on a regular basis by the statutory Chief Finance Officer;
- (k) any use of derivative investments will be reported in the TfL Group accounts in accordance with International Financial Reporting Standards (IFRS);
- (l) the reporting of all derivative investments in the TfL Group accounts will be subject to audit by the TfL Group's auditors; and
- (m) the recognised market standard legal documentation processes for derivative investments produced by the International Swaps and Derivatives Association will be used where appropriate with suitable TfL bespoke amendments.

5 RESPONSIBLE OFFICERS

5.1 The Corporate Finance Director will be responsible for:

- (a) the proposal of all matters relating to the exercise of powers under section 49 of the TfL Act;
- (b) reporting on a regular basis to the Finance Committee on the adequacy / suitability of the exercise of these powers, and on any specific issues as directed by the Finance Committee;
- (c) reporting, as a matter of urgency, to the statutory and managing Chief Finance Officers, the circumstances of any actual or likely difficulty in achieving TfL's objectives in this respect; and
- (d) responding to any queries of the statutory or managing Chief Finance Officers following the statutory or managing Chief Finance Officers' review of the regular reports.

5.2 The approval of the statutory and managing Chief Finance Officers is required before:

² References to statutory Chief Finance Officer in this document mean the Chief Finance Officer under sections 114 and 115 of the Local Government and Finance Act 1988 and section 127 of the Greater London Authority Act 1999.

³ References to managing Chief Finance Officer in this document mean the Managing Director (Chief Finance Officer) or any successor post.

- (a) any derivative investment or programme of derivative investments is proposed to the Finance Committee; or
 - (b) any changes to the Risk Management Strategy is proposed to the TfL Board.
- 5.3 The Corporate Finance Director will propose exposure limits to counterparties with whom TfL may enter into derivative investments. These limits will be approved by the TfL Board as part of the Treasury Management Strategy, prior to the start of the relevant financial year.
- 5.4 In order to ensure compliance with the legal controls set out in section 49, the Chief Finance Officer is required to state that all legal controls in section 49 will be met before a transaction can be executed. In giving this approval, the Chief Finance Officer must seek the advice of General Counsel and other professional advisers as may be required.
- 5.5 Once all the necessary approvals required under this policy have been obtained, the Corporate Finance Director and Corporate Finance officers will be authorised to agree and execute any related documentation required in relation to the approved derivative investments or programme of derivative investments.

6 REPORTING REQUIREMENTS, MONITORING AND MANAGEMENT INFORMATION ARRANGEMENTS

- 6.1 TfL will ensure that regular reports are prepared and considered on the implementation of this policy; on the effects of decisions taken and the transactions executed in pursuit of this policy; on the implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its derivative investment activities; and on the performance of the use of derivative investments.
- 6.2 As a minimum, the following reports will be produced:
- (a) an annual report to the TfL Board on the strategy to be pursued in the coming year;
 - (b) bi-annual reports to the Finance Committee on the performance of the treasury management function, including the status of the hedges in place; on the strategy to be pursued in the coming months; on the effects of decisions taken and the transactions executed over the review period, and on any non-compliance with this policy; and
 - (c) periodic reports to the statutory and managing Chief Finance Officers.
- 6.3 The statutory Chief Finance Officer will monitor the use of derivative investments on a regular basis and part of this process will include the review of the periodic reports.

7 ACCOUNTING AND AUDIT ARRANGEMENTS

- 7.1 TfL will account for derivative investments, for decisions made and transactions executed, in accordance with best practice and commercial and accounting practices and standards, and with statutory and regulatory requirements in force at the time.

7.2 TfL will consult with external auditors as required regarding correct accounting treatment.

7.3 TfL will ensure that its auditors, and those charged with regulatory review, have access to all information, and papers supporting the activities of the use of derivative investments for the proper fulfilment of their roles.

Policy Custodian and Owner

7.4 The owner of this policy is the Corporate Finance Director but its content and any amendments to it must be approved by the TfL Board.

7.5 This policy will be reviewed annually.