

**Agenda Item: Draft Treasury Management Policy**

**Summary:** Given that IPPF both receives funds from donors and makes payments in multiple currencies, including exotic currencies, it is considered prudent that IPPF develops a treasury management policy to give guidance on how to minimise the inherent risks, particularly the foreign currency risk. This policy recognises that there is no dedicated treasury resource at IPPF and, until accurate multi-currency cashflow forecasting is embedded, IPPF's foreign exchange rate risk is difficult to assess and so only simple treasury practices are recommended.

**Action Required:**

On the recommendation of the C-FAR the Board of Trustees to consider and approve IPPF's draft treasury management policy.

## Table of contents

1	Background and purpose .....	3
2	Objectives of treasury management.....	3
2.1	Maximise return on funds.....	3
2.2	Identify and minimise risks .....	3
3	How to Minimise Risk .....	4
3.1	Managing Counterparty risk: .....	4
3.2	Managing liquidity risk.....	4
3.3	Managing foreign exchange risk .....	4
3.4	Managing operational risk .....	6
4	Approval Authorities .....	6
5	Policy Review .....	6
6	Version Control .....	6
	Appendix A - Glossary of terms.....	8
	Appendix B - Authorised counterparties (FX risk management) .....	8

## 1 Background and purpose

The purpose of this policy is to set out IPPF's approach to treasury management across the unified secretariat.

IPPF's London office acts as the conduit for redistributing global IPPF income. All unrestricted core income and the vast majority of restricted income is received in London and payments to MA's and other secretariat offices are made from London at the request of the relevant secretariat office. IPPF's functional currency is USD but it receives income and makes payments in many different currencies. It has UK bank accounts in USD, GBP, EUR, AUD, CHF, NOK, DKK, SEK and CAD.

Only 10% of IPPF's unrestricted core funding is received from donors in its functional currency of USD. The remaining 90% is received in a range of foreign currencies, including EUR, AUD, DKK, NOK, NZD, SEK and CAD. Whilst payments from the London office are made in a variety of currencies (eg London office salaries in GBP, EN office costs in EUR), the majority of grant payments to Member Associations are in USD with approximately 40% in exotic currencies (mainly in Africa) when restricted projects are taken into consideration.

In order to limit the overall exposure to foreign exchange fluctuations, this policy aims to maximise returns on idle funds and identify and minimise forex risk. Keeping these broad objectives in mind, this policy has been prepared on the following principles:

- cash is to be treated as an asset which needs to be maximised for the furtherance of IPPF's charitable aims and objectives.
- no unnecessary risks that jeopardise IPPF's funds should be taken.
- only simple treasury practices will be followed.
- treasury management practices will be based on investment strategies as set out and amended, from time to time in the Investment Policy.
- treasury management decisions, as far as possible, will be centralised.

## 2 Objectives of treasury management

As mentioned, the two broad objectives of the Treasury Management Policy are to:

### 2.1 Maximise return on funds

The Treasury Management Policy is intended to achieve the maximum possible return on surplus funds whilst operating strictly within the framework of IPPF's Investment Policy.

### 2.2 Identify and minimise risks

IPPF will make all reasonable endeavours to identify and minimise its risk whilst managing its treasury in the following broad areas:

**2.1.1 Counterparty risk:** The risk of default by the financial institutions (defined for the purpose of this document as banks, building societies and investment funds) which hold IPPF's funds.

**2.1.2 Liquidity risk:** The risk that IPPF has insufficient cash flow to meet its obligations as they fall due.

**2.1.3 Foreign exchange risk:** The risk arising from exposure to exchange rate fluctuations and the resultant impact on cash flows arising from assets and liabilities held in non-functional currency.

**2.1.4 Operational risk:** The risk that accounting duties are not appropriately segregated (for example there should be clear segregation of duties to prevent any single person from being able to control substantial resources or obtaining unauthorised access to account information). Operational risk also includes the risk of accurate records not being maintained, cash accounts not being regularly reconciled or activities designed to manage treasury risks

not being appropriately supervised. This also includes the risks of cash mismanagement such as misappropriation of cash assets.

