MASSEY UNIVERSITY

TREASURY FRAMEWORK

JULY 2022

1.0 INTRODUCTION

1.1 Purpose of Treasury Framework

The purpose of the Treasury

2.0 SCOPE AND OBJECTIVES

2.1 Scope

This document identifies the policy and procedures of Massey in respect of treasury activities and applies to all Massey staff. The Framework encompasses the treasury activities of Massey.

2.2 Objectives

The objective of this Treasury Framework is to control and manage costs and treasury investment returns that can influence long-term plans, operational budgets and financial equity.

Specifically:

Statutory Objectives

Massey is required to comply with the following relevant legislation:

Crown Entities Act 2004;

Education and Training

Monitor and report on borrowing financial covenants and ratios under the obligations of lending/security arrangements, and TEC requirements.

Comply with financial ratios and limits stated within this Framework.

Managing net foreign currency payments protecting the NZD financial budget.

3.3 Finance and Assurance Committee (FAC)

The terms of reference are to review and monitor the Treasury Framework and treasury activities, and report to . The FAC responsibilities include:

- Approving the Treasury Framework incorporating the following delegated authorities:
  - borrowing, investment and financial market limits and the respective authority levels;
  - counterparties and credit limits;
  - risk management approach and benchmarks; and
  - guidelines for the use of financial instruments.
- Evaluating and approving amendments to Treasury Framework.
- Receives and reviews internal treasury reports. The FAC receives regular information from the CFO on treasury matters, risk exposures and financial instrument usage in a form that is understood and enables oversight of compliance to the Framework.
- Issues raised by auditors (both internal and external) in respect of any significant weaknesses in the treasury function.
- Receives submissions from the CFO notifying of Framework breaches, other than those breaches considered temporary (refer to responsibilities of DVC University Services (DVC US) below) and requesting approval for one-off transactions falling outside guidelines.
- Receive bi-annual reporting on compliance the Treasury Framework and review the Treasury Policy and Framework triennially.

3.4 Senior Leadership Team (SLT)

The SLT has a review and monitoring function across Massey including management and reporting line functions. The SLT reports and provides recommendations to either directly or indirectly through the FAC. The reports are noted in 3.3 above.

3.5 Treasury Forum

The Treasury Forum facilitates a senior finance management focus on the day-to-day treasury function, and the monitoring, managing of treasury risks within the approved Treasury Framework. The Treasury Forum ensures efficient and effective treasury management and performance.

The forum assists the DVC US and CFO to manage borrowing, investment and financial market risks by discussing/testing, strategies/decisions made.

Responsibilities of the Treasury Forum are;

- Discuss and monitor the liquidity, treasury investment, borrowing, interest rate and foreign currency risk position (actual and projected) against limits, and the treasury strategies being implemented by management.
- Examine economic and financial market trends and their impact on risk positions and recommended strategies.
- Consider treasury strategies and test to financial and treasury objectives.
- Through the CFO, review/discuss the triennial Treasury Framework review.

The Treasury Forum meets on at least a two monthly basis. Permanent members comprise; the DVC US, CFO and

3.6 Vice Chancellor (VC)

While the Council, through the FAC of Council, has final responsibility for the Framework and governing the management of

3.8 Chief Financial Officer (CFO) (or equivalent role)

The CFO is responsible for the day-to-day management of treasury activities. The CFO responsibilities are as follows:

Management responsibility for cash management, liquidity, borrowing, treasury, investment and risk management activities.

Recommend Framework changes to the DVC US.

Convene and chair the Treasury Forum at least two monthly.

Primary responsibility for managing bank relationships.

Negotiation of bank funding and financial market dealing facilities

Approve treasury transactions in accordance with delegated authority.

Approve opening and closing of bank accounts (with either the VC or CFO).

Propose new borrowing requirements to the DVC US for consideration and approval.

Review and make recommendations on all aspects of the Treasury Framework to the DVC US, including dealing limits, approved instruments, counterparties, and general guidelines for the use of financial instruments.

Monitor treasury exposure on a regular basis, including current and forecast cash position, cash and treasury investment portfolio, borrowings, and interest/foreign exchange rate exposures.

Design, recommend and implement cash management, liquidity treasury investment, borrowing and risk management strategy.

Design, analyse, evaluate, test and implement risk management strategies to position interest and foreign exchange rate risk position to be protected against adverse market movements within the approved Framework limits.

Execute risk management treasury transactions by email instruction to the respective bank in accordance with set limits and authorities.

Approve cash management, borrowing and treasury investment transactions.

Review and approve any discrepancies in the monthly bank reconciliations.

Complete the medium-term cash flow forecasts.

Monitor credit ratings of approved counterparties.

Account for all treasury transactions in accordance with legislation and generally accepted accounting principles.

