

# TREASURY MANAGEMENT POLICY 2018

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

Dated: 15 May 2018

Last amended: 19 December 2018

3 November 2022 (administrative amendments only)

22 February 2024 (administrative amendments only)

Signature:

Position: Vice-Principal, Operations

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## 1 Name of policy

This is the Treasury Management Policy 2018.

## 2 Commencement

This policy commences on 04 June 2018.

### 3 Policy is binding

Except to the extent that a contrary intention is expressed, this policy binds the University, staff, students 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 [Investment Policy 2017](#).

### 6 Definitions

affiliate has the meaning given in the [Staff and Affiliates Code of Conduct 2021](#), which at the date of this policy is:

means a person appointed or engaged by the University to perform duties or functions on its behalf, including but not limited to:

- an honorary title holder engaged under the Honorary Titles Policy 2013;
- a consultant or contractor to the University; and
- an office holder in a University entity, a member of any University committee, board or foundation.

An affiliate is not an employee of the University.



<b>Asset and Liability Committee (ALCO)</b>	means the internal management committee of that name reporting to the Senate Finance Committee. The terms of reference of this committee are set out in Schedule 1 to this policy.
<b>CFO</b>	means Chief Financial Officer
<b>counterparty credit risk</b>	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.
<b>FCT</b>	means the Financial Control and Treasury unit within Financial Services
<b>foreign exchange transaction risk</b>	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.
<b>hedging</b>	means making an investment or entering into a transaction with the aim of offsetting the risk of adverse price movements in an asset.
<b>interest rate risk</b>	means the risk of a reduction in earnings, capital or cash flows as a consequence of movements in interest rates.
<b>liquidity risk</b>	means the risk of sustaining loss due to having insufficient liquidity to meet future commitments.
<b>maturity</b>	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.
<b>Procedures</b>	means the <a href="#">Treasury Management Procedures 2018</a> .
<b>treasury operational risk</b>	means the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.
<b>treasury management</b>	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.

**(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 counterparty exposures are within approved limits.

**(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 CFO 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 will be determined in accordance with the liquidity and cash flow forecasting requirements set out in clause 8(3) of this policy, and the procedures.

**(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 cost of debt without adversely impacting liquidity risk.
- (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 six 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 liquidity reserve will be 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;
  - (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.
- (d) To manage debt and other financial parameters within management's debt principles, limits and internal credit metrics.

## 9 Managing interest rate risk

- (1) The ALCO is responsible for determining interest rate risk management strategies and their tactical implementation, and monitoring the reporting of the positions taken.
- (2) The University will manage interest rate risk by determining the appropriate level of fixed and floating rate exposure for each period indicated.
  - (a) The 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 in excess of AUD \$200,000 should be hedged 100%, with foreign exchange contracts, to the expected date(s) of settlement.
- (3) Committed foreign currency operational cash flows will be settled using foreign currencies available from natural inflows received into the University's foreign currency bank accounts. Any excess foreign currency cash flow requirements not met by natural inflows will be monitored and currency purchased as required on a case by case basis.

**Note:** Variations in these excess requirements caused by foreign exchange rate movements may be naturally hedged by variations (caused by movements in foreign exchange rates) in the value of the University's foreign currency denominated investments in the Future Fund. See [Investment Policy 2022](#).

- (4) It is the responsibility of the relevant organisational unit (e.g. a faculty, University school, administrative unit) to identify foreign currency transactions that have been initiated and notify FCT 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) Counterparty exposure limits are set out in the procedures.

## **12 Roles and responsibilities**

### **(1) The Asset and Liability Committee**

- (a) The primary role of ALCO is to monitor and strategically manage balance sheet financial risk, in accordance with this policy and the procedures, with specific accountability for the management of the cost of the borrowing program.
- (b) ALCO's Terms of Reference are set out in Schedule 1.

### **(2) The Chief Financial Officer (CFO) is responsible for managing treasury, investment and capital management activities, including:**

- (a) reviewing and recommending amendments to the policy, to the Vice-Principal (Operations);
- (b) developing and maintaining plans for managing unforeseen events which may curtail cash flows and cause pressure on liquidity, as specified in clause 8(1);
- (c) reviewing, and recommending to Senate Finance Committee, the annual funding and risk management strategy paper for inclusion in the annual budget as specified in clause 8(2);
- (d) reviewing and approving treasury operational processes;
- (e) reviewing and reporting on internal compliance systems and controls;
- (f) obtaining necessary internal and external approvals for transactions and arrangements for managing financial risk;
- (g) approving interest rate risk management strategies;
- (h) reviewing and approving new financial instrument types and techniques for managing financial exposures;
- (i) reviewing compliance and performance reports;
- (j) approving variation to, or replacement of, existing borrowing facilities;
- (k) reviewing and approving new counterparties amendments to counterparty limits; and
- (l) reviewing and approving formal financier briefings and reports.

