Short-Term International Asset and Liability Management

SILESIAN UNIVERSITY
SCHOOL OF BUSINESS ADMINISTRATION IN KARVINA

Ing. Jana Šimáková, Ph.D.
simakova@opf.slu.cz

Treasury Management

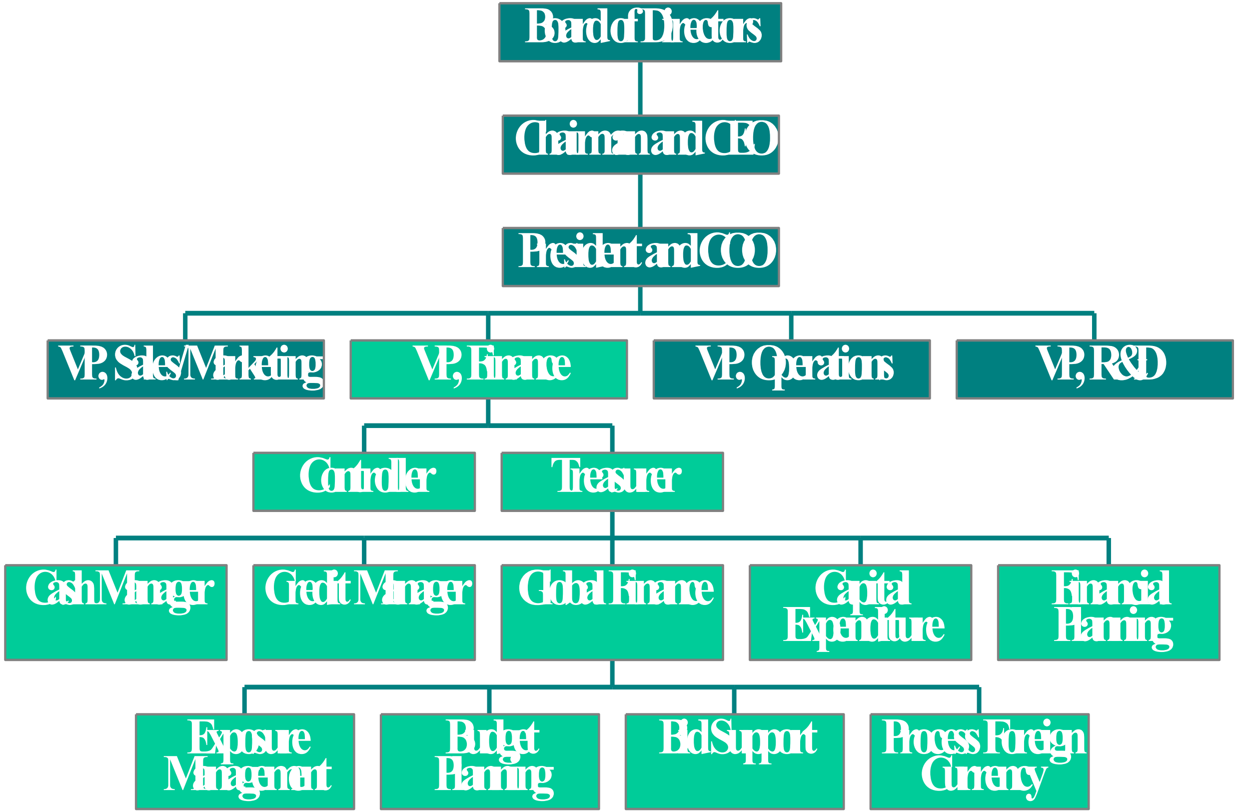
- Management of an enterprise's holdings, with the ultimate goal of managing the firm's liquidity and mitigating its operational, financial and reputational risk
- Treasury Management includes a firm's collections, disbursements, concentration, investment and funding activities
- In larger firms, it may also include trading in bonds, currencies, financial derivatives and the associated financial risk management
- Company's treasury operations comes under the control of the CFO, Vice-President / Director of Finance or Treasurer, and is handled on a day-to-day basis by the organization's treasury staff, controller, or comptroller

