

# Case Studies: How the Current Environment Impacts the Corporate Treasury Risk Management Function

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## Shooting a moving target from a running position



# Case Studies

- Lessons
- Context
- Concepts



# Corporate Treasury's Challenges

- Unprecedented Global Financial Volatility
- Housing/ Credit Markets



# Risks Faced by Corporate Treasury

- Interest Rate Risk
- Foreign Exchange Risk
- Commodity Price
  - Energy
  - Other commodities
- Others
  - Counterparty Risk
  - Operational Risk

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# Conceptual Foundation

- Long-term perspective
- A solid plan of action
- Clear understanding of treasury risk throughout the company
  - Board
  - Senior Business Unit
  - Treasury/Finance/Accounting/Control
  - Risk Management Functions

# Integrated Approach



# P&L Statement

Particulars	\$\$\$
Revenue	_____
<u>Expenses</u>	
Expense 1	.....
Expense 2	.....
Expense 3	.....
Expense 4	.....
Expense 5	.....
Total Expenses	_____
Net Income	=====

## P&L Statement Vs. Cash Flow Statement



# P&L Statement

- Sensitivity of each line item category in P&L to volatility
- Which are critical risks
- Economic Vs. Accounting impact of decisions
- Exposure management Vs. Noise reduction
- Interrelation of risks (E.g., US\$ and Oil)



