

FOREIGN EXCHANGE HEDGING PROCEDURE

SCOPE

This procedure applies to all Monash University staff who are entering into foreign currency transactions that may expose the University to foreign exchange risk.

PROCEDURE STATEMENT

The University implements hedging arrangements to mitigate the risk of financial loss due to foreign currency fluctuation. Foreign exchange fluctuations (gains or losses) are the difference resulting from translating Australian currency into another currency at the applicable exchange rate. This procedure outlines the requirements and processes to effectively manage foreign exchange exposure for the University.

1. Hedging principles

- 1.1 The University's Corporate Finance Treasury Team (Treasury) provides support for negotiating and implementing hedging arrangements for applicable transactions entered into on behalf of the University in order to minimise the risk of financial loss.
- 1.2 Where commercially practicable, all contracts for income streams should be negotiated in Australian Dollars (AUD).
- 1.3 Treasury will coordinate hedging for significant transactions of University expenditure with a value of at least AUD\$200,000 equivalent which are deemed to result in a material foreign exchange exposure. Treasury should be contacted for advice on whether a transaction exposes the University to a material foreign exchange exposure and whether hedging arrangement should be implemented.
 - 1.3.1 In special cases and at the discretion of the Funds Manager, Treasury or delegate, hedging transactions that exceed AUD\$100,000, but are less than AUD\$200,000 may be considered where the requesting staff member, portfolio or unit submits sufficient evidence of the need for hedging in the particular circumstances.
- 1.4 For purchases over AUD\$200,000, Strategic Procurement must be advised of the intention to enter an agreement for the purchase of goods or services and any agreement must be made in accordance with the requirements outlined in the [Procurement Policy](#) and [Procedure](#).
 - 1.4.1 Payments for goods and/or services must have a purchase order approved in accordance with the requirements for an authorised financial limit and/or contract signing right.
 - 1.4.2 Where hedging is required for the purchase of goods and/or services without a purchase order, the Dean or Portfolio Head may make a request for the transaction to be hedged, made in writing to the Chief Financial Officer.
- 1.5 Where Treasury facilitates the purchase of currency or forward rate contract, the currency must be denominated in one of the major currencies for which the University holds bank accounts (e.g. EUR, USD or GBP). Hedging of other currencies may be considered on a case by case basis.
- 1.6 Where a material foreign exchange exposure is identified, a staff member with an appropriate authorised financial limit must be involved in the transaction, and should submit a request to Treasury for advice on how the proposed transaction should be undertaken and (any) hedging arrangement(s) that may mitigate the risk of financial loss. When submitting a request to Treasury, staff must provide the following information:
 - the [Foreign Currency Purchase Request Form](#);
 - the expected payment date(s);
 - the relevant cost centre and fund; and
 - confirmation of sufficient funds available to finance the foreign currency.
- 1.7 Treasury will provide advice to the requesting staff member on the currency and exchange rate with any applicable supporting information.

1.7.1 The purpose of entering a hedging arrangement is to mitigate uncertainty arising from currency fluctuations. The advice that Treasury provides on hedging is to support staff with applicable budgeting requirements. Unforeseen economic or market conditions may affect future foreign currency rates and the anticipated financial outcome.

1.8 If an Australian agent is involved in the overseas transaction, GST may be applicable and may need to be included in the amount that is hedged. Staff should refer to the University's Tax Intranet site for more information on GST.

2. Entering a hedge arrangement

2.1 After receiving confirmation from the requesting staff or authorised delegate in the faculty / portfolio, Treasury will enter a hedging transaction with a major Australian trading bank or within existing foreign currency bank accounts to secure the exchange rate until the future date(s) as specified in the request.

2.2 If a payment transaction is expected to occur within six months, Treasury may physically purchase and hold the currency to lock in the rate.

2.3 If a payment transaction is expected to occur beyond six months, a forward contract may be used.

2.4 Confirmation of rates and payment terms will be provided by Treasury in writing to the requesting staff member.

2.5 When making payments from hedged funds, staff must refer to the requirements for invoicing outlined in the University's Supplier Payments Procedure.

2.6 Hedged funds that are not fully spent within 12 months from the date of purchase may result in any additional costs and/or losses incurred in selling the unused foreign currency (such as an adverse movement in the exchange rate) to be charged to the relevant faculty or portfolio.

2.7 Treasury maintains a record of all hedging arrangements and will provide regular communications on available funds that have been hedged on behalf of the faculty or department.

DEFINITIONS

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| Denominated | A given monetary unit. |
| Foreign Exchange | Payments and receipts denominated in a foreign currency |
| Forward Rate Contract | A contractual arrangement which locks in the payment or delivery of a foreign exchange amount at an agreed rate and date in the future. |
| Hedging | A risk management strategy used to limit the risk of an adverse exchange rate movement. |

GOVERNANCE

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| Parent policy | Financial Management Policy |
| Supporting schedules | N/A |
| Associated procedures | Accounts Receivables Procedure Debtor Viability Procedure Procurement Procedure Revenue Handling Procedure Supplier Payments Procedure |
| Related legislation | N/A |
| Category | Operational |
| Approval | Chief Financial Officer and Senior Vice-President 26 March 2021 |
| Endorsement | Funds Manager, Corporate Finance – Treasury 26 March 2021 |
| Procedure owner | Funds Manager, Corporate Finance - Treasury |
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