Note about electronic material

- This handout includes the cases at the back, which you may want to print
- You have the option of **printing the slides** and taking notes during the session, or **taking electronic notes**
- **Printing** means you don't have to have two devices in use during the video
- If you print, we suggest you make sure you print the material large enough to take notes on it
- We **cannot provide conclusive instructions on how to take electronic notes** in the pdf file on each registrant's device, because of the wide ranges of combinations of pdf software that registrants may have, in addition to platforms, i.e. MAC or PC, tablet, etc.

SEMINAR INFORMATION

- **This course deals with complex matters and may not apply to particular facts and circumstances. For these reasons, the course material should not be relied upon as a substitute for specialized professional advice in connection with any particular matter. Although the course material has been carefully prepared, neither Stephen Priddle, or the sponsoring organization accept any legal responsibility for its contents or for any consequences arising from its use.**
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PRACTICAL FOREIGN EXCHANGE MANAGEMENT

PRESENTED BY:

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VP, Finance & CFO & Corporate Secretary
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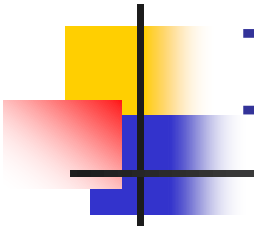
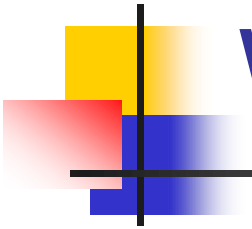
PRACTICAL PD

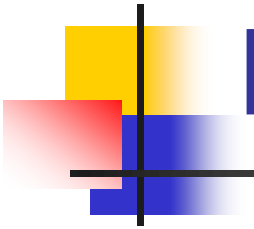


Introduction

- I am glad you are taking this course
- I hope it helps you at work
- Fill in the blank _____ style will make it more interesting, email me after taking the course for fully completed slides, spriddle@bell.net
- There will be a bit of humour, to keep it less boring!



Where am I?



Part of my career path

Course objectives

- Learn the only rational approach that well run companies take
- Respond when your colleagues want to speculate
- Identify how to get better rates with different conversion options
- Recall basic and more advanced hedging strategies
- Discuss unusual situations – bidding in a foreign currency
- Understand the banking implications of foreign exchange
- Put in place the related internal controls that are critical
- Outline an approach to a formal foreign exchange management policy

Starting from basics

- If a company gets some foreign currency funds, how can it be turned into Canadian $?
- _____
- _____
- _____
- _____

Joke on my trader, years ago

- Has to call the money market (fixed income) and foreign exchange desks of banks all time
- On April 1, I change his speed dial to the main bank to the _____!
- He is surprised and comes to see me to talk about it!

Foreign exchange risk mgt

- Foreign exchange means exchange risk
- Who faces exchange risks?
- U.S. dollar risk pervasive in Canada - do you face other currency risks?
- Our currency has the wrong name!
- F/X risk management is part of overall _____ management

Foreign exchange risk mgt

- When the USD ~= the Canadian dollar, maybe we don't need hedge?
- Can you face exchange risk, even if you only transact only in Canadian dollars?
- If you are part of a corporate group
- Note: US companies are often _____ concerning foreign currencies

Exchange case discussion

- What exchange risks are present?
- What is their approach to hedging?
- If you never buy or sell currency, and have currency flows are you naturally hedged?
- If you don’t hedge you are saying either: _____ or _____

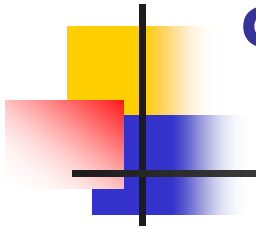
Complications

- I have had a President a few years ago, who said I am bullish on _____, let's borrow in USD and not hedge
- He was right… for a while….

Can you forecast foreign exchange rates accurately?

The Big Five bank's forecasts

What is the only “rational approach”?



- _____

Foreign exchange risk mgt

- Do you hedge your _____ like I do?

