

Date: 11 March 2015

Item 23: Treasury Management Strategy 2015/16

This paper will be considered in public

1 Summary

- 1.1 The purpose of this paper is to ask the Committee to recommend that the Board approves the proposed TfL Treasury Management Strategy (TMS) for 2015/16. The TMS 2015/16 comprises the Investment Strategy 2015/16, the Borrowing Strategy 2015/16, the Risk Management Strategy 2015/16, the Counterparty Credit Limits 2015/16 and TfL Policy on Minimum Revenue Provision.
- 1.2 A paper is included on Part 2 of the agenda, which contains exempt supplemental information and documentation. The information is exempt by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972 in that it contains information relating to the financial affairs of TfL. Any discussion of that exempt information must take place after the press and public have been excluded from this meeting.

2 Recommendations

2.1 The Committee is asked to:

- (a) note the paper and the supplementary information on Part 2 of the agenda;**
- (b) recommend that the Board approves the Treasury Management Strategy for 2015/16, including the Investment Strategy 2015/16, the Borrowing Strategy 2015/16, the Risk Management Strategy 2015/16, the Counterparty Credit Limits 2015/16 and the TfL Policy on Minimum Revenue Provision included as Appendix 1;**
- (c) recommend that the Board delegates authority to the Committee to approve any changes to the TMS 2015/16 during the course of the year;**
- (d) approve the proposed Approved Investments List 2015/16 and Approved Derivative Counterparty List 2015/16 as set out in Appendices 3 and 4 respectively;**
- (e) extend to the Director of Group Treasury authority to finalise the terms and conditions of the Commercial Paper Backstop Facility and to approve, sign and execute (if necessary, by authorising the**

fixing with TfL seal) any documentation to be entered into by TfL in relation to that facility and to do all such other things as may be considered necessary or desirable to implement that facility;

- (f) note that the Chief Finance Officer and Managing Director, Finance have approved the proposals to the Committee for derivative investments set out in Recommendation 2.1(g), as required under the Policy Relating to the Use of Derivative Investments 2014/15; and

subject to the TfL Board approving the TMS 2015/16 and the Policy Relating to the Use of Derivative Investments 2015/16:

- (g) approve, pursuant to Section 49 of the Transport for London Act 2008 (the Act) and the TfL Group Policy Relating to the Use of Derivative Investments (the Derivatives Policy) for 2014/15 (or 2015/16 as maybe applicable at such time), Transport for London Finance Limited (as a qualifying TfL subsidiary for the purposes of the Act) entering into derivative investment(s) in relation to:
 - (i) mitigating exchange rate risk related to specific currency exposures arising from the procurement of goods or services by any member of the TfL Group in the ordinary course of business as soon as practicable once the quantum of exchange rate risk to any member of the TfL Group is established; and
 - (ii) mitigating exchange rate risk exposures arising from any TfL investments in foreign currencies as permitted by the proposed Treasury Management Strategy (TMS) 2014/15 (or 2015/16 as may be applicable at such time); and
 - (iii) mitigating commodity rate and/or price risk related to specific commodity (including oil and electricity) exposures arising from the procurement of goods or services by any member of the TfL Group in the ordinary course of business as soon as practicable once the quantum of commodity risk to any member of the TfL group is established; and
 - (iv) mitigating interest rate risk related to any imminent TfL borrowing, once the borrowing has become certain and authorised according to relevant TMS 2014/15 (or 2015/16 as maybe applicable at such time) provisions; and
 - (v) mitigating interest rate risk related to planned future TfL borrowing forecast in TfL's Business Plan approved by the Board in December 2014 and in accordance with the TMS and the Derivatives Policy 2014/15 (or 2015/16 as maybe applicable at such time); and

- 2.2 **The following Officers and Subsidiaries shall have delegated authority:**
- (a) **TfL Officers: the Commissioner, Managing Director Finance, Chief Finance Officer, General Counsel and Director of Group Treasury; and**
 - (b) **Subsidiaries: Subsidiaries of TfL including Transport Trading Limited and any other subsidiary (whether existing presently or to be formed) of Transport Trading Limited and any of the directors of the relevant company shall be authorised to act for and on behalf of that company.**

3 Proposed changes to Treasury Management Strategy

- 3.1 Following the substantial update to the TMS in 2014/15, the proposed changes for 2015/16 are intended to clarify and simplify the structure of the TMS without changing the underlying methodology.
- 3.2 Within the proposed TMS 2015/16 various changes are described and explained in the sections that follow. All of the proposed changes compared to the TMS 2014/15 are shown with changes tracked in Appendix 2.

4 Investment Strategy

- 4.1 When preparing its Investment Strategy, TfL is required to have regard to the 'Guidance on Local Government Investments' issued by the Department for Communities and Local Government in 2010.
- 4.2 The guidance recommends that ahead of each financial year local authorities should prepare an Investment Strategy that identifies the procedures for mitigating the risk of loss of invested sums and for ensuring that such sums are readily accessible for expenditure whenever needed. The guidance also makes a distinction between:
- (a) 'specified' investments, which are defined as sterling investments with a maturity of less than a year in either the UK Government or other entities of 'high credit quality'; and
 - (b) 'non-specified' investments, which are all other investments.
- 4.3 For specified investments, the guidance states that only 'minimal reference' to these is required in the Investment Strategy, and that the Strategy should instead describe in greater detail the procedures for non-specified investments, which are considered to be of higher risk.
- 4.4 Historically TfL's Investment Strategy has followed this distinction between the two types of investment, but has not made a distinction between the controls and procedures it applies to either type of investment. In practice, the same rigorous controls apply to both types of investment, which are that new investment counterparties and instrument types are approved by the Committee, and that dynamic limits based on credit rating are approved as

part of the Investment Strategy. This approach reflects the sophistication of TfL's internal controls when compared with that of the majority of local authorities.

- 4.5 As there is no distinction between the controls TfL applies to specified and non-specified investments either in its Investment Strategy or its internal controls, it is proposed that the distinction is removed from the Investment Strategy for 2015/16. There will be little practical effect from the removal on TfL's approach to investments, but the clarity of the Investment Strategy will be improved.
- 4.6 As a result the wording contained in the TMS 2014/15 paragraphs 4.1, 4.2, 4.3, 4.6 and 4.7 has been deleted in the version for 2015/16 as they make reference to specified and non-specified investments.
- 4.7 In addition to the removal of the distinction between specified and non-specified investments, It is proposed that the following changes are made to the Investment Strategy 2015/16:
 - (a) wording has been added into a new paragraph 4.2 of the proposed TMS 2015/16 to make clear Group Treasury's investment objectives and how the Investment Strategy is applied;
 - (b) the wording in paragraph 4.6 of the TMS 2014/15 "TfL's maximum investment in any fund will be three point five per cent of fund size" be deleted as this is addressed in the Counterparty Credit Limit table in paragraph 7.1 of the proposed TMS 2015/16; and
 - (c) the wording "Investments that either exceed one year or are in currencies other than Sterling, are limited to use within the following criteria:" be added into a new paragraph 4.6 of the proposed TMS 2015/16 to address all permitted investments other than those denominated in Sterling and made within a one year term.
- 4.8 Other minor drafting changes have also been made and are tracked in the draft document.

