



NSW Police Force

Foreign Exchange Risk Policy

Finance & Business Services

Document Control Sheet

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1.1	1 November 2009	Financial Services	Reviewed & Updated.
2.0	19 May 2020	Manager, Financial Accounting Manager, Financial Policy & Risk	Updated to reflect Treasury (TCorp) \$500,000 consultation requirement mandated by TPP 18-03. New sections include: (2.5) Management of FX Transaction Risk; (2.6) Measurement of FX Transaction Risk; (2.7) Hedge Effectiveness & (2.8) Accounting Treatment.
2.1	10 February 2021	Manager, Financial Accounting Manager, Financial Policy & Risk	Updated to include TCorp's Foreign Exchange Hedging Checklist (Section 2.5)

Table of Contents

1. Introduction	4
2. Organisation Policy	4
2.1 Objective.....	4
2.2 Relevant Documents	4
2.3 Responsibility	4
2.4 Forex Policy Statement.....	5
2.5 Foreign Exchange Hedging Checklist.....	5
2.6 Hedge Effectiveness.....	5
2.7 Management of Forex Transaction Risk	6
2.8 Measurement of Forex Transaction Risk	6
2.9 Accounting Treatment.....	6

Attachment A – Hedging Foreign Exchange with TCorp (Checklist)

1. Introduction

The purpose of the NSW Police Force (NSWPF) Foreign Exchange Risk Policy (FX Policy) is to ensure that all foreign exchange risks are managed in accordance with the Government Sector Finance Act 2018 and NSW Treasurer's Directions.

Fluctuations in the value of the Australian dollar and volatility in currency markets can adversely impact the NSWPF cash flows and budget projections. For this reason, NSWPF manages the foreign currency risk to minimise any loss exposure.

2. Organisation Policy

2.1. Objective

The objective of the FX Policy is to set out the requirements for NSWPF managing foreign exchange exposure in business-as-usual transactions and the procurement of major projects/assets. This is achieved by hedging the Australian dollar and the foreign currency exchange rate at the lowest cost and or risk to the NSW Government.

As mandated by the NSW Government Foreign Exchange Risk Policy ([TPP 18-03](#)), all foreign currency risks greater than A\$500,000 are to be managed in consultation with NSW Treasury (TCorp). Foreign currency risks less than A\$500,000 are directly negotiated by Financial Reporting & Tax Team with financial institutions.

2.2. Relevant Documents

Relevant documents for the FX Policy include:

- Government Sector Finance Act 2018
- TPP 18-03 NSW Government Foreign Exchange Risk Policy
- TCorp Foreign Exchange Execution Framework
- TCorp Foreign Exchange Hedging Checklist
- Australian Accounting Standards Board (AASB) 121: The Effects of Foreign Exchange Rates
- AASB 132 Financial Instruments: Presentation
- AASB 139 Financial Instruments: Recognition and Measurement
- NSWPF Financial Delegations.

2.3. Responsibility

The FX Policy is the responsibility of the Director, Financial Reporting & Tax (FR&T). FR&T is responsible for managing NSWPF exposure to foreign currency incurred in the purchase or sale of goods and services, e.g. the purchase of imported goods such as helicopters.

The Chief Financial Officer (CFO) and the Director, Financial Reporting and Tax are authorised to establish foreign exchange deals with TCorp.

2.4. Forex Policy Statement

The FX Policy, which has been endorsed by the Commissioner's Executive Team (CET) resolves that:

- The NSWPF is not in the business of operating as a profit centre in respect of foreign exchange gains contributing to financial outcomes.
- In general terms, foreign exchange exposures greater than A\$250,000 will be hedged with the overriding aim being to neutralise currency exposure to meet budget forecasts.
- Net foreign currency exposures totalling more than A\$500,000 are to be managed in consultation with TCorp within two days of the exposure arising.
- When preparing a business development proposal, the relevant Command should identify if goods will be required to be purchased in foreign currency. Advice should be sought from the Director, FR&T regarding the appropriate indicative exchange rate to be used in the business development proposal.
- Exposure occurs at the time of firm commitment of an approved purchase or a signed contract in a foreign currency, at which point, the foreign exchange risk will be hedged.
- Net foreign exchange position in all currencies will be regularly monitored, including reconciliations to financial statements (statement of comprehensive income, financial position and cash flows). All speculative derivative transactions are prohibited.
- Exposures to foreign currency exchange rates and details of hedging instruments will be reported to the Commissioner of Police (CoP) by the CFO.
- Breaches of FX Policy are to be reported to the CoP by the CFO with the action proposed or undertaken.

