

# TREASURY MANAGEMENT PROCEDURES 2014

**Issued by:** Chief Financial Officer

**Date:** 15 September 2014

**Date Amended:** 31 May 2017 (administrative amendments)

**Signature:**

**Name:** Mark Easson

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## 1 Purpose and application

- (1) These procedures are to give effect to the Treasury Management Policy 2014 (“the Policy”).
- (2) These procedures apply to all staff involved in treasury management functions.

## 2 Commencement

These procedures commence on 11 September 2014.

## 3 Interpretation

- (1) Words and phrases used in these procedures and not otherwise defined in this document have the meanings they have in the policy.

**ALCO** means the Asset and Liability Committee.

**authorised hedging instruments** means financial instruments approved as such by the Chief Financial Officer in these procedures.

**CFO** means the Chief Financial Officer.

**FAC** means the Finance and Audit Committee of Senate.

**FCT** means the Financial Control and Treasury unit in financial services.

**ICM** means the Investment and Capital Management unit in financial services.

<b>interest rate swap</b>	means an agreement to pay (or receive) a stream of interest cash flows (fixed) and receive (or pay) another stream of interest cash flows (floating). These contracts may be used to achieve a mix of fixed and floating rate debt funding.
<b>option</b>	means a financial derivative that represents a contract sold by one party (option writer) to another party (option holder). The contract offers the buyer the right, but not the obligation, to buy (call) or sell (put) a security or other financial asset at an agreed-upon price (the strike price) during a certain period of time or on a specific date (exercise date).

## 4 Organisation structure and responsibilities

### (1) Organisation Structure

- (a) Financial risk management organisational structure consists of:
- (i) Senate;
  - (ii) Senate Finance and Audit Committee (FAC);
  - (iii) Asset and Liability Committee (ALCO);
  - (iv) The Chief Financial Officer (CFO);
  - (v) Financial Control and Treasury (FCT); and
  - (vi) Investment and Capital Management (ICM).
- (b) The governance structure is shown in Schedule 1 to these procedures.

### (2) Responsibilities

- (a) **The Asset and Liability Committee (ALCO)**
- (i) The primary role of ALCO is to monitor and strategically manage balance sheet financial risk, with specific accountability for the management of the cost of the borrowing program. The ALCO terms of reference are provided in schedule 2 to these procedures;
  - (ii) ALCO is responsible for management of the University's debt liability, in accordance with clause 9(3) of the policy;
  - (iii) ALCO is responsible for ensuring compliance with the contractual obligations associated with debt facilities, and management of other financial risks; and
  - (iv) ALCO is responsible for developing a suite of reliable indicators of the interest rate cycle and make use of suitable advisory inputs for decision making.
- (b) **The Chief Financial Officer (CFO)**
- The CFO is responsible for managing treasury, investment and capital management activities, including specifically:
- (i) review and endorse to the Vice-Chancellor and FAC the policy;
  - (ii) develop and maintain plans for managing unforeseen events which may curtail cash flows and cause pressure on liquidity as specified in clause 8(1) of the policy;

- (iii) review and endorse to FAC, the annual funding and risk management strategy paper for inclusion in the annual budget as specified in clause 8(2) of the policy;
- (iv) review and endorse interest rate performance benchmark, for approval by FAC;
- (v) review and approve treasury operational procedures as needed;
- (vi) review and report on internal compliance systems and controls;
- (vii) approve interest rate risk management strategies;
- (viii) review and approve new financial instrument types and techniques for managing financial exposures;
- (ix) review compliance and performance reports;
- (x) approve a variation or replacement of existing borrowing facility, in line with the policy;
- (xi) review and endorse new counterparties or an amendment to counterparty limits; and
- (xii) review and endorse formal financier briefings and reports.

(c) **Financial Control and Treasury (FCT)**

FCT is responsible for supervising the development of treasury management Policy and Procedures and the financial control of treasury activities, including the following:

- (i) preparing cash flow forecasts;
- (ii) activities related to borrowing;
- (iii) reviewing interest rate risk management activities associated with the borrowing;
- (iv) reporting to the CFO immediately on notice of all breaches of the Policy, and any corrective action taken;
- (v) reviewing the policy and procedures and making recommendations for any amendment;
- (vi) in conjunction with ICM, preparing an annual funding and risk management strategy paper for the CFO and FAC, for inclusion in the annual budget;
- (vii) in conjunction with ICM, developing risk management plans and requirements for CFO, FAC or NSW Treasury;
- (viii) preparing and reviewing monthly reports for the CFO and ALCO as required by clause 13 of the Policy, and performance reporting;
- (ix) ensuring that accurate records of the treasury financial risk management activities are maintained;
- (x) ensuring that control procedures, set out in these procedures are implemented;
- (xi) in conjunction with the Head, ICM, managing the relationships with financial institutions and rating agencies;
- (xii) preparing financier briefings and reports; and
- (xiii) ensuring all business units are aware of their responsibilities under the policy.

(d) **Investment and Capital Management (ICM)**

ICM is responsible for developing and implementing approved financial risk management activities, supervising and implementing all other investment activities. These include:

- (i) managing short term, medium term, and long term funds;
- (ii) developing asset and liability management strategies;
- (iii) developing an appropriate performance benchmark for consideration by ALCO in accordance with clause 9(2) of the policy;
- (iv) executing transactions;
- (v) ensuring cash flow liquidity levels are achieved;
- (vi) ensuring risk is managed in line with the policy and procedures;
- (vii) in conjunction with FCT, preparing an annual funding and risk management strategy paper for the CFO and FAC, for inclusion in the annual budget;
- (viii) in conjunction with FCT, developing risk management plans and requirements for CFO, FAC or NSW Treasury;
- (ix) in conjunction with the FCT, managing the relationships with financial institutions and rating agencies;
- (x) ensuring the integrity of data supplied to FCT for all treasury transactions; and
- (xi) reporting on benchmarks.

(e) **Schools, faculties, University Schools and organisational units**

The responsibilities of the schools, faculties, University Schools and organisational units include:

- (i) providing cash flow forecasting to FCT in a timely and accurate manner, including details of material variations;
- (ii) ensuring that accurate cash flow records are maintained;
- (iii) ensuring the integrity of data supplied to FCT and ICM;
- (iv) identifying foreign currency transactions and other risk exposures and notifying ICM immediately in accordance with clause 10(3) of the policy; and
- (v) seeking recommendations from FCT or ICM on risk exposures where appropriate.

