PREFACE

This policy is designed as a generic document that may be amended to meet the requirements of many Treasuries.

It is a document that should be approved by the competent authority e.g. Board of Directors. This authority is referred to as the Board, but may be a Treasury Committee of the Board or similar. All changes should be approved by the authority, and it is suggested that it be reviewed, updated and approved on an annual basis. It is useful to note the history of changes in an appendix.

XYZ Pty Ltd

Proforma Treasury Policy

Approved: July 200X

Approval minuted at the July 25 200X meeting of the Board of Directors of XYZ Pty Ltd and due for review and re-approval at the Board of Directors Meeting no latter than August 200X

[Log of amendments]

Version 1.1

[Disclaimer: this proforma corporate treasury policy document has been compiled by Stephen Cheesewright as a member of the CPA Australia. This document is his personal work and no warranty is given as to the technical accuracy of this document. This document was originally compiled for a simulated case study. Users of this document should seek independent professional advice for their specific circumstances. The proforma has much of the information required for a corporate treasury policy document including example wording. The example wording has been included in the document to assist the users of the proforma but will need to be modified for each user's specific circumstances.]

1. INTRODUCTION

This document provides a statement of the policies of XYZ Pty Ltd ('XYZ') with respect to financial risk management.

1.1. What is Covered by this Policy?

The treasury function within the XYZ is responsible for the management of the following risks which are addressed in this policy:

- liquidity and funding
- interest rate
- foreign exchange (transaction and translation)
- counterparty credit risk
- commodity risk and
- operational risk

Operational risk, arising from the management of financial and commodity risk, is implicitly addressed through the treasury control framework of which this policy forms part.

The management of operational risk will include the segregation of sensitive duties, maintenance of accurate records, reconciliation of key records, and close supervision of financial risk management activities by senior management and the Board.

XYZ considers the implementation of a policy on financial risk management ('the Policy') necessary to ensure that:

- management (both that associated directly with the treasury function and at business unit level) considers all aspects of the XYZs financial and commodity risks
- the staff responsible for the management of financial risks understand XYZ's objectives and 'risk appetite' in managing financial risks as well as the limits of their authority, and
- that financial risk management activities are undertaken in a controlled manner

1.2. Policy Approval and Application

This document is approved by the Board and no part of the document may be amended without the Board's approval. <u>The approved document includes the body of the document, the appendices and any explanatory documents</u>. The policy is to be reviewed and approved on an annual basis. The policy is applicable to the whole organisation including any wholly owned subsidiaries.

1.3. Breach of Policy

This policy document outlines the approach the Board has approved, for XYZ, in undertaking financial risk management. Management must comply with this policy <u>and provide positive confirmation to the Board on a monthly basis of compliance with the policy.</u> Where a breach has occurred, the CEO & CFO are to be advised immediately and the Board is to be advised on a monthly basis of the number and nature of the breaches. Advice of breaches to the relevant party will outline what will be done to rectify the breach or will seek approval for the breach. Approval provided in the first instance by the CEO and CFO will be ratified by the Board. A register of breaches will be maintained.

1.4. Accounting Policy

The recognition and measurement of all financial instruments will comply with the Group Accounting Policy (which is a separate document) and Australian Accounting Standard AASB 139 *Financial Instruments: Recognition and Measurement*.
https://www.cpaaustralia.com.au/links?874_11894

2.THE ROLE OF TREASURY IN MANAGING FINANCIAL RISKS

2.1. Philosophy

This policy has been prepared based on the following philosophies:

- XYZ faces a wide range of financial and commercial risks. This policy outlines those risks which are to be managed by Treasury and how they are to be managed.
- Cash is a Corporate asset to be used for maximum value across XYZ and managed by Treasury.
- Speculative transactions are not permitted.
- Treasury operates as a service centre, not a profit centre.

The XYZ's treasury function will <u>centrally</u> manage financial and commodity risks for XYZ. That is all business units must transfer or advise the treasury function of financial risks which will be then managed centrally by the treasury function.