5 Borrowing Strategy

TfL Borrowing Requirements 2015/16

- 5.1 In 2015/16 TfL has £600m of incremental Prudential Borrowing to undertake. This represents the additional borrowing agreed with the Government as part of the July 2013 Funding Settlement.
- 5.2 In addition to the £600m referred to above, TfL is planning to refinance £25m of existing debt maturing in 2015/16 and possibly up to £35m of short term CP which is not required to match existing interest rate swaps. In October 2014, TfL signed a £85m facility with the European Investment Bank (EIB) to fund a portion of the London Overground Capacity Improvement Programme (LOCIP). Such amount will be drawn down in May 2015, with the balance of up to £575m to be raised by 31 March 2016.

5.3 TfL's borrowing requirement for 2015/16 is set out in the Table below:

Requirement	£m
Funding settlement (from Spending Review)	600
Refinancing of debt maturing in 2015/16	25.3
Refinancing of CP not required for swaps	34.7
Total Borrowing Requirement for 2015/16	660
EIB LOCIP to be drawn down 2015/16	(85)
Balance to be raised	575

5.4 TfL's power to borrow is subject to the requirements of the local government capital finance regime. TfL adopts Prudential Indicators for treasury management activities, including establishing an Operational Boundary and Authorised Limit in respect of TfL's Prudential Borrowing. The proposed Prudential Indicators for 2015/16 and the following two years are the subject of a separate item on the agenda.

Key Principles of TfL's Borrowing Strategy

5.5 TfL's Borrowing Strategy for 2015/16 is largely unchanged from 2014/15. TfL's objective remains to manage its borrowing in a manner that combines flexibility, security of access to funds, diversity of funding sources and value for money. TfL seeks to achieve this by maintaining access to capital markets through its Euro Commercial Paper (ECP) programme and Euro Medium Term Note (EMTN) programme, and complementing this with loans and other facilities from banks where appropriate, as well as strengthening and broadening its investor base. This is a prudent approach that prevents TfL becoming reliant on any one source or any one investor and being able to secure access to finance and minimising the average cost of borrowing over the long term.

5.6 Further details on the proposed Borrowing Strategy are discussed in the paper in Part 2 of the agenda.

Proposed Changes to the Borrowing Strategy

5.7 It is proposed that the following changes are made to the Borrowing Strategy 2015/16:

- (a) it is proposed that TMS 2015/16 is updated to reflect all borrowing sources that were approved by the Committee over the years, including:
 - (i) Commercial Paper Back-Stop Facility (CPBF), approved in September 2011;

- (ii) Revolving Credit Facility (RCF) of up to £1bn, approved in March 2014; and
 - (iii) Export Development Canada (EDC), approved in January 2014;
- (b) it is proposed to add other export credit agencies to the list of borrowing sources;
- (c) an explicit reference to 'private placements' has been included in paragraph 6.5(c) to provide clarity; and
- (d) in summer 2014, the Government published legislative proposals to abolish the PWLB in the current form to replace it with a new body under different governance arrangements. In January 2015, Ministers tabled an amendment to the Infrastructure Bill which would allow them to make an order under the Public Bodies Act 2011 abolishing the PWLB commissioners and transferring their functions to another body. While detailed plans about the replacement have yet to be released, the change is not expected to have an impact on existing loans held by local authorities or the government's policy on Local Authorities' borrowing. The list of Approved Borrowing Sources in the TMS 2015/16 has been updated to reflect the fact that, in future, TfL might borrow from an entity discharging the same or similar functions as the PWLB in its current form, but such entity might have a different name, structure and governance. Paragraph 5.10 has also been updated to extend the existing governance for PWLB borrowing to any future body replacing the PWLB in its current form.
- 5.8 In September 2011, the CPBF was approved and the authorisation to agree the final terms, to execute the documentation and to implement the facility was granted to the TfL Officers, comprising the Commissioner, Managing Director Finance, Chief Finance Officer and General Counsel. The recommendation 2.1(e) of this paper proposes to expand the list of TfL Officers to include the Director of Group Treasury, to be consistent with existing authorisations for other borrowing arrangements (such as loans from the European Investment Bank, TfL bonds, Revolving Credit Facility, etc).
- 5.9 In March 2014, the Board delegated directly to Officers under the TMS the approval and entry into of any required agreements or other documentation (including any associated Prospectus or Information Memorandum) in relation to the implementation of permitted borrowing in relation to the EMTN Programme or ECP Programme or any notes issued under standalone documentation.
- 5.10 Other minor drafting changes have been made and are tracked in the draft document.

6 Risk Management Strategy

- 6.1 For the purposes of good housekeeping, Group Treasury has identified some language, which requires modification to ensure consistency with the approach taken when applying this Risk Management Strategy.
- 6.2 It is proposed that the following changes are made to the Risk Management Strategy 2015/16:
- (a) the wording contained in paragraph 6.3(b) be expanded by adding “and in the course of making foreign currency investments” to include activities now undertaken by TfL as a matter of course;
 - (b) the wording contained in paragraph 6.6 be expanded, for clarification purposes, to specify the delegated authorities for approving derivative transactions and counterparties as stated in the Policy Relating to the Use of Derivative Investments 2015/16; and
 - (c) other minor drafting changes have been made and are tracked in the draft document.

7 Counterparty Credit Limits

- 7.1 It is proposed that the TMS 2015/16 should include a new section on Counterparty Credit Limits to cover both investment and derivative counterparties.
- 7.2 This change will enable TfL’s counterparty credit limits to be considered on a holistic basis, encompassing both investment and derivative instruments and counterparties with whom Transport for London Finance Limited is approved to transact.
- 7.3 This will align the methodology applied to derivative counterparties with the dynamic application undertaken for investments, where available investment limits change with credit ratings on a continuous basis. As a result, there will be no impact from this proposal on investment limits.
- 7.4 Part 2 of this paper sets out further information and details on the proposed change.
- 7.5 It is proposed that the following changes are made to the TMS 2015/16:
- (a) the approved limits for Investments and Derivative Counterparties be captured within a new section of the TMS 2015/16 for Counterparty Credit Limits to align the approach already undertaken for investment counterparties, as detailed in the supplementary paper in Part 2 of the agenda;
 - (b) the statements within paragraph 4.12 to 4.18 of the TMS 2014/15, which cover Counterparty Investment Limits and Maturity Limits, be moved to the new section 7 Counterparty Credit Limits within the TMS 2015/16; and

- (c) in order to encompass derivative counterparty limits, as well as investment limits:
 - (i) the wording “Approved Derivative Counterparty List 2015/16” be added to the end of paragraph 7.2 of the TMS 2015/16; and
 - (ii) within paragraph 7.7 of the TMS 2015/16, the word “credit” be used in place of “investment” in the first line and the wording “or derivative” be added in between “investment” and “with” in the second line.

7.6 In addition, the Policy relating to the use of Derivative Investments has also been amended to reflect the fact that in line with the Investment Counterparty limits the Derivative Counterparty limits will now be approved as part of the TMS.

8 Proposed Approved Investments List 2015/16 and Approved Derivative Counterparty List 2015/16

8.1 Following the addition of 41 new investment counterparties to the Approved Investments List in October 2014, no further counterparties are proposed at this time.

8.2 A minor change has been made to the Approved Investment List to reflect a change of name of a counterparty that took place during the year. Following a restructure by the French government, in January 2015 Société Nationale des Chemins de Fer Français (SNCF) was renamed to Société Nationale des Chemins de Fer Français Mobilités. There has been no material change to the credit of the counterparty as a result of the restructure.