## **5 Managing liquidity and funding risk**

(1) Measurement

- (a) Liquidity risk will be measured by comparing projected total cash requirements against total cash resources.
- (b) Projected total cash requirements will take the following into account:
  - (i) existing debt maturity profile;
  - (ii) net operating cash outflows;

- (iii) net capital cash outflows including funding costs;
    - (iv) committed project or capital expenditure; and
    - (v) any liquidity reserve.
  - (c) Cash resources will take into account unrestricted financial assets and other available committed asset sales, net operating cash flows, and undrawn facilities.
- (2) Management
- (a) The business process for loan drawdowns is shown in Schedule 3 to these procedures.
  - (b) The University's cash flow and debt management will be based on detailed cash flow forecasting on a weekly basis for the current financial year, and on a monthly basis for the following financial year and on a yearly basis out to 5 years.
  - (c) Cash resources (including any facilities) must be maintained to ensure there is sufficient cash resources to cover the maximum projected cash requirements for 12 months.
  - (d) The University's bank balance will be managed on a daily basis, with cash balances exceeding weekly working capital needs invested in accordance with limits approved by the Senate Investment and Commercialisation Committee from time to time.
- (3) Reporting
- (a) FCT will provide monthly reports to ALCO on liquidity and funding for the University. A snapshot summary of the status of the various sources of liquidity and funding risk, as specified in clause 8 of the policy, will be presented in the report.
  - (b) FCT will also report to ALCO on:
    - (i) covenants if any, including stress testing;
    - (ii) available facilities with debt providers or programs; and
    - (iii) counterparty exposures and corresponding limits.

## **6 Managing interest rate risk**

- (1) Measurement
- (a) The fixed and floating interest rate exposure will be measured using:
    - (i) the authorised ranges for fixed and variable interest rate exposure set out in clause 9(3)(b) of the Policy; and
    - (ii) the annual performance benchmark approved by FAC.
  - (b) All interest rate swaps, debt and options will be taken into account when determining the fixed and floating interest rate exposure.
  - (c) Fixed interest cover will be measured using an average of quarterly (ie, an observation every 3 months) observations over the relevant period.

- (2) Management
  - (a) The business process for managing interest rate risk is shown in Schedule 4 to these procedures.
  - (b) The maximum duration of instruments utilised in interest rate risk management is limited by the terms of any underlying debt program, the availability of appropriate instruments in financial markets, and/or any natural hedging offset.
  - (c) Interest rate risk management strategies will be approved by the CFO in writing.
  - (d) ICM will execute transactions required to implement the approved interest rate risk management strategy.
  - (e) ICM will provide FCT with all information required for treasury management reporting.
- (3) Reporting
  - (a) FCT will report to ALCO monthly on risk management activities, including positions, compliance, stress testing on interest coverage, performance against benchmarks and compliance, including any breaches of the policy or procedures.

## 7 Managing foreign exchange risk

- (1) Measurement
 

All committed foreign currency exposures over AUD\$200,000 must be reported immediately to ICM by the relevant department, faculty or organisational unit.
- (2) Management
  - (a) ICM will determine an appropriate hedging strategy by negotiating with the relevant department, faculty or organisational unit.
  - (b) ICM will execute the transaction and forward the documentation to FCT.
- (3) Reporting
 

FCT will report to ALCO monthly, the level of exposures and the associated hedges, and compliance with hedging limits as well as any breaches of the policy or procedures.

## 8 Managing counterparty credit risk

- (1) Measurement
  - (a) The approved counterparty credit exposure limits are provided in Schedule 5 to these procedures.
  - (b) Credit utilisation of authorised instruments will be measured in accordance with the following table:

Instrument	Credit Utilisation
Non-discounted Cash Securities	Full face value plus accrued interest

<b>Instrument</b>	<b>Credit Utilisation</b>
Foreign Exchange- Forward	Market gain plus add on: 1 year or less add on: 5% 1 to 5 years add on: 7.5% Over 5 years add on: 10%
Interest Rate Swaps	Market gain plus add on: 1 year or less add on: 2.5% 1 to 5 years add on: 3.75% Over 5 years add on: 5%
Interest Rate options /swaptions	Market gain plus add on: 1 year or less add on: 2.5% 1 to 5 years add on: 3.75% Over 5 years add on: 5%

(c) New or amended limits

Amendments to counterparty limits, or approvals for temporary increases, must be approved in writing by the CFO and include:

- (i) the existing and proposed limit; and
- (ii) the reason for the proposed change.

(2) Management

- (a) ICM will provide FCT with monthly valuations of all open hedging transactions.
- (b) FCT will reconcile ICM valuations to monthly counterparty reports and compare exposures to counterparty limits.

(3) Reporting

- (a) Compliance with counterparty limits will be reported monthly to ALCO including any breaches, action taken to rectify the breach or approval for the breach.

## **9 Managing treasury operational risk**

(1) Roles and responsibilities

- (a) Roles and responsibilities of FCT and ICM are shown in Schedule 6 to these procedures.
- (b) ICM will obtain all necessary internal and external approvals to support transactions and financial arrangements for the management of financial risks.
- (c) All recommendations for the utilisation of new financial instruments and arrangements will be approved by the CFO in writing, and include:
  - (i) the rationale for use of the instrument or technique;
  - (ii) any changes in policies needed to ensure that utilisation of the new instrument or arrangement will be effective;

- (iii) the risks (including all costs) associated with the instruments or arrangement;
    - (iv) the systems and procedures which will be used to monitor activities in that instrument or arrangement; and
    - (v) the accounting policies relating to the use of that instrument or arrangement.
  - (d) Authorised hedging instruments are provided in Schedule 7 to these procedures.
- (2) Management
  - (a) The business process for managing treasury operational risk associated with the payment of debt interest and fees is shown in Schedule 8 to these procedures.
  - (b) FCT will manage transactional banking centrally, including:
    - (i) maintaining bank accounts;
    - (ii) negotiating facilities for automatic and manual transfers of funds;
    - (iii) requesting the operation of any service to any account;
    - (iv) acting as authorised person or verifying officer in relation to accounts;
    - (v) issuing instructions to a bank regarding manual payments, safe custody or security procedures;
    - (vi) negotiating and executing facilities or limits required to optimise bank account structure (i.e. 'daylight' or 'real time gross settlement' limits); and
    - (vii) co-ordinating the installation of software to facilitate management and reconciliation of any account.
- (3) Reporting
  - (a) The objectives of treasury management reporting are to:
    - (i) provide information on the financial exposures of the University and their management;
    - (ii) provide information to ALCO concerning compliance with the policy;
    - (iii) monitor the performance of financial risk management; and
    - (iv) provide information to enable ALCO to make appropriate decisions about the University's financial risk management activities and objectives.
  - (b) FCT will provide the following reports to ALCO:
    - (i) a monthly debt funding report, including analysis of:
      - (1) details of liquidity, funding and cash flow projections;
      - (2) the effective exposure of approved instruments;
      - (3) the type of instrument, ie, forwards, swaps, options;
      - (4) the date of their maturity.
    - (ii) a monthly report which is a subset of the monthly management report, including high level analysis of debt facilities, related interest payments and other related information as required.
    - (iii) a quarterly report, including analysis of:



- (1) a sensitivity analysis of interest rate exposures and foreign exchange exposures;
  - (2) details of authorised counterparty credit limits and usage;
  - (3) compliance with the policy and procedures;
  - (4) analysis of performance against benchmarks; and
  - (5) the results of any covenant stress testing.
- (c) ALCO will report to FAC as required on:
- (i) the annual budget, including recommendations for minimum liquidity reserve;
  - (ii) recommendations for changes in the policy or procedures;
  - (iii) a recommendation of an annual interest rate performance benchmark as required by clause 9.2 of the policy, and the basis for its establishment;
  - (iv) any risk management strategies that require approval;
  - (v) recommendations for any variation or replacement of existing debt facility;
  - (vi) compliance with the policy and procedures;
  - (vii) the results of the liquidity stress test;
  - (viii) the business case for new financial instruments; and
  - (ix) any changes in counterparty limits.

