Foreign Exchange Risk Policy

Section 1 - Executive Summary

(1) The University receives payments and makes purchases in foreign currency, exposing the University to foreign currency risk. Movements in foreign currencies can positively or negatively impact the University's finances. The University will minimise exposure to these movements by using foreign currency bank accounts and foreign exchange hedging contracts. Hedging processes may also be used to reduce or eliminate the impact of currency movements.

Section 2 - Purpose

(2) The purpose of this Policy is to establish how the University will minimise the risk of significant cost from exposure to currency movements when transacting in a foreign currency using appropriate risk mitigation strategies.

(3) This Policy should be read in conjunction with the Foreign Exchange Risk Procedure.

Section 3 - Scope

(4) This Policy applies to foreign currency transactions conducted on behalf of the University.

Section 4 - Audience

(5) This Policy should be read and understood by University staff who undertake transactions in foreign currency.

Section 5 - Definitions

(6) In the context of this document:

Defined Term	Meaning
Foreign Currency	Any currency other than $AUD.
Foreign Currency Risk	The risk associated with movements in currency exchange rates which may impact the University's financial results.
Foreign Currency Account	A bank account holding a foreign currency, held by the University.
Foreign Currency Movement	The change in the foreign currency amount between one point (i.e. budget or contract agreement) and the time a related transaction is finalised.
Hedge	A method of risk mitigation aimed at reducing financial loss.
Hedging Contract	A binding transaction that aims to limit exposure in movements in exchange rates.

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Section 6 - Foreign Exchange Transaction Exposure

(7) The primary sources of foreign exchange exposures are:

a. foreign currency income associated with research grants, student tuition fees, and philanthropic grants;
b. foreign currency expenditure associated with research grants;
c. general capital and operational expenditure denominated in foreign currency; and
d. expenditure associated with subscriptions and publications of the University library.

Management of the Risk

(8) To reduce foreign exchange exposure the University will seek to have contracts agreed to in Australian dollars.

(9) Where it is not practical to have contracts agreed to in Australian dollars, foreign currency risks will be managed through:

a. currency accounts; or
b. derivatives.

(10) Financial Services are responsible for managing the net foreign currency exposures using the guidelines prescribed in the Foreign Exchange Risk Procedure. All other business units are prohibited from entering into hedging contracts.

Currency Accounts

(11) Where a foreign currency account is held by the University, foreign currency amounts will be received or paid from these accounts.

(12) Where the required foreign currency amount exceeds the currency held, the University may purchase additional amounts of currency as soon as practicable, once the required amount is known, to provide budget certainty for the University.

Derivatives

(13) The University may hedge against a foreign currency exposure using forward exchange contracts. Forward exchange contracts shall only be entered into in accordance with the Delegations of Authority and the Foreign Exchange Risk procedure. The University will not undertake activities to speculate on foreign currency movements.

(14) All foreign currency hedging transactions must occur with one of the major Australian banks.

(15) The total value of foreign currency hedging contract transactions will not exceed the limits applied by Council. All derivative transactions must be approved as required by Section 16 of the Finance Committee Charter, Chancellor's Committee Charter and Delegations of Authority. Where the circumstances warrant, based on risk and magnitude, advice from relevant expert advisors will be obtained by management.

(16) All hedging transactions are to be reported to Finance Committee by the Chief Financial Officer within the Financial Services Report.

Procedures and Control

(17) The Foreign Exchange Risk Procedure outlines the approval process required for foreign currency transactions, hedge transactions and the management of foreign currency accounts.

Section 7 - Related Documents

(18) Australian Accounting Standard (AASB) 139 Financial Instruments: Recognition and Measurement

(19) Foreign Exchange Risk Procedure

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Status and Details

Status	Current
Effective Date	19th October 2020
Review Date	19th October 2022
Approval Authority	Chief Financial Officer
Approval Date	19th October 2020
Expiry Date	Not Applicable
Enquiries Contact	Paul McCubbin Associate Director, Corporate Accounting and Treasury Financial Services

Glossary Terms and Definitions

"University" - The University of Newcastle, a body corporate established under sections 4 and 5 of the University of Newcastle Act 1989.

"Risk" - Effect of uncertainty on objectives. Note: An effect is a deviation from the expected, whether it is positive and/or negative.

"Student" - A person formally enrolled in a course or active in a program offered by the University or affiliated entity.

"Research" - As defined in the Australian Code for the Responsible Conduct of Research.

"Staff" - Means a person who was at the relevant time employed by the University and includes professional and academic staff of the University, by contract or ongoing, as well as conjoint staff but does not include visitors to the University.