

TREASURER'S INSTRUCTION 23

MANAGEMENT OF FOREIGN CURRENCY EXPOSURES

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Effective 21 January 2015

Scope

23.1 This instruction applies to all public authorities unless otherwise stated.

Objective

23.2 To prescribe a policy for the appropriate management of foreign currency exposures incurred by public authorities.

Interpretation and Definition

23.3 This instruction should be interpreted and applied in accordance with Treasurer's Instruction 1 *Interpretation and Application*.

23.4 For the purposes of this instruction "Semi-government authority" has the same meaning as set out in the *Public Finance and Audit Act 1987*.

Instruction

23.5 The Chief Executive of a public authority is required to recognise and manage all foreign currency risks and exposures arising from the public authority's operations, including (without limitation) foreign currency risks and exposures that might arise for the public authority with a contemplated transaction during the forthcoming financial year; and during the period between approval being sought for a contractual arrangement and that contract being signed.¹

23.6 The Chief Executive of a public authority must ensure that all existing, contingent or potential assets and liabilities involved in the public authority's operations are assessed to determine if any might give rise to future foreign

¹ "Approval being sought to enter into contractual arrangements" refers to the time when draft contract terms have been negotiated but where the negotiated contract terms may require approval by a Minister, Cabinet or other relevant person/entity. It does not relate to the approval to conduct a procurement process where the nature of any exposures would be unknown at that time." Advice on the identification and management of foreign currency risks and exposures can be obtained from the South Australian Government Financing Authority (SAFA).

currency exposures. Where future foreign currency exposures exist, all assessments of the exposure should use appropriate forward (rather than spot) exchange rates.²

23.7 Generally, an asset or liability with a future foreign currency exposure arises from rights and obligations (definite, contingent or potential) to pay or receive an amount, in a foreign currency, or in A\$ where that A\$ is to be determined by reference to a particular exchange rate at a particular time. Examples include:

- tender process where the tendered price for goods and/or services is in a foreign currency or converted into A\$ based on a foreign exchange rate at a particular time that will change up to the date of execution of the contract;
- shares, dividends/return of capital in foreign currencies;
- guarantees/indemnities of obligations in a foreign currency; and
- purchase price for goods or services, or revenue receipts, in a foreign currency.

23.8 Where an asset or liability is expected to give rise to a foreign currency risk or exposure exceeding the equivalent of A\$250,000, forward foreign exchange cover, or another appropriate hedging strategy, must be obtained by:

- (a) administrative units, Ministers and semi-government authorities; and
- (b) all other public authorities,

and be implemented through SAFA, unless the prior approval of the Treasurer has been given for a public authority to implement the forward cover, or another hedging strategy, through a financial institution licensed under the laws of Australia to conduct foreign exchange business.

For queries please contact:
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South Australian Government Financing
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² Information on forward exchange rates can be obtained from SAFA.