UNOPS

Headquarters, Copenhagen
28 September 2018

OPERATIONAL INSTRUCTION REF. OI.FG.2018.03

TREASURY AND CASH MANAGEMENT

1. Authority

1.1. This Operational Instruction (OI) is promulgated by the Chief Financial Officer, Finance Group on the basis of a delegation of authority from the Deputy Executive Director under Operational Directive Ref. OD.EO.2017.01 – Finance and Asset Management.

2. Purpose

2.1. The purpose of this OI is to provide instructions on the objectives of the Treasury and on how the Treasury shall manage its financial and operational risks.
2.2. The specific processes describing in detail how to operationalize this OI shall be included in the Processes and Quality Management System (PQMS).

3. Effective Date

3.1. This OI shall become effective immediately.

4. Consequential Changes

4.1. This OI shall abolish and supersede AI.FPG.2010.01 Cash management at field locations.

[signature redacted]

Marianne de la Touche, O.i.C, Finance Group

OPERATIONAL INSTRUCTION REF. OI.FG.2018.03

TREASURY AND CASH MANAGEMENT

Table of Contents

5. Objectives of UNOPS treasury

1.1 The objectives of the Treasury shall be to:
1.1.1 Safeguard the Organization's monetary assets against loss or devaluation
1.1.2 Ensure adequate liquidity and availability of funds to all its programs and projects to enable them to operate without hindrance
1.1.3 Provide a reasonable return on investments of surplus assets within risk limitations
1.1.4 Provide efficient and effective banking and management of bank relationships.
1.1.5 Provide efficient and effective cash management solutions to the organization
1.2 In particular, the Treasury shall:
1.2.1 Ensure that the Organization's monetary assets are invested or placed with adequately rated counterparties, in line with the stated principles of Security, Liquidity, and Yield.
1.2.2 Improve the measurement of, and mitigate the effects on the Organization, of exposure to movements in foreign currency markets.
1.2.3 Reduce risk and improve potential yields, by ensuring the highest possible concentration of funds into headquarters controlled bank accounts and consolidation of currencies at all times
1.2.4 Improve the delivery of funds to its all projects and programs taking into account security, speed and cost of transfers.
1.2.5 Obtain the best yields on surplus funds possible within given risk parameters
1.2.6 Improve the internal technical infrastructure for: Foreign Exchange operations, Investment Management, Cash and Liquidity Management, and Banking with the view to increase efficiency and security.
1.2.7 Improve the legal and contractual framework governing UNOPS cash management and counterparty relations.
1.2.8 Improve the support provided to field projects and programs in their local treasury and banking operations and relationships.

6. Treasury Internal Control Measures

2.1 The Treasury shall develop internal control measures to mitigate the risks related to its operational activities, including to ensure:

- The reliability of financial reporting
- The effectiveness and efficiency of financial operations
- The safeguarding of financial assets
- Compliance with applicable financial rules and regulations

2.2 Objectives of the internal control framework of the Treasury shall include to provide UNOPS with access to foreign exchange and risk management instruments without creating additional risk through speculation.

Internal Control Measures

2.3 The purchase and sale of financial instruments (dealing activities or deals) on behalf of UNOPS shall only be done with banks and other counterparties (counterparty(ies)) with which UNOPS has entered into a valid legal agreement (e.g. bank mandates, ISDA agreements) and after a dealing mandate has been issued by the Treasurer to UNOPS counterparty and confirmed by the counterparty.
2.4 The legal agreements entered into between UNOPS and its counterparty shall include UNOPS standard settlement instructions (i.e. banking information) that the counterparty shall use to settle deals executed by UNOPS. The Counterparty shall not settle such deals to any other account.

