

Treasury and Risk Management (TRM)

2020-21 Second Quarter Compliance Report

September 30, 2020

Compliance Overview

The Treasury and Risk Management (TRM) division, acting on behalf of the Province of Alberta, is subject to financial and operational risks related to capital market, financial derivative and debt management activities. The Debt Management Policy specifies thirteen strategies to address these risks, in addition to providing for a number of administrative debt program requirements. The following summarizes the division's record of compliance, for the latest quarter, referencing specific policy sections as applicable.

All disclosure as follows is accurate and presented as of September 30, 2020.

Liquidity Risk			
1.	A liquid cash reserve of an amount approved by Treasury Board is maintained. <i>(Strategy #1)</i>	§6.4.1	Compliant
2.	Access to short-term debt markets in Canada and the U.S. is maintained, supported by active borrowing programs. <i>(Strategy #2)</i>	§6.4.1	Compliant
3.	Cash and financing activities are managed to maintain adequate liquidity to fund a minimum of two months' forecasted net operating cash flows plus debt and debt-related payments. <i>(Strategy #3)</i>	§6.4.1	Compliant
Refinancing Risk			
4.	No more than \$15 billion (in Canadian dollar equivalent) of term debt matures in any future twelve-month period. <i>(Strategy #4)</i>	§6.4.2	Compliant

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Interest Rate Risk			
5.	Total short-term and floating rate debt directly borrowed for the Province (excluding funds raised for lending to provincial corporations) will be between 0% and 20% of adjusted government purpose debt outstanding. <i>(Strategy #5)</i>	§6.4.3	Compliant
6.	Interest rate management activities may include the sale and repurchase of provincial and Government of Canada bonds, and/or the use of approved derivative instruments. <i>(Strategy #6)</i>	◦ §6.4.3 ◦ §7.3	Compliant
Foreign Currency Risk			
7.	All debt issued in foreign currencies (excluding debt issued for lending to provincial corporations) is fully hedged to Canadian dollars, except where authorized by the Deputy Minister. <i>(Strategy #7)</i>	§6.4.4	Compliant
Operational (including Transaction and Settlement) Risk			
8.	Duties are performed by different divisional staff to ensure proper segregation of duties. <i>(Strategy #8)</i>	◦ §6.4.5 ◦ Sched A	Compliant
9.	Debt service, derivative and collateral payments are verified and processed by divisional staff who are different than those responsible for transaction execution. <i>(Strategy #9)</i>	◦ §6.4.5 ◦ Sched A	Compliant
10.	A delegation of authority, in conjunction with the Debt Management Policy, specifies which transactions each divisional staff member is authorized to make. <i>(Strategy #10)</i>	§6.4.5	Compliant

Counterparty Risk			
11.	Approved derivative counterparties have executed ISDA Master Agreements and investment grade credit quality, which meet policy-prescribed standards and thresholds. (<i>Strategy #11</i>)	<ul style="list-style-type: none"> ◦ §7.4 ◦ Sched C ◦ Sched D 	Compliant
12.	New derivative trades may be transacted with approved counterparties when existing derivative positions are within prescribed current exposure and term limits. (<i>Strategy #12</i>)	<ul style="list-style-type: none"> ◦ §7.4 ◦ Sched D 	Compliant
13.	Collateral agreements (such as credit support annexes, or CSAs) may be executed to mitigate credit risks in favor of the Province. (<i>Strategy #13</i>)	§7.4	Compliant
Debt Program Administration			
14.	Total debt issuance cannot exceed the limits established in the respective Orders in Council.	§6.1	Compliant
15.	All documentation and regulatory filings pertaining to active debt programs are current.	§6.2.2	Compliant
16.	The Province is publicly-rated by a minimum of three rating agencies to ensure debt market access.	§6.2.3	Compliant
17.	Agreements establishing appropriate authorizations as well as lending and repayment arrangements between the Province and provincial corporations must be in place prior to lending to that entity.	§6.3.3	Compliant

A. Liquidity Risk

Strategy #1:

Liquidity risk will be managed through the maintenance of a separate liquid cash reserve of an amount approved by Treasury Board.

- Treasury Board approved an adjusted \$4 billion cash reserve on November 7, 2019.
- At quarter end, the cash reserve fund had a market value of \$4.0 billion with an average time to maturity of 69 days.
- Holdings maturing in 100 days or less represented 86.8% of overall value.
- Holdings were 93.8% federal T-bills and bonds with the remainder invested in provincial T-bills and discount notes.

Strategy #2:

TRM will maintain access to short-term debt markets in Canada and the U.S. and will ensure active programs in both markets.

- During the quarter, all required disclosures and regulatory filings were current for these debt programs.
- TRM initiated short-term debt transactions in both Canadian and U.S. markets on behalf of the Province and its provincial corporations during the latest quarter.
- Short-term issuance outstanding under the Canadian Note program was \$6.4 billion at quarter end.
- The U.S. Commercial Paper program had US\$3.9 billion outstanding at quarter end.