## NOTES

### Treasury Management Procedures 2014

Date adopted:

Date registered:

Date commenced: 11 September 2014

Date amended: 31 May 2017 (administrative amendments only)

Administrator: Chief Financial Officer

Review date: 11 September 2019

Related documents: Treasury Management Policy 2014

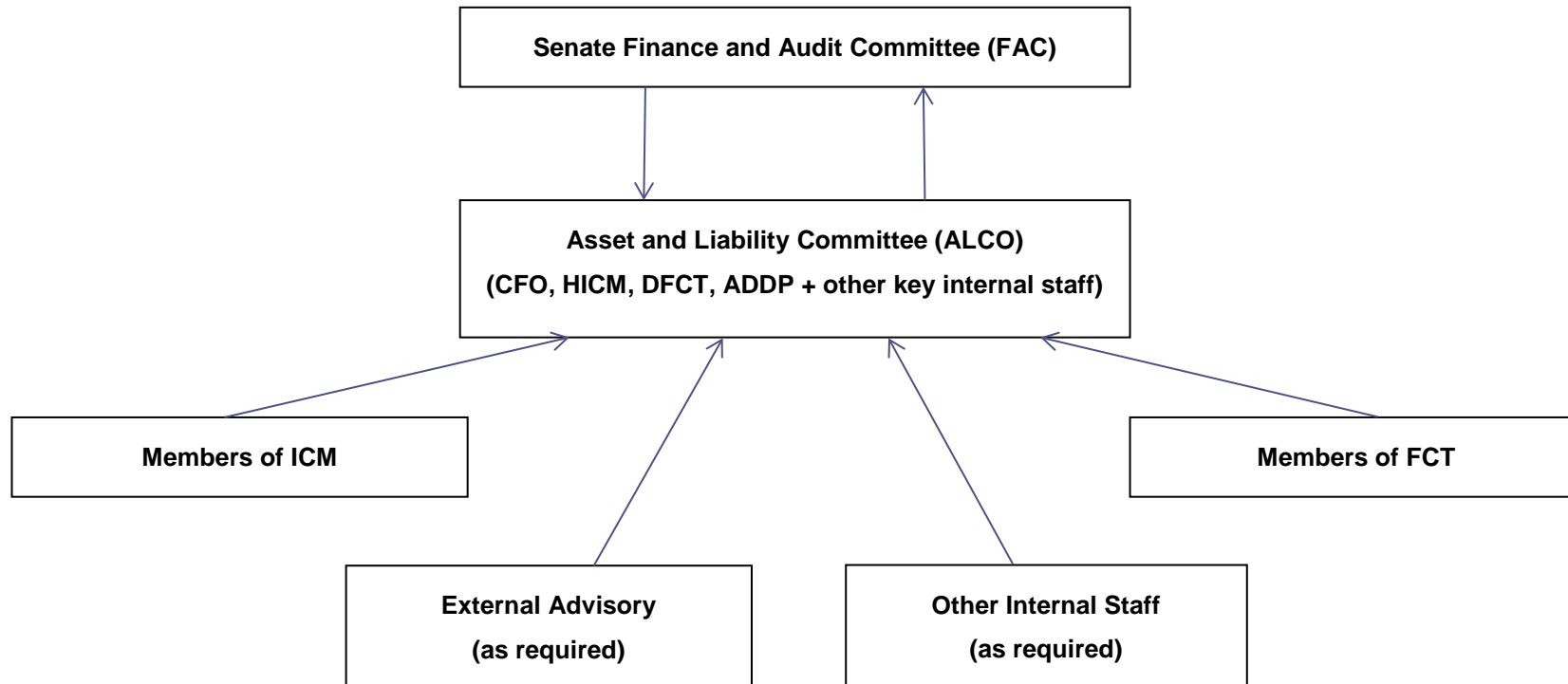
Investment Policy

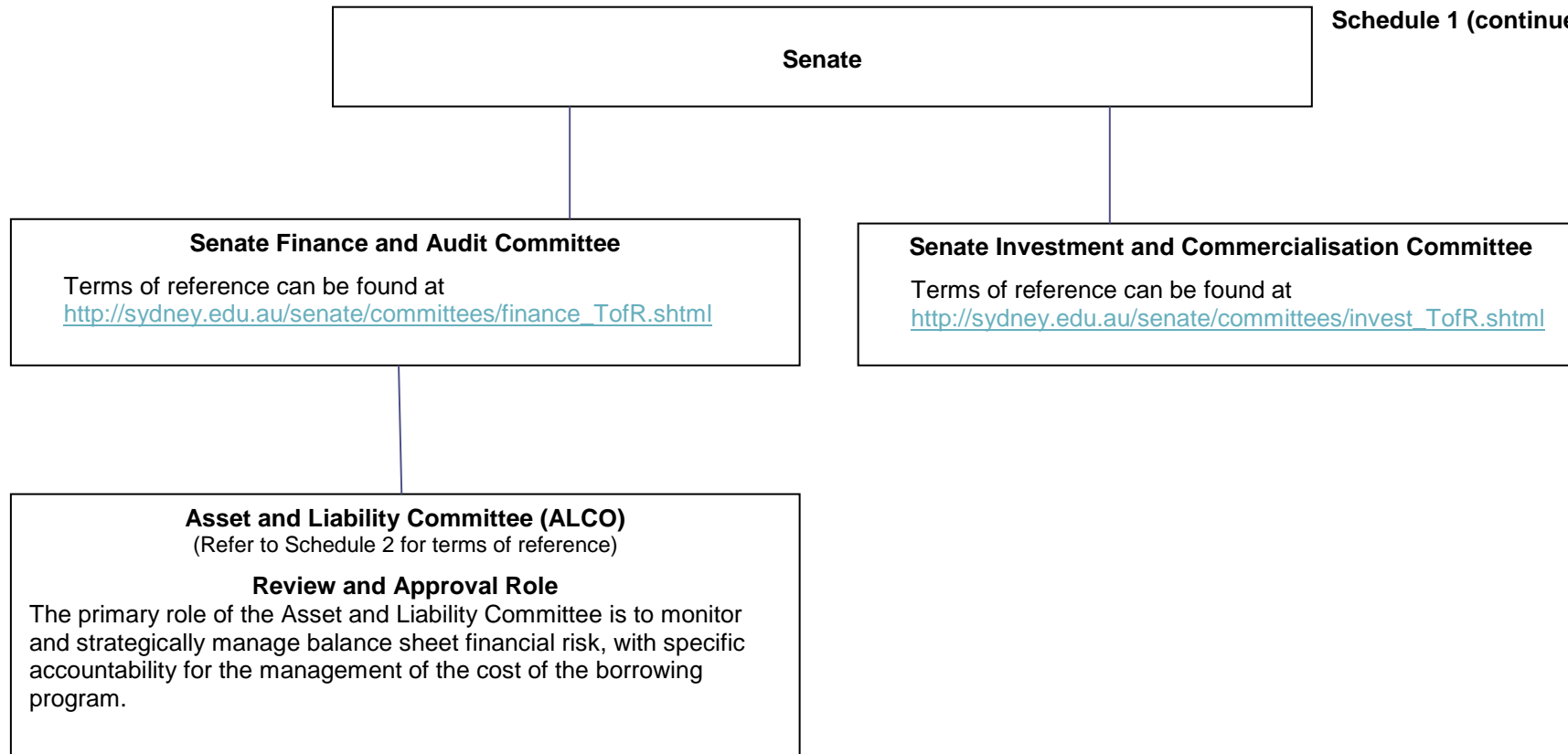
Procurement Policy

## **AMENDMENT HISTORY**

<b>Provision</b>	<b>Amendment</b>	<b>Commencing</b>
5.2 and 6.1.c	Clarification of wording.	11 September 2014
4(2)(e)	Amendments relating to organisational design changes	31 May 2017

## SCHEDULE 1: GOVERNANCE STRUCTURE FOR TREASURY RISK MANAGEMENT





## **SCHEDULE 2: Asset and Liability Committee (ALCO) Terms of Reference**

### **Purpose**

The primary role of the Asset and Liability Committee is to monitor and strategically manage balance sheet financial risk, with specific accountability for the management of the cost of the borrowing program.

The Asset and Liability Committee will report to and support the Senate Finance and Audit Committee in fulfilling its governance role of monitoring and overseeing the financial risk associated with the University's balance sheet, optimising the core activities of the University and enhancing long term sustainability.

The Asset and Liability Committee is responsible for determining interest rate risk management strategies and their tactical implementation, and monitoring the reporting of the positions taken.

Key areas of oversight include:

- effective management of the University's balance sheet risk, including financial, capital management, and liquidity risks;
- explicit monitoring of liabilities, including risks arising from any borrowing program;
- other identified significant issues pertaining to asset/liability risk.

