



Policy Hierarchy link	UNSW Treasury Policy		
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1. PURPOSE

This Procedure supports the Treasury Policy (the ‘Policy’) and is intended to ensure a clear and consistent understanding and implementation of the Policy.

The purpose of the Policy is to provide rules and guidance for the management of the UNSW Treasury & Investment Services (T&IS) function specifically in relation to treasury risks. The primary objective is to ensure that the treasury activities and risks are managed in a clear, prudent, cost-effective and comprehensive manner, reflecting the needs of all stakeholders, as well as being aligned to the strategic objectives of UNSW.

2. SCOPE

The scope of this Treasury Procedure (the ‘Procedure’) covers:

- all operations of UNSW including its Faculties, Schools, Departments, Research Centres and Divisions; and
- Nominated Controlled Entities of the UNSW Group (refer Annexure A).

Areas specifically out of scope of the Procedure include:

- Non-financial institution credit risk exposures, for example general suppliers contracted with via the procurement team, and
- Investment activities governed by the UNSW Investment Policy (unless specifically stated otherwise).

3. DEFINITIONS

Term	Definition
ADI	Authorised Deposit taking Institution.
APRA	Australian Prudential Regulated Authority.
Bilateral Bank Funding	Funding sourced from a single financial institution.
Committed Exposures	Committed exposures are those that relate to transactions which will be completed with certainty. Committed exposures include research grants which have been awarded (as opposed to in application), expenditures to which UNSW is bound or will imminently incur or assets or liabilities which have been recognised in the accounts.
Contingent Exposures	Contingent exposures are those that have been identified as potentially occurring but which are not yet committed. Contingent exposures include, research grants which have been applied for (but not yet awarded), budgeted expenditures, potential assets or liabilities not meeting accounting recognition criteria.
Controlled Entity	An Entity that is subject to the control of UNSW in terms of section 50AA of the Corporations Act.
Credit Rating	Formal credit assessment rating as published by Standard and Poor's Rating Agency.
Finance Committee	The UNSW Finance Committee.
Foundation	The UNSW Foundation promotes philanthropy to advance the University's goals in research, faculty projects, scholarships, community engagement and capital campaigns. The UNSW Foundation office receives contributions made by alumni, supporters, foundations and corporations. The University invests and manages the contributions to protect and enhance their value and disburses them to UNSW's faculties and divisions.
Historical Rate Rollover	At any time up to the Maturity Date, UNSW may ask the counterparty to extend the Maturity Date of an FX forward without closing the transaction and creating a new one. This may also be referred to as an extension.
Interest Rate Risk Management Plan	The plan prepared by T&IS and adopted by Finance Committee as required by 8.4 of this Procedure.
ISDA agreement	International Swaps and Derivatives Association.
Nominated Controlled Entity	A Controlled Entity as described in Appendix B.
On-call cash	Cash on call represents all deposits which are available upon request (subject to regular financial institution clearing times).
Transaction risk	The risk that the group's cash flow is impacted by adverse movements in exchange rates. The risk is that a potential gain or loss could result from a movement in the Australian Dollar value of foreign currency payments or receipts.
Translation risk	Has to do with the <i>location</i> of the assets or cash flows. This is the potential gain or loss resulting from exchange rate movements when financial statements from foreign subsidiaries are translated on consolidation.

4. GENERAL PRINCIPLES

4.1 The Role of T&IS

T&IS operates as a risk management and service function with responsibility for managing exposures to certain market and operational risks as described in Section 4.2.

At no point will T&IS enter into any speculative transactions.

4.2 Treasury Risks governed by the Treasury Policy

The Policy governs the management of the following areas of treasury risk:

- Credit Risk;
- Short Term Liquidity Risk;
- Funding and Refinancing Risk;
- Interest Rate Risk;
- Foreign Exchange Risk; and
- Operational Risk relating to treasury activities.

4.3 Administration

Changes to the Policy are approved by the President and Vice-Chancellor and noted by the Finance Committee of the UNSW Council.

