THE UNIVERSITY OF QUEENSLAND
AUSTRALIA

Foreign Exchange Risk Procedure

Section 1 - Purpose and Scope

(1) This Procedure outlines how The University of Queensland (UQ) minimises its exposure to financial risks related to foreign currency transactions. UQ’s Finance and Business Services Division manages an Internal Hedging Scheme (IHS) to allow Organisational Units to fix the future foreign currency exchange rates of a transaction and assist with budget certainty.

(2) The Procedure applies to all UQ staff proposing to undertake a financial transaction in a foreign currency and access UQ’s IHS.

Section 2 - Process and Key Controls

(3) The Corporate Finance unit within Finance and Business Services centrally manages UQ’s Internal Hedging Scheme (IHS).

(4) Organisational Units undertaking transactions in foreign currency:

a. that are greater than AUD $500,000; and
b. where payment is due within a 12 month period

may contact Corporate Finance before undertaking the transaction.

(5) Applications from Organisational Units to access UQ’s IHS are to be made using Corporate Finance's approved application form.

(6) Organisational Units are not permitted to hedge transactions with external financial institutions (e.g. banks).

Section 3 - Key Requirements

Internal Hedging Scheme (IHS)

(7) Organisational Units undertaking transactions in foreign currency greater than AUD $500,000 and transacting within a 12 month period may access UQ’s Internal Hedging Scheme (IHS).

(8) Use of the scheme gives budget holders in Organisational Units the option to fix the future foreign currency rates of a transaction to provide budget certainty. UQ will only use hedging as a means of providing budget certainty. Opinions or market speculation on the future direction of an exchange rate will not determine if a foreign currency exposure should be hedged.

(9) Before considering hedging, applicants should be aware of the associated risks. While fixed foreign exchange rates remove all downside risk for a given transaction, they also remove the opportunity to otherwise benefit from potentially improved markets rates at the time of settlement.

Forward Exchange Contract

(10) In addition and separate to the IHS, Corporate Finance may enter into a Forward Exchange Contract to moderate UQ's foreign exchange exposure on a general/corporate level. All external foreign currency forward contracts and option contracts will be entered into only with banks on the approved foreign exchange counterparty list in the appendix of this Procedure.

Applications to IHS

(11) Organisational Units may apply to Corporate Finance to access the IHS. Applications to access the IHS must be made using the form approved by Corporate Finance.

(12) The decision to access the IHS is at the discretion of the Organisational Unit. Corporate Finance will not speculate on foreign currency forecasts or provide general recommendations to Organisational Units considering accessing the IHS.

Extensions

(13) Hedging arrangements under the IHS may be extended by up to two months of the settlement date.

(14) Organisational Units may apply to Corporate Finance to extend a hedging arrangement using the approved form.

(15) Extensions beyond two months may require a new hedging arrangement to be entered into and the existing hedging arrangement will be closed by Corporate Finance.

Notifying Changes

(16) The Organisational Unit must notify Corporate Finance if it becomes aware that the transaction in foreign currency:

a. will not proceed;
b. has changed in such a way that either the amount or date of payment are no longer relevant; or
c. has changed in such a way that it would affect UQ’s ability to fulfil its obligations at settlement.

Closure and Settlement

(17) Hedging arrangements entered into under the IHS are irrevocable and the agreed fixed rate will be applied regardless of prevailing market foreign exchange rates on the date of settlement.

(18) On settlement of a hedged transaction, all foreign exchange gains and losses will be reflected in the Organisational Unit’s account nominated in the application form. In no circumstances will resulting exchange gains and losses be realised in central accounts.

Section 4 - Roles, Responsibilities and Accountabilities

Corporate Finance unit

(19) The Corporate Finance unit within Finance and Business Services is responsible for:

a. managing UQ’s Internal Hedging Scheme (IHS) and Forward Exchange Contracts (FEC); and
b. journaling foreign exchange gains or losses to the relevant Organisational Unit account upon settlement of a

hedged transaction.

Organisational Units

(20) Organisational Units are responsible for:

a. notifying Corporate Finance where it anticipates a foreign currency commitment greater than AUD $500,000 within a 12 month period;
b. applying to access UQ’s IHS using Corporate Finance's prescribed form;
c. reviewing transactions in foreign currency to ensure they remain as per the terms described in the IHS application; and
d. notifying Corporate Finance if the terms of the transaction in foreign currency have or are likely to change from the terms described in the IHS application (e.g. the amount or timing of the transaction has changed).

Chief Financial Officer

(21) The Chief Financial Officer is responsible for reviewing and approving all UQ IHS applications.

Section 5 - Monitoring, Review and Assurance

(22) Corporate Finance will assess compliance with this Procedure via a range of mechanisms including:

a. ensuring applications are in accordance with this Procedure;
b. declining IHS applications where conditions for participation are not met;
c. ensuring hedged transactions are settled in accordance within agreed terms;
d. maintaining appropriate records for all internal hedging arrangements.

(23) Corporate Finance will review this Procedure periodically to ensure that it is current and relevant, and that it provides for efficient and effective management of foreign exchange risk at UQ.

Section 6 - Recording and Reporting

(24) Corporate Finance will maintain a record of all UQ IHS applications and hedged transactions.

Section 7 - Appendix

Definitions

Term	Definition
Foreign Currency	Any currency other than the Australian Dollar (AUD).
Forward Exchange Contract	An agreement between two parties to exchange a specified amount of one currency for another currency at a specified foreign exchange rate on a future date.
Hedging	Currency hedging is a financial management practice that reduces or removes the risk of incurring losses through movements in a currency exchange rate.
Staff	Continuing, fixed-term, research (contingent funded) and casual staff members.

Approved Foreign Exchange Counterparty List

Financial Institution	Rating Range Long Term S&P	Total Exposure Limit ($)	Daily Settlement Limit ($)
ANZ Banking Group	AA-	25 million	5 million
Commonwealth Bank	AA-	25 million	5 million
National Australia Bank	AA	25 million	5 million
Westpac Banking Corporation	AA-	25 million	5 million
Bank of Western Australia	A+	10 million	2 million
Macquarie Bank	A	10 million	2 million
St George Bank	A	10 million	2 million

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