- (3) **Financial Control and Treasury** is responsible for supervising the development of treasury management policy and procedures, and the financial control of treasury activities including:
- (a) ensuring that accurate records of the treasury financial risk management activities are maintained;
  - (b) preparing reports and implementing processes contemplated under this policy and the procedures;
  - (c) executing the various treasury transactions contemplated under this policy and the procedures;
  - (d) managing short term operating funds and developing asset management strategies;
  - (e) reporting to the CFO immediately all breaches of this policy and any corrective action taken;
  - (f) preparing an annual cashflow for the CFO and Senate Finance Committee, for inclusion in the annual budget;
  - (g) developing risk management plans and requirements for the CFO and Senate Finance Committee;
  - (h) managing relationships with financial institutions and rating agencies;
  - (i) preparing financier briefings and reports; and
  - (j) informing University organisational units of their responsibilities under the policy and the procedures.
- (4) **Investment and Capital Management** is responsible for:
- (a) managing investment funds, including medium term and long term funds; and
  - (b) establishing and reporting on investment performance benchmarks.
- Note:** See [Investment Policy 2022](#) and [Investment Procedures 2022](#).
- (5) **Organisational units**<sup>7</sup> (e.g. a faculty, University school, administrative unit) responsibilities include:
- (a) providing cash flow forecasting to FCT in a timely and accurate manner, including details of material variations;
  - (b) ensuring that accurate cash flow records are maintained;
  - (c) ensuring the integrity of data supplied to FCT;
  - (d) identifying foreign currency transactions and other risk exposures and notifying FCT immediately as required under clause 10(4); and
  - (e) seeking recommendations from FCT on risk exposures where appropriate.

### **13 Breaches**

- (1) Any breaches of this policy must be reported immediately to the CFO, who will determine whether corrective action is to be taken.
- (2) The breach will be reported to Senate Finance Committee at its next meeting, including the reasons for the breach occurring, and the corrective action taken, if any.



## 14 Reporting

FCT will provide reports to ALCO which:

- (a) address the University's:
  - (i) liquidity profile;
  - (ii) interest rate profile;
  - (iii) foreign exchange transaction risk profile;
  - (iv) counterparty credit risk profile; and
  - (v) operational risk profile;
- (b) show actual outcomes compared to risk limits and benchmarks; and
- (c) highlight breaches of limits.

## 15 Rescissions and replacements

This document replaces the *Treasury Management Policy 2014*, which is rescinded as from the date of commencement of this document.

## NOTES

Treasury Management Policy 2018

Date adopted: 15 May 2018

Date registered: 4 June 2018

Date commenced: 4 June 2018

Date amended: 19 December 2018

3 November 2022 (administrative amendments only)

22 February 2024 (administrative amendments)

Administrator: Chief Financial Officer

Review date: 4 June 2023

Rescinded documents: Treasury Management Policy 2014

Related documents: The University of Sydney Act 1989 (as amended)

Public Finance and Audit Act 1983 (NSW)

Staff and Affiliates Code of Conduct 2021

Procurement Policy 2019

Treasury Management Procedures 2018

## AMENDMENT HISTORY

<b>Provision</b>	<b>Amendment</b>	<b>Commencing</b>
12(3)(a)	Added	19 December 2018
Dates	Administrative amendment	5 March 2019
Various	Administrative amendment for Senate Finance Committee	3 November 2022
14; Schedule 1	Administrative amendment that ALCO meets quarterly	3 November 2022
6	Revised definition of 'affiliate'	22 February 2024
6; related documents	Replaced 'Code of Conduct – Staff and Affiliates' with 'Code of Conduct for Staff and Affiliates 2021'	22 February 2024
10(3) note; 12(4) note	Replaced 'Investment Policy 2017' with 'Investment Policy 2022'	22 February 2024
12(4) note	Replaced 'Investment Portfolio Procedures 2017' with 'Investment Procedures 2022'	22 February 2024

## **Schedule 1 – 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 in accordance with this policy and the procedures, with specific accountability for the management of the cost of the borrowing program.

The Asset and Liability Committee will report to and support the 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.

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 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.

### **Membership**

Chief Financial Officer (Chair)  
Chief Investment Officer  
Director, Financial Control and Treasury  
Treasurer

Manager, Treasury and Investments  
External Advisor

### **Quorum**

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

### **Meetings**

The Committee meets quarterly or more frequently if necessary. A meeting may be held at two or more venues simultaneously using any technology that gives members a reasonable opportunity to participate.

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

The quarterly treasury report, which includes information on the management of liquidity and funding risk, interest rate risk, foreign exchange risk and counterparty credit risk, will be provided to the Finance and Audit Committee in addition to any reports as requested.

### **Secretary to the Committee**

Treasurer