Review monthly treasury report.

3.9 Financial Operations Manager (or equivalent role)

Responsibilities are as follows:

Execute cash management, treasury investment transactions in accordance with set limits and authorities.

Settle all cash management, borrowing, treasury investment, interest rate and foreign currency transactions.

Update treasury spreadsheet(s) for all new, re-negotiated and maturing transactions.

Receive external bank deal confirmations. Check all deal confirmations against emailed deal instructions and report any irregularities immediately to the CFO.

Handle all administrative aspects of bank counterparty agreements and documentation such as loan agreements and ISDA documents.

Reconcile monthly summaries of outstanding financial contracts from banking counterparties to internal records.

Complete the weekly cash position report.

Complete the short-term cash flow forecasts.

Provide daily (as required), weekly, monthly, quarterly treasury reporting to Financial Services and CFO.

Prepare monthly treasury report.

Act as the b

borrowing and includes such items as bank loans, finance leases and arrangements with another party for the deferral of payments for the purchase of material assets or expenditure.

All management delegated limits are authorised by the VC.

4.0 DEBT MANAGEMENT

4.1 General Framework

Massey is currently a net investor of funds but may move at some time into a borrowing position due to the need to fund capital investments.

Short-term operational funding requirements to fund gaps or cash flow deficits are discussed in Section 8.0, Cash Management.

All borrowing requires the written approval of the Secretary to the Minister of Education under Section 282 (4) of the Education and Training Act 2020. Subject to subsection (5) of this section, an institution shall not exercise any of the follNFIDENCE

Liquidity risk management focuses on the ability to access cash, treasury investments, and committed bank funding at that future time to fund the gaps. A liquidity buffer amount is also maintained to manage any unforeseen or unknown requirements.

Funding risk management centres on the ability to re-finance or raise new debt at a future time at the same or more favourable pricing (fees and interest margins) and maturity terms, of existing bank loans/facilities. The management of funding risks is important as several risk factors can arise to cause an adverse movement in borrowing margins, term availability and general flexibility.

A key factor of funding risk management is to spread and control the risk to reduce the concentration of risk at one point in time so that if any of the above events occur, the overall borrowing cost is not unnecessarily increased and desired maturity profile compromised due to market conditions.

4.3.2 Liquidity/Funding Risk Control Limits

The liquidity and funding risk control limits are as follows:

Sufficient liquid funds and/or committed bank facilities are available for at least 110% of

overnight bank cash deposits, registered certificates of deposit and bank term deposits maturing within a 30 day period.

Funds from related parties (e.g. trust funds) should not be included within the liquidity measure unless formal documentation of a committed debt facility/loan is executed between the parties and free cash has been allocated to provide liquidity to Massey by that party.

The VC has the discretionary authority to re-finance existing debt on more favourable terms. Such action is to be reported and ratified by Council at the earliest opportunity.

The maturity profile of the total committed funding in respect to all bank loans and committed facilities, is to be controlled by the following system and apply when external core debt exceeds $10 million:

Period	Minimum	Maximum
0 to 2 years	20%	60%
2 to 5 years	20%	60%
5 years plus	0%	40%

The amount and expiry date of all bank loans, committed bank facilities, term debt will not exceed the maximum amount and term of the Consent to Borrow or Ministerial Determination of Exempt Borrowing (whichever is applicable).

Core debt is defined as external debt expected to remain outstanding for greater than 12 months.

Approved borrowing instruments are set out in section 6.1.2.

The maximum borrowing term is 10 years. Terms beyond 10 years will require specific Council approval.

A maturity schedule outside these limits will require specific Council approval.

4.4 Financial Arrangements

Financial arrangements between Massey and a third party, including hire purchase and any leasing transactions, may not be entered unless approved by the DVC US.

In using interest rate options, the following conditions apply;

Interest rate options must not be sold outright. However, 1:1 collar option structures are allowable, whereby the sold option is matched precisely by amount and maturity to the simultaneously purchased option. During the term of the option, only the sold side of the collar can be closed out (i.e. repurchased) otherwise, both sides must be closed simultaneously. The sold option leg of the collar structure must not have a strike rate -the-

Purchased borrower swaptions mature within 18 months.

Interest rate options with a maturity date beyond 12 months that have a strike rate (exercise rate) higher than 2.00% above the appropriate swap rate, cannot be counted as part of the fixed rate/hedged percentage calculation.

All investment securities must be secured or senior/unsecured

The fixed rate amount at any point in time should be within the following maturity bands:

Fixed Rate Maturity Sub-Limit		
Period	**Minimum**	**Maximum**
1 to 3 years	20%	60%
3 to 5 years	20%	60%
5 to 10 years	0%	40%

Floating rate debt may be spread over any maturity out to 12 months. Bank advances may be for a maximum term of 12 months.

