FOREIGN EXCHANGE GAINS AND LOSSES (ON DRAFTS AND WIRES)

UNSW Accounting Procedure	
Linked UNSW Policy	Foreign Currency Translation
Responsible Officer	Director, Corporate Finance and Advisory Services and Shared Services
Contact Officer	Senior Group Statutory Reporting Manager, Corporate Finance and Advisory Services
Review	Every year
Effective Date	31 December 2013

1. Objective

This procedure outlines the process to account for foreign exchange gains/losses, determined in accordance with AIFRS, at a departmental level (i.e. Faculties, Schools & Divisions) in NS Financials.

2. Basis for FX gain or loss recognition

This procedure pertains to accounting for adjustments required to reflect gains and losses due to foreign exchange translations on drafts and wires arising on settlement of foreign monetary items at different exchange rates than those at which they were translated on initial recognition of a liability. It does not cover foreign operations or how to translate financial reports in foreign currency into AUD. It also does not cover derivatives transactions nor does it apply to hedge accounting for foreign currency items.

The University translates foreign currency into AUD and reports the effects of such translation in accordance with AASB 121.

Foreign exchange gain or loss is the difference resulting from translating a given number of AUD into another foreign currency at different exchange rates or vice versa. Where exchange rate is the ratio of exchange between the AUD and the foreign currency, and foreign currency is the currency other than AUD – the University's functional currency.

Exchange differences arising on the settlement of monetary items are recognised in the P&L in the period which they arise.

Treasury policy

The University treasury policy is that for single transactions over $50K, Treasury purchases foreign currency via 'ANZ FX Online' or through direct contact with 'FX dealers'. Treasury may enter into a spot purchase or sale of foreign currency or may enter into a forward exchange contract (FEC) to hedge exposures which may arise from foreign currency. The policy is to hedge foreign currency transactions over $50K (and milestone payments where the total of estimated milestone payment is over $50K) using forward contracts. For milestone payments over $50K (i.e. total of estimated milestone payment), Treasury will deal forward in the Forward FX market. A blended deal rate is used based on the average of the milestone rates.

At the end of each month, all foreign currency held but not settled is re-valued to get the gain/loss that would have been incurred if it had been settled on that date, in order to record the change in the fair value of the FEC contract. This is posted as a reversing entry by Treasury.

For transactions under $50K in those currencies for which the University does not have an FX bank account, foreign currency is purchased 'over the counter' on the day of settlement of the foreign liability. If recognition and payment of the underlying foreign currency transaction occurs at different dates, it will give rise to an FX gain or loss on settlement of liability.

For transactions under $50K in a currency for which the University has an FX bank account (USD, EUR, CAD, GBP and SGD), payment is made directly from the FX bank account.

3. Accounting Treatment

Payment to Suppliers in Foreign Currency < $50,000

3.1 Liability recognition

A business unit processes a purchase order for a foreign transaction. A 'daily spot rate' is automatically loaded at the commencement of the day in NSF based on information from Thomson Reuters via the Treasury Management System. This rate is used to convert the underlying foreign transaction to AUD. When accounts payable enters the invoice recognising the liability it will automatically convert it to AUD using the 'daily spot rate' as uploaded.. The same procedure occurs for settlement/ payments of foreign transactions. When paying a foreign currency invoice accounts payable will use the 'daily spot rate' uploaded by Finance Operations for the day. The selected method of payment for a supplier in foreign currency can either be DFT or WIRE.

3.2 Accounting for 'notional' FX gain or loss - Payment to Suppliers in Foreign Currency < $50,000

An FX gain or loss is the difference between the spot rate at the time of recognition of liability and the spot rate at settlement of liability (payment). 'Daily spot rates' will vary between the recognition and settlement date resulting in an FX gain or loss. This is a notional FX gain or loss on settlement of a foreign liability and it is automatically posted, at a business unit level, through the accounts payable system.

3.3 Accounting for 'actual' FX gain or loss

The notional gain or loss through the accounts payable process has a further adjustment as the settlement exchange rate used by the accounts payable process ('daily spot rate') is an approximation to the actual rate for 'over the counter' purchase of foreign currency. This 'over the counter' actual rate is advised at the time of purchase and shown in the bank statement (ANZ). As the actual rate differs to the daily spot rate used on the date of settlement it requires an adjustment to the notional FX posted to P&L by the accounts payable system.

This adjustment is a manual process. An excel spreadsheet query is run by Corporate Finance from NSF showing the foreign exchange settlements under $50K at a notional settlement exchange rate. The data from the Bank is downloaded from ANZ and formatted into an excel spreadsheet and matched with the underlying NSF report. The matching process is via 'ref number' as the common denominator for wires and manually by date for drafts. The variance between these two columns is ascertained using a vlookup function and this is the exchange gain or loss adjustment, which is processed monthly by Corporate Finance and charged at a central level. A monthly journal is done to adjust accounts 6647 (Foreign Exchange Gain/loss) and 2803 (Cash at bank). The materiality of these final adjustments do not warrant further analysis or break up of charges.

3.4 Pay Cycle

If the method of payment is DFT a foreign currency cheque will be printed in favour of the supplier's name, otherwise the foreign currency amount is transferred directly into the supplier's bank account. In either case the payment is automatically processed by the Accounts Payable system against the supplier using the stored foreign currency amounts and converted to AUD at the 'daily spot rate' (Rate Type-CRRNT) as at settlement date.

Payment to Suppliers in Foreign Currency > $50,000

3.5 Liability recognition

For FEC contracts, a deal rate (usually a blended rate based on the average of the milestone payment FEC rates) is provided by Treasury, with a deal number attached. Procurement raises a purchase order in PeopleSoft, selecting the advised PeopleSoft Deal Number in the field "Rate Type" which will hold the deal rate, allowing foreign & AUD equivalent against that order to be calculated. Treasury purchases foreign currency via ANZ FXOnline or through direct contact with Institutional FX dealers at the FEC rate for each of the milestones (purchase rates). When the invoice is receipted and matched to the purchase order, the business units will be charged through the relevant expense accounts and account 8508 (Sundry Creditors) at the deal rate which has been set.

3. 6 Pay Cycle

For settlements occurring within the pay cycle payment entries are automatically posted in Accounts Payable against the primary supplier at the deal rate. Where Treasury has entered into a foreign exchange contract in respect of the purchase, Treasury is responsible for recording the cash flows from the foreign exchange contract at the settlement date. For milestone payments, the milestone purchase rates may be different to the blended deal rate, which results in a foreign exchange gain/loss on the FEC contract.

4. Operational Aspects

Adjustments

Adjustment entries to notional FX gain or loss to reflect actual FX gain or loss is managed within Corporate Finance and Advisory Services and charged at a central level. Entries relating to month-end revaluation of hedged forward contracts and the settlement of FEC contracts are posted by Treasury.

All other entries are automatically posted via accounts payable system procedures.