TREASURY MANAGEMENT POLICY 2014

The Vice-Chancellor as delegate of the Senate of the University of Sydney, adopts the following policy.

Dated: 10 September 2014

Date amended: 31 May 2017 (commencing 1 June 2017) (administrative amendments)

Signature:

Name: Dr Michael Spence

CONTENTS

1 Name of policy 1
2 Commencement 1
3 Policy is binding 1
4 Statement of intent 1
5 Application 2
6 Definitions 2
7 Financial risk management objectives 3
8 Managing liquidity and funding risk 4
9 Managing interest rate risk 5
10 Managing foreign exchange risk 6
11 Managing counterparty credit risk 6
12 Breaches 6
13 Reporting 6
14 Procedures 7

1 Name of policy

This is the Treasury Management Policy 2014.

2 Commencement

This policy commences on 11 September 2014.

3 Policy is binding

Except to the extent that a contrary intention is expressed, this policy binds the University, staff and affiliates.

4 Statement of intent

This policy:

(a) establishes the principles upon which the University manages financial risk;

(b) requires the University's treasury activities and risks to be managed in a manner which:

(i) is clear, prudent, cost-effective and comprehensive;

(ii) reflects the needs of stakeholders; and

(iii) is aligned to the University's strategic objectives.

5 Application

(1) This policy applies to:

(a) all staff and affiliates; and

(b) the following areas of financial risk:

(i) liquidity and funding risk;

(ii) interest rate risk;

(iii) foreign exchange risk;

(iv) counterparty credit exposure risk; and

(v) operational risk.

(2) Unless otherwise specified, this policy does not apply to the financial risk management of investments addressed by the following policies:

(a) Investment Policy

6 Definitions

affiliate	has the meaning given in the *Code of Conduct – Staff and Affiliates*, which at the date of this policy is: a clinical title holder; an adjunct, conjoint or honorary appointee; a consultant or contractor to the University; an office holder in a University entity; a member of any University committee; and any other person appointed or engaged by the University to perform duties or functions on its behalf.
Asset and Liability Committee	Asset and Liability Committee is an internal management committee reporting to the Finance and Audit Committee (FAC), a Committee of Senate.
counterparty credit risk	means the risk of sustaining a loss as a result of a default by a counterparty to a transaction into which the University has entered. Counterparties may include banks that may have entered into a hedging transaction with the University related to the management of financial risks.
foreign exchange transaction risk	means the risk of sustaining a loss due to movements in exchange rates. Such risks may occur through an increase in the Australian dollar value of foreign currency liabilities or a decrease in the Australian dollar value of foreign currency assets.
hedging	means making an investment or entering into a transaction with the aim of

	offsetting the risk of adverse price movements in an asset.
interest rate risk	means the risk of a reduction in earnings, capital or cash flows as a consequence of movements in interest rates.
liquidity risk	means the risk of sustaining loss due to having insufficient liquidity to meet future commitments.
maturity	means, in relation to debt, the final date upon which repayment of debt is required. For a debt facility maturity means the facility termination date.
treasury operational risk	means the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.
treasury management	means the financial management of the university's collections, disbursements, liquidity and funding so as to mitigate financial, operational and reputational risk.

7 Financial risk management objectives

The operating objectives relating to the management of financial risks are as follows.

(1) Liquidity and funding risk objectives

(a) Ensure that the University always has access to sufficient cash resources and committed facilities to meet its financial obligations as they fall due.

(b) Ensure that the University has sufficient liquidity to meet its financial obligations in the event of unforeseen events.

(c) Ensure compliance with borrowing facilities' covenants and undertakings.

(d) Ensure effective, efficient and orderly use of credit facilities through the adoption of reliable liquidity management planning and procedures.

(e) Ensure that the debt maturity profile is appropriately structured, taking into account the University infrastructure and working capital funding requirements, asset/liability matching and refinancing risks.

(f) Seek an appropriate mix of debt which positions the University to access diverse funding sources.

(2) Interest rate risk objectives

(a) Minimise large variations in earnings, capital or cash flow, while ensuring an appropriate flexibility to accommodate potential changes in funding requirements.

(b) Ensure fixed and floating interest rate exposures on assets and liabilities are managed in accordance with this policy.

(c) Use a proactive risk management approach with an emphasis on risk reduction, rather than profit maximisation, and achieve a mix of fixed and floating interest rate exposure on interest bearing debt.

(3) Foreign exchange transaction risk objectives

(a) Minimise large variations in earnings, capital or cash flow arising from the impact of exchange rate movements.

(b) Ensure prompt and proper identification of foreign currency exposures.

(4) Counterparty credit risk objectives

(a) Ensure that counterparties to the University's financial transactions are creditworthy and that the transactions are within approved limits.

Note: Financial delegations can be found in the *University of Sydney (Delegations of Authority – Administrative Functions) Rule 2016*

(5) Treasury operational risk objectives

(a) Apply appropriate controls to minimise the potential for financial loss through human error, fraud or the inappropriate use of financial instruments.

(b) Clearly define the roles, responsibilities and authorities of staff involved with the University's financial transactions.

(c) Ensure key treasury process tasks and corresponding controls are adequate and operate effectively.

(d) Ensure compliance with audit, contractual and statutory requirements.

