

New York Power Authority

Subject: Counterparty Credit Risk Management

Procedure No.: 8

Ver. 1.1

Effective Date: 2/14/2006

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1.0 Overview

This procedure is implemented by the Energy Risk Management Committee (ERMC) pursuant to the adoption by the Trustees of the Governing Policies for Energy Risk Management by Trustee resolution dated October 29, 2002, wherein such policy establishes the creation of the ERMC and directs the ERMC to establish procedures for the administration of the energy risk management program of the Authority. The risk management philosophy is based upon the premise that the personnel executing transactions understand the risks inherent in NYPA's business activities.

2.0 Objective

The primary purpose of this procedure is to establish and communicate policy guidelines and control parameters governing the activities of both Energy Resource Management (ERM) and Marketing Economic Development and Supply Planning (MED) giving rise to commodity and/or credit risk. These guidelines are comprehensive for both ERM and MED's activities and address the credit exposures that NYPA may encounter. The area of credit management is evolutionary in nature and this procedure is subject to ongoing review and revision.

Credit risk management has become a major priority due to the changes in the North American power and natural gas markets. With deregulation, NYPA has entered into, for example, hedge transactions such as buying natural gas for future delivery at a fixed price which introduces NYPA to risks that the counterparty may not meet its obligation. NYPA has taken the responsibility of mitigating counterparty credit risks by setting specific credit management controls for all such forward purchases, while assuring a sufficient number of suppliers to meet its competitive requirements.

NYPA will conduct risk management activities in a manner that supports NYPA's mission. This procedure will establish guidelines and requirements that will:

1. Be used by Energy Risk Assessment and Control (ERAC) and other NYPA business units in considering whether to enter energy related hedging transactions with a counterparty company.
2. Establish how credit is established for a specific counterparty.

3. Establish the methodology by which NYPA monitors credit exposure to a counterparty company.

2.1 Overview of Credit Management Philosophy

2.1.1 The Authority has established credit risk requirements for dealing with counterparties as part of its credit risk management infrastructure. This procedure:

- 2.1.1.a** Outlines the Authority's credit risk management principles;
- 2.1.1.b** Describes the Authority's counterparty approval process and the process by which limits are proposed, reviewed and approved;
- 2.1.1.c** Documents the policy for managing limit excesses;
- 2.1.1.d** Describes the processes for credit analysis including ongoing risk assessment and credit rating;
- 2.1.1.e** Documents credit limit monitoring and reporting procedures;
- 2.1.1.f** Documents ongoing maintenance policies.

2.1.2 The following principles outline the Authority's credit risk management views and provide the framework within which the credit risk management infrastructure has been developed:

- 2.1.2.a** The ERM and the VP-CRO establishes the Authority's risk appetite and approves policies to ensure that the Authority's business objectives are met within a sound risk management framework;
- 2.1.2.b** Risk management practices meet uniform standards and comply with appropriate requirements for both ERM and MED's business activities that expose the Authority to credit risk;
- 2.1.2.c** Roles and responsibilities are clearly defined to establish segregation of duties and accountability;
- 2.1.2.d** Credit risk exposures are measured, monitored and communicated on a regular basis;

3.0 Requirements

3.1 Contracts

NYPA will have suitable master agreements in place, to the extent necessary, with a counterparty before entering into any transactions. These master agreements, and associated schedules and confirmation form (collectively, the "Master Agreements"), shall be subject to the approval of General Counsel and the VP-CRO, or their respective designees.

3.1.1 Netting and set-off

In addition to normal, routine and customary contract provisions the Master Agreements that NYPA executes strive to contain netting, set-off and regulatory out provisions governing all financial transactions.

3.1.2 Types of contracts

There are a number of different standard contracts (Master Agreements) that NYPA is authorized to use as detailed below. No additional energy commodity or derivative contracts shall be entered into without prior authorization by the VP-CRO. This requirement specifically precludes entering into transactions based on the older enabling contracts previously used between NYPA and various counterparty companies.

