Foreign Exchange Risk Procedure

Section 1 - Purpose

(1) This document details the procedures relevant to the management of foreign exchange risk for the University of Newcastle (University).

(2) This document should be read in conjunction with the Foreign Exchange Risk Policy.

Section 2 - Scope

(3) This procedure applies to purchases and contracts in foreign currencies that may expose the University to foreign exchange risk.

Section 3 - Definitions

(4) In the context of this document:

Defined Term	Meaning
Business Unit	College, school, Division or Unit of the University.
Delegate	A staff member who has been appointed to a role that has the delegated authority as identified in the University’s delegations register.
Foreign Exchange Risk	The risk associated with movements in currency exchange rates which may impact the University's financial results.
Foreign Currency	Any currency other than $AUD.
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.
Foreign Exchange Rate	The rate at which the foreign currency can be exchanged.
Forward Exchange Rate	An agreed foreign currency rate set for a defined point in the future.
Hedging Contract	A binding transaction to limit exposure in the foreign currency exchange rate.
Portfolio Limit	The total amount of hedging contracts the University will hold.

Section 4 - Contracts and Payments

(5) To the extent possible purchases and contracts will be agreed in Australian Dollars.

(6) Where there is a compelling business need to contract with suppliers or funders in a foreign currency, Financial Services will implement processes using the following hierarchy:

a. if the relevant foreign currency is used ad hoc or is of low value the purchase will be settled via a foreign currency payment in the normal course of business;
b. where the University business unit will regularly transact in a foreign currency and a foreign currency account is established, the contract will be settled via use of, or transfer of funds to, the foreign currency account;
c. any significant excess foreign currency cash flow requirements not met by incoming payments in the required currency will be monitored by Financial Services and the currency purchased (through hedging contracts) as required on a case by case basis.

(7) The University will opt for a foreign exchange hedging contract in circumstances when it may be likely that the University is unable to meet any foreign currency payment commitments. The decision to implement such contracts must be based on advice from Financial Services and the potential negative impact on University operations or finances. Financial Services are responsible for the management of all foreign currency hedging contracts implemented.

Foreign Currency Transactions

(8) Where a business unit is seeking to make purchases or agree to contracts in a foreign currency of a significant value (i.e. over $200,000) the Finance Business Partner (FBP) for that business unit is to be contacted to conduct a risk assessment. The FBP will inform Financial Accounting of the risk assessment findings and the likely future commitments and/or receipts.

(9) Where multiple arrangements are agreed with a single supplier, the total of those contracts will be considered when determining whether the purchases represent a significant value (i.e. over $200,000).

Contracts in Foreign Currency

(10) The following steps must be undertaken for contracts identified as being of significant value:

Step	Action	Responsibility
1	Where possible contracts should be negotiated in AUD. However, where this is not possible and the contract is agreed to in foreign currency, Financial Accounting must be advised via email to: Finserv-FinancialAcc@newcastle.edu.au. The email must include the contract and details of the: a. name of the requestor; b. currency of the contract; c. delegated authority who has approved the contract; d. timing of the forecast payments/receipts; and e. reason why the contract is denominated in foreign currency. All transactions must be approved in accordance with the University's delegations of authority.	Business Unit
2	Financial Accounting will provide the following advice to the business unit: a. how foreign exchange risks can be managed to minimise foreign exchange risk; and b. the appropriate banking details for foreign currency payments. Notification of foreign currency payments from the University to an external party must be received at least five business days in advance of the payment being due to allow for appropriate approvals to be obtained.	Financial Services
3	Where a foreign currency payment is being made to the University: a. where the University holds a Foreign Currency Account for the given currency being received, receipts are to be deposited to the University foreign currency account; b. all other currencies are to be received into the general operating bank account (AUD).	Financial Services

Step	Action	Responsibility
4	For payments to another party: Each month Financial Accounting will prepare a forecast foreign currency cashflow for foreign currency accounts using known commitments as per information provided from the relevant FBP. Where sufficient funds are held in the payment currency account, these balances may be utilised to make payments as and when due, using existing banking controls to process payments. Where a shortfall in foreign currency is identified in the cash flow forecast an assessment of the Foreign Exchange Risk will be performed to determine if simple hedge contracts should be entered into. The risk assessment will include but not be limited to: a. the period between entering the commitment and scheduled payment date; b. the certainty of the payment obligation arising; c. the value of the foreign currency transaction; d. the portfolio of hedge arrangements in place at the time the consideration is being made; and e. the likelihood of future foreign currency inflows to offset the contracted expense. If there are insufficient foreign currency holdings, and a hedging transaction is deemed appropriate, funds from the AUD operating account will be applied to make the contracted payment.	Financial Services
5	All hedging contracts are to be implemented by Financial Accounting, and must be approved in advance in accordance with the University delegations of authority.	Financial Services

Request to Enter Hedge Arrangement

(11) The University will consider a hedging arrangement where a purchase or contract is agreed to in a foreign currency for a value in excess of $200,000 (AUD).