2.5 Only personnel duly authorized by the CFO shall have the right to perform dealing activities on behalf of UNOPS. Such personnel shall be listed in the dealing mandate issued by UNOPS to its counterparty. The dealing mandate shall state the type of financial instruments UNOPS personnel are authorized to deal and the limits within which they can perform dealing activities on behalf of UNOPS. Any amendments to dealing mandates shall be approved by the Treasurer and communicated in writing to, and confirmed by, UNOPS counterparties.
2.6 Personnel responsible for deal execution on behalf of UNOPS shall have appropriate skills and experience in using the new instruments.
2.7 All dealing activities shall comply with this OI and OI.ED.2018.02: Statement on Investment Principles and Investment Committee Terms of Reference.
2.8 All financial markets dealing activities carried out by authorized UNOPS treasury personnel shall be undertaken from UNOPS offices only, using the IT systems of the Treasury.
2.9 Any personnel who conducts unauthorised deals on behalf of UNOPS shall be immediately suspended from carrying out any further dealing activities on behalf of UNOPS, pending further investigation of the matter and possible disciplinary actions.
2.10 All deals in excess of the equivalent of USD 100,000 shall be by competitive bidding over an electronic platform from at least three different counterparties.
2.11 The personnel responsible for the deal execution shall record the deal details in the dedicated IT systems or reporting files of the Treasury, immediately upon deal execution.
2.12 All deals shall be confirmed with the relevant counterparty by an authorized personnel different from the personnel responsible for the deal execution.
2.13 All deals executed by UNOPS shall be settled by two authorized personnel different from the personnel who have executed and confirmed the deals, at least one of whom is not involved in the operational side of the finance operation. The settlement request shall be supported by appropriate documentation of which at a minimum will include a copy of the trade confirmation
2.14 Procedures for the recording, processing, settlement and accounting of deals executed by UNOPS shall be developed in PQMS by the Treasury and UNOPS Accounting Department.

Approval of financial instruments

2.15 The CFO shall approve the type of financial instruments that authorized personnel may deal with counterparties. Such financial instruments shall meet the following requirements.
2.16 Financial instruments shall not contradict OI.ED.2018.02: Statement on Investment Principles and Investment Committee Terms of Reference.
2.17 Detailed written procedures to approve new financial instruments shall be developed in PQMS by the CFO. Such procedure shall include appropriate control procedures to manage and deal the new financial instruments.
2.18 The Treasury shall acquire systems and develop the knowledge to be able to price financial instrument independently of valuation by UNOPS counterparties.

Treasury IT Systems

2.19 Treasury IT systems shall be able to effectively measure all the major treasury risks to which UNOPS is exposed such as currency risk, liquidity risk, settlement risk and credit risk.
2.20 Procedures to use appropriate IT systems shall be developed by the Treasury in PQMS.
2.21 Systems back up, data recovery and contingency planning shall be in place to ensure that the Treasury activities are not disrupted because of a system failure.
2.22 System security and data protection shall be ensured through the implementation of appropriate user access controls, network security and data access controls.
2.23 Unauthorized personnel shall be prevented from accessing the Treasury IT systems.

7. Foreign Exchange Risk Management

3.1 A foreign currency is any currency other than USD for transactions related to the UNOPS account.
3.2 A Foreign Exchange (FX) risk exists each time UNOPS is receiving, transferring or dealing with foreign currencies because of the risk of losses when converting the funds from one currency to another.
3.3 FX exposures arising from UNOPS account include:

- Contracted purchases of goods and services in foreign currencies
- Forecasted purchases of goods and services in foreign currencies
- Non-USD denominated payroll
- Assets held in a currency other than USD

3.4 FX exposures arising from engagements include:

- Forecasted payments in a foreign currency other than (a) the contribution currency, and (b) the currency of the financial report.
- Engagements signed in non USD currency or where disbursements happen in non USD currencies
- Refunds or claw backs of funds converted in a foreign currency when engagements do not use the full contribution or deliver the expected results.
- Investments of surplus working capital in foreign currencies.