The operating activities of treasury will include the following:

- development and recommendations to the Board of Treasury Policy
- development and recommendation to the Board of treasury strategies
- negotiating funding from financial institutions and the capital markets and ensuring there is sufficient liquidity for day to day requirements as well as unexpected business disruptions
- central management of the group's liquidity including surplus cash and short term faculties
- central management of interest rate risk associated with borrowing and investment of surplus funds
- central management of foreign currency risks associated with transactional cash flows and translation of overseas net assets
- management of credit and operational risks arising from treasury activities
- management of bank relationships, the credit process and investor (debt) relationships

3.OVERVIEW OF FINANCIAL RISK MANAGEMENT OBJECTIVES

XYZs financial risks are to be managed centrally to ensure alignment of financial risk management with corporate objectives; optimise access to debt capital and to ensure that treasury operates within a controlled environment.

3.1. Funding and Risk Management Review

On an annual basis the treasury will provide the board with a paper analysing the results of the previous year's risk management approach as well as providing analysis of forthcoming funding requirements and a suggested approach to risk management going forward. The paper may also include discussion on the capital structure of XYZ. The paper may be provided to the Board at the same time as the treasury policy is reviewed by the Board so that policy adjustments can be made, if necessary to enable the strategy or as required.

3.2. Treasury Operating Objectives

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

Liquidity and Funding

- Ensure that at all times that XYZ has access to sufficient cash resources to, meet its financial obligations as they fall due, including taxes and dividends and provide funds for capital expenditure and investment opportunities as they arise.
- Ensure that XYZ has sufficient excess liquidity to ensure XYZ can meet its non-discretionary financial obligations in the event of unexpected business disruption.
- Ensure compliance with borrowing facilities covenants and undertakings.

Interest Rate

- Ensure compliance with interest cover covenants, where applicable, under the XYZs borrowing facilities.
- Manage the net interest rate exposure to ensure that XYZ can meet its profit targets and protect XYZ's solvency.
- Minimise the impact of adverse interest rate movements through the use of interest rate management tools in accordance with Appendix D.

Foreign Exchange - Transaction Exposures

- Manage the adverse impact of adverse exchange rate movements on net transaction exposures for various business units (on a business unit by business unit basis) to ensure (where applicable):
  - the achievement of budgeted profit
  - to protect the predicted financial outcomes of large transactions or capital expenditure proposals
  - to protect the cash flows of the business and
  - to protect business units and their financial results from adverse exchange rate movements which make import replacements more competitive and thus exert downward price pressure on XYZ's domestic prices

Foreign Exchange – Translation Exposures

- Minimise variances in the value of the XYZs net foreign currency denominated assets (and hence the impact on XYZ'z capital) by seeking to borrow in the same currency as the asset (natural hedge).
- Hedge foreign currency debt raised in offshore capital markets by 'swapping' it into AUDs unless it is explicitly approved by the Board as being available to hedge the net investment in an offshore subsidiary.

Counterparty Credit Exposure

- Ensure that investment and derivative transactions are undertaken with approved creditworthy counterparties and in accordance with approved limits (see Appendix C).

Operational Risks

- Ensure that the treasury function is operating in a controlled manner.

4.ORGANISATIONAL STRUCTURE AND RESPONSIBILITIES

4.1. Organisation of XYZ's Financial Risk Management

The XYZs organisational structure for treasury and financial risk management is shown at Appendix A.

4.2. Responsibility Structure

The following components of XYZ's organisational structure have varying degrees of responsibility and input into the XYZs financial and commodity risk management.

[NB: This will need to be varied for the circumstances of each particular organisation.]

Management Structure

- The Board
- Managing Director
- Treasury Committee ('TC')
- Chief Financial Officer
- Treasurer
- Business Units

The responsibility of each party are set out below.