3.1.2.a Derivatives transactions:

International Swap Derivatives Association Inc. Master Agreement (ISDA)

3.1.2.b Physical commodity transactions:

Edison Electric Institution – Master Purchase & Sale Agreement (EEI)

North American Energy Standards Board – Base contract for sale and purchase of natural gas (NAESB).

3.1.3 Credit support documents (Credit Support Annex)

The Authority shall not enter into any contract credit support documents such as Credit Support Annex (CSA) to the ISDA, or any other contract that would impact the priority of NYPA debt repayment, without prior approval from the General Counsel, VP-CRO, and CFO. It is the intent that NYPA not enter into contracts requiring NYPA to post collateral or letters of credit. Prior approval shall be received from the General Counsel, VP-CRO, and CFO before entering into contracts that could require NYPA to post collateral or a letter of credit.

3.2 Establishing credit limits

The topic area covered in this section is used as a guide to establish credit limits for counterparties.

3.2.1 If available, the counterparty's credit rating from nationally recognized rating agencies such as Standard & Poors, Moody's or Fitch will be obtained.

3.2.2 Credit scoring

When a credit rating for counterparty from a nationally recognized rating agency is available, an initial credit limit may be established for that counterparty based upon the following guidelines.

<u>S&P/ Fitch</u> <u>Credit</u> <u>Rating</u>	<u>Moody's</u> <u>Credit</u> <u>Rating</u>	<u>Credit Limit</u>
AAA	Aaa	\$30,000,000
AAA-	Aaa	\$30,000,000
AA+	Aa1	\$25,000,000
AA	Aa2	\$25,000,000
AA-	Aa3	\$20,000,000
A+	A1	\$15,000,000
A	A2	\$15,000,000
A-	A3	\$10,000,000
BBB+	Baa1	\$8,000,000
BBB	Baa2	\$6,000,000
BBB-	Baa3	\$3,000,000
Below BBB-	Below Baa3	Credit enhancements could be required

3.2.3 The initial credit limit may be reduced or increased based on the analysis of the counterparty creditworthiness, such as by using the RMG Credit Scoring Model, to establish the counterparty company credit line, or at the discretion of the VP-CRO.

3.2.4 When a credit rating is not available from a nationally recognized credit rating agency , at least one of the following applies:

- 3.2.4.a** Obtain a private rating from a nationally recognized rating agency;
- 3.2.4.b** Determine the credit limit using the RMG Credit Scoring Model.
- 3.2.4.c** Require that the counterparty obtain an irrevocable letter of credit in a form satisfactory to NYPA in favor of NYPA from a Bank that meets NYPA's credit requirements. The term of the letter of credit must exceed the term of the transaction, or shall be tracked to ensure that a replacement letter of credit is obtained prior to expiration;

- 3.2.4.d** Require that the counterparty provide a parent guarantee in a form satisfactory to NYPA if it has a parent company that meets NYPA's credit requirements. The term of the guarantee must exceed the term of the transaction, or shall be tracked to ensure that a replacement guarantee is obtained prior to expiration;
- 3.2.4.e** Require that the counterparty post cash or other forms of collateral in the amount equal to the expected credit exposure or as determined acceptable by the VP-CRO;
- 3.2.4.f** A waiver can be provided for counterparties with no credit ratings or if the counterparty is rated less than investment grade:

Total Value of Deal	Authorized Person
Less than \$2 million	Credit Analyst
Less than \$5 million	Manager – Risk Reporting
Less than \$20 million	VP-CRO, CFO or CEO
Less than \$50 million	CEO
Greater than \$50 million	Trustees

3.3 Monitoring

The success of managing counterparty risk requires limiting NYPA's exposure to a specific counterparty. NYPA reduces counterparty credit risk by limiting the available credit to a counterparty based on the counterparty's credit exposure.

3.3.1 Counterparty credit exposure

ERAC will monitor counterparty credit exposure at a confidence level established by the VP-CRO. The exposure to a particular counterparty may be calculated as the difference between the contract price and the forecasted forward market price multiplied by the volume for all periods within the respective term. Other methods for calculating exposure may be used subject to the approval of the VP-CRO.