8.3 In addition, for clarification purposes a change is proposed to the wording of the approved Investment Instruments. ‘UK Treasury Bills, Gilts and Debt Management Office deposits’ has been amended to Government Treasury Bills and bonds” and ‘UK Debt Management Office Deposits’. This is to clarify that the permitted treasury bills” investment type applies to all approved sovereign counterparties and not just the UK. This is a technical point and allows investments to be made in short-term debt of approved counterparties.

8.4 No changes are proposed to be made to the Derivative Counterparty List 2015/16.

List of appendices to this report:

Appendix 1: Treasury Management Strategy 2015/16

Appendix 2: Treasury Management Strategy 2015/16 with changes compared to 2014/15 tracked

Appendix 3: Approved Investments List 2015/16

Appendix 4: Approved Derivative Counterparty List 2015/16

A paper on Part 2 of the agenda contains exempt supplemental information.

List of Background Papers:

None

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TREASURY MANAGEMENT STRATEGY 2015/16

TRANSPORT FOR LONDON

TREASURY MANAGEMENT STRATEGY 2015/16

1 SUMMARY

1.1 This TfL Treasury Management Strategy (TMS) 2015/16 comprises the:

- (a) Investment Strategy 2015/16;
- (b) Borrowing Strategy 2015/16; and,
- (c) Risk Management Strategy 2015/16.

2 BACKGROUND INFORMATION

- 2.1 TfL has had regard to the key recommendations of CIPFA's Code of Practice and Cross-Sectoral Guidance Notes for Treasury Management in the Public Services 2011 (the 'Code') and the revised investment guidance issued by the Department for Communities and Local Government (DCLG) which came into effect from 1 April 2010 (DCLG Guidance) in preparing this Treasury Management Strategy.
- 2.2 As recommended by the Code, this strategy will be updated at least annually and submitted for the approval of the TfL Board.
- 2.3 TfL has considered the implications of its overall asset and liability management, taking into account its overall exposure to inflation and interest rates as they affect its commercial markets (passenger levels, fare revenues, and costs) and in its financial activities (financing costs and investment returns on cash balances). TfL has also reviewed its exposure to default risk in the investment of its surplus cash given the instability of the financial markets over the last year.
- 2.4 TfL continues to add to its sources of market information to enable it to support its future investment decisions and continues to seek prudent opportunities to maintain yield without risking underlying security.
- 2.5 The Director of Group Treasury and TfL Group Treasury officers will implement, operate and administer the Treasury Management Strategy (including entering into any documentation where appropriate).

3 STRATEGIC OBJECTIVES

3.1 The objectives underpinning the TMS 2015/16 are:

- (a) to undertake treasury management operations with primary regard for the security and liquidity of capital invested;
- (b) to maximise the yield from investments consistent with the security and liquidity objectives identified above;
- (c) to ensure that sufficient cash is available to enable TfL to discharge its financial obligations when they become due, in accordance with approved spending plans;
- (d) to undertake treasury management activity having regard to Prudential Indicators;
- (e) to secure TfL's funding requirements by accessing the most cost efficient source of finance, while ensuring TfL has flexibility and sufficient alternatives not to be dependent on any particular source; and
- (f) to use TfL's statutory power relating to risk management to achieve greater value for money through reducing costs or protecting revenues, reducing volatility / increasing certainty in the Business Plan and to holistically manage financial risks across the whole of TfL.

4 INVESTMENT STRATEGY 2015/16

4.1 All cash balances will be invested in accordance with this Investment Strategy and with regard to the relevant DCLG Guidance.

4.2 Group Treasury applies this Investment Strategy in accordance with the TMS strategic objectives listed in 3.1 above.

4.3 Investments are limited to institutions and types of investment that have been placed on a TfL 'Approved Investment List'. Investments may be made in any wholly owned subsidiary or its publicly listed borrowing programmes which either (a) has the same or better credit rating as, or (b) is guaranteed by the counterparty listed in the Approved Investments List, within the parent institution's aggregate investment limit.

4.4 The Finance and Policy Committee will approve entities and types of investment that may be added to the Approved Investment List.

4.5 In determining whether to recommend to the Finance and Policy Committee to place an institution on the Approved Investment List, TfL Officers will consider:

- (a) the financial position and jurisdiction of the institution;
- (b) the market pricing of credit default swaps for the institution;
- (c) any implicit or explicit Government support for the institution;

- (d) Standard & Poor's, Moody's and Fitch's short and long term credit ratings; and
 - (e) Tier 1 capital ratios in the case of financial institutions.
- 4.6 Investments that either exceed one year or are in currencies other than Sterling, are limited to use within the following criteria:
- (a) where the maturity is greater than one year:
 - (i) any such investments would be in Sterling, so the potential risk for TfL is one of liquidity – that TfL requires the funds that are tied up in longer term investments. Given the nature of the institutions (in some cases government or government guaranteed) the risk of default is very low;
 - (ii) before placing such longer term investments, TfL would carry out a detailed cash forecast to determine the need for funds over a longer time period, and only place funds for longer than one year where it was confident on the most conservative basis that the monies would not be required in the meantime; and,
 - (iii) any such investments will be instruments which would be readily converted into cash to obtain liquidity, should such a need arise;
 - (b) where investments are in currencies other than Sterling:
 - (i) investments denominated in US Dollars (USD) or Euros are permitted up to a maximum amount of £100m equivalent, when funds are received in those currencies in the normal course of business and where TfL is expected to have costs in those currencies in the future;
 - (ii) investments in any currency where the currency is bought in advance of a payment or payments in that currency (for example, if TfL has several payments in Euros within a matter of weeks and it is more cost effective to buy a single tranche of Euros to cover all of the payments rather than buy several smaller amounts on the days each payment is required); or
 - (iii) investments denominated in EUR or USD and swapped back to GBP as a matter of course after taking into account of any natural offsets TfL has to the foreign currency as appropriate.

LIQUIDITY OF INVESTMENTS

- 4.7 TfL will manage its cash to ensure that a minimum of £250m is available for redemption on any business day to ensure TfL has sufficient liquidity to meet its financial obligations.
- 4.8 Each investment decision will be made with regard to expected cash flow requirements resulting in a range of maturity periods within the investment portfolio.

- 4.9 Where the Director of Group Treasury, in consultation with Managing Director, Finance and/or Chief Finance Officer, deems such a step is appropriate in order to protect TfL against potential losses, TfL may break or resell fixed term investments early, including where doing so will result in TfL incurring penalties or crystallising a loss.
- 4.10 Where the Director of Group Treasury, in consultation with the MD Finance or the Chief Finance Officer, deems it appropriate, TfL may break or sell fixed term investment instruments as part of a switch into similar instruments where doing so offers a positive investment return. For example, TfL may have the opportunity to sell a holding of T-bills of a particular maturity and buy T-bills with a slightly different maturity with a better return. Market opportunities such as this arise reasonably frequently where market dynamics result in high demand for particular instruments.
- 4.11 As recommended by the Code, TfL establishes a limit on sums that are invested for periods longer than 364 days. These are established by a separate Prudential Indicators document approved by the Mayor.
- 4.12 Without further reference to the Finance and Policy Committee, the Director of Group Treasury and/or TfL Group Treasury officers may enter into any investment related agreements and/or documentation required to execute the Investment Strategy.