### **Specific Duties and Responsibilities**

- Monitor current areas of greatest financial and capital management risk, including cash flow and liquidity, and monitor how those risks are being managed, including reporting protocols, support systems, organisational accountabilities, auditing and review processes.
- Satisfy itself that effective risk monitoring systems are established and maintained to manage identified financial and capital management risks.
- Satisfy itself with regards to the integrity and prudence of management control systems, including the consideration of policies and/or practices.
- Report to the Senate Finance and Audit Committee on any matters pertaining to the balance sheet it identifies that might have significant impact on the financial condition, reputation or affairs of the University.
- Review and monitor risks inherent in any borrowing program and recommend appropriate risk management strategies including, but not limited to, interest rate risk, foreign exchange risk, refinancing risk and operational risks that may be related to debt covenants.
- Oversee the strategic deployment and utilisation of assets and liabilities, including methodologies for allocation of capital funding and prioritisation of projects.

## Schedule 2 (continued)

### **Membership**

Chief Financial Officer (Chair)

Head, Investment and Capital Management

Director, Commercial Subsidiaries

Associate Director, Debt Investments

Director, Corporate Finance

Director, Financial Control and Treasury

External Advisor

### **Quorum**

At any meeting of the Committee any four members, including one of either the Chief Financial Officer or the Head, Investment and Capital Management, will constitute a quorum.

### **Meetings**

The Committee meets monthly or more frequently if necessary.

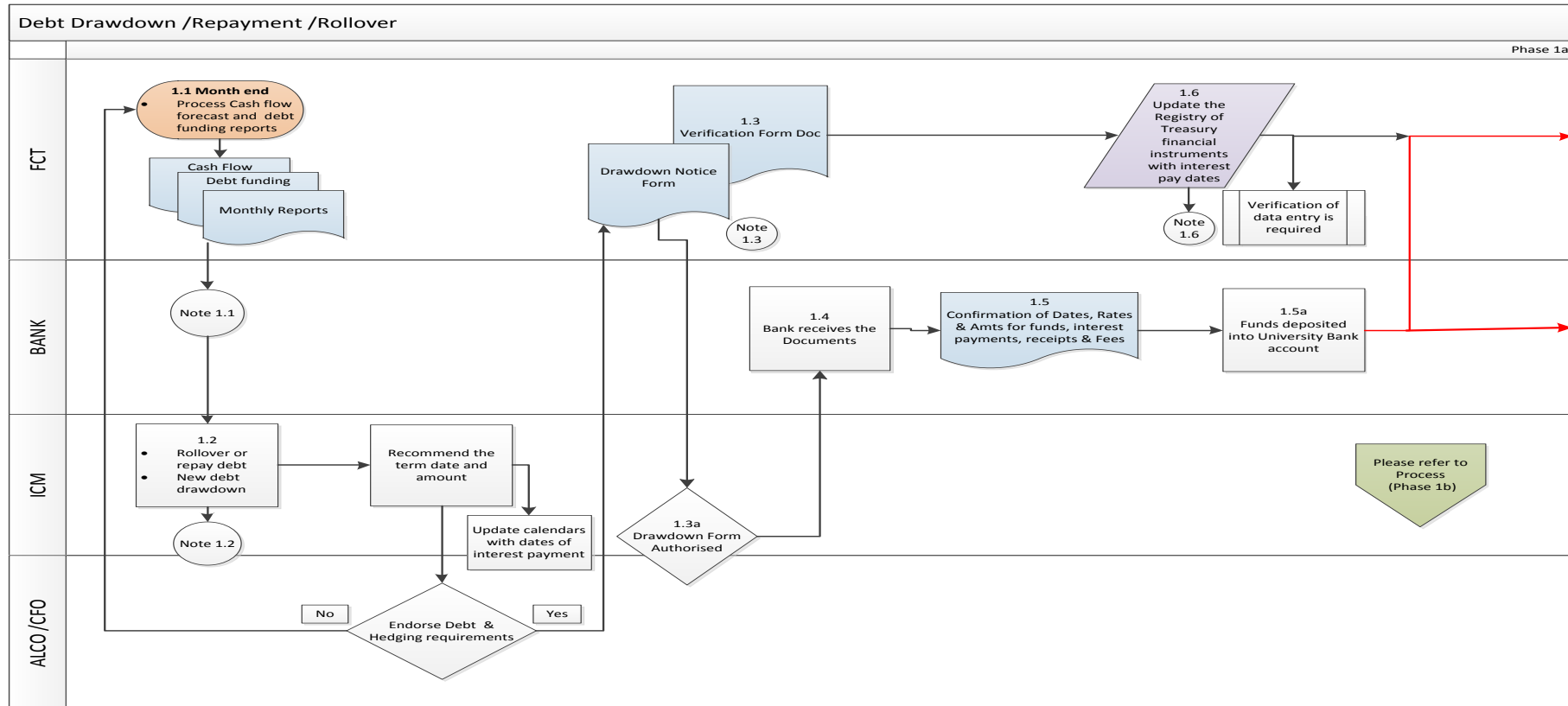
### **Reporting to Senate Finance and Audit Committee**