Forward start period on swaps and collar strategies to be no more than 24 months, unless the swap/collar starts on the expiry date of an existing swap and the notional amount is no greater than that of the existing swap/collar.

6.2 Foreign Exchange Risk

6.2.1 Risk recognition

Foreign exchange risk is defined as the adverse impact on the NZD expenses and asset purchases (e.g. purchase of library supplies) from foreign exchange rate movements. Foreign exchange exposure based on continually updated forecast payments is recognised on the basis of:

Forecast payments, based on 12-month rolling payment forecasts for each currency, reviewed and updated on a monthly basis. Any foreign currency receipts are netted against same currency payments.

Value in currency of payment.

Month or date of purchase.

Value expressed in NZD calculated at market exchange rates prevailing on the day of recognition.

Foreign currency exposures are recognised and managed when total annual net payments for an individual currency exceed NZD2.0m.

6.2.2 Annual Budget Exchange Rates

policy is to apply the contracted exchange rates per forward contracts held and maturing in the

Framework is to maintain hedging contracts in place for all net foreign currency payments at all times to conform to the following risk control limits:

Foreign Exchange Hedging Risk Control Limits		
	Minimum	**Maximum**
Confirmed/Contracted	100%	100%
Forecast/Uncontracted Period		
0-3 month	50%	80%
3-6 month	25%	50%
6-12 month	0%	25%
Conditional long-term Hedging		
12-18 month*	0%	25%

*Hedging only allowable when achievable rate is 15% (10% & 7.5%) above 7-year rolling average spot rate for the NZD/USD (NZD/EUR & NZD/AUD) exchange rate.

Confirmed/contracted foreign currency exposures are fully protected upon an approved purchase order being raised, the exposure is legally committed and the currency type, amount and timing are known.
The DVC US is able to approve a foreign exchange hedging position outside the above limits that self corrects within 30-days. It is reported as an approved exception to the Policy. However, maintaining a foreign exchange hedging position breach beyond 30-days requires specific Council approval.

Approved instruments are noted in Section 6.1.2.

Massey will not borrow in a currency other than the New Zealand Dollar.

6.3 Counterparty Credit Risk

Counterparty credit risk is the risk of losses (realised or unrealised) arising from a counterparty defaulting on a financial instrument where Massey is a party. The credit risk to Massey in a default event will be weighted differently depending on the type of instrument entered into.

Credit risk will be regularly reviewed by the FAC. Treasury related transactions would only be

6.4 Operational Risk

Operational risk is the risk of loss as a result of human error (or fraud), system failures and inadequate procedures and controls.

Operational risk is very relevant when dealing with financial instruments given that:

Financial instruments may not be fully understood;

Too much reliance is often placed on the specialised skills of one or two people;

Most treasury instruments are executed by email; and

Operational risk is minimised through the adoption of all requirements of this Framework.

6.4.1 Dealing Authorities and Limits

Transactions will only be executed by those persons and within limits approved by Council.

Any use of interest rate option instruments must have specific approval of Council.

6.4.2 Segregation of Duties

As there are a small number of people involved in the treasury function, adequate segregation of duties among the cash management, treasury investment, borrowing and risk management functions of deal execution, confirmation, settling and accounting/reporting is not strictly achievable. The risk will be minimised by the following process:

The CFO reports directly to the DVC US.

There is a documented approval process for cash management, borrowing, treasury investment and interest/foreign exchange rate activity.

The Financial Operations Manager reports immediately to the CFO if Policy limits are breached.

6.4.3 Procedures

All treasury instruments should be recorded and diarised within a treasury spreadsheet, with appropriate controls and checks over journal entries into the general ledger. Deal capture and reporting must be done immediately following execution/confirmation. Details of procedures including templates of deal tickets should be compiled in a treasury procedures manual separate to this Framework.

Procedures should include:

Regular management reporting.

Regular risk assessment, including review of procedures and controls as directed by Council or FAC.

Organisational, systems, procedural and reconciliation controls to ensure:

- All cash management, borrowing, treasury investment and risk management activity is bona fide and properly authorised;
- Checks are in place to ensure accounts and records are updated promptly, accurately and completely;
- Risk positions are updated, reviewed and reported on a regular basis; and
- All outstanding transactions are re-valued regularly and independently of the execution function to ensure accurate reporting and accounting of outstanding exposures and hedging activity.

Interest income from the treasury spreadsheet is reconciled to bank statements by the TL-AR&T, when completing the monthly bank reconciliations.

Monthly treasury journals are completed by the Financial Operations Manager and approved by the Financial Reporting Manager.

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6.5 Legal Risk

Legal and regulatory risks relate to the unenforceability of a transaction due to an organisation not having the legal capacity or power to enter

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7.0 MEASURING TREASURY PERFORMANCE

In order to determine the success of treasury function, the following benchmarks and performance measures have been prescribed.

