

## PORT OF PORTLAND COMMISSION POLICY

### INTEREST RATE EXCHANGE AGREEMENTS

Policy No. 6.1.14

Approved Commission meeting of August 14, 2013

#### **Background**

In the course of exercising its powers, the Port uses its borrowing authority to finance various improvements and acquisitions, as permitted by law. Interest Rate Exchange Agreements are an additional tool that can be useful in debt management.

#### **Purpose**

The Port may utilize Interest Rate Exchange Agreements to manage payment, interest rate spread, or similar exposure undertaken in connection with existing, or anticipated, obligations made in the exercise of the borrowing powers of the Port.

#### **Permitted Instruments**

Interest Rate Exchange Agreements (Agreements) are written contracts that provide for an exchange of payments based upon fixed and/or variable interest rates, including but not limited to an interest rate swap, floor, cap, collar, or an option to enter into such a contract.

#### **Risk Analysis**

The Executive Director, or the Chief Financial Officer, in consultation with the General Counsel, will ensure that the risks inherent in each Agreement are evaluated, presented to the Commission and understood before entering into the Agreement and that strategies are formulated to minimize the risks. These risks can include, but are not limited to:

Counterparty Risk – credit and/or performance exposure of the counterparty to the Agreement.

Rollover Risk – may arise if the Agreement and the underlying debt have different terms.

Basis Risk – the potential mismatch between the net interest payments received under the contract and the amount of interest due on the borrowing.

Tax Event Risk – payments on Agreements, based on a variable tax exempt index, can incur risk based on changes in marginal income tax rates, independent of changes in interest rates generally.

Amortization Risk – the cost of servicing debt, or paying on Agreements, resulting from a mismatch between the amount of bonds and the notional (or principle) amount of the Agreement.

Termination Risk – the risk that a material payment would be owed to the counterparty in certain market conditions if the Agreement was terminated by either the Port or the counterparty to the Agreement.

## **Counterparty Criteria**

The Port shall enter into Agreements only with counterparties which have demonstrated experience in these types of financial instruments and are (1) rated in one of the top three rating categories without gradation by at least two nationally recognized rating agencies; or (2) will collateralize the Agreement in accordance with all statutory requirements.

At the time of adoption of this Policy, the statutory collateralization requirements are as follows:

- Cash or obligations rated in one of the top three rating categories, without gradation, by at least two nationally recognized rating agencies;
- The collateral is deposited with the Port or the State Treasurer, on behalf of the Port, or an agent of the Port;
- The collateral has a market value to fully collateralize the Agreement, as determined at the discretion of the Port; and
- The collateral is marked to the market no less frequently than monthly.

## **Documentation**

Each Agreement will be governed by International Swaps and Derivatives Association, Inc. (ISDA) agreements, including any schedule, confirmation, or annex, as required, and will include terms, as necessary or desirable, to facilitate the transaction.

The Port will receive any opinions, in form satisfactory to the General Counsel, as required by law or deemed prudent at the discretion of the General Counsel to protect the interests of the Port in connection with an Agreement.

## **Accounting**

Each Agreement will be accounted for in conformance with generally accepted accounting principles applicable to the Port.

## **Reporting**

An annual report, indicating payments made and received under, and the market value of, each Agreement, and other information, as the Commission may request, will be presented to the Commission.

## **Conformance to Dodd-Frank**

It is the intent of the Port to conform this Policy to the requirements relating to legislation and regulations for derivatives transactions under Title VII of the Wall Street Transparency and Accountability Act of 2010, as supplemented and amended from time to time, including any regulations promulgated in connection therewith (herein collectively referred to as “Dodd-Frank”). Pursuant to such intent, it is the policy of the Port that, with respect to each Agreement:

(i) each swap advisor engaged or to be engaged by the Port will function as the designated qualified independent representative of the Port, sometimes referred to as the “Designated QIR”; (ii) each swap advisor agree to meet and meets the requirements specified in Commodity Futures Trading Commission (“CFTC”) Regulation 23.450(b)(1) or any successor regulation thereto (herein referred to as the “Representative Regulation”); (iii) each swap advisor provide a written certification to the Port to the effect that such swap advisor agrees to meet and meets the requirements specified in the Representative Regulation; (iv) the Port monitor the performance of each swap advisor consistent with the requirements specified in the Representative Regulation; (v) the Port exercise independent judgment in consultation with its swap advisor in evaluating all recommendations, if any, presented by any swap dealer with respect to transactions authorized pursuant to this Policy; and (vi) the Port rely on the advice of its swap advisor with respect to Agreements authorized pursuant to this Policy and not rely on recommendations, if any, presented by any swap dealer with respect to Agreements authorized pursuant to this Policy.

### **Legal Entity Identifier**

The Port shall obtain and maintain current at all times a “legal entity identifier” from a firm designated by the CFTC to provide such numbers.

### **Clearing**

In connection with the execution of any Agreement entered into (or novated) on or after September 9, 2013, the Port shall complete and maintain, as required by the CFTC, an annual filing regarding how it generally meets its financial obligations associated with entering into uncleared swaps.

### **Recordkeeping**

Comprehensive records shall be maintained, either in paper or electronic form, of any Agreement entered into by the Port for at least five (5) years following the termination thereof. Such records shall be retrievable within five (5) business days and shall be open to inspection by the CFTC.

### **Prior Policies**

This Policy supersedes and replaces that certain policy of the Port titled, Interest Rate Exchange Agreements, dated January 14, 2004, Policy No. 6.1.14.