Strategy #3:

Given the time required to secure necessary financing, TRM will prudently manage cash and financing to reduce the risk of needing to finance in unfavorable market conditions and to maintain adequate liquidity to fund a minimum of two months' forecasted net operating cash flows plus debt and debt-related payments.

- Throughout the quarter, the Province was prefunded by at least two months' worth of forecasted net operating cash flows including debt flows.
- TRM maintains and monitors daily and medium-term cash forecasts, as well as system-generated debt reporting, to ensure prudent cash and debt maturity management.
- This prefunded amount is in addition to the cash reserve fund.

B. Refinancing Risk

Strategy #4:

TRM will ensure that the Province has no more than \$15 billion in term debt maturities in any twelve-month period.

- At quarter end, there was no future annual period with more than \$15 billion of term debt maturities.

- The highest aggregate amount of term debt maturities during any future twelve-month period is \$14.0 billion. This amount is outstanding for the twelve-month period starting June 4, 2024 to the twelve-month period starting November 13, 2024.

C. Interest Rate Risk

Strategy #5:

The percentage of direct borrowing for the Province that is short-term and/or floating rate debt (based on par values) will be between 0% and 20% of government purpose debt outstanding, offset by any Province of Alberta bonds which have been repurchased by TRM, plus investments of cash balances in the General Revenue Fund and for cash reserve purposes. (This calculation excludes funds raised for the purpose of lending to provincial corporations.)

- Total short-term and floating rate direct debt for the Province was C\$7.0 billion equivalent at quarter end, based on par values.
- Adjusting this balance for the offset of Alberta bond repurchases, the General Revenue Fund's cash balance plus cash reserve holdings, the calculated net exposure for purposes of this strategy was 0%, meeting the Debt Management Policy requirement.

Strategy #6:

TRM may engage in interest rate management activities to support new debt issues, to modify interest rate exposures or to manage existing debt maturity schedules. These activities may include the sale and repurchase of Government of Canada or other liquid provincial bonds, the purchase of existing Province of Alberta bonds, or the use of financial derivatives.

- With the exception of an inaugural bond buyback which occurred in the first quarter of 2020-21 (as previously disclosed), no new active interest rate hedging was initiated.

D. Foreign Currency Risk

Strategy #7:

TRM will fully hedge to Canadian dollars all debt issued in foreign currencies unless specifically authorized by the Deputy Minister, TBF, on a case-by-case basis. This strategy does not apply to debt issued for the purpose of lending to a provincial corporation.

- At quarter end, all outstanding foreign-denominated Alberta debt issued for government purposes (excluding lending to provincial corporations, where applicable) was fully hedged back to Canadian dollars.

E. Operational (including Transaction and Settlement) Risk

Strategy #8:

To ensure proper segregation of duties, the following duties are performed by different divisional staff: cash forecasting; trade execution; confirmation/settlement of trade transactions; executing transaction documents; bank account maintenance; and financial reporting of transactions.

Duties	Position
<ul style="list-style-type: none"> • Cash forecasting 	- Cash and Forecasting Analysts
<ul style="list-style-type: none"> • Execution of transactions 	<ul style="list-style-type: none"> - Assistant Deputy Minister, TRM - Executive Director, Capital Markets - Director, Financing - Senior Manager, Trading and Derivatives - Senior Treasury Analyst - Trader, Cash and Derivatives - Trader, Money Market
<ul style="list-style-type: none"> • Signing of transaction documents 	<ul style="list-style-type: none"> - Deputy Minister, Treasury Board and Finance - Assistant Deputy Minister, TRM - Controller, Treasury Board and Finance
<ul style="list-style-type: none"> • Settlement of transactions 	<ul style="list-style-type: none"> - Assistant Deputy Minister, TRM - Executive Director, Treasury Operations - Director, Debt Operations - Treasury Analyst, Settlements - Treasury Analyst, Derivative and Collateral Management
<ul style="list-style-type: none"> • Accounting for and financial reporting of transactions 	- Treasury Accounting and Loans group

- Staff members may have the authorization to perform multiple duties. However, a segregation process is followed to ensure that each individual does not perform more than one duty per debt or derivative transaction.

Strategy #9:

To ensure accuracy of settlements, the responsibility for verifying and processing debt service, derivatives and collateral payments is assigned to individuals independent of (different from) those responsible for executing the transactions.

- Treasury staff responsible for initiating debt and derivative transactions are different from those who process scheduled interest, principal and derivative settlement payments.
- As required, other senior members of TRM, Expenditure Officers and/or Accounting Officers will countersign payment and settlement documents, according to transaction type.
- The Banking group within TRM processes all payments once duly approved.

Strategy #10:

There is a clear delegation of authority for specific staff roles. Staff members are informed and understand which powers, duties and functions they are responsible for and/or are authorized to perform.