### 3 How to Minimise Risk

#### 3.1 Managing Counterparty risk:

Depending on which type of institution or instrument IPPF invests its funds in, it could be exposed to counterparty risk. Wherever practical, to minimise this risk, IPPF will:

- invest its funds only in those institutions, which maintain and meet the ethical investment policies in line with those provided in IPPF's investment policy. In assessing the ethical standing IPPF will undertake the following review:
  - internet research of the ethical standing of the institution, e.g. [www.business-humanrights.org](http://www.business-humanrights.org). and [www.ethicalconsumer.org](http://www.ethicalconsumer.org)
  - review of specific investment policies/criteria adopted by the institution.
- not invest all its funds in a single financial institution/ financial instrument.
- deposit/ investment in bonds/ papers with high credit rating (A- or higher) from at least two rating agencies (such as S&P, Moody's or Fitch) in accordance with IPPF's Investment Policy.
- Open bank accounts with financial institutions/ banks which satisfies the above criteria.

#### 3.2 Managing liquidity risk

In order to manage the liquidity risk, IPPF will make all endeavours to improve its cash flow forecasting systems and procedures. As without a good cash forecasting system treasury management will never be successful, thereby exposing IPPF to risk of:

- defaulting on its short-term payments.
- default in settlement of hedging contracts.
- incurring heavy cost, due to hasty withdrawal of invested funds.

In order to mitigate this risk, IPPF will undertake the following actions:

- strengthen its cash flow forecasting system.
- ensure preparation of a quarterly consolidated cashflow forecast, as far as possible, disaggregated by type of currency and source of funding (unrestricted / designated / restricted).

#### 3.3 Managing foreign exchange risk

Foreign exchange ("FX") risk management seeks to protect IPPF against adverse FX rate changes over a medium to long-term time horizon. FX risk management includes (i) identifying the FX risks to which IPPF is exposed, (ii) assessing and monitoring the potential impact of FX risks on the ability of the organisation to deliver on the annual operating budget and (iii) reporting on FX risk.

**Mitigation strategies:** In order mitigate the foreign exchange risks IPPF will:

- under the oversight of the Board of Trustees and/ or the Finance, Audit and Risk Committee (C-FAR), identify and onboard an expert forex management company once every three years, to advise and assist IPPF through the forex management. Foreign currency brokers/ management companies will be selected every three years through an open tender process.
- as per advice from the C-FAR, set up a credit line with each foreign currency broker/ management company that is successful in the tender process. The current authorised counterparties are listed in Appendix A.
- involve designated trustee (s) in operationalisation of the forex account, with the selected

forex management company.

- fix subsequent years budgetary rates based on advice from the foreign currency broker/ management company.
- selectively hedge its FX exposures by identifying currencies/ grants, wherein any significant negative movement could severely impact the operating budget of IPPF, by taking up hedging contracts for a maximum period of 18 months.
- strictly prohibits any speculative currency trading.
- regularly update the Board of Trustees and / or CFAR about the
  - result of the forex movements and hedging contracts
  - latest development and trends in forex management.
- Regular reporting to the management (each quarter) in the form of a treasury management report which will include:
  - live forward contracts showing their mark to market position.
  - overview of realised and unrealised FX gains/losses.
  - spot trades executed in the past quarter.

**Strategies on Grant Inflows:** Key strategies that could be adopted to hedge forex risks on **grant inflows** are listed below:

- **Natural hedging** i.e. netting inflows and outflows in a particular currency to minimise the net FX exposure will always be the preferred route.
- Use of **foreign exchange derivatives**<sup>1</sup> to reduce (offset) IPPF's exposure to FX risk will only occur where there is a comfortable level of certainty in respect of the timing and amount of the FX exposures. The following foreign exchange derivatives for FX risk management purposes can be used by IPPF:
  - **FX Spot:** transaction to buy one currency and sell another currency for 'immediate delivery'
  - **FX Forward:** agreement between two parties to exchange a specified amount of a currency at a specified exchange rate (forward rate) on a specified date in the future.

Prior to committing any spot or forward transactions, quotes must be obtained from at least two authorised counterparties as close in time as possible after which IPPF will execute the deal with the most competitive counterparty. The exception to this rule is where a spot transaction is required for a payment in an exotic currency in which only one of IPPF's authorised counterparties trades.

