Why Set Up An On-Going Hedging program?

Every company doing business internationally has FX risk, whether it be assets (A/R) or liabilities (A/P). The value of balance sheet items will vary considerably as exchange rates move – and move they do! This creates enormous problems for management, four of which include:

1) Assets, liabilities and owners equity measured in a company's functional (home) currency can vary dramatically as non-functional currency balance sheet items are remeasured monthly. This in turn affects company valuation and shareholder value.

2) As a company considers new projects, the ability to fund them out of current income is limited by the level of cash flow uncertainty generated by exchange rate volatility. This is an unnecessary limitation on a company's growth potential.

3) Similarly, when a company turns to the credit markets to finance projects, the volatility in owners' equity is increased if FX risks are not mitigated. Numerous studies have shown that companies that do hedge enjoy a lower cost of capital. Often, lenders will *require* certain risks (e.g. FX risk or IR risk) to be hedged in order to close a loan or bond issue.

4) Hurt team morale. Imagine what your team feels, if they work super hard all year long, achieve your operating targets but then find out that instead of a profit, the company posted a big loss because of currency risks that could have been avoided through hedging!

Firms maximize profit by taking risks in areas where they have expertise (IBM in computers and tech, Wal-Mart in retail distribution) and minimizing risk in areas where they have *no* unique competitive advantage (interest rate risk, foreign exchange risk, commodity risk). How well are you doing this?

Why Currency Risk Management, LLC?

We listen. We prioritize your business objectives. We work for you. Bankers get paid a salary and therefore are required to put their bank's interests ahead of yours. In addition, instead of dealing with generalist sales staff at the bank, many of whom are not experts in derivatives, at CRM you work directly with senior experts. CRM has years of expertise in managing FX risk for corporations and has the software tools to manage FX risk in a seamless and secure way that minimizes the time your staff needs to spend on manually creating a program. In every accounting period, we calculate exposures and liquidity needs and determine required hedge transactions. Importantly, the system helps you comply with IFRS reporting requirements by providing the necessary audit paper trail.

Why subject yourself to currency risk if you can avoid it using cost effective tools?

Next Steps

Your company can avoid large and damaging losses, reduce earnings volatility, increase its ability to finance new projects, and eliminate balance sheet FX risk by initiating an FX hedging program.

Currency Risk Management can work with your team to create an ongoing program designed just for your Company, which will meet management's goals, interface with existing and planned ERP systems, all at minimal cost and impact on your personnel (both initially and ongoing).

We suggest that as a next step, you consider scheduling a call with us where we can get to know each other better. We would like to learn about the needs of you and your business, your Company goals over the next five years, et cetera, and give you a chance to ask us any questions you may have about how effective hedging programs work. How does this sound to you?

At Currency Risk Management, you can expect the highest levels of customer service and responsiveness from our team. Call one of us today and schedule your free preliminary consultation so we can look together at whether or not hedging would benefit your business, and if so, what kind of hedging program might serve you the best.

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Paul is a Managing Director of Currency Risk Management and co-heads the business with Stefan. Paul earned a Bachelor of Science degree in engineering from UC Berkeley and a Masters Degree in engineering from Stanford University. Subsequently, Paul worked as an engineer for NASA for 6 years. He then spent 19 years with Hewlett-Packard Company in research and development and technical marketing before turning his focus to financial risk management. Paul holds patents in optics and microwave signal processing and has authored numerous technical papers.

Paul now focuses his engineering and analytic skills to foreign currency (FX) risk management through the use of derivatives. In this role, he has published numerous articles and has been interviewed by Inc. Magazine in 2012 and was the keynote speaker on FX issues at ASC in 2012

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Stefan is a Managing Director of Currency Risk Management and co-heads the business with Paul. Stefan graduated from the Wharton School of Business at the University of Pennsylvania and was subsequently awarded the Chartered Financial Analyst designation by the CFA Institute, and subsequently the Certificate in Investment Performance Measurement designation.

Stefan has 2 decades of experience in mergers and acquisitions, equity and fixed income derivatives, foreign exchange trading and real estate investment. He previously worked for James D. Wolfensohn, Paul Volcker, Goldman Sachs and Credit Suisse. Stefan is registered with the National Futures Association as an Approved Forex AP, NFA Associate Member and Approved Principal.