3.3.2 Available credit

This counterparty credit exposure is used to reduce the credit limit for the counterparty to determine the available counterparty credit.

3.3.3 Transaction nominal value

The nominal value of a new transaction is determined as the product of the contract price and volume within each of the respective periods of the transaction. Additional credit review of a transaction is not required if the nominal value of the transaction is less than the available credit for the counterparty company. For transactions whose nominal value exceeds the available credit of the counterparty company, specific pre-approvals must

be obtained from the VP-CRO or his designee, as detailed within this procedure.

3.3.4 The exposure represented by the transaction will be a factor for the pre-approval of the new transaction whose nominal value exceeds the counterparty available credit.

3.3.5 Credit will monitor relevant news of all its counterparties

3.3.6 Credit will monitor fixed income and equity analyst reports and monitor industry specific publications such as Megawatt Daily and Gas Daily. As well as online news sources to obtain current information on counterparty financial status.

3.3.7 Credit will also monitor bond spreads and/or credit default spreads for counterparties, as available. If a counterparty's bond spread or default swap rate changes significantly in a short period of time, it may trigger a closer look at the counterparty to determine whether changes to the counterparty credit limit is appropriate.

3.3.8 As relevant new information, financial or otherwise, becomes available that may adversely affect the counterparty's creditworthiness, the Credit Analyst will, as appropriate, reduce the available credit or suspend transactions with that counterparty. .

3.4 Exceptions

On case by case bases, an exception can be made to any or all of the requirements of this procedure with the approval of the VP-CRO, the VP-CFO or the President-CEO. All exceptions to this policy will be documented within the credit files.

4.0 Accountabilities

4.1 The CFO is responsible for approval of all contracts that impact the priority of NYPA's debt repayment, including credit support annexes.

4.2 The VP-CRO is responsible for overseeing all credit risks associated with physical and derivative energy commodity forward market transactions for electrical capacity, electrical energy, and other energy commodities and/or locational basis for same. The primary responsibility is to identify, monitor and report risk exposures and ensure that the Energy Risk Management Committee is kept informed regarding these exposures. The VP-CRO's responsibilities with regard to credit include:

4.2.1 Reviewing and approving counterparties;

4.2.2 Ensuring adherence to established credit risk tolerances and policies;

- 4.2.3** Providing recommendations and support in the formulation and implementation of credit risk management policies;
- 4.2.4** Ensuring that the establishment of credit limits is within approved credit parameters;
- 4.2.5** Monitoring, measuring, and reporting counterparty company credit risk focusing on compliance with policies, limit utilization and the timely identification and resolution of adverse credit events/exposures to avoid/mitigate credit losses;
- 4.2.6** Coordinating collateral flows, if necessary, in collaboration with the CFO;
- 4.2.7** Ensuring that credit exposure measurement is appropriate for each type of contract being entered into (i.e. firm, system, etc.);
- 4.2.8** Ensuring that counterparty credit limits are actively adjusted for the possible changing of counterparty credit worthiness; and reviewed at least yearly or more frequently if appropriate.
- 4.2.9** Developing and promoting effective communication within the organization to facilitate the credit approval process, monitor credit risks and manage policy related matters;
- 4.2.10** Periodically (at least annually) reviewing the Authority's credit policies and recommending necessary adjustments and revisions to the ERMC to ensure that sound credit policies and procedures are in existence and are being applied;
- 4.2.11** Ensuring that credit documentation and files are current, complete and properly maintained;
- 4.2.12** Overseeing credit risk management and administration personnel including proper staffing, training and development, and;
- 4.2.13** Actively monitoring industry and market events;
- 4.2.14** Providing direct support to ERM and MED in matters related to credit policy.

