

Treasury Risk Management

Banking and Currency Considerations

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Treasury Risk Management

- Ireland is an open economy with excellent global trade links
- **International trade opens the door to;**
 - New markets / Increased turnover
 - Lower costs / Improved terms
 - Increased opportunities
- **One of the things to consider**
 - Foreign exchange risk



AIB Treasury Risk Management Solutions

- Proactive, bespoke service
- Hedging Products
 - Spot Foreign Exchange – Not hedged, accept market rate on the day
 - Forward Foreign Exchange – Fixed, known exchange rate agreed in advance
 - FX Options – The right without the obligation to a certain rate, like an insurance policy
- Interest Levels and Market Orders
- Trade Finance (Import and Export Letters of Credit, Guarantees)
- International payments & collections by bulk file (30 Currencies available via SEPA and Swift payment channels)
- Sterling and Foreign Currency Call accounts / Fixed term deposits

What drives movements in FX rates?

- Data Releases (GDP, Inflation, Employment)
- Safe haven vs. Risk / Political Uncertainty
- Other markets (commodity, equity cross asset correlation)
- Speculators
- Carry trades / short term vs. long term interest rate differentials
- Black Swan events (unprecedented and unexpected event)

Currency fluctuations can be extreme. The role of currency risk management is to protect your underlying business and NOT to speculate and/or 'beat' the market. A firm maximises profit by taking risks only in areas in which it has unique expertise and experience.

Euro / Swiss Franc – 39% move in a currency on a day



Hedging policies

- What do your competitors do? Are they based in the same country / charging in the same currency
- How much power over pricing do you have?
 - If a lot, you can change price to reflect currency movements
 - If little, you need to have a higher degree of certainty when setting your prices

- Sample hedging profile

		Hedging profile				
		Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016
Trade Date	Q2 2014	0.25				
	Q3 2014	0.25	0.25			
	Q4 2014	0.25	0.25	0.25		
	Q1 2015	0.25	0.25	0.25	0.25	
	Q2 2015		0.25	0.25	0.25	0.25

5 Common mistakes in FX hedging

1. FX Risk Denial – Main focus is on meeting revenue targets set in local currency or based on budget rates. Disconnect between sales teams & finance team
2. No FX performance analysis of the hedge / no hedge policy. Continue to do the same thing again and again. May get “burnt” once and then swear off hedging in future
3. Refusing to use FX options as hedges because they are “too expensive”
 1. Behavioural economics show that it is a hard wired human instinct to avoid paying now to avoid a possible future loss.
 2. Really useful tool when tendering for business
4. An obsession on the hedge “making money” - A metric only appropriate to speculators, which corporates should not be.
 1. Focusing on only half the story. This metric ignores the gains / losses on the real underlying risks, whether hedged or unhedged.
5. FX Rate changes “even out over time”, causing companies to underestimate FX risk
 1. What does “evening out over time” mean? – over 1, 5 , 10, 20 years?
 2. Will your company survive these “swings and roundabouts”

Over what time horizon do FX rates “even out”?



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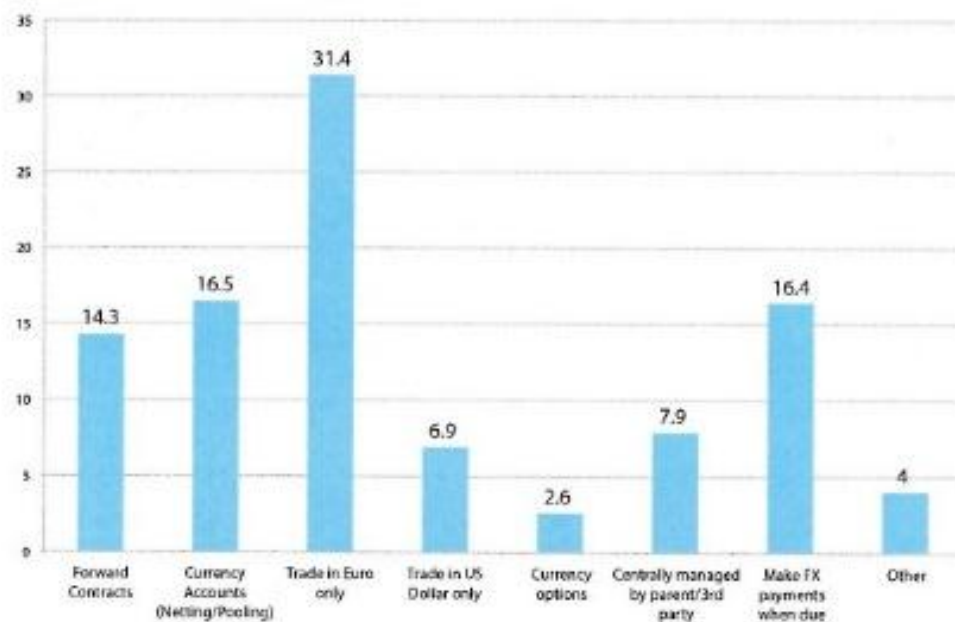
Over what time horizon do FX rates “even out”?