- Ministerial Order No. 23/2017 outlines the responsibilities and limits of staff positions with delegated authority to transact and execute legal documents in accordance with the *Financial Administration Act*.
- Both the delegation of authority and the Debt Management Policy (which was re-approved by the Deputy Minister, Treasury Board and Finance, on October 8, 2019) have been communicated to all affected TRM staff members.
- Treasury staff can reference and review these at any time as they are available electronically in a shared drive location.

F. Counterparty Risk

Strategy #11:

To be an approved derivative counterparty of the Province or select provincial agencies or corporations, a counterparty must have: an ISDA Master Agreement signed with the Province in accordance with internal documentation standards, that is in good standing with no active events of default or termination; and two or more investment grade long-term senior unsecured ratings (minimum A-/ A3/A(L)) assigned by at least two public credit rating agencies.

- All derivative transactions initiated during the quarter were with counterparties which have executed ISDAs with the Province, are in good standing and meet public credit rating requirements as prescribed in the Debt Management Policy.

Strategy #12:

New derivative trades may be transacted with an approved counterparty only when the total market exposure of all existing derivative trades between the counterparty and the Province, as determined by TRM, is within the prescribed current exposure limits and term limits (based on counterparty credit rating and CSA status).

- Factoring in collateral received under existing CSA agreements, the Province's net credit exposures for all approved counterparties during the quarter were within counterparty exposure and term limits as specified in the Debt Management Policy.

Strategy #13:

Where prudent, collateral agreements (such as CSAs) may be negotiated with financial counterparties to provide additional credit mitigation by reducing the Province's exposure to a particular counterparty.

- The Province has executed nine CSA agreements with its active financial counterparties.
- Cash collateral (in Canadian dollars) is exchanged under these agreements to mitigate potential counterparty credit risks arising from changes in derivative mark-to-market valuations.

G. Debt Program Administration

Item #14:

Total debt issuance cannot exceed the limits established in the respective Orders in Council.

- During the quarter, debt issuance outstanding was within limits established by Orders in Council. Available legislative authority is validated during initial confirmation of term debt details.

Item #15:

All documentation and regulatory filings pertaining to active debt programs are current.

- During the quarter, all required disclosure reporting was completed with filing deadlines met.

Item #16:

TRM will obtain public credit ratings from a minimum of three rating agencies in support of the Province's debt programs and issuance activities.

- The Province maintains public credit ratings with S&P Global, Moody's Investors Service, Fitch Ratings Inc. and DBRS Morningstar.

Rating Agency	Latest Credit Report	Long-term Rating	Short-term Rating
S&P Global	May 28, 2020	A+ (negative)	A-1
Moody's Investors Service	October 9, 2020	Aa3 (stable)	P-1
Fitch Ratings Inc.	June 30, 2020	AA- (negative)	F1+
DBRS Morningstar	March 19, 2020	AA low (negative)	R-1 mid (stable)

Item #17:

Agreements establishing appropriate authorizations as well as lending and repayment arrangements between the Province and a provincial corporation must be in place prior to lending to that entity.

- During the quarter, all necessary agreements were in place prior to execution of any lending transactions for provincial corporation purposes.

2020-21 Second Quarter Treasury Management Update

As of: September 30, 2020

Net debt outstanding grew by \$6.6 billion during the quarter to end at just over the \$106.6 billion level, as shown in Table 1. This was due to a combination of \$7.6 billion in new term debt, \$1.6 billion in term debt maturities and a net increase in money market debt worth \$0.6 billion. The Canadian equivalent of \$2.7 billion was raised in the US dollar market and \$5.0 billion in the domestic market. All funds raised in the term debt markets were for the government's own portfolio.

The change in outstanding money market debt was the result of a \$0.9 billion increase in the Canadian market offset by a \$0.3 billion reduction in the US market. There was an increase in the money market debt held by the GoA and its Crowns.

Table 3 provides a breakdown of the type of debt held by the GoA.

Table 1: Total Debt Portfolio (\$ Millions)					
	30-Jun-20		30-Sep-20		Change
Money Market					
Domestic	5,724	51%	6,640	56%	917
Foreign	5,566	49%	5,224	44%	-342
Money Market Total	11,289	100%	11,864	100%	575
Long Term Debt					
Domestic	58,698	66%	63,648	67%	4,950
Foreign	30,050	34%	31,114	33%	1,064
Long Term Debt Total	88,749	100%	94,763	100%	6,014
Total Debt	100,038		106,626		6,588

Table 2: Total Debt Portfolio by Client (\$ Millions)					
Total Debt	30-Jun-20		30-Sep-20		Change
Direct Borrowing	75,818	76%	82,625	77%	6,807
Borrowing for Provincial Corporations	24,221	24%	24,002	23%	-219
Total Debt	100,039		106,627		6,588

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Table 3: Total Direct Borrowing by Interest Rate Type (\$ Millions)					
Quarter End	30-Jun-20		30-Sep-20		Change
Total Portfolio					
Money Market	6,242	8%	7,036	9%	793
Term Debt	69,576	92%	75,590	91%	6,014
Total Portfolio	75,818	100%	82,625	100%	6,807