Suppose

- Your board/owner don't want to hedge, they view it as speculation or predicting rates
- Demonstrate the impact of exchange rates changes on your company if there is no hedging, and if there is

Foreign exchange

- Do you budget exchange rates?
- How?

Basic hedging with forwards

- Forward contracts allow one to buy or sell a currency for delivery on a specific future date at a specific price to take away risk. There is no fee to enter a forward contract
- _____
- _____

In the long, long run, should one hedge?

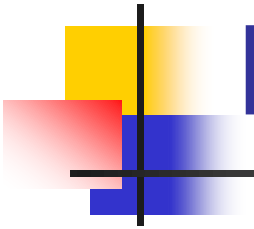
- _____

Sometimes there are government accountants taking this course

Does your government body hedge?

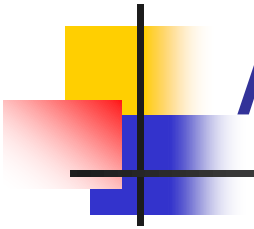
- One Maritime provincial government executive told me they hedge foreign exchange, and one from another province told me they don't…

An interesting new seminar I have created



An interesting new seminar I have created

- **Practical Tips for Government Accountants**



An exchange joke

Let's call an exchange broker and check the market

- Broker called AFEX, has since changed its name to Corpay

Let’s also check their online site

You can set up

- Warnings if rates reach certain levels on websites

Yes that was a ___

- The call was recorded by the broker as well as me
- In all my years of market dealings we only once had to go back to the bank's recording to settle a dispute

Humour

- I have heard of a bank giving a bad quote
- They were actually _____

Foreign exchange risk mgt

- Where can you get exchange management advice?

Entering enter forwards

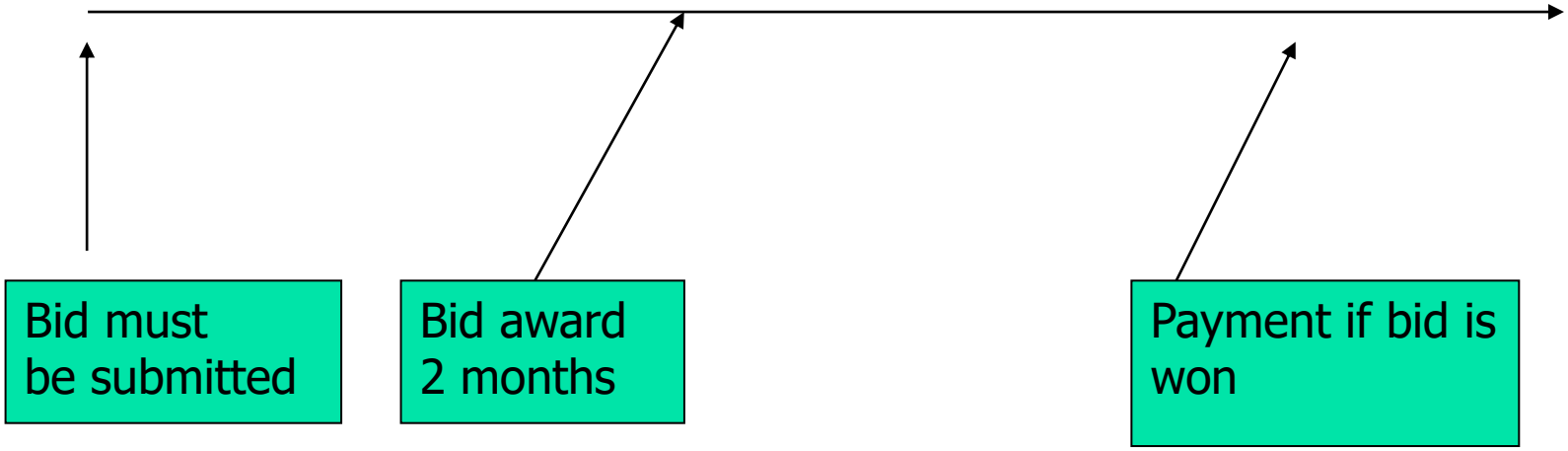
- What are the internal control implications?
- This is high risk because there is no _____

Hedging bids

- There is risk, but is hedging appropriate, before the deal is confirmed?
- Therefore, what should be done?