4.3. The Board

- Annual review and approval of the Treasury Policy
- Annual review and approval of XYZs Funding and Risk Management strategy detailed in a paper provided to the Board by Treasury
- Authorisation of new financial accommodation and arrangements
- Approval of new financial instruments recommended by the Board
- Delegation of the authority to undertake financial risk management activities (within the constraints of this Policy) to the Chief Executive, the Chief Financial Officer and the Treasurer
- Monthly review of financial and commodity risk management activities
- Review any of policy breaches

4.4. The Chief Executive Officer

- Review of Treasury Policy and the Funding and Risk Management strategy paper prior to it being forwarded to the Board
- Oversight of Treasury activities and overall financial risk managements activities
- Review of policy breaches and supervision of rectification
- Delegation of authority to the Chief Financial Officer and the Treasurer

4.5. The Treasury Committee

The Treasury Committee is to comprise the following officers.

- Chief Financial Officer
- Group Financial Controller
- Treasurer
- Business Unit Representative

The Board will consider all financial and commodity risk management policies and activities prior to them being recommended to the CEO for review and approval by the Board.

It will set the treasury strategy for treasury within the discretion permitted by the Treasury Policy.

The specific responsibilities of the TC in respect of financial risk management activities are as follows.

- Recommend to the CEO & Board the establishment of, and amendments to, the Treasury Policy
- Review/recommend to the CEO & Board the annual Funding and Risk Management strategy paper
- Approve risk management strategies, as recommended by the Treasurer, within the constraints of the Policy
- Review and recommend to the Board for approval, new financial instrument types and techniques for managing financial exposures
- Review investment and hedging performance against agreed benchmarks where applicable

4.6. The Chief Financial Officer

- Implement all financial accommodation and capital management objectives approved by the Board.
- Negotiate (as delegated by the Board – through approval of the Treasury Funding and Risk management strategy paper) borrowing, transactions in accordance with the Policy
- Recommend to the CEO and Board, risk management strategies reviewed by the TC
- Where appropriate, delegate authority for borrowing, investment, and hedging activities to the Treasurer
- Recommend to the CEO and Board Treasury performance benchmarks
- Ensure that the Board is informed, through regular reporting of the impact of financial exposures, on the risks and profitability of the XYZ
- Report any material policy breaches to the CEO and then to the Board

4.7. Treasurer

The Treasurer is responsible for supervising all treasury activities, which encompasses the daily management of the XYZs borrowing, investment and hedging activities within the bounds and authority as delegated by the Board, the CEO and Chief Financial Officer including the following.

- Periodic review of the Treasury Policy (at least annually) and recommendations for it amendment
- Preparation of an annual Funding and Risk Management Strategy paper for the TC and the Board
- Implementing approved risk management strategies outlined in the annual Treasury strategy paper
- In conjunction with the CFO negotiating financial accommodation
- Undertaking / supervising the implementation of investment and financial risk management activities
- Preparing monthly reports for the Board including compliance with treasury policy
- Ensuring that accurate records in respect to the Group Treasury and financial risk management activities are maintained

4.8. Business Units

The responsibilities of the businesses include the following:

- Provide cash flow forecasting to Treasury in a timely and accurate manner and ensure that material variations are advised in a timely manner
- Ensure that accurate records with respect to XYZ's cash flow requirements are maintained
- Ensure the integrity of data supplied to Treasury is optimised and recognise the organisational implications of ineffective data
- Work with Treasury to achieve stated business objectives
- Respond in a reasonable timeframe to adhoc queries from Treasury
- Manage and report foreign exchange exposures in accordance with Policy
- Manage trade finance in line with policy and procedures developed by Treasury
- Ensure transactional banking is carried out in the most effective manner (and in conjunction with Treasury)
- Produce timely and accurate processing of accounting entries as required
- Seek recommendations from Treasury on issues where risk exposures are not clear/unsure eg embedded options

4.9. Code of Professional Conduct

Treasury staff must comply with the following requirements.

- Ensure that in performing their professional duties they are, at all times, in compliance with the relevant XYZ policy, legal and regulatory requirements
- Avoid conflicts of interest and perform their professional duties with due care and diligence
- Protect confidential or commercially sensitive information which must not be disclosed unless there is a legal or professional duty to so
- Trading in treasury products for personal account is not permitted
- Maintain proper records in accordance with the standards established by the XYZ
- Comply with the risk management limits established by the Board at all times

5.LIQUIDITY RISK

[This section will need to be tailored to each organisation's specific requirement but the example wording below will be applicable to many organisations.]

