

## Foreign Exchange Policy

### Version Control

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<b>10. Accessibility checked: Yes/no</b>	Use the Accessibility Checker in the Word Toolbar, or see <a href="#">Accessibility guide</a>
<b>11. Does this policy apply to LSTM Group (LSTM and subsidiaries?) Yes / no</b>	If yes, consult Group Legal and IP Advisor
<b>12. All policies will be added to the LSTM website unless an exception is provided here</b>	If there's an exception, provide a contact email address for the LSTM website
<b>13. If this policy has been reviewed, has this resulted in a minor or major changes?</b>	Major/minor (delete as appropriate)

Always view the current version of the document via the Knowledge Exchange Policy Hub.

## Modifications from previous version of document

Version	Date of issue	Details of modification
1.0		
1.1	09.03.2020	Reference to rare occasions overseas invoices contain VAT(7.2) Reference to update to Money Laundering Regulations in 2020(1.2 and 9.1). Added in safeguarding reference (3.1)
1.2	22.02.2021	Update reference to hedge accounting options to halt or recommence (6.8); Update reference to due diligence policy,now complete (9.3)

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## **1. Introduction**

- 1.1 LSTM has considerable exposure to the impacts of fluctuations in foreign currencies. It accounts for income and expenditure transactions in foreign currencies, primarily in relation to research grants, consolidated overseas entities and holdings of cash and investments in foreign currencies. As a result, LSTM must consider the compliance and accounting implications of foreign currency.
- 1.2 This policy outlines the LSTM position in all aspects of managing foreign exchange including:
- Minimising financial risk resulting from fluctuations in exchanges rates between Sterling and other currencies.
  - Maintaining and communicating clear accounting policies in relation to foreign exchange, including accounting policies regarding revaluation and hedge accounting, and processes for multi-currency reconciliations.
  - Maintaining efficient and secure processes for making foreign currency payments, transfers and cash advances.
  - Maintaining cashflow forecasts for all currencies, including Sterling, to ensure maintenance of adequate working capital in all currencies.
  - Ensuring compliance with relevant UK and overseas legislation and best practice, including compliance with:
    - The Criminal Finance Act 2017 (CFA 2017)
    - The Money Laundering Regulations 2017 (MLR 2017), updated January 2020
    - The Bribery Act (2010)
    - The Fraud Act (2006)

## **2. Equality and Diversity**

- 2.1 LSTM is committed to promoting equality of opportunity, combatting unlawful discrimination and promoting good community relations. We will not tolerate any form of unlawful discrimination or behaviour that undermines this commitment and is contrary to our equality policy.

### 3. Safeguarding

- 3.1 In line with our Safeguarding policy and procedures, LSTM's processes reflect our organisational commitment to keeping children and vulnerable adults safe.

### 4. Policy Statement

- 4.1 LSTM primarily holds foreign currency cash and investments, and has foreign currency transactions because of the receipt of research grants which either:
- Are denominated and received in a foreign currency, and/or
  - Require payments to partners/ suppliers in a foreign currency
- 4.2 When a grant is denominated in a foreign currency, reporting to the grantor is in that currency, but reporting of grant activity in UK financial reporting (such as financial statements, reporting to Office for Students and Research England) is in sterling. Processes must ensure that the exchange rates to be used for transactions give certainty to PIs to manage the grant budget in Sterling as well as the foreign currency it is denominated in, and that all parties processing transactions are aware of that relevant exchange rate. In addition, UK Sterling institution reporting must meet with relevant accounting standards while giving the best reporting result possible within the regulations.
- 4.3 Operating in foreign countries, particularly those considered by the UK Government to be "high risk" means that all payments and receipts must be to/from identifiable and legitimate parties, for valid and supportable purposes, to avoid fraud, bribery and corruption, money laundering and terrorist financing, or facilitation of tax evasion. [See Fraud, Bribery and Corruption Policy].
- 4.4 LSTM employees or associated persons working on behalf of LSTM must not:
- Independently enter into foreign exchange contracts of any sort on behalf of LSTM. All foreign exchange forward contracts, and currency purchase and sale are managed through Finance (except for overseas NGOs whose working currency is not sterling, and for small cash currency conversions to local currency overseas).
  - Set up any bank accounts in any currency in any country – all bank accounts in the name of LSTM or related entities are set up by Finance.

- Transport large amounts of cash overseas. Carrying large amounts of cash leads to security risks, risks of breaching a country's foreign exchange import/export regulations and the potential for allegations of bribery or corruption, money laundering or terrorist financing.
- Make large, foreign currency payments to partners/suppliers overseas in cash, without prior discussion with Finance, again to avoid the potential for allegations of bribery or corruption, money laundering or terrorist financing, and to minimise the risk of keeping large amounts of cash overseas.

## **5. Minimising financial risk**

### **5.1 Budget setting in foreign currency**

In preparing budgets for grant applications denominated in foreign currency the following should be considered to minimise foreign exchange risk:

- Determining as far as possible the income and expense cashflows in Sterling and foreign currency.
- Building in a "buffer" to cover potential adverse market movements in exchange rates from grant application to eventual grant award.