Table 4: Average Term and Yield to Maturity		
Quarter End	30-Jun-20	30-Sep-20
Money Market		
Weighted Average Term to Maturity (days)	90.0	134.9
Weighted Average Yield to Maturity	0.743%	0.245%
Long Term Debt		
Weighted Average Term to Maturity (years)	12.9	12.8
Weighted Average Yield to Maturity	2.66%	2.59%
Total Debt		
Weighted Average Term to Maturity (years)	11.9	11.8
Weighted Average Yield to Maturity	2.50%	2.42%

Tables 1 and 2 account for the full debt portfolio, whereas Tables 3 and 4 relate to the GoA's position only. Figures in all tables are in par values and expressed in Canadian dollars. Due to rounding, figures contained in the tables may differ referenced in the commentary.

Maturity Profiles

Figure 1: Money Market Maturity Schedule

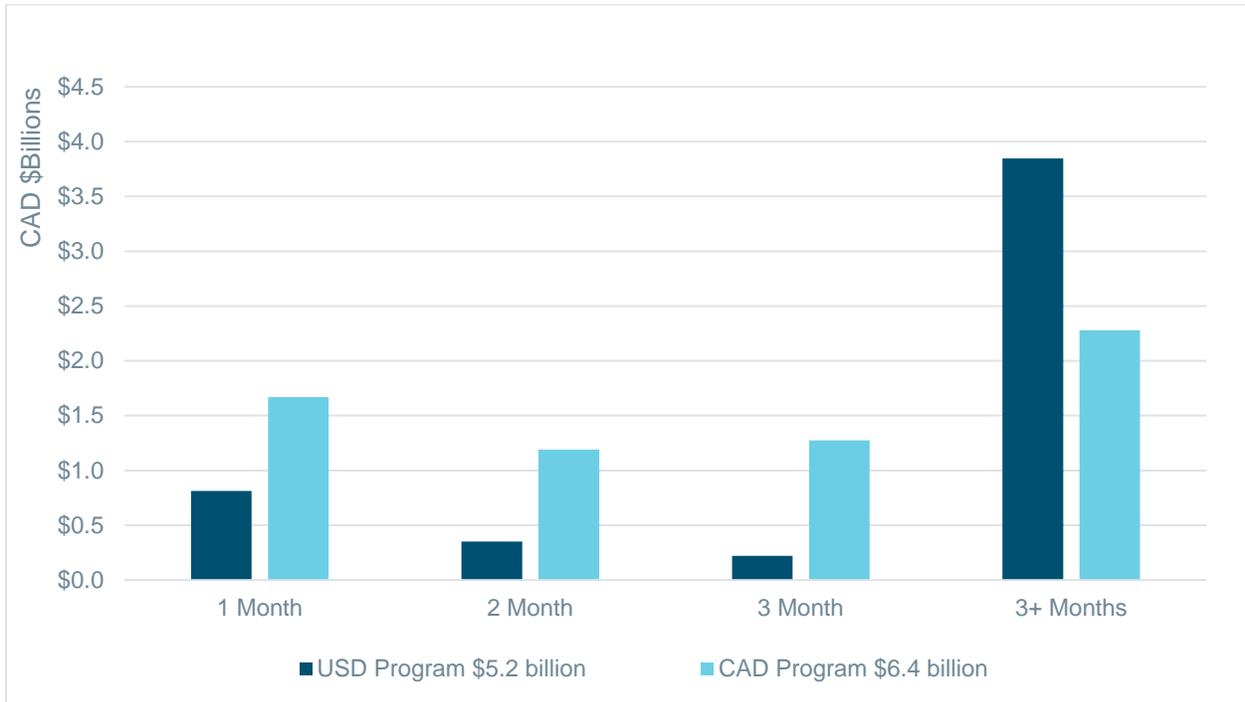
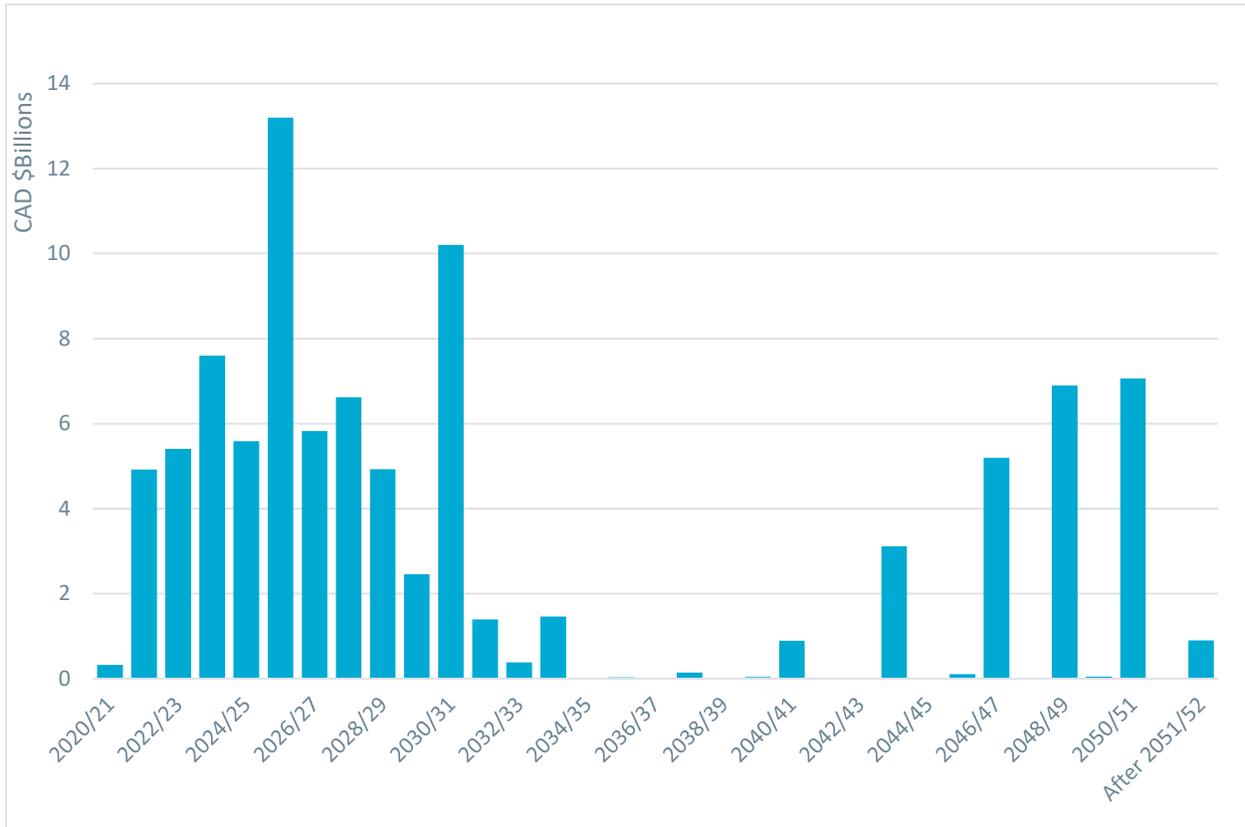