4.3 The Senior Vice President-Marketing & Economic Development and Supply Planning (MED) and The Vice President-Energy Resource Management and Fuel Operations are responsible for ensuring the compliance of their personnel with the requirements of this procedure. Specific responsibilities include:

- 4.3.1** Identifying and managing risks inherent in ERM and MED's business activities;
- 4.3.2** Operating within approved risk limits and transacting with approved counterparties;

- 4.3.3 Ensuring that each counterparty has been approved in accordance with defined policies;
- 4.3.4 Implementing specified courses of action when risk positions are approaching or have exceeded limits;
- 4.3.5 Overseeing individual staff members so that risk limits are not violated;
- 4.3.6 Proposing new counterparties, and initiating requests for credit limits.

4.4 Energy Risk Management Committee (ERMC)

4.4.1 The ERMC is responsible to adequately control the Authority's risks pursuant to the adoption by the Trustees of the Governing Policies for Energy Risk Management by Trustee resolution dated October 29, 2002. ERMC fulfills its responsibilities through direct oversight and delegation to members of the Authority's management and/or appropriate committees. With respect to risk management, the primary responsibility includes:

- 4.4.1.a Understanding the overall risks incurred by the Authority and overseeing risk management practices to ensure that the Authority's practices are consistent with policy and strategy;
- 4.4.1.b Establishing an appropriate infrastructure for risk management and approving risk policies;
- 4.4.1.c Engaging management in discussions regarding events or developments that could expose the Authority to potential losses.
- 4.4.1.d Assuming responsibility for ensuring the existence of an adequate credit risk management infrastructure to support, measure, monitor and manage credit exposures.

4.5 ERM and MED staff

4.5.1 The Power and Fuel Traders have first contact with the potential counterparties and accordingly provide the first line of defense against non-creditworthy counterparties for the Authority. Their responsibility with regard to credit include but are not necessarily limited to:

- 4.5.1.a Identify and manage risks in both MED and ERM's activities;
- 4.5.1.b Obtaining information regarding the counterparty's business reputation and integrity;
- 4.5.1.c Working jointly with ERAC staff to request collateral, letters of credit or a parental guarantee based upon recommendation of the CRO or his designee if the counterparties financial stability

is questionable or considered too weak to support an open credit limit;

- 4.5.1.d** Ensuring that new transaction risk exposures remain within established limits and reporting potential limit violations to the VP-CRO, or his designee, in a timely manner;
- 4.5.1.e** Taking action proactively to reduce risk exposures as limits are being approached or in anticipation of planned transactions that would increase risk exposures beyond established risk tolerances, or as requested by the VP-CRO, and;
- 4.5.1.f** Understanding the credit risks associated with transactions undertaken.

4.6 Credit Analyst

4.6.1 The Credit Analyst is independent of ERM, MED and other business units within NYPA that may engage in hedging transactions, and serves as the central custodian of counterparty information, performing the account establishment and maintenance functions, maintaining credit files, and receiving, recording and maintaining approved line authorizations. The Analyst's responsibilities include:

- 4.6.1.a** Performing credit analysis;
- 4.6.1.b** Determining a credit limit in accordance with defined practices;
- 4.6.1.c** Ensuring documentation (i.e. Netting agreements, collateral, guarantees) are signed and maintained;
- 4.6.1.d** Reporting the outstanding credit exposure v. predefined limit on at least a monthly basis;
- 4.6.1.e** Periodically reviewing limit utilizations to adjust limits to better reflect business activities;
- 4.6.1.f** Actively monitoring industry and market trends, and;
- 4.6.1.g** Actively monitoring credit quality of counterparties through ongoing communication of credit quality with internal and external experts.
- 4.6.1.h** Maintain a database that summarizes the credit provisions of its contracts.
- 4.6.1.i** Credit must accept new counterparties and establish a credit limit prior to any transactions.

4.6.1.j Credit should determine what credit provisions are needed in the contract, and front office should not execute any new agreements without Credit's acceptance of the counterparty.

4.6.1.k Credit should maintain a credit file for each counterparty.

