

Question on Notice

No. 305

Asked on Wednesday, 7 March 2007

Dr Flegg asked the Deputy Premier, Treasurer and Minister for Infrastructure (Ms BLIGH) –

QUESTION:

With reference to the Financial Administration and Audit Amendment Regulation (No.3) 2006 which provides for the Coordinator-General to enter into derivative transactions and as the use of derivatives within the public sector is essentially related to managing foreign exchange risk, commodity price risk and interest rate risk, and as derivatives by nature involve potential significant risk and require substantial expertise in their use-

- (1) What qualifications and expertise does the current Coordinator-General possess to undertake derivative transactions?
- (2) Will she table the Coordinator-General's risk management policy for derivative transactions and outline what foreign exchange, commodity price, or interest rate risks are expected by the Coordinator-General?
- (3) What will the derivative transactions be specifically used for?

ANSWER:

- (1&2) To date, the Coordinator General has not entered into any derivative transactions.

The Queensland Government's *Derivatives Transactions Policy Guidelines* recognise that derivative instruments involve potential significant risk and require substantial expertise in their use. The Guidelines further acknowledge that departments are not generally expected to have the necessary technical expertise in this area. Accordingly, all transactions in derivatives are undertaken on behalf of departments by Queensland Treasury Corporation (QTC). Consistent with this principle, no derivative transactions will be undertaken by either the Coordinator-General or any officers of the Department of Infrastructure. As it happens, the current Coordinator-General does have experience in managing derivative transactions from a former Director-General role. (Note: By Order in Council effective from 15 January 2007, the Department of Infrastructure assumed the functions of the Office of the Coordinator-General. For the purposes of the *Financial Administration and Audit Amendment Regulation (No.3) 2006*, the Department of Infrastructure is therefore the relevant department.)

The inclusion of the Department of Infrastructure in the *Financial Administration and Audit Regulation 1997* only satisfies the first limb of the approval provisions in the *Financial Administration and Audit Act 1977*. In order for QTC to undertake derivative transactions on the Department's behalf, the Treasurer's specific approval is still required

under section 43B(2)(b) of the Act. No derivative transactions may be undertaken until such approval is granted. There is currently no approval in place.

The Guidelines require QTC to perform a competency review of any agency seeking the Treasurer's approval for QTC to undertake derivative transactions on its behalf. As part of such a review, QTC is required to assess:

- the agency's risk management policy for derivative transactions;
- the level of appropriate expertise held by employees of the agency; and
- the quality of appropriate management, control and accountability systems implemented by the agency.

The Guidelines provide that it is the responsibility of an agency proposing to seek the Treasurer's approval for QTC to undertake derivative transactions on its behalf to first establish a risk management policy.

The Coordinator-General is in the process of developing such a policy, and has sought QTC and Queensland Treasury assistance in this regard.

- (3) Derivative transactions would be used to mitigate specific risks on projects, such as foreign exchange risks. Such derivative transactions would provide a hedge against variability in the Australian dollar relative to other currencies.