



Storkey & Co Limited

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What's New

The focus of this Newsletter is on "the characteristics of high performing debt management office" and case studies on sound practice public debt management.

There are two articles covering:

- managing reputational risk using the AOFM as a case study
- characteristics of a high performing DMO

These have been drawn from recent consulting assignments including the study visit to four high performing debt management offices in Australia and New Zealand.

In addition, there is reference to two case studies of government

debt management from the Swedish National Debt Office and the Portuguese Debt Office as a follow-up to the IMF/World Bank Guidelines. Eighteen member countries have agreed to prepare case studies.

These two documents are worth reading and along with the other sixteen case studies should provide a valuable and practical overview of international sound practice public debt management to complement the Guidelines.

Finally, the CS-DRMS 2000+ Regional Workshop for the Pacific is to be held in Apia, Samoa from 26 August to 12 September 2002.

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Special points of interest:

- *CS-DRMS 2000+ Regional Workshop for the Pacific will be held in Apia, Samoa from 26 August to 12 September 2002*
- *The FTA has tentatively rescheduled a second Finance & Treasury Management Conference for 26-28 May 2003.*
- *The INFIZ Annual Conference will be held in Queenstown, NZ from 22-24 August 2002.*
- *The FTA Annual Congress will be held in Melbourne, Australia from 13-15 November 2002.*

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Storkey & Co Update

Over the past three months, we have:

- continued the ADB consulting assignment for the Ministry of Finance in India (with AF Ferguson & Co)
- continued to assist AusAID with the review of the debt management project in Indonesia
- assisted the PDMO in Thailand

with a study visit to Australia and NZ and completed a post-visit review (under the SAGRIC International Thailand Australia Capacity Building Facility)

- assisted the Auckland Regional Council with a treasury systems review
- assisted the Reserve Bank of NZ on a treasury systems project



Managing Reputational Risk

Earlier this year, there was a major media focus on the Australian Office of Financial Management (AOFM), with press reports that the agency had lost billions of dollars through "speculating on international interest rates".

Since the late 1980s, the Commonwealth had been maintaining a foreign currency exposure on the debt portfolio based on a strategic benchmark target of around 10-15% of the entire debt portfolio. The position was one element

of a long-term liability management strategy, drawing on stochastic simulation techniques to derive an efficient frontier and a cost/risk trade-off consistent with long-term portfolio objectives. Cross currency swaps were used to meet the benchmark target of 10-15% for US dollars.

The losses which were primarily unrealised raised a number of issues. These were addressed in press releases and other statements from the Government and other senior officials.

The issue illustrates the importance of having systems in place for the management of all aspects of operational risk, particularly reputational risk.

It is critical that sovereign debt management offices have in place rigorous procedures and strategies that allow for the ready preparation of detailed briefing and supporting material to assist stakeholders in dealing with such issues should they occur. This should form an integral part of operational risk management.



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Case Studies from Government DMOs

The Swedish National Debt Office (SNDO) and the Portuguese Debt Office (IGCP) have recently released a country case study of government debt management as a follow-up to the IMF/World Bank Guidelines. These provide an excellent overview. The contents cover:

IGCP

- Governance and institutional framework
- Risk management framework
- Debt management strategy and government securities market

<http://www.igcp.pt>

SNDO

- Governance framework
- Debt management strategy and risk management framework
- Developing the government securities market

<http://www.rgk.se>



Follow-up to the IMF/World Bank Guidelines

The IMF and World Bank are currently preparing an accompanying document to the Guidelines that would contain sample case studies of countries that have developed strong systems of public debt management.

Eighteen members have agreed to prepare case studies. A first draft of the accompanying document is ex-

pected shortly.

The IMF and World Bank are to carry out follow up work on the Guidelines to disseminate and raise awareness of sound practices, and to show how the guidelines can be applied to countries with different macroeconomic conditions and stages of development.

A three year project for Coun-

try Assessments on Public Debt Management and Domestic Debt Market Development was approved in June 2001. The Project's aim is to conduct at least two diagnostic assessments a year with the development of an action plan for improving capacity in public debt management.