Hedging for the UNOPS account
3.5 UNOPS shall identify significant FX exposures (i.e. exposures above USD 50,000) for the UNOPS account as early as possible and shall actively manage these exposures to reduce the risk of budget overruns where possible.
3.6 UNOPS shall protect the USD equivalent of significant payments in foreign currencies (i.e. above USD 50,000) whilst minimising the costs of such protection.
3.7 UNOPS shall minimize the volatility of costs against the UNOPS account from budget formulation to settlement. As such it shall hedge approximately up to one year forward (i.e. to next budget period) during preparation of the coming year’s budget.
Hedging for engagement/project accounts
3.8 As per UNOPS FRR Rule 122.06, for engagements, UNOPS shall not bear the FX risk. The FX risk shall be borne by UNOPS partner (the client or the funding source). This shall be reflected in the engagement agreement. Only in exceptional circumstances, may the EO, on the advice of the CFO, approve that UNOPS may bear the FX risk. In this case, a careful understanding of the exposures shall be required before UNOPS accepts to enter into such engagement and appropriate hedging activities shall be considered, in addition to the other risk mitigation techniques during purchasing.
3.9 At the request of its partner (when the partner bears the FX risk) and for engagements for which UNOPS bears the FX risk, UNOPS shall identify engagements with significant FX exposures (i.e. above USD 50,000). For such engagements, UNOPS shall include an appropriate hedging structure in the engagement budget proposal to protect its partner or UNOPS from changes in foreign currency relative to the contribution currency and hence ensure that UNOPS operates on a full recovery basis.
3.10 FX risk for engagements shall be managed by the Project Team and Country Office with the support of the Treasury in accordance with this OI and further instructions and guidance to be developed in PQMS.

3.11 The Treasury's role in the management of FX exposures shall consist of centralising visibility of all significant FX exposures, as reported by the Project Team and to hedge the appropriate percentage of relevant FX exposures for concerned engagements.

FX Risk Mitigation:

3.12 Where possible goods and services required for the implementation of a project/program shall be procured in the contribution currency of the engagement. Such contracts should avoid having embedded derivatives.

3.13 The procurement of goods and services required for the implementation of an engagement in a foreign currency shall be recorded against the project budget for the settlement of the related invoice or expense using the UNORE FX rate prevailing at the time of such settlement as per UNOPS FRR Rule 122.05.

3.14 The Treasury shall manage non-USD currencies to reduce the risk of excess local currencies by balancing the net replenishment needs for the specific local currencies.

3.15 In line with IPSAS 4, any engagement contributions that are received in non-USD currencies, and maintained as such until spent, will generate an FX revaluation result for UNOPS, as its functional currency is USD. Such revaluations of foreign currency deposits shall be matched against the revaluation of the remaining potential rebate to the donor on any remaining unperformed part of the engagement.

3.16 No engagement agreement shall include a fixed rate for converting non-USD currencies to USD. This shall be done using the UNORE FX rate prevailing at the time of conversion.

3.17 At the request of UNOPS partner (for engagements for which the partner bears the FX risk) and for engagements where UNOPS contractually bears the FX risk, the engagements shall include a full forecast of foreign currency cash flows carried out during the proposal stage. The forecast shall capture all exposures for the entire life of the engagement, where possible broken down into monthly portions.

3.18 Such engagements shall include a budget contingency to cover for potential FX losses.

3.19 The Project Team shall be responsible for the re-forecasting of any outstanding FX exposures each month during the lifecycle of the engagement and recording the impact of FX movements on actual expenditure.

3.20 At the request of UNOPS partner (for engagements for which the partner bears the FX risk) and for engagements where UNOPS bears the FX risk, all significant FX exposures should be hedged as soon as possible after the signature of the engagement. Hedges shall be constructed and agreed upon in coordination between the Treasury and the Project Team.

3.21 Hedges should be executed within 48 hours of the hedging plan as being approved by the Treasurer and the Project Manager.

3.22 For engagement where UNOPS has to report using a non-USD currency, all expenses shall be revalued using the UNORE FX rate prevailing at the date of receipt of the contribution (on a "First in First out" approach, i.e. FIFO) for reporting purposes. This will identify the gain/loss per cash flow on the engagement.

3.23 As the majority of hedges will, where possible, be taken out at the time as the engagement is signed, any revaluation of hedges shall offset the gain/loss on the underlying exposure. Hedges shall be constructed in such a way that they mature close to the date of the expense and hence provide the amount of foreign currency as required to settle such expense.

3.24 However, it should be noted that not all hedges will be executed at the beginning of the engagement, nor be a perfect match and hence some remaining gains/losses will need to be absorbed by the parties responsible for FX fluctuations as per the engagement (hence the need for an FX buffer in budgets).