All breaches of the Policy or this Procedure will be reported as follows:

- To the Director of Finance immediately.
- To the Chief Financial Officer and Vice-President, Finance and Operations, at each month end unless any of the following conditions are met, in which case immediately:
 - The breach has or may have the potential to adversely impact on the reputation of UNSW in any way, in the opinion of the Director of Finance;
 - Has or is likely to result in a material loss (defined as greater than or equal to A\$100,000); or
 - Is reasonably appropriate to disclose in the view of either the Director of Finance or the Director of Treasury and Investment Services for any other reason.

Reporting of breaches shall include as a minimum: the actual breach date, the nature and reasons for the breach, the financial impact (or potential financial impact) of the breach, the remedial action taken or planned and the dates on which stakeholders were notified as required under the Policy.

It is the responsibility of the Director of Treasury and Investment Services to address all breaches and return T&IS to within the approved rules and limits as a matter of priority.

5. CREDIT RISK PROCEDURE

5.1 Definition

Credit risk is the risk of potential loss arising from default or insolvency of a financial institution. T&IS's credit risk arises from transactions entered into with financial institutions. The primary sources of credit exposure governed by the Policy are cash held in bank accounts, bank deposits, deals awaiting settlement, derivative transactions and the undrawn portion of committed credit facilities.

Credit exposures arising from the UNSW's investment activities other than cash are outside the scope of the Policy. Exposures to individual cash investments and classes of cash investments with financial institutions are included in the calculation of UNSW's maximum credit exposures.

5.2 Objectives

To manage the overall level of counterparty credit exposure to individual financial institutions from T&IS transactions to acceptable levels through institution selection, diversification, monitoring and related decisions.

5.3 Approved counterparties

Subject to 5.4 below APRA regulated Authorised Deposit taking Institutions (ADIs) are approved counterparties. Where access to approved counterparties is unavailable or restricted, for example for the foreign activities of Nominated Controlled Entities, local branches of Australian ADIs may be used without the approval of T&IS. If approved counterparties are not available the management of the Nominated Controlled Entity must request T&IS to assess the credit quality and approve the use of an alternative institution. The approval will be reviewed every two years.

5.4 Limits

The maximum permitted credit exposure to a financial institution for UNSW and the Nominated Controlled Entities will be based on its current external credit rating with Standard and Poor's (S&P), Moody's Investors Service (Moody's) or Fitch Ratings (Fitch). A credit exposure is permitted based on the respective limits as shown in the Table below:

Long-Term Rating S&P / Moody's / Fitch	Short-Term Rating S&P / Moody's / Fitch	Limit
AAA,AA+,AA,AA- / Aaa,Aa1,Aa2,Aa3 / AAA,AA+,AA,AA-	A-1+ / P-1 ¹ / F1+	A\$150m
A+, A / A1, A2 / A+, A	A-1 / P-1 / F1	A\$75m
A-, BBB+ / A3, Baa1 / A-, BBB+	A-2 / P-2 / F2	A\$50m ²
	< A-2 / P-2 / F2	No Exposure Permitted

1. Where the Moody's Long-term rating is Aaa, Aa1, Aa2, Aa3.

2. In addition to these limits a maximum of 50% of total exposure may be held against counterparties rated A-2 / P-2 / F2 at any time.

Counterparties holding ratings from more than one rating agency will have their limit determined by reference to the lowest rating held in the above table.

Exposures to wholly owned subsidiaries and branches of counterparty institutions will be aggregated for the purposes of utilisation under the above limits.

5.5 Dealing checks

Prior to all cash deposit transactions and derivative transactions with a face value of A\$1m or more being placed the counterparty's credit rating and the current credit exposure shall be checked to ensure the new transaction will not result in a breach of Policy.

5.6 Sources and measurement of exposure

Measurement of limits will be as per methodology in Annexure C. The conversion of foreign currency balances for the purpose of credit exposure management will be at market rates on reporting dates.

6. SHORT TERM LIQUIDITY RISK

6.1 Definition

Liquidity risk is the risk that available cash is insufficient (or held in insufficiently liquid instruments) to enable UNSW to make payments, including both anticipated and unexpected, as they become due.

6.2 Objectives

To ensure that UNSW has the capacity to meet its financial obligations as they fall due.

6.3 At-call Cash

T&IS will hold minimum liquidity, defined as at-call cash balances and undrawn, unrestricted committed credit facilities, in addition to any encumbered or restricted funds of A\$25m at all times.