More details can be found on:
<http://www.worldbank.org/pdm/guidelines.htm>

Characteristics of a High Performing DMO

A recent study visit to four high performing debt management offices in Australia and New Zealand identified the factors that establish the cornerstone of a good debt management office.

Clear Mandate: a clear mandate and delegated authorities to operate freely within this mandate, subject to limits and controls set by Government.

Strong Governance: a strong governance structure with a

Board of Directors or Advisory Board to oversee the operations.

Strong Emphasis on Risk Management: a strong risk management culture with clear risk management policies, limits, and compliance monitoring.

Good Treasury Systems: treasury systems to support the operation.

Clear Responsibilities: a clear organisational structure based on segregation of front, middle and back office functions.

Factors that provide the cornerstone for a high performing debt management office.

Linkage with Cash Management: responsibilities of managing debt is closely integrated with government cash management and financial assets.

Recent Publications & New Websites

Publications released by Sovereign Debt Management Offices over the past 3 months—copies can be obtained from their respective websites (refer page 4 for website) include:

- **Australia** Planned Debt Management Activities in 2002-03
- **Belgium** Annual Report 2001

- **Denmark** Danish Government Borrowing and Debt 2001
- **France** 2001-02 Annual Report
- **France** Annual Review 2001
- **Ireland** Information Memorandum March 2002
- **Japan** Japanese Government Bonds Quarterly Newsletter July 2002
- **Portugal** Annual Report 2001

- **Portugal** Financing Programme for the Republic of Portugal for 2002
- **UK** Annual Report 2001-2002

There are two Debt Management Office websites that have been added to our list:

- **Colombia** www.minhacienda.gov.co
- **Indonesia** www.dmo.or.id

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Storkey & Co Limited is an international management consultancy providing independent specialist advice on debt and risk management to central governments, state/regional and local governments, government enterprises, and corporate treasuries.

The company employs or works in partnership with recognised experts who have considerable international experience in the finance markets and in public sector debt management. With their extensive project and change management expertise, they have developed an international reputation for delivering the highest quality practical solutions.

These experts have gained practical experience from working in a government debt office and on Asian Development Bank, AusAID, International Monetary Fund and World Bank technical assistance projects internationally.

Since the company was established in early 2001, assignments have been undertaken in Australia, Fiji, India, Indonesia, Mauritius, New Zealand and Thailand.

Sovereign Debt Management Websites

The Sovereign Debt Management Office websites include:

Argentina: www.mecon.gov.ar/finanzas

Australia: www.aofm.gov.au

Austria: www.oebfa.co.at

Belgium: www.treasury.fgov.be/interdette

Brazil: www.tesouro.fazenda.gov.br

Canada: www.fin.gc.ca

Colombia: www.minhacienda.gov.co

Denmark: www.nationalbanken.dk

Finland: www.valtiokonttori.fi

France: www.francetresor.gouv.fr

Greece: www.mof-gljk.gr

Hungary: www.akk.hu

Iceland: www.lanasysla.is

India: www.finmin.nic.in/caaa

Indonesia: www.dmo.or.id

Ireland: www.ntma.ie

Italy: www.tesoro.it

Japan: www.mof.go.jp/english

Netherlands: www.dutchstate.nl

New Zealand: www.nzdmo.govt.nz

Nigeria: www.dmonigeria.org/dom.htm

Peru: www.mef.gob.pe/DGCP/index.htm

Philippines: www.dof.gov.ph

Poland: www.mofnet.gov.pl

Portugal: www.igcp.pt

South Africa: www.finance.gov.za

Spain: www.mineco.es/tesoro

Sweden: www.rgk.se

Switzerland: www.efv.admin.ch

Thailand: www.pdmo.gov.go.th

United Kingdom: www.dmo.gov.uk

United States: www.publicdebt.treas.gov

For more references, we suggest you refer to links to other websites at:

www.storkeyandco.com/library/links