4.7 Senior Vice President – CFO is responsible for ensuring the compliance of ERM and MED personnel with select requirements of this procedure. Specific responsibilities include:

4.7.1 Accounting for collateral flows if any or as necessary;

4.7.2 Providing information to the Treasury Department, as required, and;

4.7.3 Notifying ERM, MED and ERAC of counterparty non-payments when due;

4.7.4 Ensuring deal confirms are signed and maintained

4.8 Executive Vice President– Secretary & General Counsel (Legal Department) is responsible for, among other items, ensuring the compliance of NYPA personnel with the requirements of this procedure. Specific responsibilities include but are not limited to:

4.8.1 Reviewing counterparty guarantees to ensure that they protect the Authority as intended, and;

4.8.2 Developing a guarantee document for use by counterparties which protects the Authority;

4.8.3 Reviewing all contracts to insure that the Authority is protected from potential credit exposure.

5.0 Definitions

Amounts Due - There are several components to amounts due. First, all payments due from the counterparty as a result of the Authority providing the energy commodity as specified in a given contract. These amounts are generated in the billing process normally in the form of account receivables. Another component to Amounts Due relates to advanced payments made by the Authority to a supplier or counterparty for future delivery of electricity or the right to future delivery as per an option contract.

Collateral - Collateral may be provided by the counterparty in order to increase its limit determined by the credit table. Collateral may be in the form of a cash

prepayment or US treasuries and applies only if the Authority maintains control/possession, etc. such that no other party has legal claim to it. Other, unapproved forms of collateral may be considered on a case-by-case basis and must be approved by either the CFO or VP-CRO. Collateral may also be used with approval from the VP-CRO when the power traders wish to enter into transactions with unapproved counterparties.

Credit Risk - The risk of economic loss from the failure of counterparty to perform physically or financially according to the terms and conditions of a contract or agreement. Credit risk exists in all activities that depend on the performance of issuers, customers or counterparties, and in virtually all capital markets and trading activities.

Default / Counterparty Credit Risk - Default or counterparty credit risk is the risk that the counterparty to a transaction or contract defaults or fails to perform according to the terms and conditions of the underlying agreement. Counterparty risk arises from the failure of a counterparty to perform on a contract or agreement prior to settlement of the transaction. The risk of loss would primarily occur in the event that the counterparty declared bankruptcy or otherwise defaulted while positions with the counterparty were unsettled and the value of unsettled positions had moved adversely such that the replacement cost for the trade would create a loss. Failure to complete the trade at the agreed contractual price generally results in the need to find another market participant with which to replace the original transaction. Credit risk is greater in over-the-counter bilateral contracts than in exchange-traded instruments for which a suitable clearinghouse mechanism exists. Many techniques can be used to limit credit risk in OTC and bilateral contracts, including: requiring collateral upon changes in the value of the counterparty's position; netting provisions in contractual agreements; monitoring limits on the total exposure to individual or related counterparties; and using contract documents that terminate future obligations to deliver or perform in the event of default by the counterparty.

Forward Exposure - This exposure results from forward transactions that are executed for delivery of fuel/power/capacity at a future date. Accordingly, no current receivable exists, but credit exposure exists for the future notional amount that is expected to settle.

Section 1.01 **Guarantees** - Qualifying guarantees may state the counterparty's Maximum Credit. The guarantee should clearly state the full names of the guarantor, obligor (customer) and beneficiary. It should contain adequate documentation regarding the officer's signature authority and should have a term at least six months beyond the last possible billing date of the transaction. The CRO, CFO, and General Counsel will determine the adequacy of the guarantee. The guarantor will most often be, though is not required to be a direct or indirect parent company of the obligor. The guarantor will be subject to the same credit terms and conditions as any direct obligation.

Letters of Credit - Qualifying letters of credit may state the counterparty's Maximum Credit. It should clearly state the counterparty and beneficiary, dollar amount available for drawings, details of the statement required on the drawing certificate and other terms and conditions that may apply. It should contain adequate documentation regarding the bank officer's signature authority. The letter of credit should also specify that funds will be disbursed in accordance with the instructions within one (1) business day after due presentation of the drawing certificate. The bank issuing the letter of credit shall have (i) a long-term debt rating from either S&P or Fitch's of at least "A-" or equivalent, and (ii) a short-term or commercial paper rating of at least "A" or equivalent from at least two of the following rating agencies: S&P, Moody's, Fitch. The term of the letter of credit should extend beyond the last possible billing date of the transaction. Exceptions to these criteria can be granted by the VP-CRO or CFO.

