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23 November 2006

DAO(GEN)11/06

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Dear Accounting Officer

FOREIGN EXCHANGE TRANSACTIONS

This letter draws attention to a change in the way central government organisations should deal with spot or forward transactions of foreign exchange.

Contacts

2. Please address enquiries about this letter to:

- *foreign exchange transactions*: Ashley Bennett on 020 7270 4648 or at ashley.bennett@hm-treasury.x.gsi.gov.uk;
- *regularity and propriety issues*: Jim Duncan on 020 7270 4833 or at jim.duncan@hm-treasury.x.gsi.gov.uk.

Action

3. Please draw this letter and its annex to the attention of anyone in your department or its associated arm's length bodies who deals with public money and may consider carrying out transactions in foreign exchange. The annex sets out some important changes in how day to day operation of these transactions should be managed.

Context

4. Many departments and the arm's length bodies they sponsor never carry out transactions in foreign exchange, nor need to consider doing so.

5. But some do. When such transactions are under consideration, they should be dealt with as for any other proposals for use of public resources. That is, those making the decisions should be satisfied that they are apt for

their purpose, offer value for money, and can be controlled and managed appropriately. It is also important to establish that the governing body – for example the management board in a department – is satisfied that the resulting risk exposure can be controlled, tracked and accounted for in as much depth as makes practical sense.

6. In many ways decisions about use of foreign exchange transactions are little different from other decisions about use of resources. They may, however, carry specific risks which distinguish them, including the need:

- to consider alternative means of financial management, usually with their banking advisers;
- to keep track of risk exposures, which may alter over time as market conditions change;
- to have adequate in-house expertise, including at senior level, to make and manage the transactions.

7. As with other relatively unusual transactions, it is ultimately for the Accounting Officer in any government department or sponsored arm's length body to decide whether to proceed with any foreign exchange transaction, and how to react to market developments which affect its impact.

8. The changes outlined in the annex describe how the mechanics should operate from 1 December.

Yours sincerely

A handwritten signature in cursive script that reads "Paula Diggle".

Paula Diggle
Treasury Officer of Accounts

Changes to arrangements for foreign exchange transactions

Guidance on foreign currency transactions is set out in Government Accounting Chapter 28.7.

2. From 1 December 2006, the threshold for foreign exchange transactions will be increased to £2m. As a result of this change departments and other central government bodies should:

- use the Office of HM Paymaster General (OPG) or a private sector provider for foreign exchange transactions below £2m;
- should only use the Bank of England for transactions of £2m and over to ensure that risks associated to these larger wholesale transactions are adequately managed.
- send all transactions of £2m and over via OPG who will forward them to Bank of England once all necessary security checks have been made.
- note that the OPG will not immediately be able to undertake **forward** transactions and will advise customers when they have this facility in place. Meanwhile the Bank of England has agreed to continue to undertake these transactions.

3. To minimise the cost of overseas transactions while protecting government funds against loss and uncertainty due to foreign exchange movements, departments and other central government bodies place foreign currency transactions through a prescribed list of banks.

4. In a survey in 2005, departments and other central government bodies said that they would like the flexibility to undertake more of their foreign currency transactions with private sector providers. As the Bank of England is also moving away from retail banking, OPG and private sector providers are now better placed to provide a more cost effective service for foreign exchange transactions below £2m. The threshold for such transactions has therefore been increased.