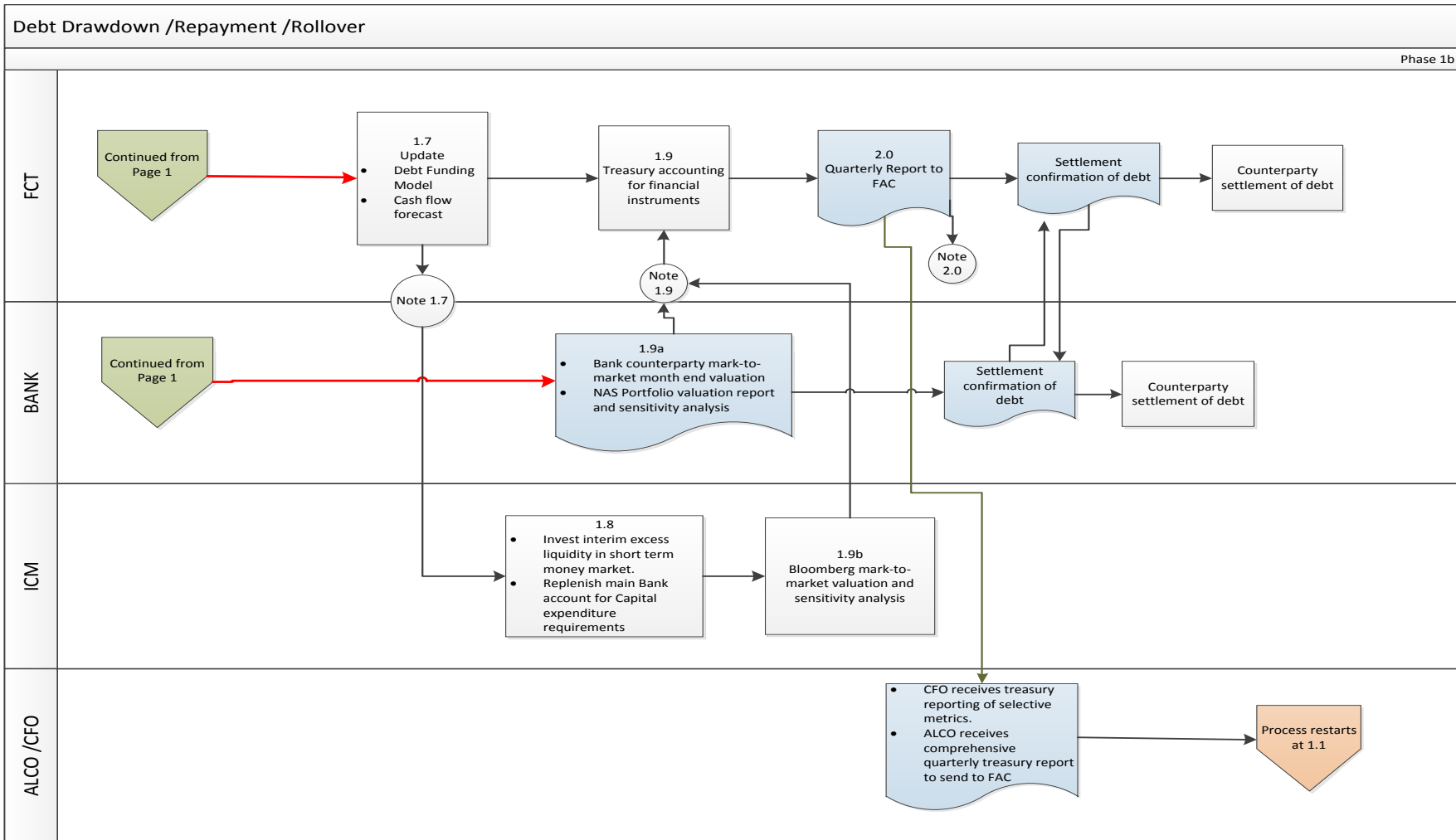
Minutes of the Asset and Liability Committee meetings will be provided to the Senate Finance and Audit Committee in addition to any reports as requested.

### **Secretary to the Committee**

Associate Director, Debt Investments, Investment and Capital Management

### SCHEDULE 3: LOAN DRAWDOWN BUSINESS PROCESS







### **Notes to Schedule 3:**

Event : \$500m Bank Debt facility is available with drawdown multiples of \$10m.

Note 1.1 Incorporates all usual weekly / monthly cash flow forecast inputs including CIS capex. Cash Flow and Debt Funding Forecasts are distributed by FCT to CFO and ICM (currently ALCO members).

Note 1.2 Amount to be drawn down and Interest period recommended

Note 1.3 At least by 11am two days prior to proposed draw down date. Notice specifies debt amount, interest period and signed by Authorised Officer of the University as listed on Verification Certificate in Debt Facility Agreement.

Note 1.5 Funds can only be deposited to the University's main Bank account.