Functions of the Modern Treasury Division

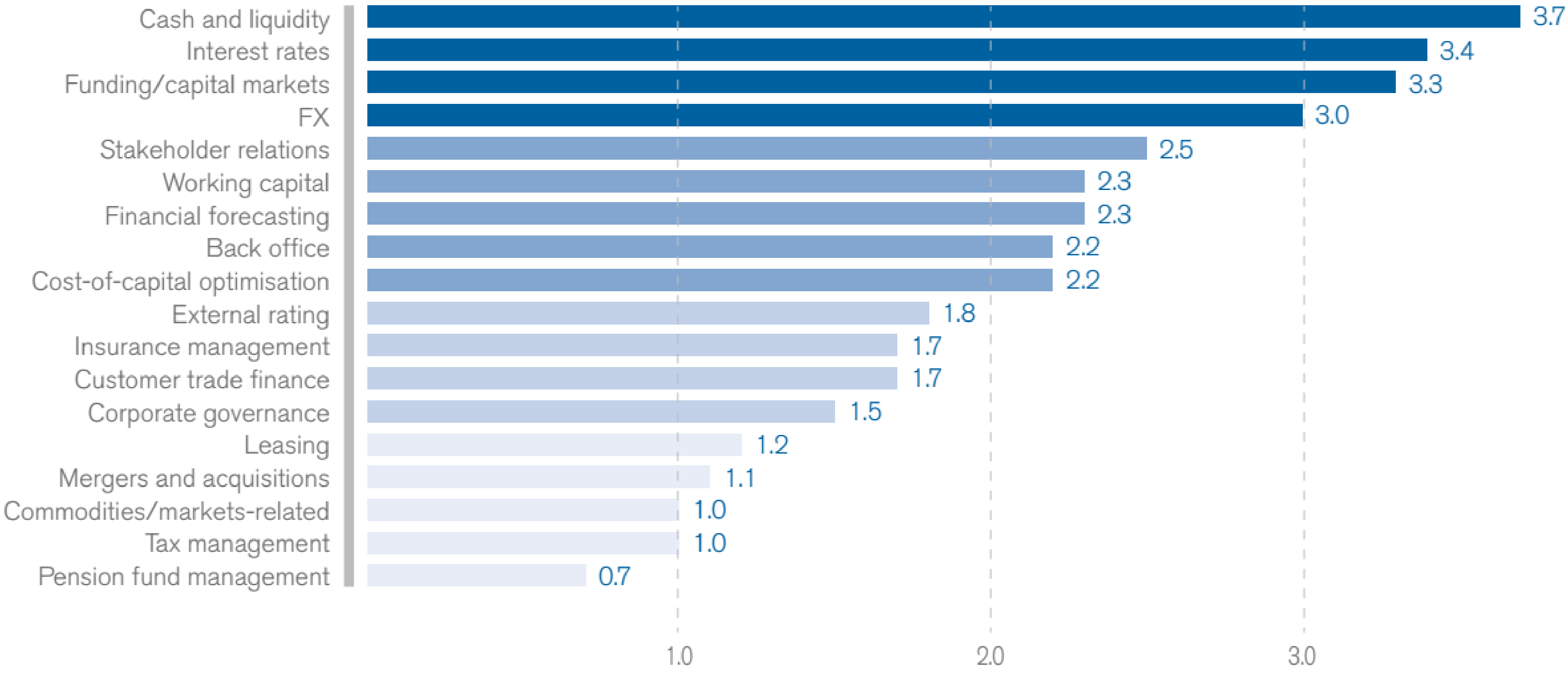
SILESIAN UNIVERSITY
SCHOOL OF BUSINESS ADMINISTRATION IN KARVINA

- Determine the firm's overall financial goals
- Manage the risks of domestic and international transactions
- Arrange financing for domestic and international trade
- Consolidate and manage the financial flows of the firm
- Identify, measure, and manage the firm's risk exposures

