FX remains a key risk – another view

Jérôme BRUN – VP Strategic Advisory

December, 12 2019

Agenda

- FX : High on the agenda
- What do we hear from the market ?
- Can we see the light?
- Some solutions
- Conclusion

FX : High on the agenda (1/2)

FX remains as a key concern and therefore a priority for Treasurers and CFO.

- "$26.7 billion in negative FX impacts were reported by North American and European multinationals" – CIR report S1 2019

Funding, Cash Forecasting and People remain really high too.

- **Volatily is not necessarily tied to one currency (fig 1)**
- **and impacts are well shared across industries (fig 2).**

Fig 1.

Source : Kyriba CIR July 2019

FX : High on the agenda (2/2)

kyriba

Foreign Exchange is the toughest job in finance.

The FX problems that have suddenly surfaced in the executive suite aren't simply the result of vast market forces and they weren't created overnight. Rather, today's market volatility has exposed fundamental problems with the underlying transaction data that companies use to calculate and manage FX exposure - problems that can be tied to people, processes and systems throughout the enterprise that qualify FX as an operational risk.

J.Connors, former Microsoft CFO

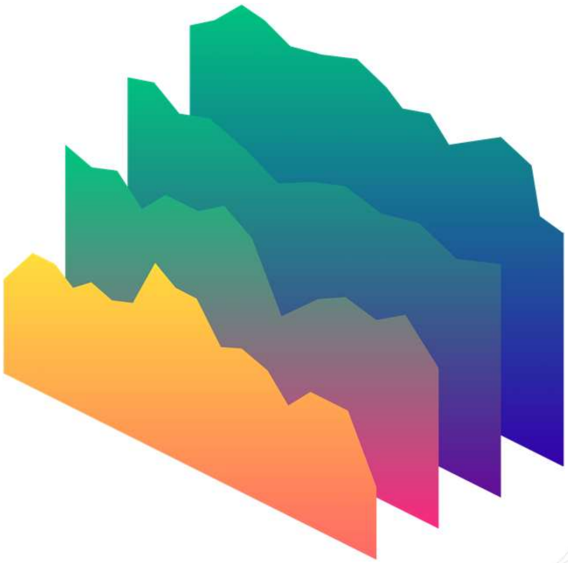
What do we hear from the market (1/2) ?

1 Forecast accuracy

Forecast accuracy and lack of visibility remains the main issue around FX risk Management. The 1st step of FX risk management remains the identification and the quantification of that exposure itself.

2 Lack of technology leverage

Whatever the approach to hedge (Balance Sheet vs cash flows), Technology should be better leverage to bring assurance of quantified exposure. The process to retrieve and aggregate data remains highly manual.



3 Central models

The best model to manage Fx risks remains a centralized model but with the support of the region/local BU where currency remains highly volatile or when regulations are restricting the usage of dedicated financial instruments.

4 A better connection with the rest of the business

While it has been a debate, Treasurers still suffer from the lack of time spent with the business to land on a better understanding and better accuracy in Fx.

What do we hear from the market (2/2) ?

kyriba

Why hedge?

- Mitigate P&L effects and protect margins/cash flow
- Exposure mismatch (time and value)
- Sustain competitiveness

Arguments against hedging

- **Natural offsets**
- **Materiality (benefit not substantial)**
- **Forecast inaccuracy**
- Long term value is not demonstrated
- Cost of hedging (non liquid currencies, structured instruments, premiums etc.)
- Lack of expertise and resources
- Not understanding the business

Can we see the light ? (1/2) – Improve insurance over numbers

kyriba

Exposure management cycle

1 **Risk identification & measurement**

2 **Hedge Execution**

3 **Transaction Recording**

4 **Risk Management & Control**

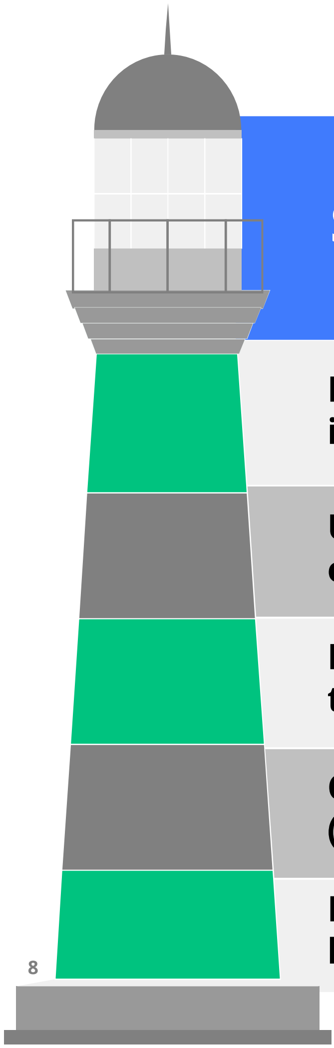
5 **Valuation & Accounting**

6 **Performance Management**

The starting point of the process is not robust enough

Can we see the light ? (2/2) – Some achievable actions to improve

kyriba



Some key actions to improve FX identification

- Know your process (its weaknesses and what can be envisioned to make FX identification much more robust)
- Understand which items go into the FX position and better appreciate natural offset as well as materiality – Nothing wrong by explaining a variation
- Keep a sight on how this “position” should be explained to the Board (Boards need to get educated too)
- Challenge current practises to build FX position and see how to improve (automation)
- Ensure you can clearly explain what is due to volatility, forecast or operational (link with broader dimensions than just Finance)

Some solutions

kyriba

1

Approach

Challenge the current approach : BSM vs CF

2

Data exchange

Macro vs ETL vs dedicated solution

3

Time

Spend necessary time

4

Business

Never underestimate business knowledge

Conclusion

kyriba

"The FX problems that have suddenly surfaced in the executive suite aren't simply the result of vast market forces and they weren't created overnight."

It is not a financial risk <u>only</u> but also an operational one where technology can help significantly on the first step that is by far the most important to get right ("$26.7 billion in negative FX impacts were reported by North American and European multinationals" – CIR report S1 2019).

But as always with our eco-system, performance have to be coupled with business insights in addition to technology especially assurance and fluidity on data exchange.

Thank you!

blog.com/kyriba

twitter.com/kyribacorp

linkedin.com/company/kyriba-corporation

youtube.com/kyribacorp

slideshare.com/kyribacorp

facebook.com/kyribacorp

kyriba®