Treasury Policy

Section 1 - Purpose

(1) The purpose of this policy is to provide an understanding of the risks associated with treasury management, and to deliver a framework that allows the University's management to mitigate those risks whilst minimising the cost of debt and maximising returns on surplus funds.

(2) This policy complements the University's Risk Management Policy (RMP) and Delegations of Authority Policy (DOA) that outline the University's wider governance approach. In the event there is a conflicting statement, RMP and DOA override this policy.

Section 2 - Overview

(3) This policy identifies major financial risks for the University. The policy provides high level strategy for risk mitigation. Detailed risk mitigations actions are documented in the Treasury Management Procedure.

Section 3 - Status

(4) Divisional policy to the Financial Management Policy.

Section 4 - Scope

(5) This policy applies to all staff of the University and its controlled entities authorised to administer treasury management functions. All deviations from this policy due to any local legislative requirements must be approved by the Chief Financial Officer (CFO). An approval must be sought from the CFO prior to submission of an application for exemptions.

Section 5 - Policy

Principles, Areas of Financial Risks and Mitigation Strategies

Cash and Liquidity Risk

(6) Cash is managed centrally for the group. The objective of managing cash and liquidity risk is to ensure the University and its controlled entities have access to appropriate cash resources to meet all their financial obligations when they fall due. The risk will be mitigated by the following actions:

a. ensuring that the University has access to appropriate cash resources to fund future investments as and when they arise
b. ensuring compliance with borrowing facilities' covenants and undertakings
c. ensuring effective, efficient and orderly use of credit facilities
d. ensuring that the debt maturity profile is appropriately structured

e. seeking an appropriate mix of debt to improve the University access to diverse funding sources.

Foreign Exchange Risk

(7) The objective of managing foreign exchange risk is to minimise variations in earnings, capital or cash flow arising from the impact of exchange rate movements. The risk will be managed by the following actions:

a. Material contracts in foreign currencies will be hedged using various approved hedging instruments:
    i. cross-currency interest rate swaps (for foreign currency loans)
    ii. forward exchange contracts
    iii. purchased foreign exchange options
    iv. foreign exchange collar and cap options in which the exchange rate is hedged within a minimum and a maximum exchange rate level.
b. Individual non-material contracts (student enrolment fees and other charges accepted in foreign currency) will be managed to minimise financial impact on the University.

Borrowing and Debt Management Risk

(8) The objective of managing borrowing risk is to seek permission for borrowing from approved financial institutions or private investors approved by the relevant government authorities. The risk will be managed by the following actions:

a. ensuring that working capital, cash and main financial ratios are forecast on a regular basis
b. long-term capital strategy is in place
c. material leasing and procurement contracts are reviewed and approved by the CFO or a delegate.

Interest Rate Risk

(9) The objective of managing interest rate risk is to minimise impact on the University's profitability due to the fluctuations in interest rate. The risk will be managed by the following actions:

a. managing interest rate risk by determining the appropriate level of fixed and floating rate exposure for each reporting period
b. establishing benchmarks and authorised ranges based on a percentage of fixed interest rate exposure for the period indicated
c. establishing ranges for fixed interest rate exposure on borrowings.

Counterparty and Credit Risk

(10) The objective of managing counter party and credit risk is to ensure that: counterparties to the University's financial transactions are creditworthy: that the transactions are within approved limits; that the University's credit risk exposure is monitored closely; and that the University enters into contracts only with financially stable organisations. The risk will be managed by the following actions:

a. managing appropriate approvals for all material contracts
b. establishing counterparty limits based on the credit ratings of each institution (financial institutions must be rated as a minimum credit A-2 and above for Short Term and BBB+ and above for Long Term investments)
c. minimising counterparty exposure to AUD$50m, unless approval is gained from RMIT University Council for borrowing, or CFO for all other contracts.

Operational Risk

(11) The objective of managing operational risk is to ensure appropriate levels of internal controls and segregation of duties are in place and that key treasury processes, tasks and corresponding controls are adequate and operate effectively. The risk will be managed by the following actions:

a. managing the appropriate controls to minimise the potential for financial loss through human error, fraud or the inappropriate use of financial instruments
b. managing clearly defined responsibilities and authorities of staff involved with the University's financial transactions.