6.4 Cash Flow Forecast

A monthly cash flow forecast for the full term of the triennial UNSW Budget must be maintained. The cash flow forecast is to be updated with the re-forecasts of the UNSW Budget.

6.5 Forecast at-call Cash

The cash flow forecast must demonstrate a minimum level of liquidity of A\$25m covering 12 months forward. T&IS are to ensure the required minimum level of liquidity is continuously available.

6.6 Approved Financial Instruments

T&IS will comply with the policies above by transacting cash (and cash equivalents) solely in the approved instruments as listed in Appendix B 'Approved Financial Instruments.'

6.7 UNSW Investment Portfolio Transfers

As required the Director of Treasury and Investment Services will recommend to Director of Finance transactions between the UNSW investment portfolio and cash to maintain appropriate liquidity.

7. FUNDING & REFINANCING RISK

7.1 Definition

Funding risk is the risk that financial commitments are made beyond the capacity of UNSW to fund from cash, investments, or existing credit facilities.

Refinancing risk is the risk that existing credit facilities are unable to be replaced as they mature with facilities provided by the existing or a replacement financier.

7.2 Objectives

To ensure UNSW is able to obtain new credit facilities or renegotiate existing credit facilities in order to meet its financial requirements in a timely manner.

7.3 Funding Analysis

T&IS will develop a funding plan to be incorporated in the UNSW triennial Budget that ensures the Budget is fully funded for its term. The funding plan must be reviewed at any re-forecast of the Budget or revision of the UNSW long-term financial model.

7.4 Refinancing Risk

The funding plan will apply the following refinancing risk management principles when proposing the negotiation of new credit facilities or the re-negotiation of existing credit facilities:

- Maximum portion of total credit facilities expiring in the next 12 months: Where funding requirements are ongoing the maximum amount maturing in the next 12 months will be limited to 25% of total credit facilities.
- Maximum portion of total credit facilities expiring within any Financial year: 50% unless subject to an evergreen arrangement (with 12 months or more contracted time buffer) in which case this can be 100%.
- Maximum portion of total credit facilities provided by a single counterparty: 50%.
- Security over assets will not be granted without T&IS and Director of Finance approval.

7.5 Facility Agreement/s Compliance

T&IS will be responsible for the administration of any credit facility agreements and procedures to ensure UNSW remains compliant with its obligations under the agreements.

7.6 Approved Financial Instruments

T&IS will comply with the policies above by transacting solely in the approved instruments as listed in Appendix B 'Approved Financial Instruments'.

8. INTEREST RATE RISK

8.1 Definition

Interest rate risk is the risk of reduced income earned on UNSW's interest bearing investments or increased expense incurred on UNSW's borrowings caused by unfavourable movements in interest rates.

8.2 Objectives

To minimise the impact of unfavourable movements in interest rates on UNSW's interest income earned or interest expense incurred.

8.3 Interest rate risk exposure (income)

An interest income budget must be prepared as part of the annual UNSW triennial Budget.

The impact of interest rate risk on interest income is managed on an annual basis against the Budget after prioritising security of investments and liquidity needs. No active hedging of interest income using derivatives will be performed.

8.4 Interest rate risk exposure (expense)

Where the annual UNSW triennial Budget identifies that a material drawn debt balance (A\$5m or more for 6 months or longer) is anticipated or exists T&IS will develop an Interest Rate Risk Management Plan in accordance with the funding plan in section 7.4 of this Procedure unless such a plan already exists. The Plan must be approved by the Director of Finance and the CFO and Vice President, Finance and Operations and adopted by the Finance Committee. The Plan will include:

- Interest rate risk exposure assessment (including assumptions)
- Comparison of the exposure under various scenarios versus the risk appetite of UNSW
- Proposed strategies for managing the interest rate risk in excess of the risk appetite of UNSW including benefits, costs and accounting implications

T&IS will comply with the policies above by transacting solely in the approved instruments as listed in Appendix B 'Approved Financial Instruments'.

8.5 UNSW Investment Portfolio exclusion

Management of the impact of interest rate volatility on UNSW's investment activities governed by UNSW Investment Policy is specifically excluded from this section.