Mark-to-Market - This term accounts for the market value and their possibility the current replacement cost of the transaction and may vary each day according to changing market price quotations.

Netting Agreements - When multiple transactions are entered into with the same counterparty, some contracts have positive exposure while others have negative exposure. When evaluated in aggregate, the net exposure of all transactions may be significantly less than the sum of individual positive exposures. This type of arrangement must be documented in a legal provision for netting. The Authority will use netting with all counterparties whose structure will allow them to do so.

Nominal Value – For the purpose of this procedure, the transactional nominal value is calculated as the fixed price times the quantity.

Potential Exposure - Accounts for the possible increases in the replacement cost of the transaction during its remaining term determined at a confidence level established by the CRO (usually the 80th percentile).

Regulatory out – A way to get of a contract if:

1. Regulatory changes adversely effects the Authority or the Authority's performance under the contractor;
2. Changes the obligation and duties in a manner unacceptable to the Authority;
3. Contract provisions are rendered unenforceable or invalid due to actions by a regulator or other legal authority of competent jurisdiction

Set-Off – An agreement in which long and short positions are allowed to offset each other (i.e., "net-out") in the event of either counterparty defaulting.

Settlement Risk - The risk of loss in buy/sell transactions that arises if the exchange or delivery of energy versus cash is not simultaneous. In such circumstances the entire principal amount is at risk if the Authority fulfills its side of the transaction without receiving value from the counterparty. When delivery is not DvP (delivery versus payment), the delivery exposure is measured

by the trade contract value. The exposure calculation is computed at trade date for each transaction and aggregated with those of any other similar trades settling with the counterparty on the same day for usage against the counterparty daily settlement limit, if defined.

Traders – Person authorized to enter energy based commodity transactions on behalf of the New York Power Authority.

6.0 References

- ISDA International Swap Derivatives Association Inc.
<http://www.isda.org>
- EEI Edison Electric Institution
<http://www.eei.org>
- NAESB North American Energy Standards Board
<http://www.naesb.org>

7.0 Appendix

7.1 **Limit Utilization and Monitoring** - This section outlines the limit utilization methodology and the monitoring policies in place for ongoing credit risk management.

7.1.1 Limit Utilization

7.1.1.a If a transaction is out of the money (i.e. has a negative fair value from NYPA's perspective) and the counterparty defaults, there is no credit exposure as there is no positive value to the contract. This illustrates the inverse relationship between market and credit risk.

7.1.1.b The default of a counterparty or correspondent would deprive the Authority of any future flow of funds, the value of which is called the "replacement value." The replacement value corresponds to the amount of money to be paid (or received) under the market conditions prevailing at the time of the default to enter into a new transaction with the same characteristics. Consequently, this contingent credit risk can be measured by the replacement value of the transaction.

7.1.1.c Accounts receivable balances are static over time, consequently the credit exposure is easily determined. However, credit exposure varies with the market price of the commodity for market contracts. The methodology for calculating a contract's credit risk exposure is based on the current mark to market value of the contract and the distribution of future potential values over the contract's life. The higher the volatility of the underlying market price, the higher the potential credit risk exposure.

7.1.1.d A counterparty's **Utilized Credit** is defined to be the sum of:

- The contract value of power or fuel delivered and not yet paid for (Accounts Receivable and Unbilled);
- The potential exposure of the transactions measured at some confidence level established by the CEO (usually the 80th percentile);
- The expected exposure resulting from forward contracts (Accounts Receivable and Unbilled);
- Less the amount of any collateral.

7.1.2 **Limit Monitoring (To be done based upon monthly sales limit)** - The outstanding exposure for each counterparty for energy commodity based transactions is independently verified by the credit analyst against a defined limit on a monthly basis. In addition, daily verification of limit availability is performed by traders to prevent them from entering transactions with counterparties with exposures close to established limits. Results from limit monitoring are reported at least monthly to relevant senior management.