5 BORROWING STRATEGY 2015/16

- 5.1 TfL's objective is to manage its borrowing in a manner that combines flexibility, security of access to funds, diversity of funding sources and value for money. TfL seeks to achieve this by maintaining access to capital markets through its Euro Commercial Paper (ECP) programme and Euro Medium Term Note (EMTN) programme, and complementing this with loans and other facilities from banks where appropriate. TfL's borrowing plans are ultimately underpinned by access to the Public Works Loan Board (PWLB); other sources of funding will be used where they further TfL's stated objectives (i.e. offer better value for money, flexibility, security of access or diversity of funding sources).
- 5.2 TfL recognises the value of its strong credit rating in facilitating low cost debt finance and other financial instruments and intends to maintain its credit rating relative to that of the UK Government.
- 5.3 TfL intends to build upon the success of the liquid, benchmark sized bonds issued under its EMTN programme where this represents good value for money.
- 5.4 TfL intends to borrow an additional £600m in 2015/16 (in accordance with the 2013 funding settlement). £85m of this borrowing has already been arranged and approved and will be drawn in May 2015 from the European Investment Bank (EIB) under the fixed rate loan in support of the London Overground Capacity Improvement Programme (LOCIP). The balance of TfL's borrowing for the year will be drawn from TfL's Approved Borrowing Sources.

- 5.5 TfL's Approved Borrowing Sources comprise:
- (a) the PWLB or any future body replacing the PWLB;
 - (b) TfL's EMTN programme;
 - (c) TfL Notes issued under standalone documentation (including private placements);
 - (d) TfL's ECP programme;
 - (e) EIB or commercial bank loans;
 - (f) Export Development Canada (EDC) and other export credit agencies;
 - (g) A Commercial Paper Back-Stop Facility (CPBF);
 - (h) A Revolving Credit Facility (RCF) of up to £1bn; and
 - (i) A £200m overdraft facility with HSBC;
- 5.6 Additional sources of borrowing may only be added to the Approved Borrowing Sources with the approval of the Finance and Policy Committee.
- 5.7 The Finance and Policy Committee's approval is required for any newly arranged facility (but not facilities being renewed) through the EIB, commercial banks, EDC or other export credit agencies.
- 5.8 Issuance under TfL's EMTN programme or the issuance of Notes using standalone documentation are both permitted subject to the prior written approval of Managing Director, Finance or Chief Finance Officer provided that:
- (a) any such issuance is in accordance with any relevant parameters set out in the Treasury Management Strategy 2015/16; and,
 - (b) Officers consult with as many Members of the Finance and Policy Committee as are available, on:
 - (i) the proposed term and amount of such Note issuance in advance of issuance; and
 - (ii) the need for any Supplemental Prospectus prior to the proposed Note issuance.
- 5.9 Approval and entry into of any required agreements or other documentation (including any associated Prospectus or Information Memorandum) in relation to the implementation of permitted borrowing in relation to the EMTN Programme or ECP Programme or any notes issued under standalone documentation is delegated directly from the Board to Officers.
- 5.10 The prior written approval of Managing Director, Finance or Chief Finance Officer is required for any new borrowing from the PWLB, or any future body replacing the PWLB.

- 5.11 Without further reference to the Finance and Policy Committee, TfL will use the ECP programme and any other short-term facilities approved by the Finance and Policy Committee (e.g. overdraft or commercial paper back-stop facilities or revolving credit facilities for the amounts agreed with the Finance and Policy Committee), to meet its short-term liquidity requirements pending the execution of longer-term borrowing agreed with the Finance and Policy Committee.
- 5.12 TfL will normally arrange new short-term borrowings to replace short-term borrowings falling due for repayment. In order to limit the liquidity risk that this creates TfL manages maturities such that no more than £200m of short-term borrowings falls due for repayment in any three day period.
- 5.13 The overdraft facility will not be used in the normal course of business, but only for short periods to meet unexpected liquidity requirements. The Managing Director, Finance will be notified immediately of any drawing of more than £20m on the overdraft facility.
- 5.14 As required by the Local Government Act 2003, at all times, the aggregate of all of TfL's liabilities will be within the Authorised Limit set by the Mayor and adopted by the Board.
- 5.15 Where TfL is issuing new medium or long-term 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 planned incremental borrowing 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).
- 5.16 The Code requires that upper and lower limits are set for the mix of fixed and variable rate borrowing, and for the maturity structure of fixed rate borrowings to manage interest rate risk. These are established by a separate Prudential Indicators document approved by the Mayor.

LIABILITY MANAGEMENT

- 5.17 TfL will seek to buyback, refinance, or otherwise restructure, existing liabilities (including finance leases) where doing so represents value for money, or will improve the structure of TfL's liabilities, or facilitate changes to TfL's corporate structure.
- 5.18 TfL may pre-pay or refinance loans or re-purchase or redeem existing debt instruments in accordance with the delegated authorities set out in TfL Standing Orders
- 5.19 Any liability management exercise in excess of these limits will be subject to the approval of the Finance and Policy Committee.

MINIMUM REVENUE PROVISION

- 5.20 The Minimum Revenue Provision (MRP) is a Government mandated mechanism requiring local authorities to set aside an amount from current revenue resources in relation to future debt repayment. The MRP policy has to be approved by the Board each year.
- 5.21 TfL has a duty to determine for the current financial year an amount of minimum revenue provision that it considers to be 'prudent' in relation to debt service obligations.
- 5.22 TfL's policy on MRP remains unchanged from 2013/14. That is to treat debt service (interest and principal) in its business plan as an in-year operating cost. As TfL has a legal requirement to produce a balanced budget (and this approach had been extended to the full business plan), the cost of debt service is taken into account when determining whether annual budget and business plans are in balance.

6 RISK MANAGEMENT STRATEGY 2015/16

- 6.1 TfL is materially exposed to a number of specific financial risks in the ordinary course of business, arising from the borrowing programme, the capital investment programme and certain ongoing contractual obligations. There is significant potential to reduce costs and add value to TfL by managing financial risks more effectively.
- 6.2 Under Section 49 of the Transport for London Act 2008 (the TfL Act), TfL was conferred powers to make arrangements for risk mitigation.
- 6.3 This Risk Management Strategy 2014/15 provides for measures to address identifiable financial risks that fall within the categories outlined below:
- (a) interest rate risk related to TfL's planned future borrowing requirements;
 - (b) exchange rate risk related to specific currency exposures arising from the procurement of goods or services by the TfL Group; from receipts of European Union (EU) subsidies or other grants / revenues payable other than in Sterling; and in the course of making foreign currency investments; and,
 - (c) commodity price/rate risk related to specific procurements containing a significant cost element for a commodity component and/or ongoing operational procurements such as power and fuel.
- 6.4 The high level principles established by this Risk Management Strategy 2015/16 are to:
- (a) achieve greater value for money through reducing costs or protecting revenues;
 - (b) reduce volatility / increase certainty relating to the impact of financial risks upon the business plan; and

(c) holistically manage financial risks across the whole of TfL.

6.5 Where TfL arranges derivative investments through its subsidiary, Transport for London Finance Limited, it may put in place intra-group arrangements to confer the benefit of those derivative investments to the TfL entity bearing the underlying risk.

6.6 Under the TfL Group Policy relating to the use of Derivative Investments, the Finance and Policy Committee have delegated authority from the TfL Board to approve:

(a) entering into (i) any derivative investment; or (ii) a programme of derivative investments; and

(b) entities that may be added to the Derivative Counterparty List.