### **5.2 Managing foreign currency denominated grants**

Once a foreign currency grant is awarded the following should be done to ensure minimising all kinds of foreign exchange risk:

- If the grant is denominated in either US Dollars or Euros, a forward contract should be taken out, and the forward exchange rate should be used for all transactions, both income and expense.
- A phased cashflow needs to be produced and updated as relevant.
- Billing and payments to suppliers should be done promptly to meet the cashflow timing for which forward contracts have been established.

## **6 Accounting for foreign currency**

- 6.1 Accounting for foreign currency is in accordance with Financial Reporting Standard 102 (FRS 102), the accounting standard applicable to LSTM.
- 6.2 Foreign currency denominated cash is revalued monthly to the spot exchange rate on the last working day of the month.
- 6.3 Foreign currency denominated investments are revalued quarterly to

the spot exchange rate on the last working day of the relevant month, based on the quarterly valuation reports from relevant investment managers.

- 6.4 Other foreign currency denominated assets and liabilities such as debtors and creditors are revalued annually for the financial statements and other external full year financial reporting.
- 6.5 Foreign currency denominated grant or consultancy income and expense (US Dollars and Euros) is recorded at the forward exchange rate for the project. For financial reporting purposes, to comply with FRS 102, full year income and expense are revalued annually to average monthly spot rates.
- 6.6 Foreign currency denominated grant or consultancy income and expense (currencies other than US Dollars and Euros) are valued at spot exchange rate on the date of each transaction.
- 6.6 Foreign exchange gains or losses should only occur on non-US Dollar or Euro transactions.
- 6.7 Forward contracts outstanding at financial year end are required to be revalued and the gain or loss shown in the statement of comprehensive income. LSTM and IVCC have previously adopted hedge accounting to smooth the impact of exchange rate gains and losses on the annual surplus. Hedge accounting may be discontinued or recommenced in the future in accordance with accounting guidelines, depending on if it is considered to be advantageous.
- 6.8 Research Management Services team reconcile currency to Sterling accounts for projects on a regular basis to ensure foreign exchange is correctly accounted for.

## **7 Processes for making foreign currency payments, transfers and cash advances**

- 7.1 Foreign currency payments can be made to suppliers or transfers made to overseas collaborators/partners/LSTM related entities via international bank transfers. Payments can be made in all major currencies. The spot exchange rate will be used to determine the cost in Sterling unless a forward contract is in place for that contract in which case the forward contracted rate will be used.
- 7.2 Payments to overseas recipients should always be exclusive of VAT, no overseas supplier should include VAT on invoices to LSTM or other

UK entities. In the very rare instance where VAT is included on an overseas invoice, the validity of this will be checked to understand if this is a valid exception

- 7.3 All international bank transfers must be requested using the on-line request form
- 7.4 Cash advances in all major currencies can be made to staff who are travelling overseas and who will need to pay subsistence costs in cash while away on business. Foreign currency cash requests must be made through the on-line request form.
- 7.5 Standard practice is to make US Dollar or Euro payments out of the respective US Dollar or Euro bank account. Receipts and payments in other currencies will by default be made into and out of the relevant Sterling bank account.

## **8. Maintaining working capital in frequently used currencies**

- 8.1 Each entity within the LSTM Group maintains multiple currency bank accounts as appropriate for the activities carried out by the entity.
- 8.2 LSTM Finance maintains a 12-month rolling cashflow forecast for the UK companies for Sterling, US Dollars and Euros to ensure sufficient amounts are maintained in each currency.
- 8.3 If required, to maintain sufficient balances of a particular currency in the relevant UK companies bank account, transfers are made between UK bank accounts with the balances accounted for as intercompany debtors and creditors. These transfers ideally are transfers of the same currency but occasionally, if there is a shortage overall of one currency, it is necessary to convert currencies.

## **9. Compliance with legislation**

- 9.1 The key legislation applicable to managing cash in all currencies is as follows:
- The Criminal Finance Act 2017 (CFA 2017)
  - The Money Laundering Regulations 2017 (MLR 2017), Updated January 2020
  - The Bribery Act (2010)
  - The Fraud Act (2006)



- 9.2 The risk of making a payment that facilitates tax evasion, money laundering, or fraud, or constitutes a bribe, is increased when the payment is made overseas for the following reasons:
- Some of the countries LSTM and its related entities make payments to are high risk under the above legislation.
  - Due diligence over the recipient is more difficult overseas.
- 9.3 Due diligence should be done on all payees overseas in line with the Due Diligence Policy

## **10. Relevant Policies**

- 10.1 The following policies and procedures are relevant to this policy:
- Financial Regulations
  - Financial Procedures
  - Procurement Policy
  - Procurement Fraud Policy
  - Procurement Procedures
  - Bribery and Corruption Policy
  - Due Diligence Policy

## Equality Impact Assessment (EIA) template

(Please refer to the [EIA guidance document](#))

### Equality Impact Assessment: Section 1 (to be completed for all Policies)

Title of policy/process:	<i>Foreign Exchange Policy</i>
Policy owner job title:	<i>Head of Finance Operations</i>
Date of EIA:	<i>17.12.2019</i>
Policy relevant to: Staff / students / visitors etc:	<i>Board of Trustees, Finance &amp; Investment Committee, Finance Staff</i>
Summary of any consultation with stakeholders (e.g. date and type of consultation):	<i>N/A</i>
This policy has been checked for accessibility on: (date)	<i>N/A</i>
I confirm that this policy does not impact people, and therefore does not require an EIA	

