

Derivative Risk Management Policy

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| Effective Date | <i>1 July 2023</i> |
| Policy Type | <i>Statutory Policy</i> |
| Policy Owner | <i>Chief Financial Officer</i> |
| Link to Corporate Plan | <i>Sustainable Organisation</i> |
| Review Date | <i>30 June 2026</i> |
| Related Legislation | <i>Statutory Bodies Financial Arrangements Act 1982 Statutory Bodies Financial Arrangements Regulation 2019</i> |
| Related Documents | <i>Australian Accounting Standard (AASB) 9 Financial Instruments AASB 7 Financial Instruments: Disclosures Information Sheet 3.18 Derivative Transactions in the Financial Accountability Handbook</i> |

| Policy Version | Approval Date | Adopted/Approved |
|-----------------------|----------------------|---|
| <i>1</i> | <i>21/06/2023</i> | <i>Ordinary Meeting of Council - 21 June 2023</i> |
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*This policy may not be current as Council regularly reviews and updates its policies. The latest controlled version can be found in the policies section of Council's intranet or Website. **A hard copy of this electronic document is uncontrolled.***

Derivative Risk Management Policy

1. PURPOSE

The purpose of this policy is to outline the requirements for Council to manage and administer derivative transactions. A derivative is a financial contract which derives its value from an underlying asset, commodity, liability, or index as defined under the *Statutory Bodies Financial Arrangements Act 1982*.

2. SCOPE

This policy applies to any circumstance where Council engages in the management and administration of a derivative transaction.

3. POLICY

Council will seek to hedge all major exposures (\$200,000 or more), in part or in full. The extent of the hedged amount will be determined having due regard to the certainty of the exposure and the size of the transaction.

Council may enter into derivative transactions to manage risks associated with:

- (1) Foreign exchange:
 - (a) transacting in Australian Dollars (AUD) for goods primarily manufactured overseas carries risks. For fixed price procurement contracts, foreign exchange risk margins are usually embedded into the transaction; or
- (2) Commodity prices:
 - (a) where changes in the price of a physical commodity (for example, fuel) impacts upon Council's business's cost structure and cash flows.

3.1 Derivative requirements

The Chief Executive Officer will be responsible for approving the entering into any derivative transactions for Council, subject to the following conditions:

- (1) Council will adhere to the guidance contained in *Information Sheet 3.18 Derivative Transactions in the Financial Accountability Handbook*;
- (2) derivative transactions will be transacted through Queensland Treasury Corporation; and
- (3) any derivative transaction is for the express purpose of hedging foreign exchange risks or commodity price risks which arise in the normal course of business (examples of derivative transactions which can be utilised under this policy include forward agreements and swaps).
- (4) The CEO must approve officers to be authorised signatories to approved transactions.

Outside these parameters, a specific approval must be applied for from Queensland Treasury.

3.2 Dual currency pricing

In circumstances where Council considers entering into a derivative transaction, its Procurement officers must identify the opportunity to transact in a foreign currency, which includes:

- (1) ensuring that provisions are included in tender and contract documentation that dual currency quotes are required where relevant. A dual currency quote is a quote in Australian Dollars (AUD) along with an alternative quote in the supplier's preferred currency. This applies to both local and overseas suppliers; and
- (2) providing the supplier's dual currency quotes to Queensland Treasury Corporation for advice on the lowest AUD outcome on the proposed transaction.

3.3 Supply Chain Payment Solution

The use of the Queensland Treasury Corporation's supply chain payment solution will assist Council to mitigate the impact of supplier embedded foreign exchange risk margins and currency fluctuation clauses. The solution enables Council to continue recording Australian dollar payables while achieving cost saving benefits from contracting in a foreign currency. This is achieved by Queensland Treasury Corporation becoming responsible for the relevant payment obligation and derivative execution.



Derivative Risk Management Policy

3.4 Reporting

Queensland Treasury Corporation will provide regular reports, including outstanding derivatives transactions, any realised or unrealised gains, and monthly derivative reports including the Australian Dollars (AUD) mark-to-market values.

Council's Chief Financial Officer will be responsible for reviewing this information and lodging the required reporting under section 55 of the *Statutory Bodies Financial Arrangements Act*.

Council will report on derivative transactions quarterly to an ordinary meeting of Council. Council will account for any derivatives in its annual financial statements.

3.6 Definitions

| Term | Definition |
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| Derivative Transactions | Transactions entered into for: <ul style="list-style-type: none">(a) managing or varying financial returns or financial or currency risks, including, for example, risks associated with the volatility of currency exchange, interest and discount rates; or(b) returning gains, or avoiding losses, by reference to financial or currency obligations or the movement of currency exchange, interest and discount rates or commodity prices. |
| Hedge | A strategy that seeks to limit risk exposures in financial assets |