Bid diagram

- Bid amount: $500K



Currency option description

- Buy an American style option to sell USD at say $1.31 during the bid period, giving you the option, not the requirement to sell the currency at this price, during the time period (or European, exercisable at the end of the period)
- You have effectively "locked" at least this rate
- If rate drops below on $1.31, you make $ in the market, whether you win or not, protecting your down side
- If the rate goes above option price, you let it expire, you have not lost out

By the way

- I never think in terms of the USD is .7443, but 1.3435

Back to the case facts

- You need to advise the company
- Big picture
- The company's _____is making money, developing and selling networking gear, __ speculating on exchange markets
- Speculating on exchange markets is _____
- This same logic applies to your employer…

Back to the case facts

- They should stop hedging occasionally based on feelings which is speculating really and put a policy in place which should probably be:
- _____
- They need to decide what is significant for them (material)
- The ____ should probably approve this

Mechanics

- RGC should proceed to hedge its current receivables and payables with _____
- For the Halls Gear A/R and the Future Electronics A/P, because there is a _____between payables and receivables of almost the same amounts and the same date, no forward would be needed
- Because the company's customers usually pay ___it will be easier to use forwards
- If the customer does not pay on time, the company is still _____, smaller time risk

Mechanics

- The company could enter into _____to sell currency, rather than a specific date, for example, a forward to buy U.S. currency during the month of January 2010, for $44,785, since payment of the Fabview Shop payable is being delayed
- The rate for these forwards may be slightly _____than a regular forward contract
- This is also called an _____
- The forward that is meant to cover the Jan 11 receipt from Tofino Corp, _____, perhaps due to customer slippage

Note

- For some currencies, there is no forward market with the Canadian $
- (not in this case)

Practice

- The company should try _____
- There may be hidden distortions to this type of selling if the Canadian customer is hedging their purchase risk, although Rocky Gear may not know about this. In some cases, the customer may be trying to create its own natural hedges
- However: it may not be practical to just tell the sales dept: _____
- I have sold to Canadian customers just down the road in USD, this annoyed me, it seemed to be unnecessary exchange risk…

Spot

- The Accounting Manager's approach to converting US currency at spot is _____ to a certain extent. Balances should be converted immediately
- The rate could just as well _____
- The company should obviously get a US dollar bank account

Getting the best quote

- It may be useful _____
- If a third party bank wins the bid, it may be necessary to ___ the money at a cost, that needs to be considered

Banking angles

- Forwards give the bank risk and will normally _____. Most banks use a formula that considers the volatility of the currency and the time frame. The _____, and RGC does have fairly limited bank credit
- Export Development Canada can assist with margin requirements, for companies that export
- If a company doesn't have a bank line, cash margin deposits may be required, based on a risk formula
- I have had margin calls a few times in real life, where I ran out of credit, due to large currency movements…

Banking risk

- Practically speaking, _____
- The large banks in Canada are stable and relatively strong
- If one enters a bunch of forward contracts, chances are some will go up in value and some will go down in value
- _____

Controls here

- Currently, the accounting manager can phone the bank and enter into a forward contract verbally. _____. This commitment could damage the company and the company may not even be aware of the transaction, it doesn't get controlled and recorded immediately the way for example, cheque signing is controlled
- The company does not currently have a list of _____into, because the forwards are found here and there in files

Procedures

- When I took over foreign exchange at the large company
- I said "_____", and there wasn't one
- I put a listing in place and "_____"

Controls to put in place

- Ensuring the bank has an approved list of who _____
- Having all forwards _____ by you, the Controller
- Having the bank immediately _____who entered into the forward and is organizationally separate and send _____to this person (the "_____")