Investment Risk

(12) The objective of managing investment risk is to ensure that the University's investments are protected from material market exposure. The risk will be managed by the following actions:

a. utilising strategies like portfolio and investment diversification to mitigate and effectively manage risk
b. establishing an Investment Committee to include representatives from external advisors, finance treasury team, sustainability team and appropriate subject matter expert academics
c. utilising professional investment management agencies selected based on a competitive procurement process and aligned to the University's strategy.

Business Rules to Support this Policy

(13) All bank accounts are managed centrally by the Financial Control team only with Authorised Deposit-Taking Institutions and in accordance with the relevant financial delegations or Directors approvals for controlled entities. Bank account can be opened only if approved by the CFO. Some controlled entities may operate without separate bank account, utilising central pool of funds managed by the Financial Control team. For details of banking management please refer to the Transaction Banking Process.

(14) All Bank transactions are governed by the relevant contracts signed by the banks and RMIT University's authorised representatives as described above.

(15) All processes related to banking and electronic funds transfer must comply with the relevant Anti-Money Laundering legislation and Payment Card Industry Data Security Standards (PCI DSS).

(16) For all electronic transactions a minimum of two authorisations is required and the list of signatures is reviewed annually and updated when a change of personnel occurs.

(17) Once opened, all Investment Accounts should be linked to RMIT's operating bank account with the current Transactional Banking Provider. This will ensure that the funds can only be deposited into nominated bank accounts independently of the person that is making an investment decision.

(18) Hedge accounting documentation must be maintained in compliance with AASB 9 Financial Instruments – procedures and hedge documentation of new hedge instruments must be prepared in accordance with documented procedures. For details of hedge accounting please refer to the Hedge Accounting Guide.

(19) All financial instruments (investments, loans and derivatives) in the general ledger are to be reconciled to counterparty statements monthly.

(20) Any breaches of process or this policy will be reported immediately to the CFO, who will determine whether corrective action is to be taken and reporting to the Audit and Risk Management Committee (ARMC).

Responsibilities

(21) ARMC approves the Treasury Management Policy and reviews any breaches if they occur.

(22) The CFO or a delegate is responsible for regular review and compliance with this policy.

Review

(23) The review of this policy occurs every three years, unless a change in government regulations or other external requirements necessitates an immediate review.

Section 6 - Procedures and Resources

(24) Refer to the following documents which are established in accordance with this policy:

a. Treasury Management Procedure
b. Hedge Accounting Guideline

Section 7 - Definitions

Term	Definition
Committed income and expenditure	Refers to a contractual arrangement to receive a fixed amount of income or pay a fixed amount of expenditure. An agreement binding on both parties and usually legally enforceable, that (a) specifies all significant terms, including the price and timing of the transactions, and (b) includes a disincentive for non-performance that is sufficiently large to make performance highly probable.
Counterparty and credit risk	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 an investment or hedging transaction with the University related to the management of financial risks. Counterparty exposure is measured as the total value of the exposure of all obligations of any single legal or economic entity (e.g. a group of companies).
Foreign exchange risk	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/expenditure or a decrease in the Australian dollar value of foreign currency assets/income.
Hedging	Entering into a transaction with the aim of offsetting the risk of adverse fair value or cash flow movements due to a financial risk that is reliably measurable.
Highly probably income and expenditure	The accounting definition is that 'Highly probable' means there is a much greater likelihood of occurrence than 'more likely than not'. From a practical perspective it is expected that "highly probable" forecasts will almost certainly occur. Hence in estimating highly probable income or expenses, one should take the full forecast and then discount the forecast to the extent of any uncertainty. For example, if income was forecast to be $USD 20 but historically such forecast had a 10% variation, then the highly probable component of the forecast would be USD 18m (USD 20m x 90%).
Interest rate risk	The risk of a reduction in earnings, capital or cash flows because of movements in interest rates.
Liquidity risk	The risk of sustaining loss due to having insufficient liquidity to meet future commitments as and when they fall due.
Operational risk	The risk of financial loss arising from internal process failure, human error/fraud, system failures or other external events.
Treasury operational risk	The risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.

Status and Details

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Effective Date	19th October 2020
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Policy Owner	Clare Lezaja Chief Financial Officer
Policy Author	Tom Weir Director, Central Finance Operations
Enquiries Contact	Central Finance Operations