REDUCING RISK IN A DYNAMIC GLOBAL MARKET

WHY YOUR COMPANY NEEDS AN FX RISK MANAGEMENT STRATEGY

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Doing business globally comes with a host of logistical and operational challenges that can be difficult to identify, much less navigate even under ideal market conditions. The risks associated with foreign currency exposure can easily be overlooked by even the most prudent Treasury managers, but can have the most direct impact on your firm's bottom line. Surprisingly a high percentage of companies do not have a strategic plan to identify and mitigate foreign currency risk from their global payments process. Recent geopolitical and economic events have made global financial market conditions especially volatile and have underscored the need for a proactive and strategic approach to managing currency market risk.

Daily swings of one or two percent in major currencies like the euro, the British pound, the Japanese yen and the Canadian dollar have become commonplace, while three to five percent moves on a monthly basis are increasingly routine. Market fluctuations in exotic and emerging market currencies are even higher. As a result, your company can no longer expect to do business internationally and not see a material impact on its bottom line from currency swings.

moneycorp's dedicated account executives and market analysts can help you identify and address your firm's exposure to foreign currency risk and develop a customized suite of solutions designed to meet your company's individual needs. Working with our experts to analyze your payments process, understand and quantify the risks associated with your current payment system is the first step toward a more proactive and strategic global payments process. Our goal is to help you create the most efficient foreign exchange risk management strategy for your organization.

UNDERSTANDING FORWARD CONTRACTS

A forward contract is a solution that allows your firm to lock in a fixed rate of exchange for the purchase or sale of foreign currency, for delivery at a future date. It can be a cost-efficient, flexible and transparent tool to help hedge against fluctuations and volatility in currency markets. A forward contract is a binding agreement between a seller and a buyer, and is entered into when both the seller and the buyer agree upon the amount of foreign currency, the rate of exchange and the date of delivery of the contract. A “window” can be included in a forward purchase or sale to give the buyer ultimate flexibility in using the funds locked into the forward over a period of time up to six months.

COMPLIANCE In the aftermath of the Dodd-Frank Act of 2010, companies transacting in forward contracts are required by the federal government to register to receive a Legal Entity Identifier (LEI). An LEI is an alpha numeric code that essentially links a legal entity with a financial transaction. In the case of currency forward contracts, the LEI links your company with any forward contracts that have been purchased so that in the event of any regulatory audit, all financial products can be identified and assigned to their correct owners. You can register for an LEI at https://www.gmeiutility.org

DEPOSITS Forward contracts require minimum deposits, typically 10% of the total value of the contract, which means only minimal impact on your company’s cash flow. Deposit requirements change based on the duration of the contract and can be impacted by the currency being purchased or sold.*

*moneycorp reserves the right to increase deposit requirements or request additional collateral at any time, generally in response to current events and market conditions. Forward products may not be available in all states or to all customers. Product availability may be subject to approval. Certain conditions and restrictions apply. Please speak with your Account Executive. While forward contracts are designed to minimize risk, they do not eliminate risk, and they may not be appropriate for every customer or every situation. moneycorp is not acting as your financial advisor or fiduciary with respect to any foreign exchange transaction. Before entering into any foreign exchange transaction with us, you should consult with a financial, legal and/or tax advisor to ensure you understand the transaction and have assessed the appropriateness of the transaction for your situation, including any risks and benefits involved.

WHAT IS THE BENEFIT OF FORWARD CONTRACTS?

FLEXIBILITY

- Available in almost every major currency
- In any amount to the penny
- Delivery for any date, typically up to a year
- Can be utilized for either outgoing or incoming payments

Because of their flexibility, forward contracts can be an essential tool in your company's overall risk management strategy. Forward contracts give you the ability to lock into exactly the amount of foreign currency needed on either a specific date or over a period of time in the future. As such, they can be an ideal tool in helping to protect your firm's profit margin from potentially harmful fluctuations in foreign currencies.

EXAMPLE 1

ABC Travel sells a summer tour across Europe to its client in January. ABC Travel then books the tour with its corresponding vendors in Europe for a cost of 50,000 euros. To avoid the potentially detrimental impact of currency fluctuations on the profits for this tour, ABC Travel then books a forward contract with moneycorp for 50,000 euros for delivery in six months' time at a rate of 1.2500, and pays a deposit of only 10% (5,000 EUR or $6,250) to secure the contract. After this point, ABC Travel's risk of unfavorable changes in the rate of the Euro has effectively been mitigated. In six months' time, the remaining 45,000 euro will be paid for at the agreed upon rate of 1.2500 and delivered to any number of beneficiaries selected by ABC Travel.