8. Cash and Liquidity Management

Criteria for Bank Selection

4.1 The Executive Director, as custodian of all UNOPS financial assets, is responsible and accountable for the effective and efficient management of cash and cash equivalents under UNOPS custody, and shall establish bank accounts to enable orderly receipt of funds and payments. Under the FRR, the ED may delegate this authority to other UNOPS personnel as appropriate.
4.2 UNOPS shall secure bank arrangements and agreements as well as cash management operations with the view to providing secure and effective transfer of funds to engagements, whenever possible, through electronic systems.
4.3 All cost of banking transactions shall be covered by UNOPS and for banking transactions relating to engagements UNOPS shall redistribute such costs to engagements on a monthly basis. Other specific banking arrangements (like for the use of the UNDP SCA account) shall be approved by the CFO or his/her delegate and an appropriate cost recovery mechanism for such specific arrangements shall be put in place. This mechanism will be clearly defined in PQMS.
4.4 Further instructions and guidance on the operational management of UNOPS bank accounts shall be developed in PQMS.
Banking partner risk management
4.5 The criteria for selecting UNOPS banking partners at HQ/Corporate level and field locations shall be in line with the risk appetite of the organization. The main risks facing UNOPS operations vis a vis its banking partners include:

- Credit risk
- Liquidity risk
- Operational risk

4.6 When implementing UNOPS banking operations the Treasury shall aim at effectively mitigating these risks.
4.7 Banking partners suitable for selection by UNOPS shall have obtained long-term ratings from at least 2 agencies from; Standard & Poor's, Moody's Investors Service, and Fitch Ratings, of at least Investment grade on long-term debt. In considering the credit worthiness of potential banking partners, other factors, including Five Year Credit Default Swaps (CDS) prices and local sovereign credit risk, shall also be taken into account. Since these measures are relative and less absolute, specific parameters relating to one banking partner shall not be sufficient but instead shall be used to evaluate banks relative to each other.
4.8 In certain circumstances, it may not be possible to utilize a banking partner that holds an international credit rating. This is usually limited to certain underdeveloped markets. In these scenarios, the banking partner selected shall comply with one of the following criteria:

- Be accredited and regularly used by at least two other UN agencies for their local banking, or,
- Have been selected through the oneUN Global Banking RFP process, or,
- Have a sufficiently strong balance sheet to support UNOPS operations (this includes minimum capital and liquidity ratio’s, maximum Non Performing Loan (NPL) exposures, and minimum shareholder equity levels), or
- The choice of bank shall be acceptable to the UNOPS CFO or any person specifically designated for this purpose by the CFO.

4.9 Further detail will be provided in PQMS
Bank Signatory List Management

4.9 Bank signatory authority shall be granted by the CFO to UNOPS personnel on a personal basis and may not be further delegated by that UNOPS personnel. Authorized bank signatories shall have a Finance DoA Level 2 or above. If not possible, bank signatory authority may be granted to a personnel without the Finance DoA Level 2 but in case two signatories are required for an operation (see below), at least one of the two signatories shall have a Finance DoA Level 2. Where UNOPS local bank account is not integrated, the Hub Director, HoSS, and/or HoP can be authorized by the CFO or his/her delegate to be signatories on the bank account

4.10 Authorized bank signatories shall:

- Ensure that there are sufficient funds in the bank account when payment instructions, including cheques, are made against the account;
- Verify that all payment instructions, including cheques, are dated and drawn to the order of the named payee approved by an authorized personnel as indicated in the accompanying disbursement voucher, payment instruction and invoice; and
- Ensure that cheques and other financial instruments are properly safeguarded and destroyed when obsolete.

4.11 Cheques or payment instruction letters to banks shall be signed by two authorized signatories. The CFO may, where other adequate control measures are provided, authorize the signing of cheques by one signatory only.

4.12 Transactions through UNOPS bank accounts shall require at least two signatories.

4.13 The Head of Support Service shall be responsible for regular review of the list of authorized bank signatories and inform the Treasury of any changes in personnel in order to ensure that the list of authorized bank signatories is regularly updated for the smooth functioning of the office..