# Energy Risk Management

Three case studies: Comparison

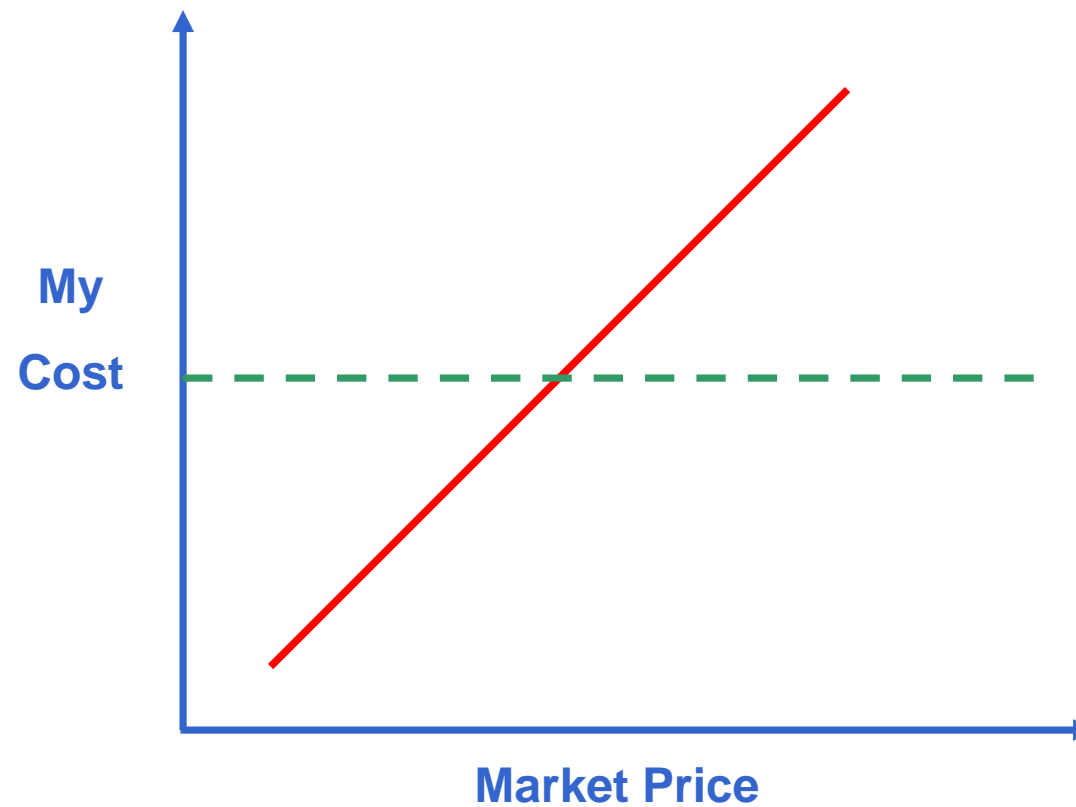


*Case excerpts are in attachment.*

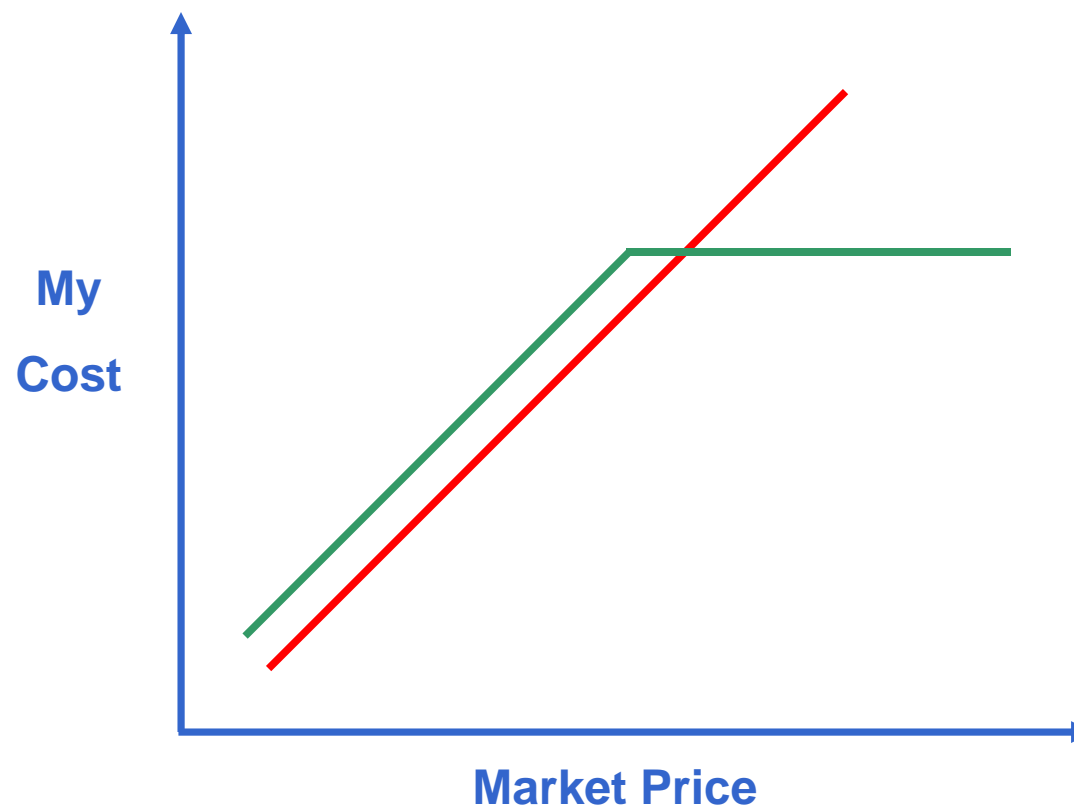
# Unhedged Position



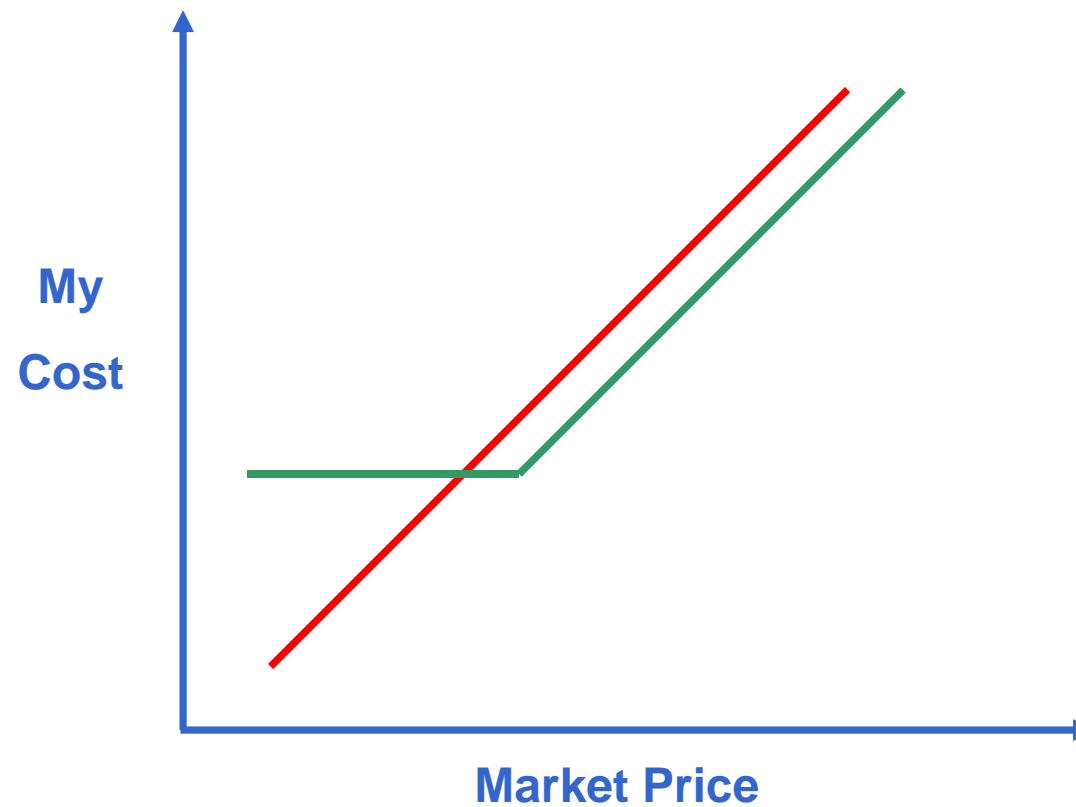
# Hedged With Forwards



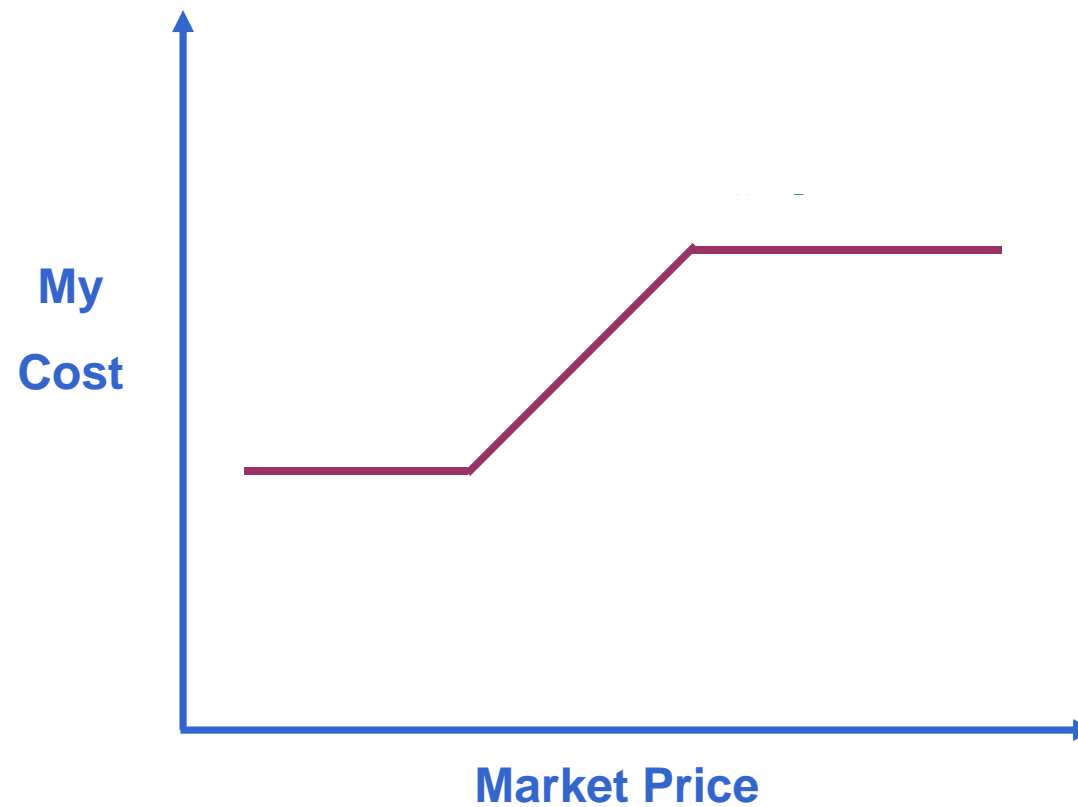
# Buy a Call Option



# Sell a Put Option



# A Collar



# Key Decisions

1. When to hedge
2. How far to hedge
3. How much to hedge  
% of expected usage
4. What instruments to use?
  - Cash outlay?
  - Zero 'cost'
5. Hedge Accounting
  - Monitor
  - Report / Discuss
6. Risk Management

# Three case examples

- How much
- How far
- Instruments
- Monitoring
- Risk management in the context of business strategy



# Thank you

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