5.1. Recognition of Liquidity Risk

Liquidity risk management is associated with ensuring that there are sufficient funds available to meet XYZ's financial commitments in a timely manner. It is also associated with planning for unforeseen events which may curtail cash flows and cause pressure on liquidity. The possible causes of a liquidity crisis include:

- unplanned reduction in revenue
- business disruption
- unplanned capital expenditure and
- sustained reduction in profitability

5.2. Measurement of Liquidity Risk

Liquidity risk is to be measured by comparing projected net debt levels for the next twelve months against total committed facilities. Projected net debt levels will take into the following into account.

- existing debt
- operating cash flows including interest payments
- operating capital expenditure items that are needed to maintain existing fixed assets in an operable condition
- committed project / investment capital expenditure, which the XYZ is contractually committed
- dividend payments; and tax payments
- dividend receipts, asset sales

Projected cumulative cashflows will be on a rolling twelve-month basis at monthly intervals. When added to the opening net debt levels this will provide the projected net debt level.

Projected net debt levels projected over time can be compared to the level of committed facilities and liquid assets (which provides an indicator of immediate and reliable liquidity) which will indicate the XYZs liquidity position going forward. When presented graphically this will provide a 'liquidity profile'.

For longer-term liquidity management, projections will show expected net debt levels on at least a rolling 12 month basis at monthly intervals and will include monthly cash flow forecasts from XYZ's operating divisions.

5.3. Management of Liquidity Risk

Liquidity Buffer

- A minimum liquidity buffer of $x million / % of committed facilities / liquid assets will be maintained to meet an unforseen crisis
- Consider negotiating uncommitted money market lines

[You may need to justify the liquidity reserve. For example it could be x months of operational cashflow, or a percentage of debt maturing in the short term or simple a percentage of current committed facilities, i.e. a 'rule of thumb'.]

5.4. Funding

The XYZs funding requirements and funding strategy, will be reviewed annually and set out in the Treasury Funding and Risk Management strategy paper. The funding strategy detailed in the Treasury strategy paper will be developed consistent with the following parameters.

1. [Determine the debt maturity profile. For example provide information on how much debt will mature over 1, 3 and 5 years. What is the maximum level of debt that is permitted to mature in next 12 months?]

2. Concentration of Debt Maturities - 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 a relatively long duration in XYZ's debt profile.

3. [Does there need to a policy on whom debt can be borrowed from; does debt raising need diversified in terms of counterparties, types, maturity and geography and do limits need to be set?]

4. [What is policy in terms of raising debt in foreign currency and management of the associated currency risks?]

5.5. Reporting of Liquidity Risk

The treasurer is to report to the Board on a monthly basis the liquidity of the group in the form of a liquidity profile.

6. INTEREST RATE RISK

6.1. Recognition of Interest Rate Risk

Interest rate risk is the risk of a reduction in earnings and / or the NPV of the organisation as a consequence of adverse movements in interest rates. This includes opportunity losses that may arise if the XYZ was to fix interest rates in a falling interest rate environment.

The majority of XYZ'z interest rate risk arises from borrowings however, other sources of interest rate risk include:

- interest bearing investments
- finance and operating leases
- creditors' accounts offering a discount
- debtors' accounts on which discounts are offered and
- mismatches in FX hedging

The primary objectives of interest rate risk management is to ensure:

- that only the **net** interest exposure (i.e. the repricing of financial assets is offset against the repricing of financial liabilities) is managed; in a manner consistent with the Funding and Risk Management strategy paper presented to the Board
- that debt servicing costs, from movements in interest rates, are minimised and
- that an interest cover ratios included in borrowing covenants are complied with

[Note: this is one possible recognition method. The actual recognition method will be dependent on the type of interest rate risk that an organisation is exposed to.]