7.1.3 Limit Excess Policies

- 7.1.3.a** The ERAC Department is responsible for monitoring compliance with limits on a monthly basis and for communicating limit violations to the VP-CRO and the Vice President- Energy Resource Management and Fuels Operations.
- 7.1.3.b** If power traders wish to enter a transaction presenting counterparty credit risk, with an unapproved counterparty, collateral or prepayment should be established. However, the VP-CRO may authorize the transaction on a one-off basis.
- 7.1.3.c** Limits should not be exceeded. However, in cases where limits are exceeded, the VP-CRO must be notified immediately. Positions are not necessarily liquidated. However, additional transactions with the counterparty are not permitted. An upfront payment may be requested, to reduce the outstanding exposure.

7.1.4 Expected Loss

- 7.1.4.a** Full quantification of credit risk considers the probability of default and any ultimate expected recovery amounts. The probability of default varies with the credit quality of the counterparty and increases over time. Historical bond data regarding actual defaults for rated companies are often utilized to estimate the probability of counterparty default. Expected recovery in the event of default varies with the secured/unsecured nature of the exposure. Given the infancy of the market, lack of data and potential effort required in determining the likelihood of recovery for proxy organizations, many organizations assume no recoveries – NYPA would assume none.
- 7.1.4.b** The probability of default and the likelihood of recovery will be addressed during the development of aggregate credit risk measurement and may be utilized to establish appropriate reserves and ultimately in transaction pricing decisions.

7.2 Credit Administration

- 7.2.1** Credit administration involves ensuring that appropriate documentation supports all transactions.
- 7.2.2** The Enabling Agreement is an internally developed contract executed with all counterparties. Some agreements have indefinite terms while others must be renewed annually. The continuous use of enabling agreements is not authorized unless an exception is granted by the VP-CRO. All enabling agreements will eventually be superseded with standardized contracts approved by NYPA legal staff.
- 7.2.3** All guarantees provided by counterparties to increase their level of activity with the Authority are reviewed by the legal department and maintained by the Treasury Department. The Authority has developed a standard guarantee agreement that it provides to counterparties for use. In cases where the counterparty provides their own agreement, the Authority's legal department approves it for acceptance. Counterparties with signed Enabling Agreements but no established credit limit may transact with the Authority if they provide upfront prepayment/collateral. The Treasury

Department must monitor the value of collateral v. transaction value. The lists of acceptable forms of collateral are maintained by the Treasury Department.

7.2.4 Credit Files - A credit file will be maintained for each counterparty. The file should contain:

7.2.4.a Proposals for Credit Approval;

7.2.4.b Back-up information (e.g., financial statements, projections, analysis reports, etc.);

7.2.4.c Any client correspondence related to credit issues, and;

7.2.4.d Records of approvals (copy of Committee meeting minutes).

7.2.5 Annual Reviews/Ongoing Maintenance

7.2.5.a A credit review of each entity, at least on an annual basis, and based upon reviews of reports by the large credit rating agencies, limits will be submitted to the VP-CRO for approval. All limits will be submitted at least annually to the VP-CRO for formal review and approval. Credit limits for entities whose credit quality has changed (either deteriorated or improved) should be reevaluated as required.

7.2.5.b The ERAC & Treasury department monitors the credit quality of counterparties by ensuring that any credit downgrades or upgrades or events which impact the credit standing of an entity have been appropriately considered. S&P will review public disclosures of operating numbers and performance results for approved entities when available and notify the Authority of any significant changes in credit worthiness based upon the public disclosure documents.

7.2.5.c Based on this information, the ERAC Department conducts an analysis of the impact of any changes in the entity's credit quality on the solvency of the Authority. The ERAC Department will also review the position and aging of individual issues to ensure compliance with original approval and to assess issuer risk.

7.2.5.d Personnel entering transactions, are responsible for informal monitoring and communicating to the ERAC department of any market information related to potential deterioration in credit quality of any currently approved counterparty.

7.2.5.e At any time, the ERAC has the authority to temporarily freeze limits and stop increases in exposure.