Figure 2: Long Term Debt Maturity Schedule



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Derivative Exposure

Table 5 outlines the notional and market values of the derivative portfolios related to the outstanding debt and underlying loans. Derivatives include interest rate and cross currency swaps and F/X contracts related to USCP. In accordance with debt policy, all foreign debt exposure is converted to CAD at the time of issue.

Table 5: Derivative Exposure (C\$ Millions)				
	31-Mar-20		30-Jun-20	
	Notional Exposure	Market Value	Notional Exposure	Market Value
Government of Alberta	28,926	376	21,329	87
Alberta Capital Finance Authority	29,304	(916)	29,277	(847)

Alberta Bond Yields and Spread Performance

Figure 3: Alberta's All-In Yields

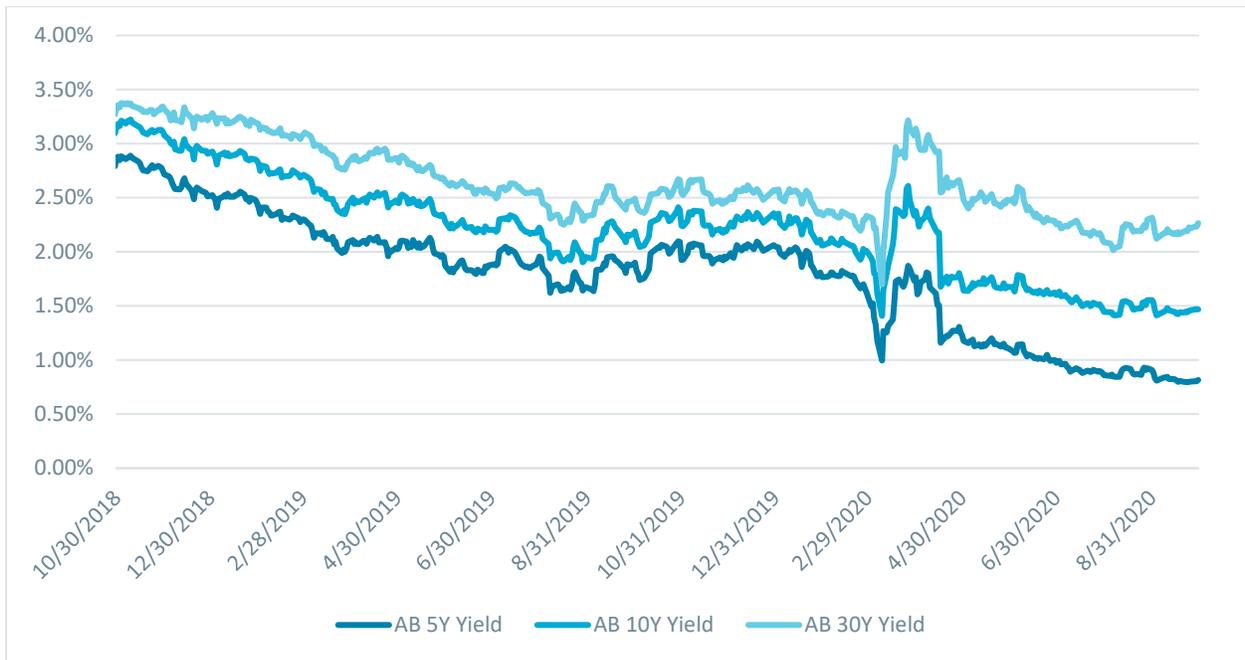
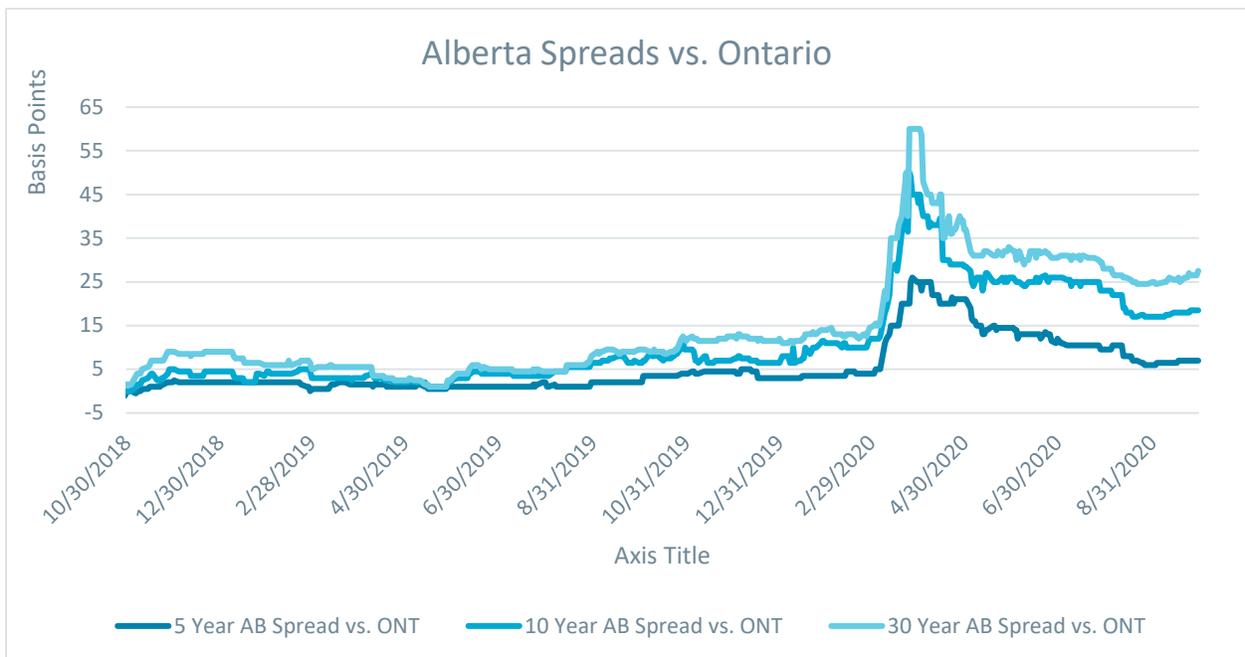


Figure 4: Alberta's Spreads vs Ontario



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Short-Term Rates

Figures 5 and 6 show the short term borrowing rates for Alberta in the Canadian and US markets over the last ten quarters.