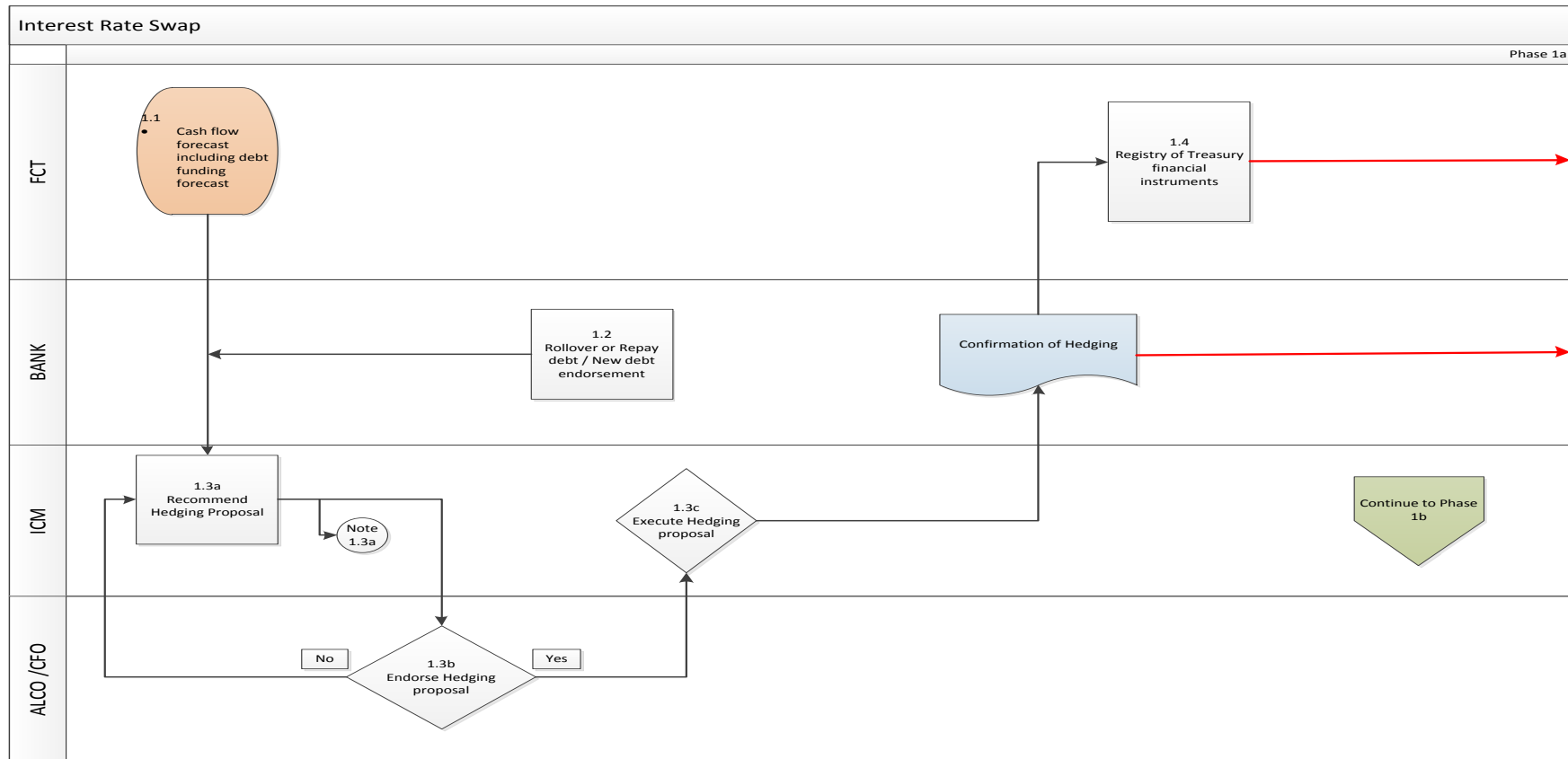
Note 1.6 Registry of treasury financial instruments includes debt tranches, interest rate swaps and other derivatives. At present updating will be done manually in Excel including due dates for notices, settlements and amounts. Implementation of Treasury Management System software may be considered in the future.

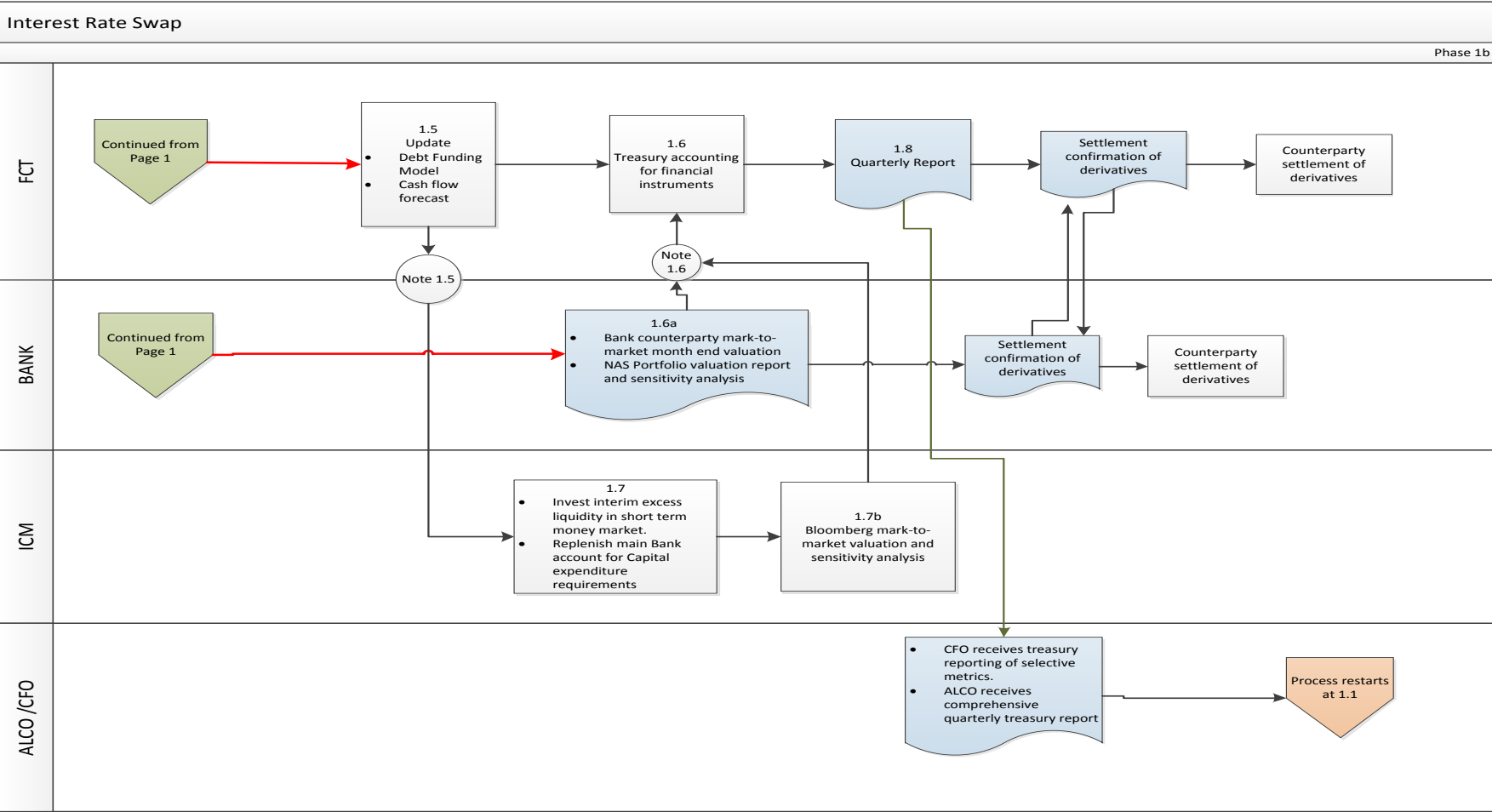
Note 1.7 Financial modelling of treasury transactions including debt tranches and interest rate swaps. Contains calculations of expenditure incurred and income earned as well as forecasting of contractual and future settlements (gross cash inflows and outflows).

