**INTERNATIONAL PLANNED PARENTHOOD FEDERATION** BOT/**11.23**/DOC/9.1 b) iii)

Refers to agenda item 9.1 b) iii)

**Board of Trustees** (BoT)
**23-24th November 2023**

## 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 and continuously update its 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 remains difficult to assess, and so only simple treasury practices are recommended to continue, although changes have been made to mitigate the risk further with forward contracts in place for the core and some restricted funds for 2024.

A Review of our Treasury Policy has taken place by an external consultant and specialist in Treasury Management and some recommendations made, and tracked in this document.

**Action Required:**
Board of Trustees are requested to review and approve the updated Treasury Management Policy on the recommendation of the Finance, Audit and Risk committee (C-FAR).

**Table of contents**

## 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~~most of the restricted income are 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 (e.g., London office salaries in GBP, EN office costs in EUR), ~~the majority of~~most grant payments to Member Associations are made in USD with approximately 40% in exotic currencies (mainly in Africa) when restricted projects are taken into consideration.

To limit the overall exposure to foreign exchange fluctuations, this policy aims to optimise~~maximise~~ returns on idle funds and identify and minimise foreign exchange (FX) 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 optimised~~maximised~~ for the furtherance of IPPF's charitable aims and objectives.
- no unnecessary risks that jeopardise IPPF's funds should be taken.
- only simple "best" 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 Optimise~~Maximise~~ return on funds

The Treasury Management Policy is intended to achieve the maximum possible return on surplus funds whilst mitigating risks and 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, bond issuers~~building societies~~ and investment funds) which hold IPPF's funds.

**2.1.2 Liquidity risk:** The risk that IPPF has insufficient available liquidities~~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. and 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

IPPF manages liquidities across the secretariat ~~offices~~ including ~~and~~ its London office ~~entity~~ to ensure payment are made on time to meet ~~of~~ all its contractual obligations and duties. ~~In order to~~It manages liquidities to optimi~~z~~se return on excess cash, ensure timely payments of Member Associations, partners, suppliers and offices, whilst avoiding risk of

- defaulting short-term payments,
- ~~risk of~~ default in settling hedging contracts and
- ~~risk of~~ incurring heavy cost, due to hasty withdrawal of invested funds.

IPPF will contemplate and analyse ~~opportunity toto the~~ options to implement an

- ~~ad hoc~~ off the shelf ~~IT tool ,or~~ Treasury Management System and
- look at ~~, O~~outsource the function, or recruit~~ment of~~ a treasurer and investment manager

to optimise and further automate its payments, cash management and cash-flow forecasting. ~~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.~~

IPPF will also work towards producing~~e~~ quarterly consolidated reporting on cash positions, including positions by type of currency and source of funding (i.e. unrestricted / designated / restricted).

~~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 risks.

**Mitigation strategies:** To 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 FXforex management~~. ~~To~~ ensure best execution of FX hedging, IPPF compares pricing between different counterparties approved by ~~Audit and Risk Committee~~Director of Finance and IT. A list of ~~Foreign~~ foreign currency brokers and ~~/~~ banks used for FX hedging~~management companies~~ ~~are~~ is provided ~~defined (see~~ in appendix B~~)~~. The list of counterparties for FX hedging will be reviewed on a regularl~~y~~ basis. ~~will be selected every three years through an open tender process.~~
- as per advice from the C-FAR, set up an FX credit line with each foreign currency broker / bank / ~~management company~~ that has been selected. ~~is successful in the tender process.~~ The current authorised counterparties are listed in Appendix A.
- involve designated trustee~~-~~(s) in operationalisation of the FX account, with the selected FX management company.
- fix subsequent years budgetary rates based on advice from the foreign currency broker / bank / FX 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~~ by taking up hedging contracts for a maximum period of 18 months, when certainty of income is provided by the Director ~~of~~ Donor relations and fundraising or the project lead.
- strictly prohibit~~s~~ any speculative currency trading.
- ~~regularly~~ update the Board of Trustees and / or CFAR when necessary about the
  - result of the FX movements and hedging contracts
  - latest development and trends in FX management.
- Regularly report to the management (each quarter) in the form of a treasury ~~management~~ and investment management report which will include:
  - outstanding~~live~~ forward contracts showing their mark-to-market position.
  - overview of realised and unrealised FX gains/losses.
  - spot and forward trades executed in the past quarter.

**Strategies on Grant Inflows**: Key strategies that could be adopted to hedge FX 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 OTC derivatives**[1] to reduce (offset) IPPF's exposure to FX risk will

[1] A foreign exchange derivative (OTC – Over-the-Counter) is a financial forward contract~~derivative~~ of which the payoff depends on the foreign exchange rates (based on Spot rate and interest rate differential – the so-called "swap points") of the two ~~(or more)~~ currencies dealt at a given point in time (either now or in future).

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' (i.e., day+2)
- **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~~Director of Financial ~~Services~~Management or Director, Finance & Technology after reviewing the quotes received and in accordance with the Delegation of Authority limits. Forward contracts will primarily be entered into for the following year's unrestricted donor income to create certainty over the budget exchange rates, and restricted where possible.

**Strategies on FX payments:** To limit bank transactions 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 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~~ Oracle NetSuite 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 across the secretariat will be reconciled every month with any un-

reconciling items investigated and cleared within three months by the Shared Service Unit, and approved by the Head of Hub~~.~~

- ~~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 FX derivative transactions within their overall limits of authority as defined and approved in the delegation of authority document:

- Director, Finance & Technology
- ~~Financial Controller~~Director of Financial Management
- ~~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 or upon request from C-FAR~~.~~

## 6 Version Control

| Version | Effective Date | Review Date | Owner | Approved Date |
|---|---|---|---|---|
| Version No. 1 | Early June 2021 ~~(subject to approval by IPPF Board of Trustees)~~ | 26th March2021 (by the Finance, ~~audit~~audit, and risk committee) | Director – Finance and Technology | Early June 2021 |
| Version No. 2 | 1st December 2023 (Subject to approval by CFAR) | 17th November 2023 (by the Finance, audit, and risk committee) | Director – Finance and Technology | November 2023 |

Appendix A -- Glossary of terms

| Term | Definition |
|---|---|
| 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 because 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~~Corpay
~~Cambridge FX~~
StoneX (exotic currencies)
Barclays bank (BARX)