SOP: Currency Conversion and Exchange Rate Policy

This SOP defines the **currency conversion and exchange rate policy** for the organization, detailing procedures for accurate currency conversion, determination of applicable exchange rates, frequency of rate updates, handling of currency fluctuations, and compliance with financial regulations. The policy aims to ensure transparency, consistency, and accuracy in all financial transactions involving multiple currencies, minimizing risk and maintaining financial integrity across international operations.

1. Purpose

To establish standardized guidelines for currency conversion and the application of exchange rates in all organizational financial transactions involving foreign currencies.

2. Scope

This policy applies to all departments and personnel involved in recording, processing, and reporting transactions in foreign currencies across the organization.

3. Definitions

Term	Definition
Base Currency	The primary currency of the organization's financial statements.
Foreign Currency	Any currency other than the base currency involved in a transaction.
Exchange Rate	The rate at which one currency will be exchanged for another.
Spot Rate	The exchange rate applicable on the date of the transaction.
Historical Rate	The exchange rate in effect when a past transaction occurred.
Reporting Date	The date at which financial statements are prepared.

4. Policy & Procedures

4.1 Exchange Rate Source

- Exchange rates must be sourced from a reputable provider (e.g., central bank, OANDA, Reuters).
- The chosen source must be documented and reviewed annually.

4.2 Frequency of Rate Updates

- Rates must be updated at least daily for active trading currencies.
- Historical rates shall be preserved for audit and reconciliation purposes.

4.3 Determining Applicable Exchange Rates

- For purchases/sales, use the spot rate on the transaction date unless otherwise contractually agreed.
- For periodic reporting, use the closing rate on the reporting date.
- For advance payments or deferred invoices, apply historical rates according to relevant accounting standards (e.g., IFRS, GAAP).

4.4 Currency Conversion Procedure

1. Determine the transaction currency and base currency.
2. Obtain the applicable exchange rate from the approved source.
3. Calculate converted values and record both original and base currency amounts.
4. Attach rate source documentation to transaction records.

4.5 Handling Currency Fluctuations

- Monitor significant currency movements daily.
- Large fluctuations (above 5% within 30 days) must trigger review and adjustment of rates used for budgeting and forecasting.
- Material foreign exchange gains or losses must be separately disclosed in financial reports.

5. Roles & Responsibilities

- **Finance Team:** Ensure timely rate updates, perform accurate conversions, maintain exchange rate records, and ensure compliance.
- **Management:** Approve exchange rate sources, monitor policy effectiveness, review exception reports.
- **Internal Audit:** Periodically review adherence to this policy and verify documented exchange rates and conversions.

6. Compliance & Regulatory Adherence

All currency conversions and exchange rate applications must comply with:

- International Financial Reporting Standards (IFRS) / Generally Accepted Accounting Principles (GAAP)
- Applicable tax and financial regulations in each operating country
- Internal risk management and audit policies

7. Documentation & Record Keeping

- Maintain supporting documentation for all conversion calculations and sources for exchange rates.
- Retain records per the organization's record retention policy and for at least the minimum period required by applicable law.

8. Exceptions

Any exceptions to this policy require written approval from the Chief Financial Officer (CFO) and must be documented for audit purposes.

9. Review & Updates

- This policy will be reviewed at least annually or when significant regulatory or operational changes occur.
- Updates must be communicated promptly to all relevant staff and stakeholders.

10. Appendix: Reference Documents

- IFRS/GAAP guidelines
- Exchange rate provider documentation

- Internal audit policy