6.2. Measurement of Interest Rate Risk

Interest rate risk is measured by the effect of interest rate movements on the total portfolio of:

- current and forecast net debt and
- interest rate hedging transactions

The method used by the XYZ to measure interest rate risk, is as follows.

1. Identify outstanding net debt.
2. Identify amount of debt that is fixed (included hedges) and amount that is floating.
3. Use of a range of likely interest rate scenarios to determine range of likely interest expense outcomes.
4. Select a number of possible EBITDA scenarios which are below the budgeted EBITDA.
5. Model various interest rate scenarios against various EBITDA outcomes and levels of hedged cover.
6. Identify the outcomes which will cause a breach of covenants or a solvency issue.

This methodology will be used to determine the 'benchmark duration' of debt portfolio. This will be reviewed annually (as part of the policy review) through conducting the above analysis/measurement and presenting the analysis to the Board. This benchmark will be incorporated into the core portfolio. The Treasury may be given discretion to manage debt around this portfolio through approval of the Funding and Risk management strategy paper presented to the Board by Treasury. This discretionary risk management will be undertaken in a separate portfolio.

[Note: again this is one measurement method. You could use a number of methods including for example a repricing profile or a projection of debt over time including the level of fixed and floating debt]

6.3. Management of Interest Rate Risk

To manage interest rate risk XYZ has adopted a core debt portfolio which has its duration matched to the ‘benchmark’ (which is a passive approach) and active management portfolio which allows Treasury discretion to ‘tactically’ manage the overall portfolio based on its view of interest rates.

The following debt parameters has been approved.

The duration of the core portfolio must be [x years plus or minus y years.]

The tactical portfolio can modify this duration so that the duration of the combined portfolio is between [x years and y years.]

The debt in the core portfolio must be within x% and y% fixed (by volume) the definition of fixed debt being debt (after taking into account derivatives) that is repricing in more than 12 months.

[Note: again the above is a suggestion and the actual policy setting will vary depending on the organisation. For example if the organisation had an extensive portfolio of floating rate financial assets then the management approach could be one of matching this profile with liabilities repricing in a similar manner.]

6.4. Reporting of Interest Rate Risk

The Treasurer is to report to the Board monthly risk management activities and performance against benchmarks.

7. FOREIGN EXCHANGE RISK - TRANSACTION

7.1. Recognition of Foreign Exchange Transaction Risk

Foreign exchange transaction risk is the risk that the XYZs cash flows will be adversely affected by movements in exchange rates that will increase the Australian dollar ('AUD') value of foreign currency payables, or will diminish the AUD value of foreign currency receivables.

The XYZs approach to foreign exchange transaction risk management is as follows:

- the overall purpose of hedging is to mitigate risks and achieve known outcomes
- foreign exchange risk management is the responsibility of Treasury
- it is the responsibility of Business Unit Managers to identify foreign exchange risks in their areas of responsibilities and notify Treasury in a timely manner of these exposures through the monthly reporting system established by Treasury

[Note: this is a passive approach to currency risk management. There are various other possible approaches.]

The sources of XYZ's foreign exchange transaction exposures are as follows:

- purchases or sales of goods and services in a foreign currency
- capital equipment priced in foreign currency or subject to price change due to movements in exchange rates
- payments or receipts of royalties, franchise or licence fees denominated in a foreign currency
- sales or purchases denominated in AUD where the AUD price is affected by import replacement costs

Further Considerations around the recognition of Foreign Exchange Transaction Exposures

[Note: specify when exposures will be recognised; alternatives may include exposures being recognised on a budgeted basis, on a projected basis eg. with an underpinning contract, but no purchase orders yet, or on a committed basis {committed itself will need to be defined}. If exposures are recognised on a projected basis then you may also wish to assign probabilities to projected exposures. In addition you will need to define a horizon over which exposures will be recognised. For example will exposures be recognised over the next six months, twelve months etc.]

7.2. Measurement of Foreign Exchange Transaction Risk

Foreign Exchange Transaction risk will be measured by projecting the net foreign currency, in a cashflow table of each currency to which XYZ has an exposure.