7 COUNTERPARTY CREDIT LIMITS

7.1 Approved investment and derivative instruments must be undertaken within the counterparty credit limits in the table below:

Counterparty Type	S&P	Moody's	Fitch	Investment Limit per counterparty (£m)	Maximum tenor of investment	Derivative Limit per counterparty (£m)	CSA Threshold for New Derivative Counterparties*
UK Sovereign and UK Government Guaranteed				Unlimited	Unlimited	n.a.	n.a.
Money Market Fund	AAA	Aaa	AAA	3.5% of fund	Max 7 day (normally Instant access)	n.a.	n.a.
Non-UK Sovereigns and SSAs	AAA	Aaa	AAA	300	3 years	n.a.	n.a.
	AA+	Aa1	AA+	250	3 years	n.a.	n.a.
	AA	Aa2	AA	200	3 years	n.a.	n.a.
	AA-	Aa3	AA-	175	3 years	n.a.	n.a.
	A+	A1	A+	150	2 years	n.a.	n.a.
	A	A2	A	125	12 months	n.a.	n.a.
	A-	A3	A-	100	12 months	n.a.	n.a.
Banks	BBB+	Baa	BBB+	0	n.a.	n.a.	n.a.
	AAA	Aaa	AAA	300	12 months	400	50
	AA+	Aa1	AA+	250	12 months	400	40
	AA	Aa2	AA	200	12 months	350	40
	AA-	Aa3	AA-	175	12 months	250	40
	A+	A1	A+	150	12 months	200	25
	A	A2	A	125	12 months	175	25
Corporates	A-	A3	A-	100	12 months	150	20
	AAA	Aaa	AAA	150	12 months	n.a.	n.a.
	AA+	Aa1	AA+	125	12 months	n.a.	n.a.
	AA	Aa2	AA	100	12 months	n.a.	n.a.
	AA-	Aa3	AA-	87.5	12 months	n.a.	n.a.
	A+	A1	A+	75	6 months	n.a.	n.a.
	A	A2	A	62.5	6 months	n.a.	n.a.
A-	A3	A-	50	6 months	n.a.	n.a.	
	BBB+	Baa	BBB+	n.a.	n.a.	n.a.	n.a.

* Will apply to new derivative counterparty ratings at the time the Credit Support Annex (CSA) is entered into.

7.2 Counterparty credit limits apply to entities on the Approved Investment List 2015/16 and the Approved Derivative Counterparty List 2015/16.

7.3 Where an instrument benefits from a UK Government Guarantee, the limit will be that for UK Government Guaranteed rather than the entity guaranteed by the UK Government.

- 7.4 Where an investment instrument benefits from collateral arrangements, for example, Reverse-Repurchase Agreement (Repos), the investment exposure will be calculated based on maximum expected movements in the value of collateral with a 99% confidence level and not the face value of the sum invested. For example the exposure on daily adjusted repo arrangements will £2.3m per £100m.
- 7.5 In exceptional circumstances the applicable limit for TfL's clearing bank may be temporarily exceeded, for example where cash is available for investment after the daily deadline for deposits with the DMO has passed. Any such circumstance will be immediately notified to the Managing Director, Finance and Chief Finance Officer.
- 7.6 Where a counterparty has a split rating, the Limit for each rating is calculated as the average of the relevant Limits for each rating available, i.e. the limit is derived by taking the sum of one third of the applicable limit for each rating agency. For investments, the maximum tenor calculation will follow the same manner.
- 7.7 If the Credit Limit applicable to a counterparty changes while TfL has an outstanding investment or derivative with that counterparty, TfL may seek to bring its exposure down to within the revised limits but a breach of limits caused by such a change will not be considered a breach of this policy. TfL may at the Director of Group Treasury's discretion (in consultation with the Managing Director, Finance and/or Chief Finance Officer) decide to allow an investment to run its course for economic reasons.

Appendix 2

TREASURY MANAGEMENT STRATEGY 2015/16 with changes compared to 2014/15 tracked

TRANSPORT FOR LONDON

TREASURY MANAGEMENT STRATEGY 2015/16

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1 SUMMARY

1.1 This TfL Treasury Management Strategy (TMS) 2015/16 comprises the:

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(a) Investment Strategy 2015/16;

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(b) Borrowing Strategy 2015/16; and,

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(c) Risk Management Strategy 2015/16.

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2 BACKGROUND INFORMATION

2.1 TfL has had regard to the key recommendations of CIPFA's Code of Practice and Cross-Sectoral Guidance Notes for Treasury Management in the Public Services 2011 (the 'Code') and the revised investment guidance issued by the Department for Communities and Local Government (DCLG) which came into effect from 1 April 2010 (DCLG Guidance) in preparing this Treasury Management Strategy.

2.2 As recommended by the Code, this strategy will be updated at least annually and submitted for the approval of the TfL Board.

2.3 TfL has considered the implications of its overall asset and liability management, taking into account its overall exposure to inflation and interest rates as they affect its commercial markets (passenger levels, fare revenues, and costs) and in its financial activities (financing costs and investment returns on cash balances). TfL has also reviewed its exposure to default risk in the investment of its surplus cash given the instability of the financial markets over the last year.

2.4 TfL continues to add to its sources of market information to enable it to support its future investment decisions and continues to seek prudent opportunities to maintain yield without risking underlying security.

2.5 The Director of Group Treasury and TfL Group Treasury officers will implement, operate and administer the Treasury Management Strategy (including entering into any documentation where appropriate).

3 STRATEGIC OBJECTIVES

- 3.1 The objectives underpinning the TMS 2015/16 are:
- (a) to undertake treasury management operations with primary regard for the security and liquidity of capital invested;
 - (b) to maximise the yield from investments consistent with the security and liquidity objectives identified above;
 - (c) to ensure that sufficient cash is available to enable TfL to discharge its financial obligations when they become due, in accordance with approved spending plans;
 - (d) to undertake treasury management activity having regard to Prudential Indicators;
 - (e) to secure TfL's funding requirements by accessing the most cost efficient source of finance, while ensuring TfL has flexibility and sufficient alternatives not to be dependent on any particular source; and
 - (f) to use TfL's statutory power relating to risk management to achieve greater value for money through reducing costs or protecting revenues, reducing volatility / increasing certainty in the Business Plan and to holistically manage financial risks across the whole of TfL.

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4 INVESTMENT STRATEGY 2015/16

4.1 All cash balances will be invested in accordance with this Investment Strategy and with regard to the relevant DCLG Guidance.

4.2 Group Treasury applies this Investment Strategy in accordance with the TMS strategic objectives listed in 3.1 above.

4.3 Investments are limited to institutions and types of investment that have been placed on a TfL 'Approved Investment List'. Investments may be made in any wholly owned subsidiary or its publicly listed borrowing programmes, which either (a) has the same or better credit rating as, or (b) is guaranteed by the counterparty listed in the Approved Investments List, within the parent institution's aggregate investment limit.

4.4 The Finance and Policy Committee will approve entities and types of investment that may be added to the Approved Investment List.

4.5 In determining whether to recommend to the Finance and Policy Committee to place an institution on the Approved Investment List, TfL Officers will consider:

- (a) the financial position and jurisdiction of the institution;
- (b) the market pricing of credit default swaps for the institution;
- (c) any implicit or explicit Government support for the institution;

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<#>to undertake investments fall into two categories: ¶
<#>Specified Investments; and ¶
<#>Non-specified investments.¶
<#>SPECIFIED INVESTMENTS¶
<#>Specified investments offer high with primary regard for the security and high liquidity and must satisfy the conditions set out below:¶
<#>the investment is denominated in Sterling and any payments or repayments in respect of the investment are payable in Sterling only capital invested.¶
<#>the investment is not a long-term investment (i.e. has a maturity of less than one year); and ¶
<#>the investment is either:¶
<#>made with the UK Government; or ¶
<#>made with a body or in an investment scheme which has been awarded a high (investment grade) credit rating by a credit rating agency.¶
<#>Specified investments to maximise the yield from investments consistent with the security and liquidity objectives identified above; ¶
to ensure that sufficient cash is available to enable TfL to discharge its financial obligations when they become due, in accordance with approved spending plans.