EXAMPLE 2

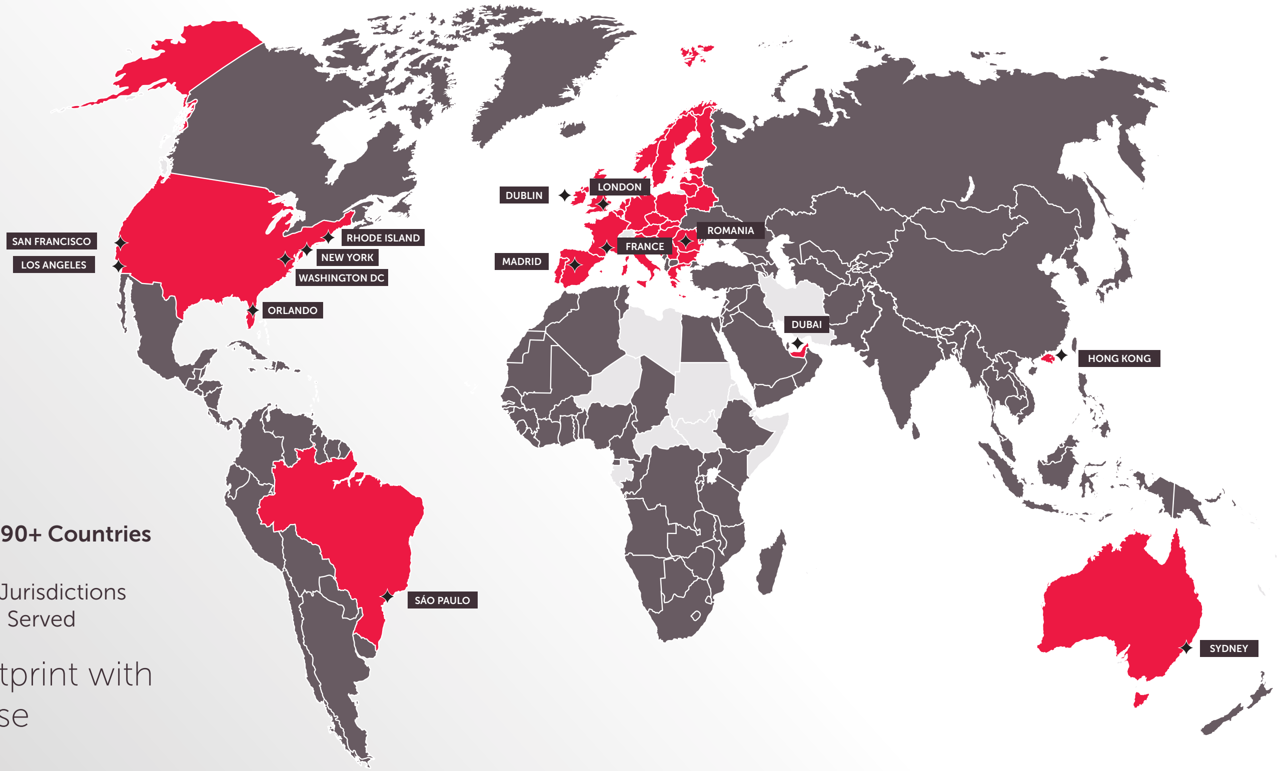
XYZ Manufacturing has a small offi ce in Germany, to which it sends 100,000 euro monthly for payroll and expenses. XYZ has budgeted an exchange rate of 1.2500 EUR for the second half of 2016. Following an interest rate hike by the Federal Reserve, moneycorp contacted XYZ to inform the controller about the dollar's rally to a rate of 1.2400 against the euro. XYZ then purchases a six-month forward with a window over the duration of the six months for 600,000 at a rate of 1.2425, paying only a 10% deposit. XYZ can then draw down 100,000 euros each month for the next six months without having to worry about changes in the Euro rate impacting it budgeted payments to Germany.

SOME THINGS TO BE AWARE OF

1 **You have to deliver** on the full contract; it's a binding agreement. If the currency moves in your favor, you still have to deliver on the contract irrespective of the market movement. The way to think about this scenario is, if you have a proper risk management strategy in place you don't worry about adverse changes in the market as you already have the correct rates built into your business model. The risk management strategy is to align the current market rates and sentiment to your business goals and not the other way around; which is a recipe for ultimate frustration and failure.

2 **Another potential downside** in entering into a forward contract could arise if there is no longer a need for the foreign funds at the time of delivery of the contract. In such a scenario, you still have a number of unique options that our dedicated team will be able to discuss with you.

A forward contract is an instrument that can be used by any organization to manage their foreign exchange exposures (transactional and translational) as part of their overall foreign exchange strategy. They are one of the most flexible and transparent FX products on the street but they need to be used in conjunction with your overall hedging strategy. In other words, from an accounting perspective it eliminates any price shocks to your business (e.g., accountants like consistency and do not want large changes in the FX gain/loss line). From a treasury perspective, it allows your business to protect either your profit margin and/or your costs on a contract by contract basis. Again, it is only one of the tools that make up an efficient foreign exchange risk management strategy.



Send payment to 190+ Countries

✦ Offices
Licensed Jurisdictions
Countries Served

A **global** footprint with
local expertise

this represents moneycorp group presence

ABOUT MONEYCORP

moneycorp's risk management strategies and hedging tools can help mitigate your company's currency risk.

For most businesses, managing their global payment process is a complex challenge in need of a simple and effective solution. Since 1979, moneycorp's track record is grounded in our outstanding ability to provide organizations with superior service and technology solutions that align their physical and financial supply chain processes to enable better financial management of global payments and foreign exchange. We have a dedicated team with deep industry knowledge and we encourage you to leverage our expertise in international payments and risk management strategies and solutions to maximize your global business opportunities. Please reach out to us so that we can discuss how we might be able help increase your cash fl ow, mitigate currency risk and support your international business strategies. We know that we can provide a solution to your organization.

To find out more about suitable solutions,
please call us on 800 239 2389 or email letsstart@moneycorp.com

moneycorp.com

moneycorp is registered commodity trading advisor and is a member of the National Futures Association, member number 0367738. moneycorp is not registered as a swap dealer or major swap participant.
All transactions entered into between you and moneycorp are on an over-the-counter (off-exchange) basis and will not be submitted for clearing.