Responsibility for developing foreign exchange 'transaction risk' management resides with the Treasury.

[Note: you will need to specify the amount of exposures to be hedged and for how long. There may be a different level of hedge cover assigned for committed versus projected exposures. You may also determine that it is necessary to have a different approach for different business units. For example a business unit with ongoing foreign currency exposures may cover a percentage of projected exposures whereas a business unit which undertakes transactions on a transaction by transaction basis where the exchange rate is a significant factor, might cover 100% of committed exposures]

7.3 Management of Foreign Exchange Transaction Risk

- Foreign currency exposures identified in excess of AUDx must be reported to Treasury and hedged
- A minimum of x%, maximum y% of committed exposure must be hedged for the current budget year
- A maximum of x% and y% of exposure for the second year

The threshold for minimum hedging should be considered in the light of the Board's risk appetite. Other issues to be considered include:

- whether Treasury hedges the net Company position or positions above the threshold on a deal by deal basis
- whether hedging may only be undertaken for capital expenditure transactions and
- AASB 139 implications, particularly the impact on P&L volatility if a hedge is not determined to be effective

Treasury may vary the level of hedging within theses bands and the performance of treasury will be benchmarked against the midpoint of each band at the forward rate applicable at the time each increment in exposures was recognised.

In many cases, this measurement will be dependent on business units providing details on projected exposures. Accuracy of these projections is vital in managing this process correctly and providing feedback on the accuracy of their projections against actual positions should be considered.

[Note: you need to ensure that this type of performance assessment is workable and is achieving the desired organisational objectives. You may also need to have loss limits or a loss referral system where discretionary management is permitted.]

7.4 Reporting of Foreign Exchange Transaction Risk

Responsibility for developing foreign exchange 'transaction risk' management resides with the Treasury.

Treasury will report to the Board monthly, the level of exposures and the associated hedges, performance of discretionary hedging activities and compliance with hedging limits.

8. FOREIGN EXCHANGE RISK – TRANSLATION

8.1. Recognition of Foreign Exchange Translation Risk

Foreign exchange translation risk relates to the effect of currency movements on the value of a company's net assets denominated in foreign currencies when those values are translated into the reporting currency of the company for accounting purposes.

8.2. Measurement of Foreign Exchange Transaction Risk

Translation risk will be measured by emulating the consolidation process of the net investment in foreign currency assets under different exchange rate scenarios.

8.3. Management of Foreign Exchange Translation Risk

[Specify how you will manage translation risks. For example, you may borrow in foreign currency to hedge the currency risks or the organisation may choose not to management Foreign Exchange Translation Risk.]

8.4. Reporting of Foreign Exchange Translation Risk

[Determine whether any reporting is required which might be limited to positive confirmation of compliance with policy settings.]

9. COMMODITY RISK MANAGEMENT

9.1. Recognition of Commodity Risk

Commodity risk is the risk that an adverse movement in commodity prices will increase the cost of process inputs or diminish the value of outputs / exports or commodity assets.

XYZ's policy on commodity risk management will be implemented by Treasury and supervised by the Board.

For XYZ, the likely sources of commodity risk on inputs are:

1. Base metals, purchases - which are based off the London Metals Exchange (LME) and priced in USD.

2. Energy (electricity, gas, oil) purchases made in AUD that can be subject to long term contracts.

3. Commodity Risk is created at the time an undertaking is provided by the company to a supplier / customer.

4. Risk may also be created at the time of scheduled production for a commodity producer.

5. If significant financings are underpinned by significant reserves, it may be appropriate to hedge some of the revenue in accordance with the production plan.

9.2. Measurement of Commodity Risk

For XYZ, commodity risk will be measured by the effect of price movement sensitivities applied to annual estimated usage / sales by Business Units. Sensitivities should be based on historical price volatility of the relevant commodity.

Such sensitivities need to be compared to Business Unit profitability to determine whether the business can withstand such volatility in price.

9.3. Management of Commodity Risk

[It is common for hedging of market risks, such as commodity price risk to hedged on a descending percentage basis as illustrated below. This caters for both uncertainty of forecast as well as allowing the organisation to take advantage of favourable (and unfavourable) price movements in the future.]