Treasury in Corporate Organizational Structure



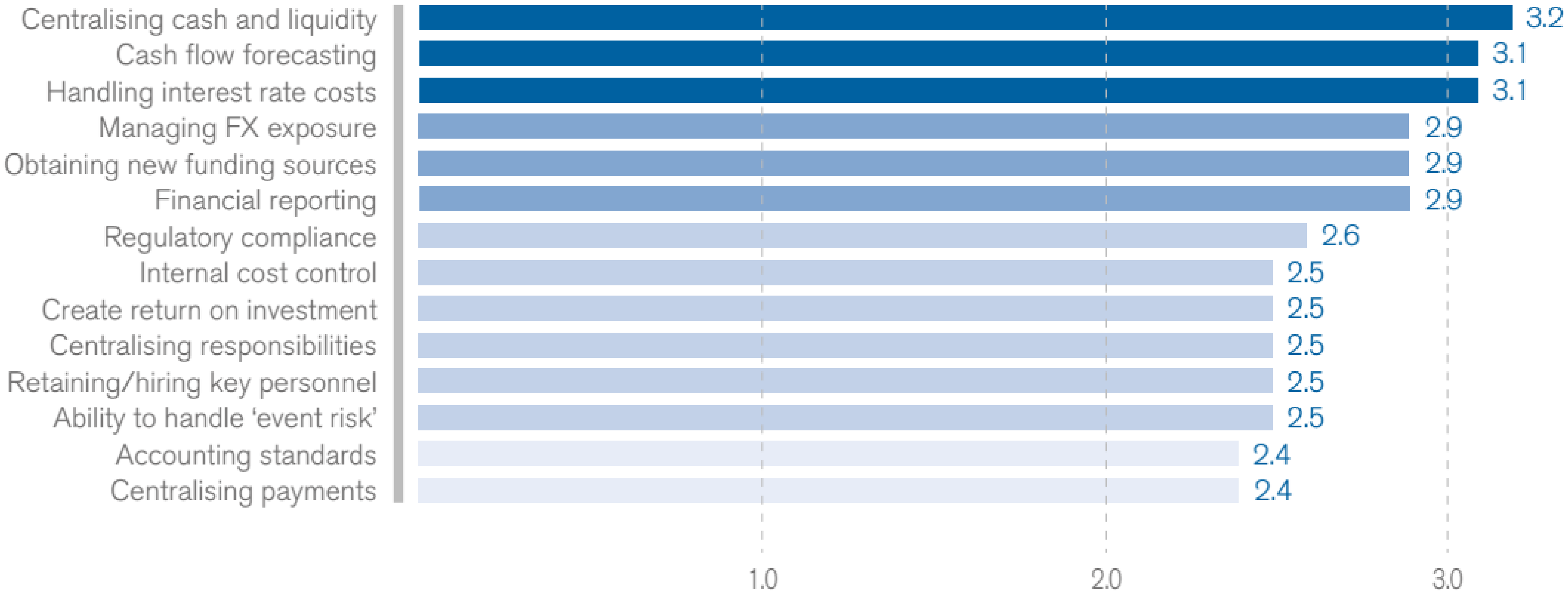
Treasury Areas of Responsibility (2017)



Setting Financial Goals and Strategies

- Identify the firm's core competencies and potential growth opportunities
- Evaluate the business environment within which the firm operates
- Formulate a comprehensive strategic plan for turning the firm's core competencies into sustainable competitive advantages
- Develop robust processes for implementing the strategic business plan

Treasury Priorities over the Next Two Years (2017)



Questions and Applications

???Why Treasury Goes for Centralization???

Why Treasury Goes for Centralization? (1)

- Globalization
  - Operating in multiple countries increases the number of company accounts, currencies used, customers and suppliers, which in turn creates complexity, exacerbates fragmentation and decreases transparency.
  - Through treasury centralization, companies hope to gain better overview of their cash and liquidity positions.

Why Treasury Goes for Centralization? (2)

SILESIAN UNIVERSITY
SCHOOL OF BUSINESS ADMINISTRATION IN KARVINA

- Cost savings
  - Centralization can drive technology consolidation, with multiple systems replaced by a single treasury technology platform or at least more integrated solutions.
  - It can also simplify bank relationships, reducing bank charges and lowering the cost of managing bank relationships.