Step	Action	Responsibility
1	Any foreign currency purchase or contract (in excess of $200,000) must be reported to the Financial Services Division for assessment and endorsement to manage inherent foreign exchange risks. The purchasing business unit must contact Financial Services via email (Finserv-FinancialAcc@newcastle.edu.au) and outlining the planned purchase. A foreign exchange risk may be identified for a purchase or contract that requires multiple transactions or a single transaction. Total allowable foreign currency hedging contract values are set by Council and transactions are processed in accordance with delegation approval limits (Matters Reserved for Council R41). To ensure this limit is not exceeded all foreign exchange contracts are implemented by Financial Accounting in line with this procedure under direction of the Chief Financial Officer (CFO).	Business Unit
2	For currency hedging, the contract owner will complete an internal Foreign Currency Purchase Form based on the contract details provided by the contract owner and email Finserv-FinancialAcc@newcastle.edu.au. The request must include payment schedules, stipulating the milestone payment(s), foreign currency amount and expected payment date.	Business Unit
3	Once the completed form is submitted to Financial Services and the relevant approval delegations are confirmed, Financial Accounting will assess the requirement of a hedging contract. The register of open hedge contracts will be provided with each individual request to demonstrate the portfolio limit (as per the Foreign Exchange Risk Policy) is not breached.	Financial Services
4	Where a hedging contract is required and approved, Financial Accounting will process a hedging transaction, in accordance with the Foreign Exchange Risk Policy, to lock in the forward exchange rate until the future date(s) specified. At the time the trade is confirmed the portfolio of hedging arrangements will be updated and the budget holder or contract owner, as applicable, must be notified of the hedge arrangement including the rate/s of exchange and date/s of settlement.	Financial Services

Step	Action	Responsibility
5	Once the hedge is put in place, it is non-cancellable without cost to the business unit. Hedging contracts will be limited to a maximum 15 months duration (to account for budget timing). In cases where a hedge has not been settled within the requested period, it will settle automatically at the maturity date. Open hedging contracts are monitored by Financial Services monthly and reconfirmed with business units where a hedge is due to settle within 4 weeks. If a business unit wants to either extend a hedge beyond the initially requested period or put in place a contract for a period greater than 15 months, a request must be made to Financial Services at least 30 days prior to the expiry in case of contracts. A new contract must be executed to reflect the amended terms and the existing hedge must be 'closed out'. This process is managed by Financial Services following confirmation from the business unit. All foreign currency movements incurred due to a change to a hedging contract will be borne by the requesting business unit and met through existing budget allocations.	Financial Services
6	Foreign currency hedges will be reviewed by the Financial Accounting at each period end to enable accounting adjustments required in accordance with AASB 139, Financial Instruments. Resulting unrealised gains and losses, will be recognised in a corporate account. Upon settlement any realised gains and losses will be recognised in the relevant corporate accounts.	Financial Services
7	The business unit will inform Financial Services via email to Finserv-FinancialAcc@newcastle.edu.au as soon as there is any change in circumstances that may impact a hedge contract, for example where it requires: a. cessation; b. to amend amount, currency, or date of payment; or c. an amendment due to any other change that would affect the University in its ability to fulfil its obligations at settlement.	Business Unit

Section 5 - Foreign Exchange Control

(12) The Foreign Exchange Risk Policy prohibits entering contracts, agreements or arrangements that actively seek to mitigate foreign exchange risk by any business unit other than Financial Services. Such actions are hedges, given that they lock in an exchange rate prior to the payment becoming due.

(13) Arrangements that constitute a hedge under the policy are defined in AASB 139 as an asset, liability, firm commitment, highly probable forecast transaction or net investment in a foreign operation that:

a. exposes the entity to risk of changes in fair value or future cash flow; and
b. is designated as being hedged.