Those performance measures that provide a direct measure of the performance of treasury staff (operational performance and management of investment, borrowing and interest/foreign exchange rate risk) are to be reported to Council or the Finance and Assurance Committee on a regular basis.

Operational Performance

All treasury limits must be complied with, including (but not limited to) counterparty credit limits, control limits and exposure limits.

All treasury deadlines are to be met, including reporting deadlines.

Management of Treasury Investment Returns

The actual investment income for Massey should be above the budgeted YTD/annual interest revenue amount.

Management of Borrowing Costs

The actual borrowing cost (taking into consideration any costs/benefits of entering into interest rate management transactions) should be below the budgeted YTD/annual interest cost amount.

Management of Foreign Exchange Rate Risk

The actual monthly NZD, conversion rate should outperform the budget foreign exchange rate.

8.0 CASH MANAGEMENT

The CFO has the responsibility to carry out the day-to-day cash management activities. All cash inflows and outflows pass through bank accounts controlled by the finance function.

The CFO will calculate and maintain rolling cash flow forecasts on a daily (three month forward), weekly (12 months forward) and annual (five years forward) basis. These cash flow forecasts determine Massey
investment. Forecasts are linked to approved financial budgets and plans where relevant.

The Finance Officer, Treasury, electronically downloads all bank account information daily.

The TL-AR&T, co-ordinates all daily cash inflows and outflows with the objective of managing the cash position within approved parameters.

The TL-AR&T, upon approval of the CFO executes all cash management and treasury investment transactions.

Massey will hold $100 in the current account, with surplus cash automatically swept to an interest-bearing overnight call account.

Sufficient liquid funds and/or committed bank facilities are available for at least 110% of

overnight bank cash deposits, registered certificates of deposit or bank term deposits maturing within a 30-day period.

An amount is maintained to manage unknown and unforeseen cash requirements.

Interest rate management on cash management balances is not permitted.

To ensure an efficient and effective cash management function the CFO:

9.0 REPORTING – PERFORMANCE MEASUREMENT

When budgeting borrowing costs/investment

9.3 Valuation of Financial Instruments

All financial instruments are re-valued at market prices, every three months for risk management purposes.

Underlying rates to be used to value instruments are as follows:

Official daily settlement prices for established markets;

Official daily market rates for short term instruments (e.g. FRA settlement rates

APPENDIX 1:

Bank and TEC Financial Ratios and Limits (as at the date of the Framework)

Bank Lenders Financial Ratio

- A requirement of the Bank of New Zealand is that the ratio of total debt to total debt plus total equity should not exceed 0.075, but tested only at the end of each calendar month the aggregate principal amount of all indebtedness for borrowed money (which would be disclosed by a statement of financial position if one were prepared as at that date in accordance with NZ GAAP) total as the aggregate of: consolidated retained earnings; consolidated reserves; and any other amount that, in accordance with NZ GAAP, would be classed as Equity as at that date - less any amount included that is attributable to: any revaluation of assets; goodwill or other intangibles; or minority assets).

- Total debt servicing should be governed by a times covered requirement. Interest paid to EBITD should be no less than 3 times covered.

TEC Ratios (to 31 December 2024)

Measure	TEC breach level targets
Net surplus ratio [1]	At least 0%
Interest cover ratio [2]	No less than 2.5 times
Cash flow from operations ratio [3]	At least 111%
Liquidity ratio [4]	At least 5%
Debt equity ratio [5]	No more than 7.5%

[1] Surplus as a percentage of total revenue (no covenants set for 2021 and 2022)

[2] EBIT divided by interest expense (no covenants set for 2021 and 2022)

[3] Operating cash receipts divided by operating cash payments

[4] Liquid resources divided by cash outflow from operations (no covenants set for 2021 and 2022)

[5] Total borrowings divided by total borrowing plus equity

Monitoring Reporting

In addition to the financial covenants above, the Consent provides for Massey to provide its full Audit (Finance) and Risk Committee meeting papers to the TEC

APPENDIX 2:

Glossary of Terms

Bank Registered Certificate of Deposit
Registered certificates of deposits (RCD) are securities issued by banks for their borrowing needs or to meet investor demand. RCD are paperless securities that are priced on a yield rate basis and issued at a discount to face value. They are generally preferred over term deposits as investors can sell them prior to maturity.

Basis Point(s)
In financial markets it is normal market practice to quote interest rates to two decimal places e.g. 6.25% - one basis point is the change from 6.25% to 6.26%, one hundred basis points is the change from 6.25% to 7.25%.

Bid–Offer Spread
The exchange points (FX) or basis points (interest rates) difference between the bid and offer rate when quoted by a bank is -

Interest Rate Options