7.2.6 Monitoring of Credit Risk Limits

7.2.6.a The ERAC Department monitors compliance with approved credit limits on a monthly basis.

- 7.2.6.b** The ERAC Department reviews limit utilization and analyze all limit exceptions to determine the reasons for the overage, and determine if management action is needed.
- 7.2.6.c** ERM and MED personnel are responsible for monitoring credit availability and ensuring that an entity outstanding credit exposure is within approved limits prior to executing a transaction or additional transactions.

7.2.7 Management Reports

- 7.2.7.a** The Authority utilizes exception reporting to monitor and control credit risk exposure. The objective of these reports is to provide management with timely, accurate, and complete information on the firm's credit risk exposure as a result of MED and ERM's business activity and on the credit quality of the counterparties.
- 7.2.7.b** The Position and Limit Utilization/Exceptions Report (Available Credit Report) list the outstanding positions with each counterparty, and flags any limit exceptions. Limit exceptions will continue to be flagged on this report until the overage has been corrected or limits have been adjusted. This report will include the following: the name of each approved counterparty, outstanding credit exposure, approved limits, and if applicable, any exceptions to those limits. The following information is provided on exceptions: an explanation of the reason for the overage, proposed correcting details, and an estimate of how long the exception is expected to remain outstanding. The Limit Summary Report provides this type of information on position and limit utilization/exceptions.

7.2.8 General Rules Governing the Use of this Manual

- 7.2.8.a** As additional issues arise, such as special situations or unique circumstances which require additional guidance, or if new issues or general interpretation questions arise regarding these requirements, such issues should be referred to the VP-CRO for further guidance.
- 7.2.8.b** The Executive Risk Management Committee (ERMC) and VP-CRO are responsible for approving the Credit Risk requirements for the Authority pursuant to the Trustee action of October 29, 2002.
- 7.2.8.c** The Manager- Risk Reporting and VP-CRO are responsible for maintaining the content of this procedure and recommending its approval to the Executive Risk Management Committee.

Changes to Procedure

Procedure #	Rev #	Explanation of change	Change approved by	Revised by	Effective Date of Change
Counterparty Credit Risk Management	1.1 - 1	Paragraph 3.1.1: changed the word to "strive to" from "should".	T. Warmath	M. Thomas	2/14/2006
Counterparty Credit Risk Management	1.1 - 2	Paragraph 3.3.1: added the words "at a confidence interval established by the VP-CRO".	T. Warmath	M. Thomas	2/14/2006
Counterparty Credit Risk Management	1.1 - 3	Paragraph 3.3.8: In the previous version, the Credit Analyst had to update the credit scoring parameters for the respective counterparty.	T. Warmath	M. Thomas	2/14/2006
Counterparty Credit Risk Management	1.1 - 4	Paragraph 4.2.8: Changed quarterly to yearly.	T. Warmath	M. Thomas	2/14/2006
Counterparty Credit Risk Management	1.1 - 5	Paragraph 4.7.4 Added the following: CFO will ensure that deal confirms are signed and maintained.	T. Warmath	M. Thomas	2/14/2006
Counterparty Credit Risk Management	1.1 - 6	Paragraph 7.1.1.d: Deleted: The positive mark-to-market exposure to the counterparty(net mark-to-mark, if applicable);	T. Warmath	M. Thomas	2/14/2006
Counterparty Credit Risk Management	1.1 - 7	Paragraph 7.1.1.d: Deleted: The report does not include current utilization levels of approved limits. The report does not provide who committed the limit violation.	T. Warmath	M. Thomas	2/14/2006
Counterparty Credit Risk Management	1.1 - 8	Paragraph 7.1.1.d: Deleted: The expected exposure resulting from forward contracts (Accounts Receivable and Unbilled);	T. Warmath	M. Thomas	2/14/2006
Counterparty Credit Risk Management	1.1 - 9	Paragraph 7.2.7.b: Changed report name from Opportunity Credit Risk Report to Available Credit Report.	T. Warmath	M. Thomas	2/14/2006