(14) Financial Services may use hedging contracts as a Hedging Instrument. AASB 139 (9) characterise hedging contracts that leverage the risk as having the following features:

a. little or no cash outflow/inflows are required until maturity of the transactions;
b. no principal balance or other fixed amount is paid or received;
c. its value changes in response to the change in a specified interest rate, financial instrument prices or rates, credit ratings, foreign exchange rate etc.;
d. potential risk and rewards can be greater than the current outlays; and
e. it is settled at a future date.

(15) Financial Services are responsible for:

a. ensuring hedging contracts meet the criteria of hedge accounting in accordance to the accounting standards;
b. ensuring hedge transactions are approved in accordance with Foreign Exchange Risk Policy;
c. organising the hedging transaction;
d. ensuring information relating to hedging contracts are recorded on a timely basis, and is complete and accurate

when entered into the accounting system;

e. ongoing monitoring of hedging contract transactions to recognise and measure events affecting financial assertions;
f. formal periodic reconciliation of hedging contract transactions to recognise foreign exchange gains and losses by comparing the AUD amount, as converted at both the inception date and the settlement date;
g. documenting reconciliation and ensuring they are independently reviewed;
h. initiating cash payments and cash receipts at the time of settlement; and
i. communicating the hedge transaction details to the relevant business unit.

(16) In addition to the basic financial information, such as notional amount, Financial Services must ensure:

a. initiation records identify the nature and purpose of individual transactions, and the right and obligations arising under each hedging contract;
b. the records identify the dealer, the person recording the transaction, the date and time of the transaction;
c. counterparty banking details are correct and foreign exchange transactions are approved by the relevant delegate in accordance with the Delegations Register prior to executing the transaction’
d. the employee responsible for reconciling and accounting for the foreign exchange transaction is not responsible for settling that transaction; and
e. approvals to enter transactions must be made in accordance with University's delegations of authority and Delegations Register.

(17) Financial Services must record all hedging contract transactions into the accounting system for record keeping, audit and reporting purposes and must be able to produce the transaction report as required by senior management or Internal or External Audit, with the following information:

a. foreign currency exchange amount;
b. currency paid;
c. AUD equivalent amount;
d. relevant Budget Exchange Rate;
e. counterparty;
f. payment date;
g. Foreign Exchange Rate;
h. settlement date;
i. cost of the transaction (if any);
j. current spot rate (if different to rate at which the transaction is dealt);
k. the reason for the difference between the spot rate and the rate at which the transaction is dealt;
l. reason for the transaction;
m. person dealing the transaction;
n. person authorising the transactions; and
o. counterparty payment details.

(18) In addition, records must be kept of any foreign exchange transactions that are modified (e.g. changes to dates, amounts, or rates) or cancelled (e.g. as part of the foreign exchange register or foreign exchange system). This should include the cost of, and reasons for, any such modification or cancellation.

(19) Financial Services team will ensure that any exceptions or variations from the above authorised procedure for foreign exchange transactions is reported to the Chief Financial Officer, who can review and provide guidance on any remedial action that should be undertaken.

(20) Foreign exchange transactions may be subject to audit procedures performed by internal or external audit as part of either party’s annual audit plans.

Monitoring and Review

(21) Financial Services manage the foreign currency risk on behalf of the University. This risk can only be effectively managed through notification of foreign currency purchases and contracts by the University's business units, at the time of budgeting or where purchases and contracts are identified outside of the budget cycle. Financial Services will assess the requirements for hedging contracts to minimise the risk of foreign currency movements for these purchases in accordance with the University's Risk Management Framework.

(22) An annual review of the University's foreign currency transactions will be performed by Financial Services to monitor significant volumes or values of transaction made in a currency other than Australian Dollars (AUD). Financial Services uses this information to determine the actions required to prevent significant currency movements affecting the budgets of business units and where necessary implement foreign exchange contracts to minimise risks.

Section 6 - Reporting

(23) Details of foreign currency instruments will be reported quarterly by the Chief Financial Officer to the Finance Committee in the Financial Services Report.

Section 7 - Related Documents

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

(25) Foreign Exchange Risk Policy.

(26) Risk Management Framework.

Status and Details

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Effective Date	19th October 2020
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Responsible Executive	Paul McCubbin Chief Financial Officer
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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.

"Risk assessment" - The overall process of risk identification, risk analysis, and risk evaluation.

"Asset" - Any tangible or intangible item (or group of items) that the University owns or has a legal or other right to control and exploit to obtain financial or other economic benefits.

"School" - An organisational unit forming part of a College or Division, responsible for offering a particular course.

"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.

"College" - An organisational unit established within the University by the Council.