2.5. Foreign Exchange Hedging Checklist

TCorp has created a checklist (refer to **Attachment A**) to help agencies through the steps when entering into a new FX transaction with TCorp. This checklist must be completed for all FX transactions entered into by NSWPF.

The checklist outlines the preliminary checks that need to be undertaken and the information required by TCorp; how to send instructions to TCorp for new trades, as well as how to make changes to existing transactions, i.e. pre-deliveries, extensions and cancellations.

2.6. Hedge Effectiveness

Hedge contracts may be taken out for specific commitments at the time the foreign currency exposure arises. Each hedge contract shall match the profile of the exposure in terms of the amount and timing of anticipated cash flows.

2.7. Management of Forex Transaction Risk

All hedge recommendations need to take into consideration the following:

- The currency of the exposure, level of hedging to be undertaken, indicative hedge pricing and costs, hedge maturity dates, appropriate hedge instruments to use, policy compliance, policy objectives and the outlook for the Australian dollar and foreign currency exchange rate trends must be based on latest available market intelligence.
- The currency markets will be regularly monitored through various sources including banks and financial institutions, internet sites, publications, related industry associations and knowledge of industry best practice principles.
- The foreign currency exposures and hedge transactions will be controlled and monitored by the Director, FR&T.
- NSWPF must follow the delegated authorities and procurement policy when hedging.
- TCorp or other providers should provide the NSWPF with written confirmation of the hedge transactions entered into. The confirmation advice will be verified and signed by the appropriately delegated officer.
- On the date the actual cash flows of the underlying transaction occur the hedge contract will be closed out against the prevailing market spot exchange rate, and the resultant foreign exchange gain or loss will be applied to the cost of the underlying purchase.
- For non-hedged invoices, on the invoice payment date, the NSWPF's bank will determine the exchange rate to be used in the conversion following market convention. All providers/banks will require approval.

2.8. Measurement of Forex Transaction Risk

Foreign Exchange transaction risk will be measured by projecting the net foreign currency requirement, in a cash flow table of each currency to which the NSWPF has an exposure.

2.9. Accounting Treatment

The realised values of hedge contracts are to be included in determining the capital cost of the asset(s) purchased, and the accounting treatment must comply with:

- AASB 132 Financial Instruments: Presentation
- AASB 139 Financial Instruments: Recognition and Measurement.



Hedging foreign exchange with TCorp

Checklist

The aim of this checklist is to provide guidance and assist clients in understanding the necessary steps and requirements by TCorp at each stage of a foreign exchange transaction.

1. VENDOR INFORMATION – if third party payment is requested (when known)

Provide the below vendor details to allow for the completion of Anti-Money-Laundering (AML) and Know-Your-client (KYC) checks to meet TCorp's statutory, legal and compliance requirements. Ideally this information should be provided **in parallel with the procurement process** and as soon as the details are known to ensure timely execution.

Send an email to tcorp_fx_settlement@tcorp.nsw.gov.au with the name of your entity and vendor in the subject line.

1.	Name of entity and vendor
2.	Has the agency completed due diligence on the vendor?
3.	Company background (<i>description of main activities</i>)
4.	Description of goods/services being procured including estimated value
5.	Company website URL
6.	Registered office

2. DIRECTION TO HEDGE

Please provide, as soon as practicable an email direction to tcorp_fx_instruction@tcorp.nsw.gov.au to hedge the foreign exchange of the purchase. **Appendix 1** provides a template on how to instruct TCorp under different scenarios. Should you have any questions please contact your client relationship manager.

Ensure that the email direction is authorised by TWO Authorised Signatories as held by TCorp. The authorisation can be provided **via email**.

3. DIRECTIONS FOR TCorp TO PAY THE VENDOR DIRECTLY (if required)

OR

AGENCY'S FOREIGN CURRENCY ACCOUNT

Provide TCorp with a direction to pay the vendor or your foreign currency account via the provision of the TCorp Foreign Exchange Settlement Form, and a copy of the appropriate invoice (not necessary for the FCCY account) to tcorp_fx_settlement@tcorp.nsw.gov.au.