Note 1.9 Treasury accounting for debt and derivative financial instruments from accruals of income and expenditure, mark-to-market revaluations to settlements. Processes will be manual until a Treasury management software solution is deployed.

Note 2.0 Quarterly Report send to FAC includes benchmark reporting by ICM

## SCHEDULE 4: INTEREST RATE RISK BUSINESS PROCESS





**Notes to Schedule 4:**

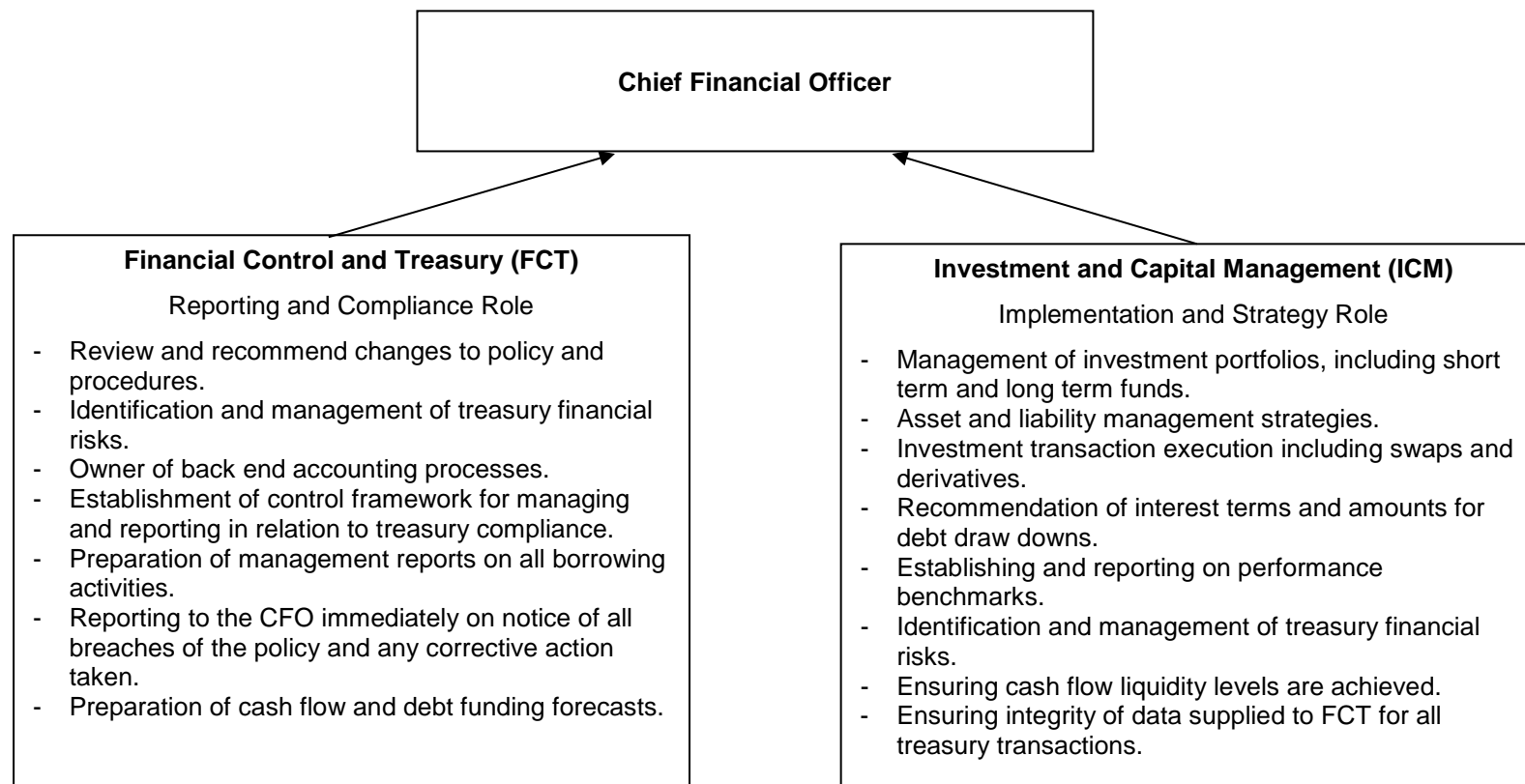
- Note 1.3a Execution of Interest Rate Swap to hedge interest rate risk on debt drawdown, where floating interest rate period and basis matches debt drawn, as well as tenor and notional within approved ranges per Treasury Management Policy and Procedures. Also approved bank counterparties includes lending bank.
- Note 1.5 Financial modelling of treasury transactions including debt tranches and interest rate swaps. Contains calculations of expenditure incurred and income earned as well as forecasting of contractual and future settlements (gross cash inflows and outflows).
- Note 1.6 Treasury accounting for debt and derivative financial instruments from accruals of income and expenditure, mark-to-market revaluations to settlements. Processes will be manual until a Treasury management software solution is deployed.

## SCHEDULE 5: COUNTERPARTY CREDIT EXPOSURE LIMITS

Limits are set having regard to the long-term credit rating for each counterparty.

<b>Authorised Counterparties</b>	<b>Long Term S&amp;P Rating</b>	<b>Limit</b>
NAB	AA-	\$100 million
ANZ	AA-	\$100 million
CBA	AA-	\$100 million
Westpac	AA-	\$100 million
Other regulated banks	≥A-	\$40 million

## SCHEDULE 6: ROLES AND RESPONSIBILITIES OF FCT AND ICM



## SCHEDULE 7: AUTHORISED HEDGING INSTRUMENTS

The following lists the financial instruments which are currently authorised for use to manage financial risk:

(1) Foreign exchange products:

(a) FX spot

Is the purchase of one currency with a different currency for the immediate delivery (usually 2 working days). It will be used when an exposure has not been hedged (amounts under \$50K will be processed through the online banking system).