9. FOREIGN EXCHANGE RISK

9.1 Definition

Foreign Exchange Transaction Risk is the risk that UNSW's results are impacted by movements in exchange rates. Gains and losses result from movements in the Australian Dollar value of future foreign currency payments or receipts. In particular UNSW research activities create transaction risk requiring identification and management to protect UNSW from adverse financial impacts to research projects that may necessitate supplementary funding.

Foreign Exchange Translation Risk has to do with the location of assets or cash flows. It is the potential gain or loss resulting from exchange rate movements when financial statements from foreign subsidiaries are translated on consolidation.

9.2 Objective

The foreign exchange risk management objectives are to:

- Identify all material foreign exchange exposures.
- Engage with Faculties, Schools, Departments, Research Centres, Divisions and Nominated Controlled Entities in explaining T&IS role in the identification and management of foreign exchange risks.
- Ensure foreign exchange exposures are tracked, managed and reported in accordance with the limits and policies detailed below.

9.3 Background

9.3.1 Sources of Exposures

UNSW has a number of sources of foreign exchange exposures. These include:

- Foreign currency income associated with research grants
- Foreign currency expenditures associated with research grants
- Annual expenditure associated with the foreign currency subscriptions and publications of the UNSW library
- UNSW operational foreign currency denominated receivables and payables.
- Foreign currency bank account balances are not held as a hedge, including offshore operating accounts of Nominated Controlled Entities.

9.3.2 Identification and Communication of Exposures

T&IS is responsible for initiating communication and the subsequent identification of exposures in collaboration with other UNSW management and staff. T&IS will identify exposures through a number of sources. The main foreign exchange exposures generated within UNSW arise through research activity. T&IS will work closely with Strategic Procurement, the Grants Management Office, faculty General Managers and School Managers to identify the research projects in which foreign exchange risk lies. Due to the complex nature of foreign exchange exposures direct consultation with researchers or General / School Managers to ensure adequate understanding of the risks will be initiated by T&IS.

9.3.3 Measurement of Foreign Exchange Risk

Foreign exchange risk is to be measured with reference to the potential loss to UNSW measured against the appropriate spot rate of aggregate unhedged exposures for all foreign exchange currencies.

A net exposure position per currency combined with a total gross position in Australian dollars should be used for the purposes of measuring overall UNSW exposure to this risk.

Exposures to currency pairs of less than A\$500,000 equivalent may be grouped and modelled using USD parameters as a proxy, to avoid excessive administrative burden. The parameters of the model and data inputs are to be reviewed and updated annually.

All foreign currency income or expenditure of A\$50,000 or more must be both notified to T&IS on a timely basis unless an exemption in writing is obtained from the Director of Finance.

9.3.4 Management Philosophy

Transaction Risk:

Transaction risk has two primary sources:

- **Committed Exposures:** Committed exposures relate to transactions which are highly likely to occur. Committed exposures include research grants awarded in foreign currency, expenditures to which UNSW is contractually bound and assets and liabilities which have been recognised in the accounts.
- **Contingent Exposures:** Contingent exposures are potential exposures identified reasonably likely but not yet committed. Contingent exposures include research grant applications not yet awarded, budgeted expenditures and potential assets and liabilities not meeting accounting recognition criteria.

Translation Risk:

Translation risk has two principal sources:

- Translation of the net investment in foreign operations; and
- Translation of the profits or losses of overseas subsidiaries.

Translation risk must be identified and monitored by T&IS, however it is not the objective of UNSW to hedge translation risks as:

- Foreign operations are considered long-term assets not held for sale;
- The translations of these assets are accounted through the balance sheet and as such do not pose a threat to UNSW's net surplus as reported in the financial statement; or
- The difficulty of forecasting the profits or losses of overseas subsidiaries inhibits the effectiveness of hedging this risk.

9.4 T&IS responsibility

T&IS has sole responsibility for executing foreign exchange transactions on behalf of UNSW. No faculty, division, or Controlled Entity of UNSW is authorised to enter into foreign exchange hedging transactions.

9.5 Policy Limits

T&IS must manage known *committed* foreign exchange transaction risk by restricting the maximum value of committed unhedged foreign currency exposures on a portfolio basis to A\$500,000.