The maximum allowable quantity will be hedged using forecast monthly usage and the following percentages:

0-3 months	80-100% of estimated usage / sales
4-15 months	50-75% of estimated usage / sales
13-27 months	25-50% of estimated usage / sales

The authority available to undertake derivative transactions is for a period not to exceed [27] months following the month of the original trade date.

As at the date of this policy and until amended the following commodities can be hedged, e.g.:

- zinc
- aluminium
- electricity

[Note: that there are examples only – specific ledge limits will need to be developed for each organisation.]

9.4. Reporting of commodity Risk Management

Responsibility for developing commodity risk management resides with the Treasury

Treasury will report to the Board monthly the level of exposure and the associated hedges, performance of discretionary hedging activities and compliance with hedging limits.

10. COUNTERPARTY CREDIT RISK

10.1. Overview of Counterparty Credit Risk

Credit risk is defined as the risk of sustaining a loss as a result of the default by a counterparty including banks that has:

- issued, accepted or endorsed a security in which XYZ has invested
- accepted a deposit from XYZ
- entered into a hedging transaction with XYZ related to the management of financial risks

Authorised counterparties and counterparty credit limits are to be established within the parameters described in this section. The current list of authorised counterparties is contained in Appendix C.

The purpose of establishing credit limits is to ensure that the XYZ deals with creditworthy counterparties and that counterparty concentration risk is addressed.

10.2. Measurement of Counterparty Risks

[Specify the way in which counterparty risks be measured for investments and derivatives. Also specify how you will measure the credit strengths of prospective counterparties and allocate limits. Typically credit ratings are used for this requirement. Also consider that more than one part of the organisation may have an exposure to a counterparty. How will you allocate counterparty limits between business units?]

10.3. Management of Counterparty Risk

Counterparty credit limit utilisation will be measured against the approved credit limit for each counterparty. Actual limits for each counterparty are set out in Appendix C. It may be practical to establish bank limits based on their credit rating.

Recommendations for amendments to counterparty limits, or approvals for temporary increases, must be submitted by the Treasurer to the Board TC for approval which must be later ratified by the Board, and must indicate the:

- existing and proposed limit
- reason for the proposed change

10.4. Reporting of Counterparty Risks

Compliance with counterparty limits will be reported each month to the Board.

11. AUTHORISED INSTRUMENTS AND ARRANGEMENTS

11.1. Procedures for Approval of Financial Instruments and Arrangements

The Treasurer must present all recommendations for the utilisation of new financial instruments and arrangements in writing to the Board. All such recommendations must indicate the following.

- The rationale for use of the instrument or technique.
- Any changes in policies needed to ensure that utilisation of the new instrument or arrangement will be effective.
- The risks (including all costs) associated with the instruments or arrangement.
- The systems and procedures which will be used to monitor activities in that instrument or arrangement.
- The accounting policies relating to the use of that instrument or arrangement.
- Taxation of the instruments.

Financial market instruments, which have been approved by the Board are set out in Appendix D.

11.2. Authorised Signatories and Dealers

Authorised signatories

Two people are required to commit XYZ to effect electronic or physical payments. Due to the limited number of staff in XYZ Treasury, it is possible that one of the signatories / authorisers maybe the dealer who originated the transaction. However, the dealers would not initiate the payment.

Authorised Dealers

Acceptable authorised dealers (in all approved Treasury instruments) will be any of the following:

- treasurer
- treasury officer

Where the Treasurer deals, all deal sheets will be countersigned by an authorised signatory other than a person authorised to deal.

12. TRANSACTIONAL BANKING

Treasury in XYZ will require a centralised management of transactional banking and risk management functions. Responsibility for this area rests with the Treasurer and accordingly, the following delegation is awarded to Treasurer to execute documents and implement this centralised approach.