USD Currency Contributions

4.14 All USD contributions shall be paid to UNOPS JP Morgan account. Contribution in USD may be transferred to other accounts (e.g. UNOPS USD bank account or UNDP SCA account) only with the approval of the CFO or his/her delegate.

Foreign Currency Contributions

4.15 In line with UNOPS FRR Rule 112.06, when a contribution is received or a payment is made in a foreign currency, it shall be recorded in the reporting currency at the prevailing UNORE FX rate applicable at the time when the payment is made.

4.16 In line with UNOPS FRR Rule 122.06, The recorded contribution shall be adjusted by any consequent identifiable loss or gain on exchange, unless, in the case of loss, UNOPS partner (i.e. the client or the funding source) bears the FX risk.

4.17 For the purpose of its global treasury operations, UNOPS shall not hold contributions received in currencies other than USD for the benefit of a specific engagement, unless specifically agreed otherwise to in the engagement agreement. As such FRR 112.06 shall be applied to the initial credit of the contribution received to the engagement.

4.18 If, during the period from the receipt of an invoice to the date of payment, or during the period from the request for client's payment under an engagement agreement to the date of receipt of said payment, a currency fluctuation results in a change in the reporting currency equivalent from the original amount stipulated on the invoice or in the engagement agreement, the difference shall be charged to a currency gain/loss account under the relevant engagement unless otherwise agreed in the engagement agreement.

4.19 Disbursements shall be recorded as of the date they are made, i.e. when the cheque is issued, the bank transfer requested, or the cash is paid out.

4.20 Receipts shall be recorded on the date they are being received.
4.21 Contributions in an authorized foreign currency may be made directly to a UNOPS nostro account in the same currency if available.
4.22 The CFO shall issue guidance on which foreign currencies are authorized for contributions and to which bank accounts these shall be transferred. Prior approval of the CFO or his/her delegate shall also be obtained for all contributions to be received through the UNDP SCA account
4.23 If a donor propose to make a contribution to UNOPS in a non-authorized foreign currency, the CFO or his/her delegate shall first provide his approval, after having considered whether the associated risks and costs to UNOPS are acceptable, before UNOPS can accept such a contribution.
4.24 To assess these associated risks, the following details are required to be provided to the Treasury:

- Engagement Agreement
- Cash flow forecasts – This includes expected amount and timing of inflow, and expected cash out flows for the life of the engagement (Quarterly cash flow forecasts).
- Details of where funds are expected to be paid (Local currency account held in country, or Local Currency account held at HQ, or USD contribution account
- Any restrictions requested by client or as outlined in engagement agreements on transferring client funds cross-border.

4.25 If a contribution is made into UNOPS JP Morgan account in a foreign currency, the bank shall automatically exchange the currency into USD using their internally approved rate, and the contribution shall be applied to UNOPS account in USD. The amount recorded in the bank statement in USD shall be the amount applied to the engagement.
4.26 UNOPS shall not accept to enter into engagements for which contributions would be made in currencies that are restricted, or where UNOPS deems that FX fluctuations applicable to converting a specific currency are too large for the organisation to mitigate the costs. This will be further highlighted in PQMS and updated from time to time.

9. Operational Cash Management

General principles for payments

5.1 Unless cash payments is authorized by the CFO or his/her delegate, all payments from UNOPS to a third party shall be made by cheque or bank transfer. UNOPS may also utilise further payment modalities such as credit card payments, mobile payments, digital payments etc, as these become neccessary over time.
5.2 With regards to the cost recovery of bank charges, standard operating procedure is the following: Supplier Payments are processed with the cost code SHA, and there are no reimbursement of bank charges to suppliers; IP Staff are processed with the cost code OUR, and in the event that there are intermediary bank charges applied, these will be reimbursed, but note UNOPS does not reimburse incoming international wire charges; Individual Contractor payments are processed with the cost code OUR, however UNOPS will not reimburse intermediary bank charges nor incoming international wire bank charges as per clause 7.4 in these contracts.
5.3 All payments from UNOPS to a third party shall be recorded in UNOPS accounts at the date they are made (i.e. the date of issue for cheques, the date a transaction is effected for

electronic transfer, and the date of payment for cash transactions), unless otherwise authorized and recorded by CFO.