8 Managing liquidity and funding risk

(1) Liquidity risk

(a) The Chief Financial Officer will develop and maintain plans for managing unforeseen events which may curtail cash flows and cause pressure on liquidity, including but not limited to:

(i) unplanned reduction in revenue;

(ii) unplanned operating expenditure;

(iii) business disruption;

(iv) unplanned capital expenditure;

(v) sustained reduction in operating margin;

(vi) collapse of capital markets;

(vii) collapse of the banking sector.

(b) The University will maintain readily available liquidity over the following forecast periods:

Forecast Period	Required available liquidity
3 months	\$50m
1 year	\$50m
2 years	\$50m

(c) The liquidity surplus shall be determined in accordance with the liquidity and cash flow forecasting requirements set out in the Treasury Management Procedures and section 8 (3) of this Policy.

(2) Funding risk

(a) The University funding requirements and funding strategy will be reviewed annually and set out in the University's annual budget approved by Senate.

(b) The budget strategy detailed in the annual budget will be developed consistently with the parameters set out in this subclause.

(c) The annual budget should include a target capital structure that minimises the weighted average cost of capital without adversely impacting liquidity risk and corresponding to the University's risk preference.

(d) Debt maturities will be spread out to limit risk on debt rollover. Any new facilities negotiated will be contracted with an adequate spread of maturities, taking into account the need for long duration in the University's debt funding requirements.

(e) Where practical, the University will access diverse sources of funding, in order to reduce re-financing risk. Funding sources may include banks and capital markets.

(f) Refinancing arrangements for debts in excess of A$50 million must be established at least 6 months ahead of the scheduled debt maturity date.

(3) Management generally

(a) Liquidity and funding risk will be managed through the establishment of a liquidity reserve.

(b) The minimum liquidity reserve will be

the sum of amounts required to cover:

(i) the likely variance in actual net cash flow to forecast;

(ii) event risk;

(iii) committed and uncommitted borrowings maturing within the next 12 months which are not expected to be refinanced;

(iv) strategic funding purposes;

less

(v) any target operational cash float, liquidity buffer or excess liquidity maintained from time to time.

(c) To manage short-term operating liquidity, a working capital facility or target operational cash float will be maintained, based on the minimum cash required to cover regular costs.

9 Managing interest rate risk

(1) 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.

(2) The Senate Finance and Audit Committee will approve an annual performance benchmark and the basis for its establishment, on the basis of a recommendation from the Asset and Liability Committee.

(3) The University will manage interest rate risk by determining the appropriate level of fixed and floating rate exposure for each period indicated.

(a) The benchmark, and authorised ranges, will be based on a percentage of fixed interest rate exposure for the period indicated.

(b) Authorised ranges for fixed interest rate exposure on borrowings are set out in the following table (based on an average in quarterly steps over the relevant period). The calculation is based on executed fixed interest swaps plus fixed interest debt divided by total debt. This calculation includes forward start swaps and any planned increase in debt referable to the forward start but only for the periods to which these transactions relate.

Period	Minimum fixed rate exposure	Maximum fixed rate exposure
< 3 years	50%	100%
> 3 years	0%	100%

10 Managing foreign exchange risk

(1) The University will, where possible and appropriate, hedge the variability in cash flows associated with changes in exchange rates in order to fix amounts of foreign income and expenditure in Australian dollar terms.

(2) Committed foreign currency exposures identified in excess of AUD $200,000 should be hedged 100%, with foreign exchange contracts, to the expected date(s) of settlement.

(3) It is the responsibility of the relevant department, faculty or organisational unit to identify foreign currency transactions that have been initiated and notify Investment and Capital Management immediately.

11 Managing counterparty credit risk

(1) All counterparty exposures must be identified and reported for regular review against counterparty limits.

(2) Counterparty limits will be based upon the counterparty credit rating issued by Standard & Poor's.

(3) The University will only deal with counterparties with an investment grade long term credit rating.

(4) Actual limits for each counterparty will be set out in procedures associated with this policy.

12 Breaches

(1) Any breaches of this policy will be reported immediately to the Chief Financial Officer, who will determine whether corrective action is to be taken.

(2) The breach will be reported to the Senate Finance and Audit Committee at its next meeting, including the reasons for the breach occurring, and the corrective action taken, if any.

13 Reporting

Financial Control and Treasury will provide monthly reports to the Asset and Liability Committee which:

(1) address the University's:

(a) liquidity profile;

(b) interest rate profile;

(c) foreign exchange transaction risk profile;

(d) counterparty credit risk profile;

(e) operational risk profile.

(2) show actual outcomes compared to risk limits and benchmarks; and

(3) highlight breaches of limits.

14 Procedures

The Chief Financial Officer may, by written determination, establish procedures for the implementation of this policy.

NOTES

Treasury Management Policy 2014

Date adopted:

Date registered:

Date commenced: 11 September 2014

Date amended: 31 May 2017 (commencing 1 June 2017) (Administrative amendments only)

Administrator: Chief Financial Officer

Review date: 5 years

Related documents:

The University of Sydney Act 1989 (NSW)

Public Finance and Audit Act 1983 (NSW)

Code of Conduct – Staff and Affiliates

Procurement Policy

AMENDMENT HISTORY

Provision	Amendment	Commencing
Various	Provided clearer wording and clarified sections which had been identified for improvement in a review of the	11 September 2014

	policy.	
5(2)(a); 6; 7(4) note	Inserting hyperlinks to policy documents	1 June 2017
7(4) note	Amending reference to University of Sydney (Delegations of Authority – Administrative Functions) Rule 2016	1 June 2017