Foreword

Organisations need to understand the treasury management risks they are exposed to and to be clear about the actions they can take to manage those risks. Some risks can be managed by using specific financial instruments known as derivatives. The corporate sector and some public sector organisations have used derivatives as an important tool to manage treasury risks for many years, although this has not always been trouble-free, as the Italian local authorities example demonstrates.

Specific financial instruments can be effective tools to manage risk, but they are complex and introduce new and less obvious risks. So it is essential that any public sector organisation considering entering into such a transaction is able to demonstrate that it has made an informed decision.

The purpose of this publication is to provide an introduction to the practical issues that a public sector organisation may face when considering using specific financial instruments to manage risk. It is intended to raise awareness of specific issues that will require further consideration and is not intended to be a definitive guidance document. It is anticipated that organisations who are considering such instruments will seek appropriate legal and professional advice prior to deciding on whether they are an appropriate risk management tool.

The publication is aimed at the public sector, although has a particular focus on local authorities.

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Chair of the Treasury and Capital Management Panel

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