Gavi Alliance
Treasury Risk Management Policy
Version 1.0

DOCUMENT ADMINISTRATION

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1.0	Prepared by: Treasury Team	
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	Reviewed by: Treasury Risk Management Committee	30 September 2021
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	Approved by: Gavi Alliance Board	2 December 2021 Effective from: 2 December 2021
	Next review:	As and when required

1. Purpose

1.1. The purpose of the Treasury Risk Management Policy (the "Policy") is to define how the Treasury team manages financial risks to which the Gavi is exposed, namely, financial counterparty credit risk, sovereign counterparty credit risk and foreign exchange (FX) risks.

1.2. Financial risk management is defined as the process of identification, measurement, management and reporting of financial risks. The Policy defines the objectives, guiding statements and responsibilities with regards to counterparty credit and FX risks.

2. Objectives

2.1. The objectives of the Policy are to:

2.1.1. Provide maximum predictability of funding when Gavi engages in programmes. Gavi shall apply currency hedging to reduce its exposure to potential decreases in the value of future net cash inflows due to exchange rate fluctuations;

2.1.2. Identify, measure and manage counterparty credit risks with approved financial counterparties against approved counterparty credit limits to safeguard the value of financial assets and minimise potential losses from counterparty defaults; and

2.1.3. Minimise Gavi's risk to sovereign counterparties by implementing effective risk mitigation mechanisms, including but not limiting to financial guarantees or letter of credit.

3. Risk Assessment

3.1. **FX risk.** Gavi receives contributions and other inflows in a variety of currencies. Gavi's programme expenditures for vaccine purchases and cash grants are mainly incurred in USD. Business plan expenditures for staff costs, office facilities and other services are incurred mainly in USD and CHF. Because FX rates fluctuate, the value in a given currency of future cash flows denominated in another currency will vary over time, resulting in increases or decreases in the value of these future cash flows. These variations may be substantial, especially in periods of high FX volatility.

3.2. Permitted hedging instruments (as defined in **Section 9.1**) enable reduction of the risk of decreases in the value of future net cash inflows. This provides greater certainty of the value of future cash flows in the currency to which they will ultimately be converted.

3.3. **Financial counterparty credit risk.** This is the risk that a financial counterparty will fail to meet its obligations. It applies whenever Gavi is exposed to a default by financial counterparties. Financial transactions at Gavi include cash on bank accounts, term deposits, money market investments, financial guarantees, FX derivatives and collateral payments. The credit exposure per financial counterparty is measured by aggregating the following items:

- Cash balances on bank accounts
- Short-term investments
- Bank guarantees in favour of Gavi

- Positive mark-to-market of derivatives
- Negative mark-to-market of derivatives (if the set-off is allowed and legally enforceable)

3.4. Depending on the creditworthiness of a financial counterparty, the potential credit risk can be very substantial. Hence counterparty credit risk must be monitored continuously and include means to identify changes in the level of risk associated with a certain financial counterparty.

3.5. **Sovereign counterparty credit risk.** This is the risk that a sovereign counterparty will fail to meet its obligations. In particular, when Gavi enters into advance purchase agreements, Gavi becomes immediately liable to manufacturers. In case of sovereign default, Gavi is left with the liability and uncovered exposure.

4. Policy Statements

4.1. Gavi's exposure to FX risks shall be evaluated at least monthly by the Treasury team based on cash flow forecasts submitted by various business units.

4.2. Natural hedges resulting from the existence of inflows and outflows in the same currency that reduce net exposure shall be considered before using hedging instruments.

4.3. Currency hedges shall be put in place as quickly as practicable within one month of the exposure identification.

4.4. To allow for any uncertainty in the amounts expected from a particular transaction (or category of transactions) less than 100% of the exposure may be hedged.

4.5. FX hedging guidelines for Gavi business:

4.5.1. Inflows due under contribution agreements: Between 75% and 100% of the exposure arising in the two years following the evaluation, having regard to prior experience and where such certainty does exist in the conversion of contribution agreements to cash.

4.5.2. Inflows expected from announced pledges: Between 50% and 100% of the exposure arising in the year following the evaluation and between 50% and 100% in the following year, subject to visibility on the amount and timing of inflows and having regard to prior experience and expectations in the conversion of pledges to contribution agreements.

4.5.3. Programme expenditure (non-USD): Between 50% and 100% of the exposure arising in the two years following the evaluation, having regarding to the degree of confidence with which the cash flow amounts can be estimated.

4.5.4. PEF/Secretariat: Between 50% and 100% of the exposure from expenditure budgeted for the current calendar year, and for the next calendar year once budget estimates have been compiled for that year.

4.6. FX hedging guidelines for the COVAX Facility:

4.6.1. AMC donations anticipated in the future with a high certainty are hedged between 75% and 100% using FX forwards.

4.6.2. AMC donations received prior to the anticipated date are converted at spot.

4.6.3. If timing of AMC donations is uncertain, the Treasury team will wait for receipt of funds and convert them at spot.

4.7. If there is a change in cash flow forecasts, the Treasury team shall adjust FX hedges to stay within the pre-defined hedge ratios.

