

Board Meeting
July 22, 2010

APPROVE DERIVATIVES USE POLICY

Action: Approve Derivatives Use Policy

Funding: No New Funding Required

The Vice President/Chief Financial Officer and Comptroller, after internal review and in consultation with external experts, recommends adoption of the Derivatives Use Policy. This Policy will provide a framework for the use of derivative financial products to hedge certain financial risks.

When used as hedging tools, derivative instruments can be an effective way to manage financial risk. The University currently employs derivative instruments (viz., interest rate swaps) to manage its interest rate risk and to take advantage of market opportunities for raising capital. Swaps and certain other derivative hedging instruments are being considered to manage the University's fuel supply price risk. Other financial risks facing the University may be of a nature that hedging through the use of derivative instruments is beneficial.

It is the University's intent to utilize derivative instruments to hedge risks and not for speculative purposes. However, derivatives themselves introduce new risks that must be monitored and managed. Therefore, the University desires to implement a

program of derivative management that includes a Derivatives Use Policy and related risk monitoring by the University office of Enterprise Risk Management.

The Derivatives Use Policy constitutes a framework to ensure derivatives are used appropriately and do not add undue risk to the University. The Policy prescribes:

1. The types of derivative instruments which may be used;
2. The specific purposes for using derivative products;
3. Regular reporting requirements; and
4. Other limitations.

The Policy also delegates to the Vice President/Chief Financial Officer and Comptroller the responsibilities of:

1. Determining the type and use of derivative instruments to be employed;
2. Making regular reports to the Board on the status of derivative instruments being employed; and
3. Ensuring that all effected units of the University follow the requirements and intent of the Policy.

Therefore, the following recommendations are submitted for Board approval:

1. Adopt the Derivatives Use Policy.
2. Delegate to the Vice President/Chief Financial Officer and Comptroller the responsibility for determining the type and use of derivative instruments to be employed, making regular reports to the Board on the status of derivative instruments being employed and ensuring that all effected units of the University follow the requirements and intent of the Policy.

The Board actions recommended in this item complies in all material respects with applicable State and Federal laws, University of Illinois *Statutes*, *The General Rules Concerning University Organization and Procedure*, and Board of Trustees policies and directives.

The President of the University concurs.