Another alternative

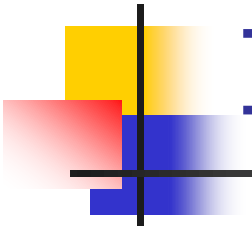
- Buy an American style option to sell USD at say $1.31 during the bid period for say $60K
- Sell an American style option so that you have to buy USD at say $1.34, during the bid period, also for $60K
- You have spent nothing, $60K in and out
- You have created a _____, which means you will get at least 1.31, but you have not upside if the market rate is above 1.34

One way to understand the collar is as follows

- Your house is worth about $600K in a slightly volatile market
- You might need to pay $20K to have the option of forcing a third party to buy your house for $550K in the next year (protects your down side)
- The same third party might pay you $20K to have the option to pick up your house for $650K in the next year (takes away your upside)
- You spent and received $20K, you have a no cost collar, which protects you from your house going below $550K in the next year, although you can't realize more than $650K, if it goes up

Higher level executive thinking

- Covered more in my two hour webinar, **Practical Work Solutions from Case Discussions**



In real life

- We won _____

There are sophisticated strategies out there for fixed exposures

- For example, a company is to be paid $1M in 60 days
- They enter into a "participating forward", where they get at least $1.31 on receipt of payment, and if the rate is higher than $1.31, they get 50% of the amount at the market rate
- (essentially they have an entered into a 50% forward, 50% option)

What is the bottom line?

- Company decided to eliminate _____ But at the same time pay extra cash to get some ____, which may or may not happen and hard to quantify the cost benefit
- Maybe they think they can ____ exchange rates
- _____they will lose due to the profit in the option pricing for the seller of the option

Other strategies to generally hedge

- (They don't specifically hedge, but reduce your overall risk)
- Most revenue are in USD
- _____ in USD
- Increase USD _____

Once in my career

- We borrowed a lot of money in Lebanese Pound, unhedged
- Then there was a war in Lebanon
- But it did not devalue the loan for us, as _____
- Therefore our only upside or exposure was Canada-US

You might want a Policy

It should address:

- Objective
- Typical exposures list
- General view on risk
- Procedure given different risks
- Instruments that can be used
- Natural hedging

You might want a Policy

- Unusual situations
- Materiality
- Parties/banks that the company will deal with
- Limits for above
- Accounting
- Approvals and controls
- Budgeting

My other courses

- I have many other courses and adding more… over 22,000 have taken them

Longer courses

- **Practical Tips for Controllers & CFOs -** very popular, nearly 11,000 have attended, 7 hours
- **Practical Tips for Not-for-Profit Financial Leaders**
- The NFP version of the above course, 6 hours
- **Practical Tips for Government Accountants**
- The government accountants' version of the above course, 6 hours

More

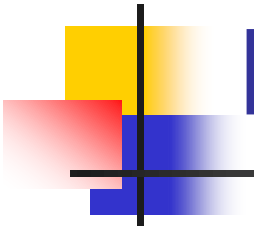
- **Practical Work Smarts for Accountants –** work productivity and many other tips including big picture and technology evaluation, 2 hours
- **Ten Brainstorming, Top Ten Trouble Spots and other Useful Topics For Financial Leaders** – a range of interesting topics, 4 hours
- **Practical Financial Negotiation Tips** – if you really want to improve your negotiating, 4 hours
- **Practical Work Solutions from Case Discussions**, 2 hours

Just ethics, videos

- **Ethics – Where the Rubber Hits the Road**, 2 hours
- **Ethics – That Feeling In Your Gut,** 2 hours
- **Ethics – More Than Just The Code of Conduct**, 2 hours
- **Build Your Ethical Muscles**, 2 hours, hopefully soon

More

- **Practical Contract Review for Accountants**, 1 hour
- **Sharpen Your Business Loan Negotiating Skills**, 2 hours
- **Practical Tips to Improve Your Internal Financial Reporting**, 1 hour



Note

- For full course information, see **www.practicalpd.com**

Closing comments

- I hope to meet you one day at an in person course or webinar
- Was this boring?
- Send me an e-mail **spriddle@bell.net**, to get completed slides & a case solution
- Do LinkedIn with me

PRACTICAL PD

FOREIGN EXCHANGE CASE

It is now November 17, 2022. The current Canada-U.S. exchange rate is 1.32644. Rocky Gear Corporation (RGC) is a Canadian high technology company. You are the newly hired Controller of the company, reporting to the President and founder. RGC is owned by a number of angel and venture capital investors, as well as the founder and other members of management.