Historical Rate Rollovers of foreign currency contracts are permitted so long as the following criteria are met:

- the maturity date of the FEC occurs prior to the maturity of the underlying cash flow; and
- the reason for any rollover is consistent with the FX strategy outlined with the initial execution of the FX forward.

Historical Rate Rollover mark-to-market valuations shall be matched to the mark-to-market valuation of the underlying cash flow being hedged on a monthly basis and will be signed off by the Director of Treasury and Investment Services. Any valuation variance over a 5% tolerance representing the existence of under / over hedging which may result in a gain or loss will be reported to the Director of Finance with an explanation and action for resolution.

9.6 Activities not permitted

Hedging of more than 100% of underlying exposures is not permitted. In addition, T&IS will not enter into any leveraged transactions.

9.7 Reporting

A foreign exchange exposure report detailing:

- the value of exposures in foreign currency;
- source of exposures;
- all hedges of foreign currency exposure;
- the position against limits detailed in this Procedure; and
- the mark-to-market value of the exposure and hedges,

is to be completed and provided to the Director of Treasury and Investment Services daily, and provided to the Director of Finance monthly.

Any variance between the hedge and the underlying exposure greater than 5% must be explained.

9.8 Approved Financial Instruments

T&IS will comply with the policies above by transacting solely in the approved instruments as listed in Appendix B 'Approved Financial Instruments'.

10. OPERATIONAL RISK

10.1 Definition

Operational risk is the risk of financial loss arising from internal process failure, human error or fraud, systems failure, or other external events.

10.2 Objective

UNSW's objectives when managing T&IS operational risk are:

- To minimise risk through an appropriate level of internal controls and segregation of duties.
- To ensure that well documented procedure manuals are updated and readily available.
- To ensure that T&IS applications have adequate disaster recovery procedures documented and in place.

10.3 Documents and Procedures

To assist in the management of operational risk the following T&IS documents and procedures will be maintained, regularly reviewed and adhered to:

- Documented procedures and controls manual for all T&IS activities; and
- Position descriptions for all staff including roles and responsibilities.

UNSW Internal Audit, subject to their Internal Audit plan, will review every two years the following:

- That segregation of duties are being managed as designed;
- T&IS reporting as required by this Procedure is both timely and accurate; and
- Internal controls to determine if they are effective in mitigating risks identified in this Procedure.

11. LEGAL & POLICY FRAMEWORK

This Procedure supports the [Treasury Policy](#).

12. IMPLEMENTATION

This Procedure will be implemented by the development of associated manuals and guidelines.

12.1 Roles & Responsibilities

The Director of Treasury and Investment Services will ensure that appropriate systems and processes are in place to support this Procedure.

12.2 Support & Advice

Ongoing support and advice on the application of this Procedure may be sought from the Director of Treasury and Investment Services.

12.3 Communication

This Procedure will be communicated to targeted managers across the University.

13. REVIEW

This Procedure will be reviewed as required. Any changes will be approved by the Director of Finance and Director of Treasury and Investment Services.

14. ACKNOWLEDGMENTS

This Procedure was developed in consultation with the specialist Treasury practice of PricewaterhouseCoopers.

Appendix A: History

Version	Authorised by	Approval Date	Effective Date	Sections modified
1.0	Chief Financial Officer/Vice-President, Finance & Operations	31 July 2015	1 August 2015	New Procedure

Appendix B: UNSW NOMINATED CONTROLLED ENTITY

Roles and responsibilities

The scope of the Policy covers UNSW and any Nominated Controlled Entity:

1. It is the responsibility of Group Treasury to:

- a) Inform the Nominated Controlled Entity's most senior finance professional (CFO, controller or equivalent) of the existence of the Policy and this Procedure including providing a signed copy (and relevant updates from time to time).
- b) Work with the Nominated Controlled Entity to set-up and maintain banking and treasury arrangements that meet the requirements of the Policy and this Procedure including timely reporting of transactions and exposures as required.
- c) To deliver efficient and effective support to the Nominated Controlled Entity.

2. It is the responsibility of the Nominated Controlled Entity to:

- a) Read and understand the Policy as it relates to their Nominated Controlled Entity.
- b) Work with the T&IS to set-up and maintain banking and treasury arrangements that meet the requirements of the Policy and this Procedure including the timely reporting of transactions and exposures as required.