Cash accounts available to offices

5.3 UNOPS has two advance account types available to offices to process cash payments:

- Petty Cash Accounts (PC), which can be used to make cash payment up to a total amount of USD 2,500 for small expenditures at field locations.
- Operational Advances (OA), which are advances made in cash or other financial instruments for activities at locations that lack banking facilities or telecommunications infrastructure to access UNOPS banking related IT systems, or where there is a large number of one-off cash recipients that would not be efficient to be to processed through UNOPS banking system. OAs can be used up to the amount approved by the CFO or his/her delegate.

5.4 OA can be established to pay for miscellaneous expenses towards the implementation of an engagement or for temporary one-time expenditures such as seminars, workshops or other expenses for the management of a field location. The amount, purpose and recurrence of an OA shall be approved by the CFO or his/her delegate.

5.5 OA shall be made to UNOPS personnel as approved by the CFO or his/her delegate. The amount of any OA shall be no more than the absolute minimum necessary for working requirements No personnel shall be the custodian of more than one OA at a time.

5.6 Personnel to whom an OA is issued shall make use of such OA only for the purpose for which the OA has been made and shall be held personally responsible and financially liable for the proper management and safekeeping of the OA. They shall submit regular statements of disbursements of the OA to the finance team in IPAS, unless otherwise approved by the CFO or his/her delegate. They shall be in a position at all times to account for the use of the OA. Cash or financial instruments shall be kept in safe custody. An individual OA shall not last longer than 90 days and be reconciled upon closure. No additional OA shall be issued to an individual before the prior OA is reconciled. Any loss of cash or financial instruments shall be reported at once through the CFO to the Executive Office.

5.7 PC accounts may be made available to personnel as approved by the CFO or his/her delegate. PC accounts shall be maintained on an imprest basis, i.e. replenishment shall be made on the basis of supporting documentation to bring the petty cash to the authorized beginning balance limit.

5.8 The amount and purposes of each PC shall be defined by the CFO or his/her delegate. The petty cash amount held by each UNOPS business unit shall not exceed USD 2,500, and no single payment from a petty cash account should exceed USD 1,000. Exceptions to this rule shall be authorized in writing and recorded by the CFO or his/her delegate. PC accounts shall be reconciled before replenishment, change of custodian or changes in the total amount authorized, but at the latest on a quarterly basis.

5.9 The CFO will further detail the process of opening, maintaining and closing PC and OA in guidance notes in PQMS.

Advance payments to staff and suppliers

5.10 Any advance payments to staff or personnel as may be permitted by the United Nations Staff Regulations and Rules and policies and procedures issued by the Secretary-General, or on his behalf, or as may be appropriate in the best interests of UNOPS shall be authorized by the CFO or his/her delegate.

5.11 Except where normal, commercial practice or in the best interests of UNOPS, no contract shall be made on behalf of UNOPS which requires payment(s) in advance of the delivery of products or the performance of contractual services. Whenever an advance payment is agreed, the reasons therefore shall be justified in writing. Such authorization shall be subject to such requirements for guarantees as may be set by the CFO from time to time, and shall not exceed USD 1,000,000 or 25 per cent of the total contract price, whichever is the lesser. Up to such limit the CFO or his/her delegate shall approve the advance payment, whereby beyond these thresholds the DED shall approve such advances.

5.12 Advance payments in excess of USD 250,000 shall only be made after UNOPS has received an irrevocable guarantee made in favour of UNOPS from a bank or other guarantor acceptable to UNOPS unless otherwise authorized in writing by the Executive Chief Procurement Officer (ECPO).

5.13 Progress payments may be permitted pursuant to normal, commercial practice or in the best interest of UNOPS, in accordance with guidance to be issued by the CFO in PQMS.

5.14 The CFO may establish guarantees as necessary to facilitate the financial operations of UNOPS in the commercial marketplace. Such guarantees may take the form of bank-issued guarantees and/or bank-issued commercial letters of credit, provided there is no borrowing of funds by UNOPS in connection with such guarantees.