All foreign exchange spot and forward transactions should be pre- approved by the Financial Controller or Director, Finance & Technology after reviewing the quotes received. Forward contracts will primarily be entered into for the following year's unrestricted donor income to create certainty over the budget exchange rates.

**Strategies on FX payments:** In order to limit bank transaction and FX costs, (automated) bank converted payments (and collections) will be avoided as these transactions are not cost effective. IPPF has the following options to make FX payments:

- Make the payment through an FX payments service provider specialised in executing payments in exotic/illiquid/high spread currencies and empanelled by IPPF.
- Buy the currency outright through an FX spot (deal with an authorized counterparty) and subsequently make the payment. This process would normally require a bank account in the payment currency and therefore it is only appropriate for currencies in

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<sup>1</sup> A foreign exchange derivative is a financial derivative of which the payoff depends on the foreign exchange rates of two (or more) currencies at a given point in time (either now or in future).

which the amounts and/or the frequency of payments is high and where no natural hedge is possible.

### 3.4 Managing operational risk

IPPF will ensure that all its treasury management activities comply with statutory and regulatory requirements. IPPF will also ensure that it puts in place adequate steps and controls to protect itself against any operational risk relating to its treasury management function. The steps that IPPF will take in managing operational risk include:

- Seek external advice from auditors, tax or legal advisors, as and when required.
- Ensure all documentation pertaining to treasury management, including detailing counterparty relationships, payment approvals and contracts shall be kept to evidence compliance with this policy and statutory regulations.
- Ensure adequate controls are put on release of requisitions, purchase orders and bills in the enterprise system of IPPF. This will include:
  - Strong oversight on cash position by grant/ project/ source of funding. Any overdraft, to be approved as per the authority levels, as defined in the delegation of authority document.
  - Checks and balance in place to ensure maker and checker principle always upheld in the system.
- Maintenance of bank accounts in multiple currencies in London, to enable flexibility in FX management.
- All bank accounts will be reconciled every month with any un-reconciling items investigated and cleared within three months.
- All secretariat offices will send quarterly bank statements and reconciliations to the London office to ensure visibility of overseas funds.
- Ensure all secretariat offices hold adequate cash which should typically cover the following quarter's net cash requirements.

## 4 Approval Authorities

Given the highly specialised nature of transactions, only the following team members may enter into FX derivative transactions within their overall limits of authority as defined and approved in the delegation of authority document:

- Director, Finance & Technology
- Financial Controller
- Manager, Financial Performance
- Member Association Grants Accountant (FX spot transactions for exotics payments only)

Any proposed transaction outside of the mandate and authorisations of this Treasury Management Policy requires pre-approval from the Finance, Audit and Risk Committee (C-FAR).

## 5 Policy Review

This policy will be reviewed every two years.

## 6 Version Control

Version	Effective Date	Review Date	Owner	Approved Date
Version No. 1	Early June 2021 (subject to approval by IPPF)	26 <sup>th</sup> March 2021 (by the Finance,	Director – Finance and Technology	Early June 2021

	Board of Trustees)	audit and risk committee)		
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## Appendix A - Glossary of terms

<b>Term</b>	<b>Definition</b>
Exotic currencies	A foreign exchange term for a thinly traded currency. Exotic currencies are illiquid, lack market depth and trade at low volumes.
Spot rate	The current exchange rate at which a currency can be bought or sold.
Forward contract	A forward exchange contract (or forward contract) is a binding obligation to buy or sell a certain amount of foreign currency at a pre-agreed rate of exchange, on a certain future date.
Natural hedging	A hedge that occurs naturally as a result of an entity's normal operations. For example, revenue received in a foreign currency and used to pay commitments in the same foreign currency would constitute a natural hedge.
Speculative trading	Speculative trading includes any derivative transactions (i) for which no underlying exposure exists, (ii) which potentially increase instead of reduce FX risk and/or (iii) which are entered into with the objective to generate income.

## Appendix B - Authorised counterparties (FX risk management)

Global Reach  
 Cambridge FX  
 StoneX (exotic currencies)