PROCEDURAL STATEMENT

Procedure Title: Projects Involving Foreign Currency

Functional Area: Research Administration

Related Policy:	**None**
Effective Date:	**April 19, 2018**
Approved by:	David Stone, Chief Research Officer
Responsible Body:	The Research Office
Scope:	All sponsored projects that involve payments in foreign currency

I. BACKGROUND

The University operates in an increasingly globalizing world. Further, because of OU's location, it is not uncommon for researchers, scholars, and artists to collaborate with individuals, institutions, and companies in countries outside the United States. There are many benefits to these collaborative relationships, but there are also challenges, such as accepting sponsored project awards that are paid in a foreign currency. Accepting an award in a foreign currency creates a foreign exchange risk for the University, as currency markets are volatile and rates can fluctuate substantially from one day to the next, thereby affecting the value of the award as it relates to the budgeted costs for carrying out the agreed scope of work. This procedural statement sets out options that allow the University to minimize its foreign exchange risks while still promoting collaborations and awards with foreign entities that contribute to OU's educational and service missions, and also enhance the educational experiences of OU students who participate in such sponsored projects.

II. DEFINITIONS

Foreign Exchange Risk. When payment is made to the University in a currency other than U.S. dollars, that currency must be converted to dollars before funds can be deposited to the University's credit. If the exchange rate for the currency of the award is different from the rate that was in effect at the time the proposal budget was created, there is a risk that the value of the funds exchanged will be less than the original budgeted amounts proposed as sufficient to complete the proposed scope of work for the project.

Authorized Budget Value. At the time an award (or an award modification) is received in a currency other than U.S. dollars, the foreign currency amount will be converted to U.S. dollars using the 30-day average exchange rate for the applicable foreign currency at xe.com. The calculated dollar amount is the authorized budget value that will be entered into the appropriate University systems and used for comparison to the original proposed budget in U.S. dollars.

III. PROCEDURES

A. Budget and Proposal Development

When a proposal is being prepared for submission to a sponsor that pays out awards in a currency other than U.S. dollars, the cognizant Research Development Officer (RDO) or Grant and Contract Officer (GCO) in The Research Office (TRO) will consult with the Principal Investigator (PI) and/or the project team about which of the following options is most preferable:

1. Communicating with the sponsor to see if payment could be made in U.S. dollars;
2. Communicating with the sponsor to see if they would be willing to pay out the entire award amount in a single increment (or in annual increments at the start of each project year during the approved period of performance), as this limits the amount of fluctuation in the value of

the foreign currency versus the U.S. dollar (and also the bank and transaction fees that the University must pay in order to process payments in other currencies); or

3. Including line items in the proposal budget for:

    a. Applicable bank and transaction fees. Bank transaction fees are typically $50 per transaction [check this for OU]. Costs equivalent to the expected number of transactions in each project year, multiplied by the expected fee amount, shall be added to the proposed budget as an item of direct cost; and

    b. A contingency amount, designated as "Foreign currency reserve." Historically, the average variation on the currencies most commonly involved in sponsored project awards has been 15% or less. At proposal stage, an amount equal to 15% (or more, if the award currency has been or is reasonably expected to be more volatile than that) of the total direct costs for each project year shall be added to the budget. This foreign currency reserve shall not be included in the base amount used for calculating indirect costs in accordance with the University's federally negotiated indirect cost rate agreement.

If Option 3 is selected and a foreign currency reserve is included in the budget, the department chair or unit director in the PI's unit (or another authorized official) will be required to confirm, in writing or via email, her/his agreement to submission of a proposal involving a foreign currency reserve, and accepting the risk. This risk includes the possibility that departmental or unit funds might have to be used to cover any deficiencies in the project budget, should the foreign currency reserve either not be allowed by the sponsor as a charge on the proposal budget, or if the amount budgeted should prove to be insufficient. If an award is made for such a proposal, this official will then be required to complete and sign a foreign exchange risk acceptance form.

B. Award Negotiation/Acceptance

If an agreement with the sponsor to mitigate the foreign exchange risk was not concluded at proposal stage, the GCO will attempt to negotiate favorable terms for the University during the award negotiation and acceptance process. Such terms may include any of the options described above in Section A, or the sponsor may be asked to assume the risk when an increase in the foreign currency costs relative to the U.S. dollar would result in a decrease in the award's value.

If the sponsor is unwilling or unable to accept this risk, then an authorized official for the PI's department or unit will be required to complete and sign the foreign exchange risk acceptance form. The department shall provide on the acceptance form a fund code that will be charged at the end of the project if the foreign currency reserve is insufficient or if cash receipts do not match project expenditures.

If the original proposed budget did not include the foreign currency reserve, the GCO will work with the PI to develop an internal revised budget that includes the necessary reserve. If there are funds remaining in the reserve at the end of the project (or the end of a project year) because of an advantageous exchange situation relative to the U.S. dollar, those funds may be used to support any other allowable expenses on the project.

C. Award Management/Completion

In setting up the award account, the GCO will use the appropriate internal budget account type for the contingency reserve amount. The value of the award entered into the University's financial and/or electronic research administration (eRA) systems shall be the authorized budget value in dollars at the time of award or modification. The authorized budget value in dollars shall be calculated by multiplying the amount awarded in foreign currency by the 30-day average rate of exchange for that currency with respect to the U.S. dollar listed on xe.com on the day that the award or award modification is processed. Each time funds are drawn for the project, the GCO shall calculate the appropriate authorized budget value, and print a copy of the xe.com exchange rate page showing the 30-day average rate and include it as part of the permanent project file.

The GCO will communicate with the project PI and her/his department about cash receipts in comparison to the approved internal budget in U.S. dollars upon receipt of each cash payment from the sponsor.

- To reflect the current cash exchange rate on cash receipts from the sponsor, the GCO will note the 30-day average rate of exchange from XE on each cash receipt received from the sponsor, and will also, as described above, print or download a copy of the exchange rate information showing the 30-day average rate from xe.com for inclusion in the permanent project file as documentation of the currency fluctuation during the period of performance.
- The GCO will also post journal entries or journal vouchers as needed to adjust the project budget. The budget will be adjusted whenever the actuals received are greater or less than the amounts budgeted on the internal project budget in U.S. dollars. Adjustments will be made to the applicable internal budget type codes assigned for the foreign currency reserve line item. If there are funds remaining in those budget type codes at the end of a project year or at project closeout, those funds may be used to offset any other allowable project costs.

D. Frequently Asked Questions

Question: If I sign the foreign exchange risk form, does that mean I am agreeing to pay expenses for the grant or contract it applies to?

Answer: Not necessarily. By signing the foreign exchange risk form, you are providing a fund code that will only be charged if two things both happen: First, the award funds received from the sponsor have an authorized budget value that is less than the amount budgeted in U.S. dollars on the internal project budget, and second, the foreign currency reserve, if any, is insufficient to cover the deficit. Only then would the fund code you provide on the form be charged.

Question: Does this policy mean that Oakland University would prefer not to receive awards in foreign currency?

Answer: No. The University's, and TRO's objective is to ensure that researchers, scholars, and artists have adequate external funding to complete the approved scope of work on a given sponsored project. This policy is intended to secure against certain risks that may occur when accepting awards in a currency other than U.S. dollars, but TRO will gladly work with the PI and with representatives of the sponsor in such cases to arrive at a mutually satisfactory arrangement that allows the work to go forward.