4. AUD PAYMENT

The outstanding AUD amount is to be remitted to the below account:

Bank: Westpac Banking Corporation
Bank address: 341 George St, Sydney, NSW, 2000
BSB: 032-001
Account number: 690097
Account name: NSW Treasury Corporation

Receipt of the AUD (CCY) payment to TCorp must be made on the **agreed settlement date**. This is the date that TCorp has been requested to pay the foreign currency (AUD) to the vendor.

Please note: The submission of the TCorp Foreign Exchange Settlement Form is irrevocable. Once the signed Form is accepted and due diligence, AML and KYC checks have been performed satisfactorily the payment will be made.

Trade confirmations will be available on the Client Portal on T+1 for agencies to review.

Contact details

Please contact your dedicated client relationship manager for more information.

Eva Alexandratos	Senior Manager, General Government	eva.alexandratos@tcorp.nsw.gov.au	+61 2 9325 9227
Yvonne Blunt	Client Relationship Manager	yvonne.blunt@tcorp.nsw.gov.au	+61 2 9325 9305
Ali Parker	Senior Client Relationship Manager	ali.parker@tcorp.nsw.gov.au	+61 2 9338 9196
Christine Evers	Senior Client Relationship Manager	christine.evers@tcorp.nsw.gov.au	+61 2 9325 9332
Jennifer Roberts	Client Relationship Manager	jennifer.roberts@tcorp.nsw.gov.au	+61 2 9325 9275
Client Services		clientservices@tcorp.nsw.gov.au	
Financial Risk Solutions		frs@tcorp.nsw.gov.au	

Appendix 1

New trades

[Agency] hereby instructs TCorp to enter in the following transaction:

[Agency] buys **[currency]** **[amount]** from TCorp

[Agency] sells **[currency]** to TCorp at current market rates – exact amount to be determined as part of the trade

Cashflows to settle: **XX/XX/20XX**

[Agency] confirms that this transaction is for hedging purposes.

***[Agency]** notes that once direction to trade is given to TCorp, the trade is irrevocable*

Pre-deliveries

[Agency] currently has an existing hedge with TCorp:

Trade No: **[XXXX]**

[Agency] has sold to TCorp **[currency]** **[amount]**

[Agency] has bought from TCorp **[currency]** **[amount]**

Cashflows to settle: **[XX/XX/20XX]**

[Agency] instructs TCorp to pre-deliver **[currency]** **[amount]** on **[XX/XX/20XX]**

***[Agency]** notes that once direction to trade is given to TCorp, the trade is irrevocable*

Extensions

[Agency] currently has an existing hedge with TCorp:

Trade No: **[XXXX]**

[Agency] has sold to TCorp **[currency]** **[amount]**

[Agency] has bought from TCorp **[currency]** **[amount]**

Cashflows to settle: **[XX/XX/20XX]**

[Agency] hereby instructs TCorp to unwind the existing trade, and enter into a new trade as per below:

[Agency] buys **[currency]** **[amount]** from TCorp

[Agency] sells **[currency]** to TCorp at current market rates – exact amount to be determined as part of the trade

Cashflows to settle: **XX/XX/20XX**

[Agency] requests TCorp advise on:

- i) payment or receipt of unwind value of old trade and
- ii) settlement date of funds, in order to extend the above transaction

Please note: Break costs, or benefits, of the old trade will be payable, or receivable, by the Agency on the unwind date plus two business days (T +2).

[Agency] confirms that this transaction is for hedging purposes

***[Agency]** notes that once direction to trade is given to TCorp, the trade is irrevocable*

Cancellations

[Agency] currently has an existing hedge with TCorp:

Trade No: [XXXX]

[Agency] has sold to TCorp [currency] [amount]

[Agency] has bought from TCorp [currency] [amount]

Cashflows to settle: [XX/XX/20XX]

[Agency] hereby instructs TCorp to unwind the above transaction

[Agency] requests TCorp advise on:

- i) payment or receipt of unwind value of old trade and
- ii) settlement date of funds, in order to cancel the above transaction

[Agency] notes that once direction to trade is given to TCorp, the trade is irrevocable
