Gavi Alliance
Treasury Risk Management Policy
Version 2.0

DOCUMENT ADMINISTRATION

VERSION NUMBER	APPROVAL PROCESS	DATE
1.0	Prepared by: Treasury Team	
	Reviewed by: Director, Finance & Chief Accounting Officer	4 August 2021
	Reviewed by: Treasury Risk Management Committee	30 September 2021
	Reviewed and recommended by: Gavi Audit and Finance Committee	19 October 2021
	Approved by: Gavi Alliance Board	2 December 2021 Effective from: 2 December 2021
2.0	Reviewed and recommended by: Gavi Audit and Finance Committee	11 May 2023
	Approved by: Gavi Alliance Board	XX June 2023 Effective from: 28 June 2023
	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, foreign exchange (FX) risks and liquidity risks.

1.2. Financial risk management is defined as the process of identification, measurement, mitigation 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.

2.1.4. Manage liquidity in order to fulfil Gavi's financial obligations in a timely and cost-effective manner.

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 8.1**) 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.

3.6. **Liquidity Risk.** This is the risk that Gavi fails to its obligations in a timely and cost-effective manner. In particular, when Gavi needs to have access to cash to pay debts when they become due. This includes having access to sufficient borrowing facilities, or to liquid assets that can be converted to cash easily.

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 when the exposure is identified.

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 inform the Treasury Director and 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 8**).

4.11. Treasury team ensures diversification by spreading financial exposures and adhering to credit limits (as defined in **Section 8**).

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, credit default or credit rating downgrades, 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 CFO.

4.14.4. Report and escalate in a timely manner to the CFO and Executive Office;

4.14.5. Inform the Treasury Risk Management Committee;

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

4.16. Short term Treasury Bill or US Bonds are allowed in line with treasury management criteria (Section 8.)

4.17. 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 8**)

4.18. All situations and processes not explicitly covered by the Policy shall be discussed with and approved by the Director of Treasury 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 implementation.

5. Primary Roles and Responsiblities

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

Role	Responsibilities
Gavi Board	• Approve the Treasury Risk Management Policy • Authorise exceptions to the Treasury Governance Policy
Audit and Finance Committee	• Advise the Gavi Board on key risks • Oversee and advise on financial risk management policy execution • Oversee and advise on cash flow forecasts and liquidity needs • Review and recommend amendments to treasury policies • Review and recommend items requiring Gavi Board approval • Approve changes to the permitted hedging instruments and review and monitor key risks, their assessment, mitigation and related assurance mechanisms to ensure that risks are within the Board-approved risk appetite
Investment Committee	• Review and recommend investment objectives for Gavi Board approval
CFO	• Chair the Treasury Risk Management Committee • Review the Treasury long-term strategy and work plan • Approve new bank relationships • Review Treasury Report • Report on the implementation of this Policy to the Audit and Finance Committee • Recommend amendments to this Policy to the Audit and Finance Committee

Role	Responsibilities
Treasury Director	• Define the Treasury long-term strategy and work plan • Lead the Treasury Department and Treasury Team • Set Treasury objectives • Escalate potential risk to the CFO, TRMC and Executive Office
Treasury Risk Management Committee	• Review and monitor short term investments strategy • Review risk mitigation approach proposed by Treasury Front Office • Review all financial counterparties and corresponding credit limits on a quarterly basis
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 all foreign exchange deals and monitors compliance with approved counterparties, established limits and permitted hedging instruments. • Monitor credit exposures to financial counterparties daily • Monitor changes to credit ratings of sovereign and financial counterparties on monthly basis • Monitor and report early warning signals to Director of Treasury • Monitor adherence to the Policy
Finance team	• Account for hedging instruments • Manage bank reconciliation and post accounting entries • Perform monthly mark-to-market valuations for outstanding derivative portfolio • Act as a back-up for Treasury Back Office
Cash Flow Forecast Data Owners*	• The Treasury Team shall be included as a business partner in any discussion impacting treasury scope and activities • Provide information for short- and long-term cash flow forecasting as required by the Treasury Team

*Treasury Team builds cash flow forecasts based on data sourced by multiple stakeholders, including but not limited to Grant Management, Resource Mobilisation, Financial Forecasting and the International Finance Facility for Immunisation (IFFIm).

6. Related Documents

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

7. Effective date and review of policy

7.1. This Policy comes into effect as of 28 June 2023.

7.2. The Audit and Finance Committee is authorised to amend the matters specified in Section 8 of this Policy and shall recommend to the Gavi Board for approval any other amendments it considers appropriate to the Policy.

8. Guidelines

8.1. The following permitted hedging instruments shall be used by the Treasury team for risk management purposes, which are defined in Annex 1:

8.1.1. FX spot deals

8.1.2. FX forward contracts

8.1.3. FX options

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

8.3. Manage cash and liquid investments according to the Security, Liquidity and Yield (SLY) principle, dictating the order of importance of considerations:

8.3.1. Security: Probability of default of a counterparty, preservation of capital at default of counterparty (first and most important consideration);

8.3.2. Liquidity: Ability to convert assets into cash at any time prior to its maturity without overly affecting its value; and

8.3.3. Yield: Return in terms of interest results (lowest ranked consideration).

8.4. Treasury management criteria

8.4.1. Avoiding the loss of principal

8.4.2. Limiting Gavi credit risk taking to the highest quality credits

8.4.3. Avoiding currency risk relative to Gavi base reporting currency in USD

8.4.4. Having a maximum maturity defined

8.4.5. Ensuring that Gavi liquidity of Gavi assets is well matched to the maturity of Gavi liabilities or expected outflows with some reasonable buffer

8.4.6. Keeping things simple for efficiency of execution and management and reporting capacity implications

8.4.7. Ensuring there is adequate diversification

8.4.8. Having a regular process of review to ensure that Gavi risk reward is being optimised

8.5. 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 twelve months.

8.6. For liquidity and security 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 T+1 maximum terms. The maximum amount invested in each MMF should be less than 10% of the total fund of theMMF or USD500 million (equivalent in other curriencues) maximum amount.

8.7. 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 lower. The basis for this calculation excludes the amounts held in the UNICEF procurement accounts, Long Term Portfolio, cash collateral held by banks for FX transactions/loans/ facilities and funds in transit inflows and outflows within 3 working days.

8.8. 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.

Annex 1: Definition of FX hedging instruments

FX spot deals

A spot transaction is a FX transaction made now (the deal or trade date) for settlement on the spot date (the value date or maturity date). The exchange rate applied is known as the spot rate. The details of the trade – the currencies exchanged - who buys and sell which currency – amounts - exchange rate - payment information, are agreed by the counterparties on the deal date and the two currencies are exchanged on the spot date (1 or 2 days depending on the traded currency)

FX forward contracts

A forward foreign exchange contract is, like a spot contract, an FX transaction entered into now (the deal or trade date) for a settlement on a fixed date. The difference between a spot and forward contract is that the settlement date is at a date later than the spot date.

FX options or also known as Currency option

is a derivative product that gives the buyer the right, but not the obligation, to buy or sell a currency pair at a specified exchange rate (called Strick) and on a specified date at advance. For this right, a premium is paid to the seller.