The company develops and sells computer networking gear for specialized markets primarily in Canada and the U.S. Some sales to Canadian customers and all sales to U.S. customers are denominated in U.S. dollars. The company has a sales representative in Mexico, but he has not been able to generate any product orders yet. The company's customers generally pay on time, that is net 60. The company has a standard Canadian and U.S. price list, distributed once a year to customers for lower end networking gear. The company provides quotes when a customer orders combinations of more expensive gear. The quote considers the customer, the volume and other factors and is usually valid for about a week. On certain large projects, the company must submit a bid and wait up to three months to find out if it has won the bid, for example public sector network projects. The company will shortly be quoting to a U.S. state's purchasing authority for networking gear worth approximately $500,000 U.S., and will have to wait two months to find out if it is successful.

RGC purchases some components in Canada (60%) and some in the U.S. (40%). The company deals with the Canadian Majestic Bank, where it has a Canadian dollar chequing account, a U.S. dollar chequing account and a small operating facility, which the bank has to date refused to increase and which is barely enough for the company's needs.

You asked the Accounting Manager how she converts U.S. dollars into Canadian. Sometimes she waits with a U.S. dollar balance until the rate improves. She said she then phones RGC's bank branch and asks for an exchange at the current rate, unless a forward contract is used to effect the exchange. You asked her if the company has any current forward contracts to buy or sell U.S. dollars. She looked in her files and found three currently outstanding with the Canadian Majestic Bank, with the details as follows:

She said that a large purchase of components in U.S. dollars was hedged with a forward, but she was upset that the company will probably lose money, because it would have been better if the purchase had not been hedged. The amount is $224,500 U.S. due on December 20, 2022 at 1.32566.

Forward contracts to sell $76,000 and $80,000 US dollars have been entered into with the Canadian Majestic Bank, maturing on December 10, 2022 and January 10, 2023 and respectively at the rates of 1.32577 and 1.32608. The Accounting Manager says she occasionally enters into forwards if she and the founder feel it is appropriate. They are entered into by a simple phone call, confirmed by a deal ticket mailed immediately to her by the Bank. The Accounting Manager expressed some concern about Majestic Bank's credit based on an article she has read on the Internet, re the company's forwards. She said she is too busy to budget, but she does have a very obsolete Business Plan that was previously used for fundraising. The company has two US ten dollar bills in its petty cash fund, plus $243.44 in Canadian,

Your assignment:

Review the company's foreign currency activities and make recommendations.

EXHIBIT I

	Major Accounts Receivable		
	Nov 17, 2022		
	Amount	Curr	Notes
City of Utah	$ 71,425	USD	Due Dec 17
Calif Dist	100,809	USD	Due Dec 10
Tofino Corp	37,800	USD	Due in Jan
City of Toronto	78,500	Cdn	Overdue
West Infra	142,500	Cdn	Due Dec 21
Tofino Corp	106,115	USD	Due Jan 11
Halls Gear	31,740	USD	Due Dec 8
	$ 568,890		

	Major Accounts Payable		
	Nov 17, 2022		
	Amount	Curr	Notes
San Man Fab	$ 297,786	USD	Due Dec 20
Arrow Elect	45,122	Cdn	Due Dec 1
Hartles	26,400	Cdn	Due Dec 1
Future Elect	31,800	USD	Due Dec 8
Fabview Shop	44,785	Cdn	Due Jan 2, delay
Warken Inc.	13,748	Cdn	Due Dec 16
Whales Corp	10,000	USD	Due Dec 13
	$ 469,641	-	

NOTES