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- (d) Standard & Poor's, Moody's and Fitch's short and long term credit ratings; and
- (e) Tier 1 capital ratios in the case of financial institutions.

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4.6 Investments that either exceed one year or are in currencies other than Sterling, are limited to use within the following criteria:

Deleted: <#>TfL's maximum investment in any fund will be three point five per cent of fund size.¶
NON-SPECIFIED INVESTMENTS¶
 <#>Non-specified investments do not, by definition, meet the requirements of a specified investment. The DCLG Guidance recommends an articulated risk management strategy and greater detail of the intended use of non-specified investments due to greater potential risk. ¶
 <#>Non-specified investments approved for use by TfL under this strategy are investments in instruments and with entities on the Approved Investment List where:¶
 the maximum maturity is one year or

- (a) where the maturity is greater than one year:
 - (i) any such investments would be in Sterling, so the potential risk for TfL is one of liquidity – that TfL requires the funds that are tied up in longer term investments. Given the nature of the institutions (in some cases government or government guaranteed) the risk of default is very low;
 - (ii) before placing such longer term investments, TfL would carry out a detailed cash forecast to determine the need for funds over a longer time period, and only place funds for longer than one year where it was confident on the most conservative basis that the monies would not be required in the meantime; and,
 - (iii) any such investments will be instruments which would be readily converted into cash to obtain liquidity, should such a need arise;

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- (b) where investments are in currencies other than Sterling:
 - (i) investments denominated in US Dollars (USD) or Euros are permitted up to a maximum amount of £100m equivalent, when funds are received in those currencies in the normal course of business and where TfL is expected to have costs in those currencies in the future;
 - (ii) investments in any currency where the currency is bought in advance of a payment or payments in that currency (for example, if TfL has several payments in Euros within a matter of weeks and it is more cost effective to buy a single tranche of Euros to cover all of the payments rather than buy several smaller amounts on the days each payment is required); or
 - (iii) investments denominated in EUR or USD and swapped back to GBP as a matter of course after taking into account of any natural offsets TfL has to the foreign currency as appropriate.

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LIQUIDITY OF INVESTMENTS

- 4.7 TfL will manage its cash to ensure that a minimum of £250m is available for redemption on any business day to ensure TfL has sufficient liquidity to meet its financial obligations.
- 4.8 Each investment decision will be made with regard to expected cash flow requirements resulting in a range of maturity periods within the investment portfolio.

4.9 Where the Director of Group Treasury, in consultation with Managing Director, Finance and/or Chief Finance Officer, deems such a step is appropriate in order to protect TfL against potential losses, TfL may break or resell fixed term investments early, including where doing so will result in TfL incurring penalties or crystallising a loss.

4.10 Where the Director of Group Treasury, in consultation with the [MD Finance or the](#) Chief Finance Officer, deems it appropriate, TfL may break or sell fixed term investment instruments as part of a switch into similar instruments where doing so offers a positive investment return. For example, TfL may have the opportunity to sell a holding of T-bills of a particular maturity and buy T-bills with a slightly different maturity with a better return. Market opportunities such as this arise reasonably frequently where market dynamics result in high demand for particular instruments.

4.11 ~~As recommended by the Code, TfL establishes a limit on sums that are invested for periods longer than 364 days. These are established by a separate Prudential Indicators document approved by the Mayor.~~

4.12 Without further reference to the Finance and Policy Committee, the Director of Group Treasury and/or TfL Group Treasury officers may enter into any investment related agreements and/or documentation required to execute the Investment Strategy.

5 **BORROWING STRATEGY** [2015/16](#)

5.1 TfL's objective is to manage its borrowing in a manner that combines flexibility, security of access to funds, diversity of funding sources and value for money. TfL seeks to achieve this by maintaining access to capital markets through its Euro Commercial Paper (ECP) programme and Euro Medium Term Note (EMTN) programme, and complementing this with loans and other facilities from banks where appropriate. TfL's borrowing plans are ultimately underpinned by access to the Public Works Loan Board (PWLB); other sources of funding will be used where they further TfL's stated objectives (i.e. offer better value for money, flexibility, security of access or diversity of funding sources).

5.2 TfL recognises the value of its strong credit rating in facilitating low cost debt finance and other financial instruments and intends to maintain its credit rating relative to that of the UK Government.

5.3 TfL intends to build upon the success of the liquid, benchmark sized bonds issued under its EMTN programme where this represents good value for money.

5.4 TfL intends to borrow an additional [£600m](#) in [2015/16](#) (in accordance with the [2013](#) funding settlement). [£85m](#) of this borrowing has already been arranged and approved and will be drawn in [May 2015](#) from the European Investment Bank (EIB) under the fixed rate loan in support of [the London Overground Capacity Improvement Programme \(LOCIP\)](#). The balance of TfL's borrowing for the year will be drawn from TfL's Approved Borrowing Sources.

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<#>The maximum limits per investment per institution for 2014/15 are shown in the table below:¶

¶
¶
¶

Comment [S1]: Moved to section 7 credit counterparty limits

Deleted: <#> For example the exposure on daily adjusted repo arrangements will £2.3m per £100m.¶ <#>In exceptional circumstances the applicable limit for TfL's clearing bank may be temporarily exceeded, for example where cash is available for investment after the daily deadline for deposits with the DMO has passed. Any such circumstance will be immediately notified to the Managing Director, Finance and Chief Finance Officer. ¶

<#>Where a counterparty has a split rating, the Investment Limit for each rating is calculated as the average of the relevant Investment Limits for each rating available, i.e. the limit is derived by taking the sum of one third of the applicable limit for each rating agency. The maximum tenor of deposit calculation will follow the same manner.¶

<#>If the Investment Limit applicable to a counterparty changes while TfL has an outstanding investment with that counterparty, TfL may seek to bring its exposure down to within the revised limits but a breach of limits caused by such a change will not be considered a breach of this policy. TfL may at the Director of Group Treasury's discretion (in consultation with the Managing Director, Finance and/or Chief Finance Officer) decide to allow an investment to run its course for economic reasons. ¶

<#>INVESTMENT MATURITY LIMIT / INVESTMENT DOCUMENTATION¶

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5.5 TfL's Approved Borrowing Sources comprise:

- (a) the PWLB, or any future body replacing the PWLB;
- (b) TfL's EMTN programme;
- (c) TfL Notes issued under standalone documentation, (including private placements);
- (d) TfL's ECP programme;
- (e) EIB or commercial bank loans;
- (f) Export Development Canada (EDC) and other export credit agencies;
- (g) A Commercial Paper Back-Stop Facility (CPBF);
- (h) A Revolving Credit Facility (RCF) of up to £1bn; and
- (i) A £200m overdraft facility with HSBC;

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5.6 Additional sources of borrowing may only be added to the Approved Borrowing Sources with the approval of the Finance and Policy Committee.

5.7 The Finance and Policy Committee's approval is required for any newly arranged facility (but not facilities being renewed) through the EIB, commercial banks, EDC or other export credit agencies.

