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Treasury Circular 2003/12

In Confidence

Chief Executives
Directors of Finance/Chief Accountants

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UPDATE OF THE GUIDELINES FOR THE MANAGEMENT OF CROWN AND DEPARTMENTAL FOREIGN-EXCHANGE EXPOSURE

Introduction

Pursuant to section 80 of the Public Finance Act 1989 (Treasury Instructions) the Treasury has updated the 'Guidelines for the Management of Crown and Departmental Foreign-Exchange Exposure'. The changes to the Guidelines are not expected to have any major impact on departments' current practices.

The Crown's policy on the management of Crown and departmental foreign-exchange exposure is outlined in Treasury Circular 1990/4 of 16 March 1990. This policy requires departments to cover all material foreign-exchange exposures on transactions related to their normal course of business.

In accordance with this policy Chief Executives are responsible for:

i. identifying their transaction exposure and designing policies to cover this exposure within a set of guidelines;

ii. the resulting policies require the approval of:

    - the Secretary to the Treasury and the relevant department's own Chief Executive where they conform with the guidelines; or

    - the Minister of Finance and the Responsible Minister where they do not.

During 2003, the Treasury, in consultation with the departments that have significant involvement in foreign-exchange transactions, undertook a review of the Guidelines. This review highlighted a number of ways in which the Guidelines could be improved. As a result, the NZDMO has redrafted and updated the 1990 Guidelines.

The 2003 Review

The review has not identified any need for substantial changes. The parameters of the policy remain largely unchanged aside from a few instances that Treasury has identified to clarify or simplify the operation of the policy.

The key changes from the 1990 version are:

- clarification that Chief Executives are responsible for the identification and management of Crown foreign-exchange exposure for receipts and payments that their department administers (in addition to departmental flows);

- the Transaction Exposure Limit is expressed on a currency basis instead of a transaction basis. The maximum uncovered individual currency exposure has been increased from NZD$50,000 to NZD$100,000. There is no maximum amount for aggregated uncovered exposure;

- the list of approved counterparties for foreign-exchange transactions and foreign-currency bank accounts has been replaced with generic credit criteria;

- confirmation that departments are prohibited under the Public Finance Act 1989 from rolling forward an existing foreign-exchange contract at a historic rate; and

- the role of the New Zealand Debt Management Office in foreign-exchange management is included in the supporting schedules.

These changes are not expected to have any major impact on departments' current practices.

Transitional Arrangements

Departments are requested to review their Foreign-Exchange Policy Document and to ensure that their policies and practices comply with the 2003 Guidelines. In some cases, this may necessitate a revision of their policy document and/or changes to their foreign-currency banking arrangements. Departments are asked to discuss any transitional issues with their Treasury Vote Team.

Publication of the Guidelines

The Guidelines for the Management of Crown and Departmental Foreign-Exchange Exposure dated 24 November 2003 will continue to be placed on the Treasury and CFISNET web sites.

Phil Combes
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