Figure 5: CDN Commercial Paper Program – Yields

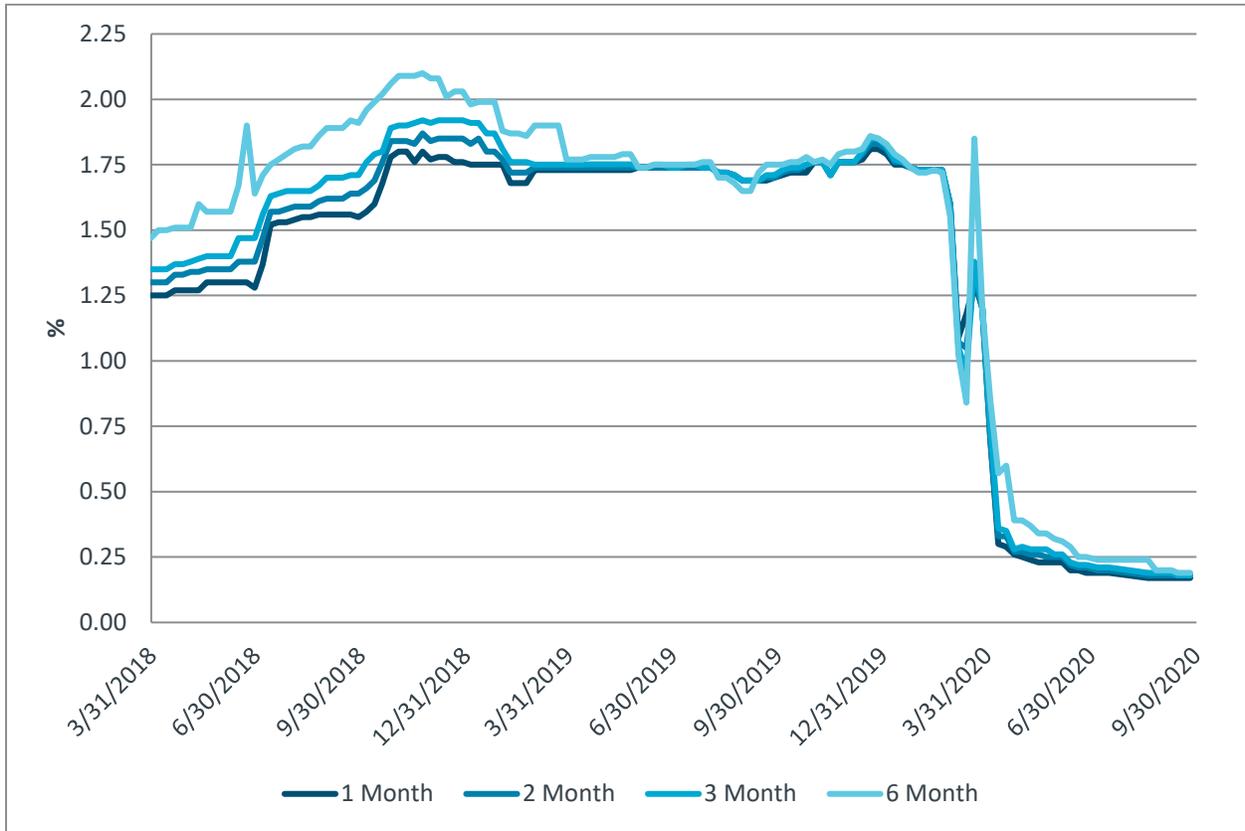
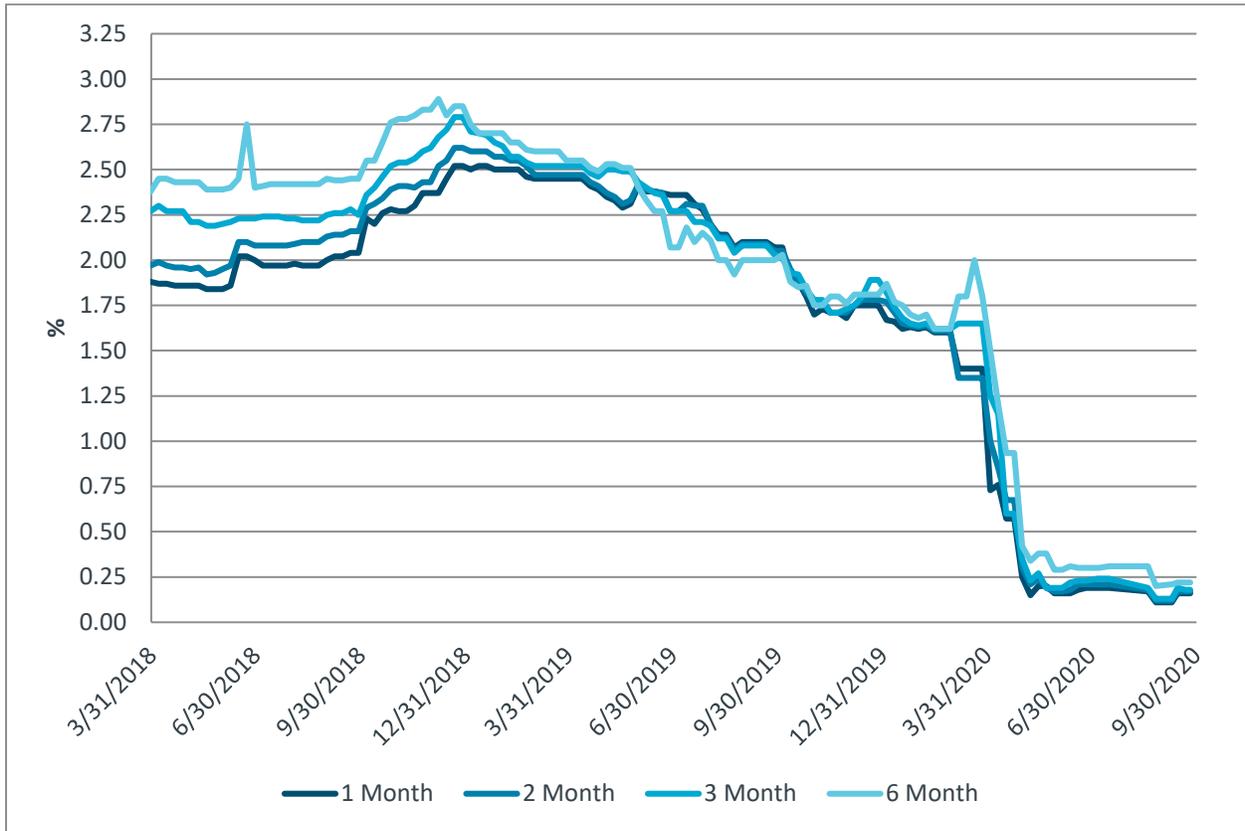