Results of Irish Exporters Association Survey 2014

2.4 How do you manage your foreign currency risks?

Figure 30: Managing foreign currency risks

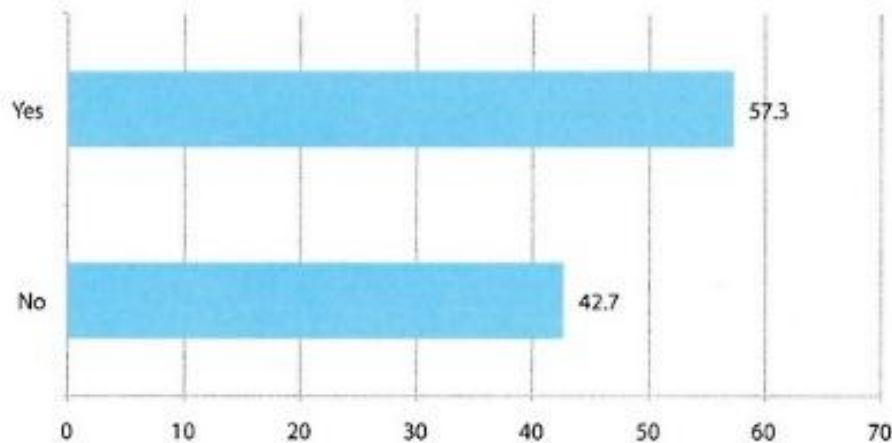


http://www.irishexporters.ie/wp-content/uploads/2014/11/Final-EIS_2014.pdf

Results of Irish Exporters Association Survey 2014

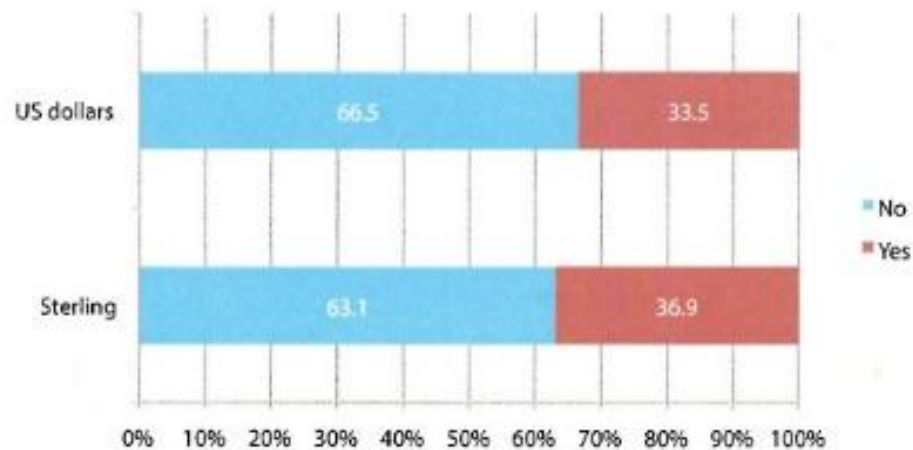
2.5a Has your financial performance been affected by sterling and US dollar fluctuations?

Figure 31: Impact on financial performance by sterling and US dollar fluctuations



2.5b Do you have plans to hedge these currencies?

Figure 32: Plans to hedge



http://www.irishexporters.ie/wp-content/uploads/2014/11/Final-EIS_2014.pdf

AIB Treasury – Educational Forums Dublin, Galway & Cork

AIB Customer Treasury Seminars		
Venue: The Fitzwilliam Hotel, Dublin 2		
In association with 		
Day 1 - Managing International Trade Risk Tuesday 24th March 2015	Day 2 - Financing your business Tuesday 21st April 2015	Day 3 – Upcoming Challenges Tuesday 12th May 2015
7.30 Registration / Networking <ul style="list-style-type: none"> Tea / Coffee and light breakfast provided 7.55 Welcome from AIB 8.00 Economic Update <ul style="list-style-type: none"> A review of the economic outlook for 2015 and beyond Prospects for currency and interest rate markets 8.25 Managing International Trade Risk <ul style="list-style-type: none"> Identifying key trade exposures & understanding the tools to manage them Developing a Foreign Exchange hedging strategy SEPA adoption – one year on; identifying ongoing changes due in 2015 and beyond 9.15 International Trade - Key learnings from a corporate perspective <ul style="list-style-type: none"> Case study provided by Guest Speaker 9.30 Panel Discussion / Networking 10.00 Close	7.30 Registration / Networking <ul style="list-style-type: none"> Tea / Coffee and light breakfast provided 7.55 Welcome from AIB 8.00 Financing your business <ul style="list-style-type: none"> Identifying optimal funding structures for your business Sourcing working capital Managing interest rate exposure 8.50 Optimal funding structures from a tax perspective <ul style="list-style-type: none"> Update provided by external subject matter expert 9.10 Financing your business - Key learnings from a Corporate perspective <ul style="list-style-type: none"> Case study provided by Guest Speaker 9.30 Panel Discussion / Networking 10.00 Close	7.30 Registration / Networking <ul style="list-style-type: none"> Tea / Coffee and light breakfast provided 7.55 Welcome from AIB 8.00 Challenges and trends <ul style="list-style-type: none"> Including IFRS 9, BEPS, EMIR, Corporate Treasury Technology Update provided by external subject matter expert 9.00 Challenges and trends - Key learnings from a corporate perspective <ul style="list-style-type: none"> Case study provided by Guest Speaker 9.30 Panel Discussion / Networking 10.00 Close

****May qualify for CPD – check with your relevant professional body****



Questions?

Thank you for listening