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5.8 Issuance under TfL's EMTN programme or the issuance of Notes using standalone documentation are both permitted subject to the prior written approval of Managing Director, Finance or Chief Finance Officer provided that:

- (a) any such issuance is in accordance with any relevant parameters set out in the Treasury Management Strategy 2015/16; and,
- (b) Officers consult with as many Members of the Finance and Policy Committee as are available, on:
 - (i) the proposed term and amount of such Note issuance in advance of issuance; and
 - (ii) the need for any Supplemental Prospectus prior to the proposed Note issuance.

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5.9 Approval and entry into of any required agreements or other documentation (including any associated Prospectus or Information Memorandum) in relation to the implementation of permitted borrowing in relation to the EMTN Programme or ECP Programme or any notes issued under standalone documentation is delegated directly from the Board to Officers.

5.10 The prior written approval of Managing Director, Finance or Chief Finance Officer is required for any new borrowing from the PWLB, or any future body replacing the PWLB.

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5.11 Without further reference to the Finance and Policy Committee, TfL will use the ECP programme and any other short-term facilities approved by the Finance and Policy Committee (e.g. overdraft or commercial paper back-stop facilities ~~or revolving credit facilities for the amounts agreed with the Finance and Policy Committee~~), to meet its short-term liquidity requirements pending the execution of longer-term borrowing agreed with the Finance and Policy Committee.

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5.12 TfL will normally arrange new short-term borrowings to replace short-term borrowings falling due for repayment. In order to limit the liquidity risk that this creates TfL manages maturities such that no more than £200m of short-term borrowings falls due for repayment in any three day period.

5.13 The overdraft facility will not be used in the normal course of business, but only for short periods to meet unexpected liquidity requirements. The Managing Director, Finance will be notified immediately of any drawing of more than £20m on the overdraft facility.

5.14 As required by the Local Government Act 2003, at all times, the aggregate of all of TfL's liabilities will be within the Authorised Limit set by the Mayor and adopted by the Board.

5.15 Where TfL is issuing new medium or long-term 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 planned incremental borrowing 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).

5.16 The Code requires that upper and lower limits are set for the mix of fixed and variable rate borrowing, and for the maturity structure of fixed rate borrowings to manage interest rate risk. These are established by a separate Prudential Indicators document approved by the Mayor.

LIABILITY MANAGEMENT

5.17 TfL will seek to buyback, refinance, or otherwise restructure, existing liabilities (including finance leases) where doing so represents value for money, or will improve the structure of TfL's liabilities, or facilitate changes to TfL's corporate structure.

5.18 TfL may pre-pay or refinance loans or re-purchase or redeem existing debt instruments in accordance with the delegated authorities set out in TfL Standing Orders

5.19 Any liability management exercise in excess of these limits will be subject to the approval of the Finance and Policy Committee.

MINIMUM REVENUE PROVISION

- 5.20 The Minimum Revenue Provision (MRP) is a Government mandated mechanism requiring local authorities to set aside an amount from current revenue resources in relation to future debt repayment. The MRP policy has to be approved by the Board each year.
- 5.21 TfL has a duty to determine for the current financial year an amount of minimum revenue provision that it considers to be 'prudent' in relation to debt service obligations.
- 5.22 TfL's policy on MRP remains unchanged from 2013/14. That is to treat debt service (interest and principal) in its business plan as an in-year operating cost. As TfL has a legal requirement to produce a balanced budget (and this approach had been extended to the full business plan), the cost of debt service is taken into account when determining whether annual budget and business plans are in balance.

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6 RISK MANAGEMENT STRATEGY 2015/16

- 6.1 TfL is materially exposed to a number of specific financial risks in the ordinary course of business, arising from the borrowing programme, the capital investment programme and certain ongoing contractual obligations. There is significant potential to reduce costs and add value to TfL by managing financial risks more effectively.
- 6.2 Under Section 49 of the Transport for London Act 2008 (the TfL Act), TfL was conferred powers to make arrangements for risk mitigation.
- 6.3 This Risk Management Strategy 2014/15 provides for measures to address identifiable financial risks that fall within the categories outlined below:
- (a) interest rate risk related to TfL's planned future borrowing requirements;
 - (b) exchange rate risk related to specific currency exposures arising from the procurement of goods or services by the TfL Group; from receipts of European Union (EU) subsidies or other grants / revenues payable other than in Sterling; and in the course of making foreign currency investments; and.
 - (c) commodity price/rate risk related to specific procurements containing a significant cost element for a commodity component and/or ongoing operational procurements such as power and fuel.
- 6.4 The high level principles established by this Risk Management Strategy 2015/16 are to:
- (a) achieve greater value for money through reducing costs or protecting revenues;
 - (b) reduce volatility / increase certainty relating to the impact of financial risks upon the business plan; and

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(c) holistically manage financial risks across the whole of TfL.

6.5 Where TfL arranges derivative investments through its subsidiary, Transport for London Finance Limited, it may put in place intra-group arrangements to confer the benefit of those derivative investments to the TfL entity bearing the underlying risk.

6.6 Under the TfL Group Policy relating to the use of Derivative Investments, the Finance and Policy Committee have delegated authority from the TfL Board to approve:

(a) entering into (i) any derivative investment; or (ii) a programme of derivative investments; and

(b) entities that may be added to the Derivative Counterparty List.

Deleted: derivative transactions.

7 COUNTERPARTY CREDIT LIMITS

7.1 Approved investment and derivative instruments must be undertaken within the counterparty credit limits in the table below:

Counterparty Type	S&P	Moody's	Fitch	Investment Limit per counterparty (£m)	Maximum tenor of investment	Derivative Limit per counterparty (£m)	CSA Threshold for New Derivative Counterparties*
UK Sovereign and UK Government Guaranteed	-	-	-	Unlimited	Unlimited	n.a.	n.a.
Money Market Fund	AAA	Aaa	AAA	3.5% of fund	Max 7 day (normally Instant access)	n.a.	n.a.
Non-UK Sovereigns and SSAs	AAA	Aaa	AAA	300	3 years	n.a.	n.a.
	AA+	Aa1	AA+	250	3 years	n.a.	n.a.
	AA	Aa2	AA	200	3 years	n.a.	n.a.
	AA-	Aa3	AA-	175	3 years	n.a.	n.a.
	A+	A1	A+	150	2 years	n.a.	n.a.
	A	A2	A	125	12 months	n.a.	n.a.
	A-	A3	A-	100	12 months	n.a.	n.a.
	BBB+	Baa	BBB+	0	n.a.	n.a.	n.a.
Banks	AAA	Aaa	AAA	300	12 months	400	50
	AA+	Aa1	AA+	250	12 months	400	40
	AA	Aa2	AA	200	12 months	350	40
	AA-	Aa3	AA-	175	12 months	250	40
	A+	A1	A+	150	12 months	200	25
	A	A2	A	125	12 months	175	25
	A-	A3	A-	100	12 months	150	20
	BBB+	Baa	BBB+	0	n.a.	0	0
Corporates	AAA	Aaa	AAA	150	12 months	n.a.	n.a.
	AA+	Aa1	AA+	125	12 months	n.a.	n.a.
	AA	Aa2	AA	100	12 months	n.a.	n.a.
	AA-	Aa3	AA-	87.5	12 months	n.a.	n.a.
	A+	A1	A+	75	6 months	n.a.	n.a.
	A	A2	A	62.5	6 months	n.a.	n.a.
	A-	A3	A-	50	6 months	n.a.	n.a.
	BBB+	Baa	BBB+	n.a.	n.a.	n.a.	n.a.

* Will apply to new derivative counterparty ratings at the time the Credit Support Annex (CSA) is entered into.

7.2 Counterparty credit limits apply to entities on the Approved Investment List 2015/16 and the Approved Derivative Counterparty List 2015/16.

