



Storkey & Co Limited

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What's New

The focus of this Newsletter is on developments and trends in sovereign debt management. We have identified which debt offices are using sophisticated risk management techniques such as AaR, BaR, CaR and VaR.

Also, there are articles covering:

- The recent release of a World Bank Policy Research Working Paper.
- The consolidation and extension of services provided by the UK Debt Management Office.
- Details of the FTA Finance and Treasury Management Conference in Canberra from 26-28 May 2003.

The company has also been given two opportunities to contribute to the understanding and development of sovereign debt management across the Asia-Pacific region.

First, Ian Storkey has been included in the FTA Conference Program as a keynote presenter on "Trends in Sovereign Debt Management."

Second, we have also prepared an article on "Government Cash and Treasury Management Reform" to be published in the June Edition of the Asian Development Bank "The Governance Brief." Further details on this article will be provided in the July Newsletter.

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Special points of interest:

- *The second FTA Finance and Treasury Management Conference will be held in Canberra, Australia on 26-28 May 2003.*
- *The World Bank Policy Research Working Paper 3021 on "Institutional Arrangements for Public Debt Management" is a valuable addition to the sovereign debt management literature.*

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Storkey & Co Update

Over the past 3 months, we have:

- continued the ADB consulting assignment for the Ministry of Finance in India (with AF Ferguson & Co)
- completed a debt/risk management systems review for the Ministry of Finance in Lithuania
- participated in a Workshop in Bangkok for the Thai PDMO as

a follow-up to the study visit to Australia and New Zealand

- continued to assist the Reserve Bank of NZ on their treasury management system project
- contracted to ACIL Australia to assist with the AusAID Indonesian Debt Management Project in Jakarta including a three-week mission in March/April.



Use of AaR, BaR, CaR & VaR by Debt Offices

Debt offices that use mark-to-market valuations will normally undertake market risk assessments using Value-at-Risk (VaR) and will set VaR limits for currency and interest rate risk management. The NTMA and NZDMO have developed VaR models for risk management. Other debt offices have assessed the major risk for a public debt manager as being the extent to which the volatility of financial variables affects the budget through changes in debt servicing costs. These debt offices prefer to measure

risk on a cash-flow basis. The IGCP is developing a model based on an integrated Budget-at-Risk (BaR) indicator for the debt portfolio. A number of other debt offices are developing Cost-at-Risk (CaR) measures based on the effect of interest-rate fluctuations on the annual costs of the debt. CaR expresses the maximum expected increase in annual costs of government debt with a given probability over a given time period. The risk measure is based on

the VaR methodology, with the focus on the risk of fluctuation in the annual debt servicing costs rather than the risk of changes in the market value of the debt. The Brazilian, Canadian, Danish and Italian debt offices are developing CaR models. There are other variants being developed such as Amount-at-Risk (AaR) by the DSTA, and Debt Service-at-Risk (DsaR) by the Colombian debt office. More details can be obtained from documents and reports on the debt office websites.

VaR	AaR
New Zealand Debt Management Office (NZDMO) National Treasury Management Agency of Ireland (NTMA)	Dutch State Treasury Agency (DSTA)
	BaR
	Instituto de Gestão do Crédito Público (IGCP) of Portugal
CaR	
Brazilian National Treasury Debt Management Unit Canada Department of Finance Debt Management Unit	Government Debt Management Office of Danmarks Nationalbank Public Debt Direction of the Italian Treasury Department

VaR differs from BaR / CaR by focusing on the change in the market value of the debt portfolio, whereas BaR / CaR focuses on changes in financing or debt servicing costs.

