



Finance and Administration Committee Agenda Item 6a

April 19, 2016

Item Name: Treasury Management Policy Review (Second Reading)

Program: Financial Office

Item Type: Action

Recommendation

Approve the Treasury Management Policy ("Policy") which includes the revisions resulting from the Committees' first reading of the policy in March 2016.

Executive Summary

This agenda item contains the second reading of the Treasury Management Policy to be reviewed by the Committee for approval. The Policy was approved by the Committee in March 2015. The Committee is responsible to review the Policy annually and approve staff recommendations for changes to the Policy. Staff recommends suggested changes to the current Policy based on this year's review and feedback from the Committees' first reading (Attachment 1).

Strategic Plan

This agenda item supports Goal B of the CalPERS 2012-2017 Strategic Plan, which is to cultivate a high-performing, risk intelligent and innovative organization.

Background

This agenda item is the second reading of the Policy which was reviewed by the Committee in March 2016. The Committee adopted the Policy in March 2015. The Policy established the purpose, objectives, responsibilities and approach for the Treasury Management Program ("TMP"), which was developed to ensure member benefits and organizational obligation payments are fulfilled without interruption. The Policy indicates that the Committee will annually review and approve staff recommendations for changes to the Policy to reflect the changing nature of CalPERS' assets and investment programs, benefit and structural changes and economic conditions.

There have been changes to liquidity operations since the Policy's inception. In June 2015, the Investment Committee approved changing the strategic asset allocation target from 2% to 1% (+/- 3%) for the Liquidity Program. Also, in February 2016, the Investment Office/Asset Allocation presented Operating Guidelines for Implementing Borrowed Liquidity to the Investment Committee. These changes in strategic target asset allocation for liquidity and potential source of borrowed liquidity to meet funding needs impact the Policy.

Analysis

The Policy reflects changes since the first reading that include the use of borrowed liquidity as a funding source and an updated definition for a “stressed event,” which is a broad disruption to the marketplace that could have unfavorable effects on the funds’ ability to meet liquidity needs. In addition, the Enterprise Treasury Team (ETT) will act as an oversight mechanism that will notify the Committee if the use of borrowed liquidity exceeds the 90 day timeframe mentioned in the Operating Guidelines for Implementing Borrowed Liquidity. The Investment Committee is currently provided with a Performance and Risk report by Investment Staff which includes borrowed liquidity usage.

Budget and Fiscal Impacts

Not applicable

Benefits and Risks

The Policy provides guidelines to ensure that the treasury management practices of the enterprise recognize the fiduciary duty owed to members as stated in the CalPERS’ Pension Beliefs. The Enterprise Treasury Management Program is important to identify and mitigate risks early, avoiding future liquidity problems, strengthen internal controls and facilitate better decision-making. The Policy sets forth the responsibilities, structure, and approach to ensure the payment of member benefits and organizational obligations are provided without interruption. The Policy provides an integrated oversight structure in maintaining appropriate liquidity coverage, reserve levels for programs and the enterprise, and manage enterprise liquidity risk.

Attachments

Attachment 1 – Statement of Financial Policy for Treasury Management- Redline version*

Attachment 2 – Statement of Financial Policy for Treasury Management- Clean version

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Controller
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*Treasury Management Policy Review (First Reading) from March 15, 2016 Finance & Administration Meeting