7.3 Where an instrument benefits from a UK Government Guarantee, the limit will be that for UK Government Guaranteed rather than the entity guaranteed by the UK Government.

- 7.4 Where an investment instrument benefits from collateral arrangements, for example, Reverse-Repurchase Agreement (Repos), the investment exposure will be calculated based on maximum expected movements in the value of collateral with a 99% confidence level and not the face value of the sum invested. For example the exposure on daily adjusted repo arrangements will £2.3m per £100m.
- 7.5 In exceptional circumstances the applicable limit for TfL's clearing bank may be temporarily exceeded, for example where cash is available for investment after the daily deadline for deposits with the DMO has passed. Any such circumstance will be immediately notified to the Managing Director, Finance and Chief Finance Officer.
- 7.6 Where a counterparty has a split rating, the Limit for each rating is calculated as the average of the relevant Limits for each rating available, i.e. the limit is derived by taking the sum of one third of the applicable limit for each rating agency. For investments, the maximum tenor calculation will follow the same manner.
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Appendix 3

Approved Investments List 2015/16

Sovereigns

1. Australia
2. Austria
3. Canada
4. Denmark
5. Finland
6. France
7. Germany
8. Norway
9. Sweden
10. Switzerland
11. The Netherlands
12. UK Government and its executive agency, the Debt Management Office (DMO)
13. United States of America
14. Kingdom of Belgium

Money Market Funds

15. BlackRock Institutional Sterling Government Liquidity Fund
16. BlackRock Institutional Sterling Liquidity Fund
17. Deutsche Global Liquidity Series – Sterling Fund
18. HSBC Global Liquidity Fund
19. Ignis Liquidity Fund
20. Insight Liquidity Funds – GBP Liquidity Fund
21. JP Morgan Sterling Liquidity Fund
22. LGIM Liquidity Fund

Supra-nationals

23. Asian Development Bank (ASIA)
24. Council of Europe Development Bank (COE)
25. European Bank for Reconstruction and Development (EBRD)
26. European Investment Bank (EIB)
27. Inter-American Development Bank (IADB)
28. World Bank (International Bank for Reconstruction and Development/IBRD)
29. International Finance Corporation (IFC)
30. Nordic Investment Bank (NIB)

Agencies and Other Issuers

31. Agence Centrale des Organismes de Sécurité Sociale (ACOSS)
32. Bank Nederlandse Gemeenten (BNG)
33. Banque et Caisse d'Épargne de l'État (BCEE)
34. Caisse d'Amortissement de la Dette Sociale (Cades)
35. Caisse des Dépôts et Consignations (CDC)
36. Deutsche Bahn AG
37. Erste Abwicklungsanstalt (EAA)
38. Export Development Canada (EDC)
39. Federal Home Loan Mortgage Corp (Freddie Mac)
40. Federal National Mortgage Association (Fannie Mae)
41. FMS Wertmanagement AoR (FMS)
42. KfW Bankengruppe (KfW)
43. Kommunalbanken AS (KommBank)
44. Kommunekredit (KommCrd)
45. Kommuninvest i Sverige (Kommlnv)
46. Korea Development Bank (KDB)
47. Land Saxony-Anhalt
48. Landeskreditbank Baden-Württemberg Foerderbank (L-Bank)
49. Landwirtschaftliche Rentenbank (Retenbank)

50. Municipality Finance PLC (Kunta)
51. Nederlandse Waterchapsbank (NWB)
52. New South Wales Treasury Corp
53. NRW BANK
54. Network Rail
55. Oesterreichische Kontrollbank
56. Province of Ontario
57. Province of Quebec
58. Queensland Treasury Corp
59. Societe Nationale des Chemins de Fer Francais Mobilités (SNCF)
60. South Australia Government Financing Authority
61. Svensk Exportkredit/Swedish Export Credit Corporation (SEK)
62. Tasmanian Public Finance

Banks

63. Bank of America Corporation
64. Barclays Bank plc
65. BNP Paribas SA
66. Citibank NA
67. Cooperatieve Centrale Raiffeisen-Boerenleenbank (RABOBK)
68. Commonwealth Bank of Australia
69. Credit Agricole SA
70. Credit Suisse Group AG
71. Deutsche Bank AG
72. Goldman Sachs Group Inc
73. HSBC Bank plc
74. JPMorgan Chase & Co
75. Lloyds Banking Group plc
76. Mitsubishi UFJ Financial Group Inc
77. Morgan Stanley
78. National Australia Bank Ltd*
79. Nomura Holdings Inc
80. Nordea Bank AB
81. Royal Bank of Canada
82. The Royal Bank of Scotland Plc
83. Societe Generale SA
84. Standard Chartered plc
85. Sumitomo Mitsui Financial Group
86. Toronto Dominion Bank
87. UBS AG

Corporates

88. Apple Inc
89. Astrazeneca PLC
90. Automatic Data Processing (ADP)
91. BASF SE
92. Bayerische Motoren Werke AG (BMW)
93. BP PLC
94. CDP Financial
95. Centrica PLC
96. The Coca-cola Co.
97. CPPIB Capital Inc.
98. Daimler AG
99. EBay Inc.
100. Electricite de France (EDF)
101. ENI SPA
102. ExxonMobil Corporation
103. GDF Suez
104. General Electric Capital Corporation (GEC)

- 105. Honda Motor Co Ltd
- 106. Honeywell International Inc.
- 107. IBM Corp.
- 108. Johnson & Johnson
- 109. Microsoft Corporation
- 110. Nestle SA
- 111. Pfizer Inc.
- 112. The Procter & Gamble Company (P&G)
- 113. Roche Holdings AG
- 114. Total SA
- 115. Toyota Motor Corporation
- 116. Sanofi
- 117. Siemens AG
- 118. Unilever PLC / Unilever NV
- 119. Vattenfall AB
- 120. Volkswagen AG (VW)
- 121. Wal-Mart Stores Inc

Including any wholly owned subsidiary or its debt which either (a) has the same or better credit rating as, or (b) is guaranteed by, the counterparties listed above.

Investment instruments

(i) Government Treasury Bills and bonds;

Deleted: UK

(ii) UK Debt Management Office deposits;

Deleted: ,

Deleted: Gilts and

(iii) repurchase agreements (“Repos”) on UK Government Treasury Bills and Gilts;

(iv) bank deposits and certificates of deposit;

(v) bonds and commercial paper; and

(vi) Money Market Funds (MMFs);

Deleted: .

Approved Derivative Counterparty List 2015/16

1. Bank of Tokyo-Mitsubishi UFJ Ltd
2. Barclays Bank plc
3. BNP Paribas SA
4. Citibank NA
5. Commonwealth Bank of Australia
6. Credit Agricole SA
7. Credit Suisse International
8. Deutsche Bank AG
9. Goldman Sachs International
10. HSBC Bank plc
11. JPMorgan Chase Bank NA
12. Lloyds Banking Group plc (UK Government Support)
13. Merrill Lynch International (Bank of America)
14. Morgan Stanley
15. National Australia Bank Ltd
16. Nomura International PLC
17. Nordea Bank AB
18. Royal Bank of Canada
19. The Royal Bank of Scotland plc (UK Government Support)
20. Societe Generale SA
21. Sumitomo Mitsui Banking Corp
22. Toronto Dominion Bank
23. UBS AG

Including any wholly owned subsidiary which either (a) has the same or better credit rating as, or (b) is guaranteed by, the counterparties listed above.