Institutional Arrangements for Public Debt Mgmt

World Bank Policy Research Working Paper 3021 by Elizabeth Currie, Jean-Jacques Dethier and Eriko Togo has just been published. The paper analyses institutional arrangements for public debt management by reviewing the experience of OECD countries during the late 1980s

and 1990s. It discusses principal-agent issues arising from the delegation of authority from the Minister of Finance to the debt management office and describes how countries have designed governance structures and control and monitoring mechanisms to deal with

these issues. The paper also discusses what lessons emerging market countries and transition countries can draw from the experience of advanced OECD countries. Policy Research Working Papers are available online at: <http://econ.worldbank.org>



UK DMO Services Consolidated and Extended

The **UK Debt Management Office** (DMO) was established on 1 April 1998 with the transfer of Government debt management responsibilities from the Bank of England to the Treasury. The DMO was created to concentrate on the task of minimising the long term costs to Government of its borrowing and cash management activities.

Recently, the DMO has had its

range of services further consolidated and extended by:

- supporting additional issues of the National Savings and Investments Guaranteed Equity Bond by reducing the Government's exposure to the equity market;
- an expansion of the Deposit Facility which allows a significantly higher number of local authorities to deposit surplus funds with the Debt

Management Account;

- the merger with the Public Works Loan Board and Commissioners for the Reduction in National Debt. This means the DMO is now operationally responsible for handling loans to local authorities and for managing funds for some government departments.

Refer to www.dmo.gov.uk for more details.

Public Sector Finance & Treasury Conference

The Finance and Treasury Association of Australia (FTA) will hold a second Public Sector Finance and Treasury Management Conference at the Hyatt Hotel in Canberra on 26-28 May 2003.

The Conference will focus on "adding value to Government financing" and is a two-day three stream conference together with a one-day pre-conference workshop on

"Government Loan Guarantee Fee Regimes."

Ian Storkey will open the plenary session on Day-1 with "Recent Trends in Sovereign Debt Management." The NZDMO will open the plenary session on Day-2 with "Applying an ALM Framework to Sovereign Debt Management." Presenters from the AOFM, QTC, TCorp and TCV are included in the program.

"The Finance and Treasury Association will hold a second Public Sector Finance and Treasury Management Conference in Canberra on 26-28 May 2003"

The Conference program and registration details can be obtained from the FTA website:

www.finance-treasury.com

Recent Publications

Publications released by Sovereign Debt Management Offices over the past 3 months:

- **Belgium** Review 2002 & Outlook 2003
- **Canada** Debt Management Strategy 2003-04
- **Denmark** Danish Government Borrowing and Debt 2002
- **Finland** Annual Review 2002
- **France** 2002 Annual Review
- **Germany** April 2003 Newsletter
- **Greece** Public Debt Management Bulletin No.28, December 2002
- **Iceland** Government Debt Prospect 2003
- **Ireland** Information Memorandum 2003
- **Jamaica** Debt Management Strategy
- **Japan** Key Points for FY 2003 JGB Issuance
- **Mexico** Public Finance and Public Debt Report February 2003
- **Netherlands** Dutch Annual Outlook 2003
- **UK** Debt & Reserves Management Report 2003-04
- **UK** Business Plan 2003-04

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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, Lithuania, Mauritius, New Zealand, Solomon Islands 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

Germany: www.deutsche-finanzagentur.de

Greece: www.mof-glk.gr

Hungary: www.allampapir.hu

Iceland: www.lanasysla.is

India: www.finmin.nic.in/caaa

Indonesia: www.dmo.or.id

Ireland: www.ntma.ie

Israel: www.mof.gov.il/debt

Italy: www.tesoro.it

Jamaica: www.mof.gov.jm/dmu

Japan: www.mof.go.jp/english

Lithuania: www.finmin.lt/fmhomeen.htm

Luxembourg: www.etat.lu/TS

Mexico: www.shcp.gob.mx

Morocco: www.finances.gov.ma

Netherlands: www.dutchstate.nl

New Zealand: www.nzdmo.govt.nz

Nigeria: www.dmonigeria.com

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

Philippines: www.dof.gov.ph

Poland: www.mofnet.gov.pl

Portugal: www.igcp.pt

Slovenia: www.gov.si/mf/angl

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

Turkey: www.treasury.gov.tr/indexe.htm

United Kingdom: www.dmo.gov.uk

United States: www.publicdebt.treas.gov