- Authority to open, maintain, operate and close Bank accounts for any member Company of XYZ
- Negotiation of automatic and manual transfers of funds facilities
- Requesting the operation of any service to any account
- Act as Authorised Person/Verifying Officer in relation to accounts
- Issuance of instructions to a Bank regarding manual payments, safe custody or security procedures;
- Attestation that any document is true and complete copy of any other document
- Negotiation and execution of facilities or limits required to optimise Bank Account structure (i.e. ‘daylight’ or RTGS limits)
- Negotiation and execution of agreements to facilitate the implementation of risk management strategies (i.e. ISDA agreements)
- Installation of software to facilitate management and reconciliation of any account; and
- Execute any legally binding agreement (and any associated documents) to novate hedging or trade finance arrangements to or from XYZ
- It is envisaged that material usage of this delegation will be noted to the CFO who, at his discretion, may, in turn, note the matter to the Board. The opening of bank accounts is subject to the approval of the Board

13. REPORTING REQUIREMENTS

13.1.Overview of Management Reporting

The objectives of management reports are as follows.

- provide information on the financial exposures of the organisation and the management thereof
- provide positive assurance to the Board concerning compliance with Treasury Policies
- monitor the performance of financial risk management
- enable the Board to make appropriate decisions with respect to the financial risk management activities and objectives of the XYZ

13.2.Reporting - Financial Risk Management

The reporting of the XYZs exposure to financial risks to the TC and the Board on a monthly basis, to include information on:

[Detail what information will be provided.]

13.3.Audit

Adherence to this policy shall be reviewed by internal audit and performance reported to the Board.

13.4. AIFRS

While the Accounting Standards e.g. AASB139 and other regulatory requirements will not drive risk management or hedging policy, the transactions need to be correctly accounted for and the impact on financial statements understood.

Each financial instrument will be reviewed and an assessment will be made on the required accounting treatment and whether hedge accounting will be applied. If hedge accounting is not applied the financial instrument will be measured at fair value. If hedge accounting is applied the correct designation of the qualifying hedge including documentation, measurement and effectiveness testing will be confirmed with the Group Finance Accountant.

APPENDIX A: ORGANISATIONAL STRUCTURE

Organisational Structure for Financial Risk Management

[Note: insert structure in a pictorial form.]

APPENDIX B: RESPONSIBILITY STRUCTURE

Function	Event	Authorised Body	Constraints/Limits
Financial Risk Management Policy	Approve Treasury Policy	Board	Approval of Financial Risk Management Policy.
Financial Risk Management Policy	Recommend Financial Risk Management Policy to Board	TC to CEO to Board	Recommendations to the Board as to the Financial Risk Management Policy

[Note: this table is a summary of delegated authorities. You should complete this for each financial risks and include events such as policy approval, policy development, negotiation of facilities, authorisation of facilities, usage of facilities, limits, etc.]

APPENDIX C: COUNTERPARTY CREDIT EXPOSURE LIMITS

Limits for counterparties will be set by reference to long-term credit rating for each counterparty. Limits approved by the Board are set out in the table below.

Authorised Counterparties	Rating	Limit

APPENDIX D: APPROVED FINANCIAL INSTRUMENTS AND ARRANGEMENTS

Authorised Hedging Instruments

The following lists the hedging instruments are currently authorised for use to manage financial risk.

[You should insert the instruments that have been approved by the Board. The "permit" should be quite specific. An example is provided below.]

- **Foreign Exchange Options** - *purchased*. Options may **only** be sold under the following circumstances:
  - to close out an existing purchased option
  - to construct a foreign exchange collar
  - they must not be leveraged
- 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.

Commodity Price Risk will be managed by either:

- Establishing fixed price contracts or
- By utilising suitable derivatives such as:
  - Fixed Price Swaps via XYZ Treasury approved counter parties (nominated in USD of AUD)
  - Bought options
  - Sold options only if linked to bought options to form a spread

Where new derivative products are being suggested by the counterparties or XYZ, these will be discussed with and approval sought from the Financial risk management committee before the new products are utilised. Treasury will undertake any derivative transactions.

Interest Rate Instruments

- interest rate swaps
- fixed interest debt
- [interest rate options]