Ohio Administrative Code

Rule 3342-7-10 University policy regarding the use of derivative products for managing interest rate risks for institutional debt.

Effective: March 1, 2015

(A) Policy statement. This policy provides a framework for the universitys use of derivative products for managing interest rate risks. The policy establishes the universitys criteria for using derivative products, and the factors to consider when evaluating their use.

(B) Implementation. The university must have the following in place before using derivative products:

(1) Methods for measuring, evaluating, monitoring and managing risks associated with derivative products, including:

(a) Basis risk the mismatch between actual variable rate debt service and the variable rate index used to determine swap payments.

(b) Tax risk the risk created by potential tax events that could affect swap payments. Careful attention should be paid to tax event triggers in the underlying swap documents.

(c) Interest rate risk how the movement of interest rates over time affects the market value of the instruments.

(d) Counterparty risk the failure of the counterparty to make required payments. This is particularly important if the university has more than one swap with a counterparty and the documents contain cross-default provisions. This can be addressed through the establishment of ratings thresholds and guidelines for exposure levels.

(e) Market-access risk the risk that the university will not be able to enter credit markets or that credit will become more costly. This could occur when a new money issuance or refunding is planned in the future and a future swap contract is currently transacted.

(f) Credit risk the occurrence of an event modifying the credit rating of the university or its counterparty. This is addressed through minimizing cross defaults, the use of swap insurance or the favorable negotiation of credit event triggers in the underlying documentation.

(2) Methods for selecting and procuring derivative products, including when competitive bids and negotiated transactions are warranted, and knowledge of pricing conventions and documentation standards.

(3) Guidelines for proper disclosure of material information relating to executed derivative products in financial statements, to rating agencies, to bond investors and the secondary market. Official Statement disclosure comports with current market practices.

(4) Procedures and personnel responsible for internally managing and monitoring the universitys obligations, rates, payments, collateral, accounting and exposures, including counterparty credit, variable rate exposure levels and basis risk.

(C) Legality. In order to use any derivative products, the university must receive:

(1) Board approval, and

(2) An opinion acceptable to the market from a nationally recognized bond counsel firm or general counsel that the agreement relating to the derivative transaction is legal, valid and a binding obligation of the university and that entering into the transaction complies with applicable state and federal laws.

(D) Form of agreement. Master swap agreements entered into by the university shall contain terms and conditions as set forth in the international swap and derivatives association, Inc. ("ISDA") master agreement and such other terms and conditions including schedules and confirmations as deemed necessary by the universitys management.

(E) In general, derivative products should be transacted with firms with provider credit ratings of at least "A category from at least two nationally recognized credit rating agencies. University management may procure derivative products by either competitive or negotiated methods as long as management determines that the university is receiving fair value under the terms of the derivative transactions.