Nominated Controlled Entity listing

It is acknowledged that this listing will change from time to time. Additions to the nominated entity listing can be made under the approval of the Director of Finance. Deletions can be made by the Director of Finance if UNSW no longer has a controlling interest in a Nominated Controlled Entity, otherwise Finance Committee approval is required.

Appendix C: APPROVED FINANCIAL INSTRUMENTS

CASH MANAGEMENT

- Bank accounts
- Term deposits
- Negotiable certificates of deposit

FUNDING

- Bilateral bank funding
- Syndicated bank funding

INTEREST RATE RISK MANAGEMENT

- Interest Rate Swaps*
- Cross Currency interest rate swaps – only specifically approved against a debt portfolio*
- Forward starting interest rate swaps – only specifically approved against a debt portfolio*

* Interest Rate Risk Management approved instruments are only permitted as per Policy 8.4.

FOREIGN EXCHANGE RISK MANAGEMENT

- Currency accounts
- Spot foreign exchange
- Forward foreign exchange
- Foreign exchange swaps

OTHER

- Bank guarantees
- Letters of credit

No other financial instruments are permitted without Finance Committee approval.

Appendix D: CREDIT RISK – SOURCES AND MEASUREMENT OF EXPOSURE

INSTRUMENTS	CREDIT RISK MEASUREMENT
CASH MANAGEMENT	
Bank Accounts	100% of Principal*
Term Deposits	100% of Principal*
Negotiable Certificates of Deposit	100% of Principal*
INTEREST RATE RISK MANAGEMENT	
Interest Rate Swaps [^]	Market Value + 1.5% of Principal**
FOREIGN EXCHANGE	
Currency Accounts	100% of Principal*
Spot Foreign Exchange	N/A
Forward Foreign Exchange	Market Value + 7.5% of Principal**
Foreign Exchange Swaps	Market Value + 7.5% of Principal**
Cross Currency Interest Rate Swaps	Market Value + 7.5% of Principal**

*Total credit risk typically includes the principal balance outstanding plus any interest accrued. However, for UNSW measurement and reporting purposes T&IS may simplify the calculation to exclude accrued interest.

[^] Including forward starting interest rate swaps.

**Derivative Credit Exposures:

- Exposure calculation methodology has been determined with reference to APRA standards for calculating derivatives credit charges.
- If the market value is positive, i.e. the transaction is 'in-the-money' for UNSW, the exposure shall be calculated as per above, otherwise the market value shall be reported as zero.
- The above calculations include an adjusting factor to account for market volatility between reporting date and maturity of the instrument. This is based on the underlying market risk (foreign exchange or interest rate).

Appendix E: DEALING APPROVAL LIMITS

In advance of dealing the following written approvals are required to be in place:

Staff	Money Market Transactions	Foreign Exchange Transaction	Interest Rate Transactions
Director of Finance	Up to Policy credit limit	Above A\$25m	Above A\$25m
Director of Treasury and Investment Services	Up to Policy credit limit	A\$25m	A\$25m
Deputy Treasurer	Up to Policy credit limit	A\$5m	A\$5m

*All values above refer to the notional principal values of transactions (AUD equivalent).

Appendix F: SUMMARY OF POLICY REPORTS

CREDIT RISK

- Authorised active counterparties
- Position against credit limits
- Changes to credit ratings (including outlook) of active counterparties

LIQUIDITY RISK

- Current deposit maturity profile
- Current and recent past liquidity position
- A cash flow forecast including performance against actuals and detailed variance analysis
- Forecast 'on-call' cash balance and/or committed undrawn credit facilities
- Performance against benchmark return

INTEREST RATE RISK

- Annual budget to be prepared and performance to be monitored against it.
- Net interest rate maturity profile table: A table detailing interest bearing assets and liabilities grouped into maturity buckets - Monthly.
- Interest income / expense against budget and the sources of variance – Monthly

FOREIGN EXCHANGE RISK

- Monthly reporting of exposures detailing:
 - Source (including hedging contracts)
 - Positions against limits (before and after hedging)
 - Mark to Market (including independent valuation of derivatives against limits).