(b) FX forward

Is the purchase of one currency with a different currency for future delivery, at a predetermined price. These contracts will be used for hedging certain (committed) exposures.

(c) FX swap

Is the purchase of one currency against another at an initial date and an agreement to reverse that transaction at a future date at the same rate plus forward points.

These contracts will be used when forward contracts need to be moved to a date further out to match the timing of the underlying commitment, or when there is a timing difference between when foreign currency is received and when it needs to be paid.

(2) Interest rate instruments:

(a) Interest rate swaps

Is a contract in which a party agrees to pay a stream of interest cash flows (floating or fixed) and receive another stream of interest cash flows (fixed or floating). These contracts will be used to achieve a fixed cost of debt funding.

(b) Interest Rate Options (Caps) - purchased.

Options may only be sold under the following circumstances:

- (i) to close out an existing purchased option; or
- (ii) to construct a collar, where the bought and sold options have the same terms and conditions.

Bought caps are a right to receive payments at the end of each period (e.g. 90 day rolls) when the reference interest rate (e.g. 90 day BBSW) exceeds the agreed strike rate.

Caps may be used in conjunction with swaps to reduce volatility in the University's interest rate exposure. These contracts will be used when there is a preference to lock in a maximum interest cost on debt funding, while maintaining the ability to participate in a fall in interest rates.

## Schedule 7 (continued)

Caps may also be used for hedging of forecast (uncommitted) debt, given the buyer has no obligations (potential liabilities) past the upfront premium (cost). Therefore, if the underlying debt is not raised, the University is not left with potentially unlimited liability.

Collars are not permitted on hedging forecast (uncommitted) debt, given that the floor (sold option), is an obligation (unknown liability) to pay a counterparty each roll over date if the reference rate (90 day BBSW) is less than the agreed strike rate.

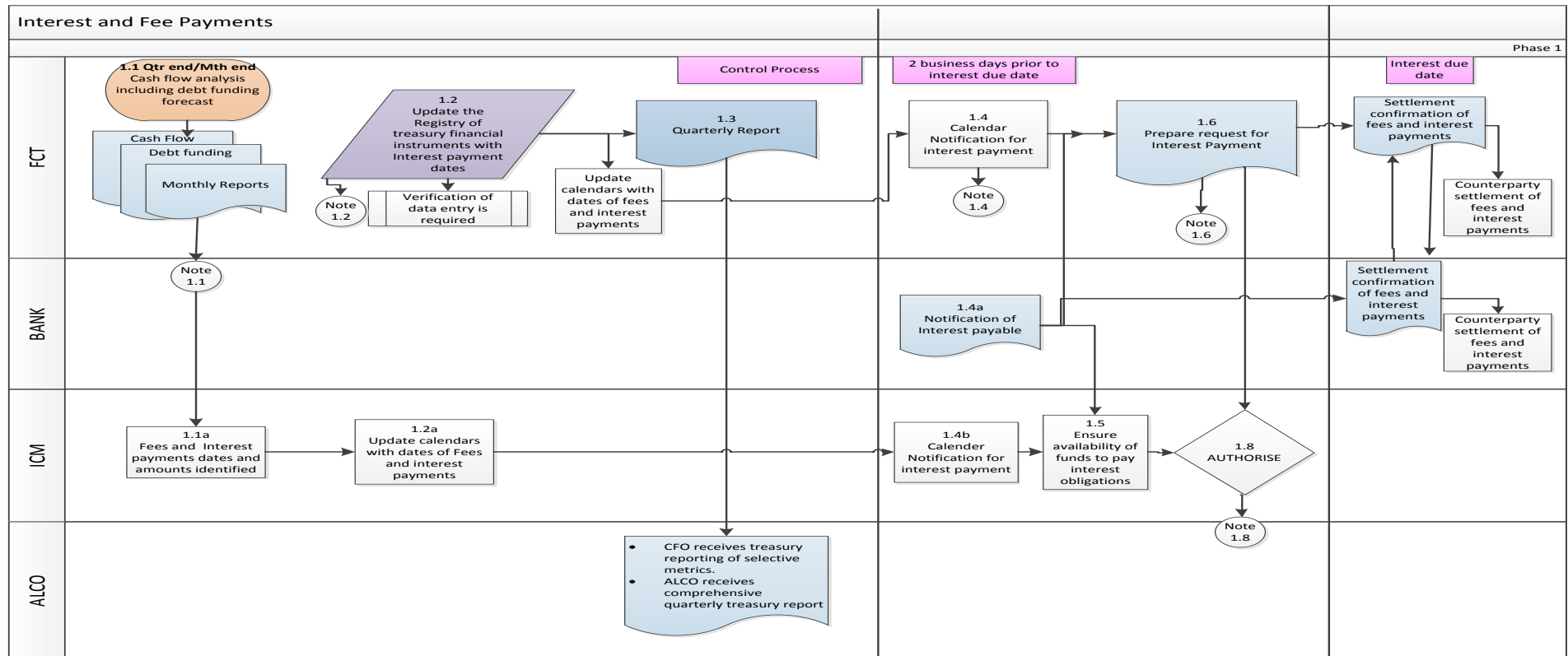
All hedging instruments relating to the management of foreign exchange risk must be denominated in the currencies of the exposures. Partial hedging (i.e. not completing the 'cross rate') is not permitted.

All hedging products must be broken down into the underlying approved instruments.

Any digital options are specifically excluded.



## SCHEDULE 8: INTEREST AND FEES PAYMENT BUSINESS PROCESS



**Notes to Schedule 8:**

Event : \$500m Bank Debt facility is available with drawdown multiples of \$10m.

Note 1.1 The document will specify the interest payable which is due on the last business day of the calendar month and the Commitment fee which is accrued on a daily basis and payable at the end of each quarter

Note 1.2 Registry of treasury financial instruments includes debt tranches, interest rate swaps and other derivatives. At present updating will be done manually in Excel including due dates for notices, settlements and amounts. Implementation of Treasury Management System software may be considered in the future. This document will be created at the time of the debt drawdown (refer to Schedule 3).

Note 1.4 The University must pay the accrued fee on the facility on the last day of each quarter. If the last day is not a Business Day, it must be paid on the next Business Day in the same calendar month or if there is not one, the preceding Business Day. The University must pay the accrued interest on a Loan on the last day of each Interest Period for that Loan. If the last day is not a Business Day, it must be paid on the next Business Day in the same calendar month or if there is not one, the preceding Business Day. Additionally the University must comply with settlement obligations in accordance with each individual interest rate swap contract. It is important that FCT and ICM communicates on the payment of interest and remind each other. Treasury settlements report and confirmations may be generated from treasury management systems software in future.

Note 1.6 Create a special vendor within Peoplesoft Accounts Payable

Note 1.8 If ICM Delegate is not present, then CFO