Figure 6: US Commercial Paper Program – Yields



Funding and Activity Review

Term funding during the quarter was comprised of eight separate transactions having a value of \$7.7 billion.

Table 6: Funding Review YTD (\$ Millions)

	Actual YTD Proceeds		
	Money Market	Term Debt	Total
Direct borrowing (government purposes)	-1,070	15,517	14,447
Borrowing for Provincial Corporations			
Alberta Capital Finance Authority (ACFA)	-350	1,960	1,610
ATB Financial	1,018	0	-1,018
Alberta Petroleum Marketing Commission (APMC)	852	0	852
Agriculture Financial Services Corporation (AFSC)	-75	10	125
Balancing Pool	0	0	0
Total Financing Requirements	-1,661	17,667	16,016

Table 7: Domestic vs Foreign Markets, Fiscal YTD (\$ Millions)

	CAD	% of Portfolio	% Target
Domestic subtotal	9,670	55%	60-70
Australia	78	0%	-
Europe	1,779	10%	-
Great Britain	0	0%	-
Swiss	0	0%	-
Sweden	0	0%	-
South Africa	0	0%	-
Norway	279	2%	-
United States	5,864	33%	-
Foreign subtotal	2,135	12%	30-40
Long Term Debt Total	17,670	100%	

Market Recap

Table 8: YTD Debt Issuance (\$ Millions)

<u>Issue</u>	<u>Trade Date</u>	<u>Currency</u>	<u>Par Amount</u>	<u>Value in CAD</u>
2.20% Jun 1-26 bond	02-Apr-20	CAD	200	200
3.10% Jun 1-50 bond	02-Apr-20	CAD	600	600
0.50% Apr 16-25 bond	07-Apr-20	EUR	1,100	1,672
3.10% Jun 1-50 bond	14-Apr-20	CAD	900	900
3.06% Jun 1-20 bond	15-Apr-20	CAD	300	300
0.925% May 8-45 bond	23-Apr-20	EUR	70	107
3.10% Jun 1-50 bond	30-Apr-20	CAD	500	500
1.00% May 20-25 bond	12-May-20	USD	2,250	3,154
2.40% Oct 2-30 bond	20-May-20	AUD	85	78
2.05% Jun 1-30 bond	26-May-20	CAD	600	600
NIBOR + 200.0 Dec 8-22 FRN	28-May-20	NOK	2,000	279
2.40% Jun 1-60 bond	29-May-20	CAD	200	200
3.10% Jun 1-50 bond	05-Jun-20	CAD	820	820
2.05% Jun 1-30 bond	19-Jun-20	CAD	600	600
3.10% Jun 1-50 bond	08-Jul-20	CAD	700	700
3.06% Jun 1-20 bond	09-Jul-20	CAD	100	100
2.55% Jun 1-27 bond	13-Jul-20	CAD	1,000	1,000

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Cash Reserve

The cash reserve fund was established in late 2017. The fund represents a key source of liquidity, and is maintained in addition to the pre-funding cash balance. As at September 30, 2020 the fund a market value of \$4,028 million.

Loans and Direct Debt of Provincial Corporations

Table 10: Loans and Direct Debt of Provincial Corporations (\$ Millions)					
	30-Jun-20		30-Sep-20		Change
Alberta Capital Finance Authority					
Money Market	1,450	9%	1,550	10%	100
Long Term Debt	14,340	91%	14,340	90%	0
ACFA Total	15,790	100%	15,890	100%	100
ATB Financial					
Money Market	2,187	51%	998	32%	-1,189
Long Term Debt	2,112	49%	2,112	68%	0
ATB Total	4,299	100%	3,109	100%	-1,189
Agriculture Financial Services Corporation					
Money Market	216	9%	216	9%	0
Long Term Debt	2,222	91%	2,222	91%	0
AFSC Total	2,438	100%	2,438	100%	0
Alberta Petroleum Commission					
Money Market	991	100%	1,861	100%	870
Long Term Debt	0	0%	0	0%	0
APMC Total	991	100%	1,861	100%	870
Balancing Pool					
Money Market	203	29%	203	29%	0
Long Term Debt	500	71%	500	71%	0
BP Total	703	100%	703	100%	0
Borrowing for Provincial Corps	24,221		24,002		-219

Contact Information and Useful Links

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