4.8. In case of a changing business environment (e.g. introduction of new programmes), the Treasury team shall evaluate financial risk mitigation strategies and recommend adjustments to the Policy accordingly. The Treasury Risk Management Committee shall recommend any changes to the Audit and Finance Committee. Risk management strategies must take into consideration the following factors:

4.8.1. Accuracy of cash flow forecasts for anticipated exposures;

4.8.2. Currency liquidity (bid-offer spread);

4.8.3. Hedging cost (cost of carry); and

4.8.4. Potential impact of a selected hedging instrument on accounting and reporting.

4.9. Entering in FX derivative contracts for speculative purposes is prohibited. Outright FX positions for speculative purposes are also prohibited.

4.10. Treasury team manages financial counterparty credit risk by doing business with financially sound counterparties as measured by external credit rating agencies (as defined in **Sections 9.3 and 9.4**).

4.11. Treasury team ensures diversification by spreading financial exposures and adhering to credit limits (as defined in **Section 9.5**).

4.12. Treasury team shall monitor creditworthiness of financial counterparties for early warning signals (credit rating downgrades, changes in credit default swap spreads).

4.13. Treasury team is responsible for monitoring credit exposures daily. The Treasury Risk Management Committee shall review all financial counterparties and their credit limits on quarterly basis.

4.14. In the event of a credit limit breach, the Treasury team shall take mitigating actions to resolve the situation. One or more of the following actions shall be considered:

4.14.1. No new transactions to be conducted with the financial counterparty;

4.14.2. Unwind existing transactions with the counterparty;

4.14.3. Request for a temporary exception from the Treasury Risk Management Committee.

4.15. Credit default swaps for risk mitigation are not allowed.

4.16. Treasury team shall monitor sovereign counterparty credit risk and provide guidance on possible risk mitigation measures for counterparties with credit ratings below Gavi's risk appetite (as defined in **Section 9.6**)

4.17. All situations and processes not explicitly covered by the Policy shall be discussed with and approved by the Treasury team prior to undertaking any actions. Any proposed exception to or deviation from this Policy shall be documented and authorised by the Gavi Board prior to implemenation.

5. Control and Reporting

Frequency	Controls and Reports
Daily	• Treasury back office validates all foreign exchange deals and monitors compliance with approved counterparties, established limits and permitted hedging instruments • Treasury back office monitors credit exposures to financial counterparties
Monthly	• Treasury back office monitors changes to credit ratings of sovereign and financial counterparties
Quarterly	• Treasury Risk Management Committee reviews all financial counterparties and corresponding credit limits

6. Primary Roles and Responsiblities

6.1. The following table summarises the primary responsibilities of different organisational units regarding the financial risk management.

Org. Unit	Responsibilities
Gavi Board	• Approve the Treasury Risk Management Policy • Authorise exceptions to the Policy
Audit and Finance Committee	• Review and monitor financial risk management execution • Review and recommend amendments to the Policy to the Gavi Board. • Approve changes to the permitted hedging instruments, minimum credit rating requirements and mandatory liquidity diversification (as detailed in Section 9 of this Policy)
Treasury Risk Management Committee	• Report on the implementation of this Policy at least once a year to the Audit and Finance Committee • Recommend amendments to this Policy to the Audit and Finance Committee • Review risk mitigation approach proposed by Treasury Front Office
Treasury Front Office	• Review and propose revisions to the Policy • Propose hedging strategies within the guidance of this Policy • Monitor and measure FX and credit exposures • Manage FX and financial counterparty credit risks
Treasury Back Office	• Validate FX transactions • Monitor and report early warning signals • Monitor adherence to the Policy

Org. Unit	Responsibilities
Finance & Operations	• Account for hedging instruments • Perform monthly mark-to-market valuations of hedging instruments

7. Related Documents

Document ID	Name
TRE.POL1	Treasury Governance Policy
TRE.POL2	Cash and Liquidity Management Policy
TRE.POL3	Cash Flow Forecasting Policy

8. Effective date and review of policy

8.1. This Policy comes into effect as of 2 December 2021.

8.2. The Audit and Finance Committee is authorised to amend the matters specified in Section 9 of this Policy and shall recommend to the Gavi Board for approval any other amendments it considers appropriate to the Policy.

9. Guidelines

9.1. The following permitted hedging instruments shall be used by the Treasury team for risk management purposes:

9.1.1. FX spot deals

9.1.2. FX forward contracts

9.1.3. FX options

9.2. FX options shall not be sold (written) unless the objective is to unwind a matching opposite position of a previously bought FX option.

9.3. Treasury team shall work with financial counterparties with a minimum long-term credit rating of A or A2 as measured by at least two major credit rating agencies (Moody's, S&P or Fitch). Maximum maturity for term deposits is six months.

9.4. For liquidity management purposes Treasury team may use money market funds with the highest credit rating of AAA or Aaa as measured by at least two major credit rating agencies (Moody's, S&P or Fitch). Funds shall have daily liquidity terms.

9.5. The maximum exposure to any single financial counterparty shall be 10% of the short-term portfolio or US$ 250 million (or equivalent in other currencies), whichever is higher. The basis for this calculation excludes the amounts held in the UNICEF procurement accounts.

9.6. If Gavi takes on any liabilities to third parties (e.g. enters into advance purchase agreements) based on future commitments to pay by sovereign counterparties, Gavi exposes itself to a default risk for a period of time. Gavi shall not provide open credit to counterparties with a credit rating below A or A2 as measured by credit rating agencies (Moody's, S&P or Fitch). Risk mitigating measures shall be put in place, including but not limiting to advance cash payments, financial guarantees or letters or credit.