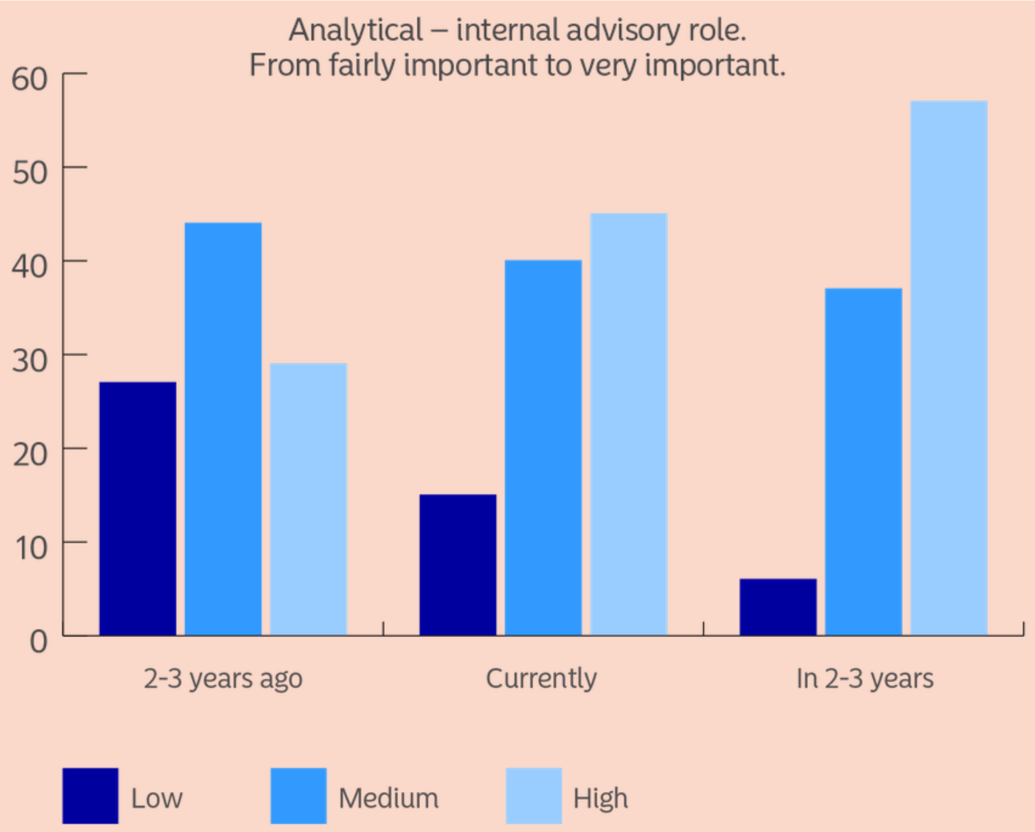
Why Treasury Goes for Centralization?

SILESIAN UNIVERSITY
SCHOOL OF BUSINESS ADMINISTRATION IN KARVINA

- Technology
  - Technology innovations improve a centralized treasury's ability to handle large volumes of activity across the business.
    - such as mobile, cash pooling, web platforms and straight through processing
  - Technologies can also drive down treasury's workload, creating opportunities to provide further business value.

Treasury: From „Execution Factory“ to Strategic Resource

SILESIAN UNIVERSITY
SCHOOL OF BUSINESS ADMINISTRATION IN KARVINA



Managing International Trade

- Exporters must assure themselves of timely payment
- Importers must assure themselves of timely delivery of quality goods
- Geographic and cultural distances involved in international trade are greater than in domestic trade
- Trade disputes span several legal jurisdictions

Managing the Risks of International Shipments

SILESIAN UNIVERSITY
SCHOOL OF BUSINESS ADMINISTRATION IN KARVINA

- Trade documentation reduces risk exposures
  - Commercial invoice
  - Packing list
  - Certificate of origin
  - Shipper's export declaration
  - Export license
  - Bill of lading
  - Dock receipt
  - Warehouse receipt
  - Inspection certificate
  - Insurance certificate
- Freight forwarders (shippers) can coordinate the logistics of trade

International Payment Methods

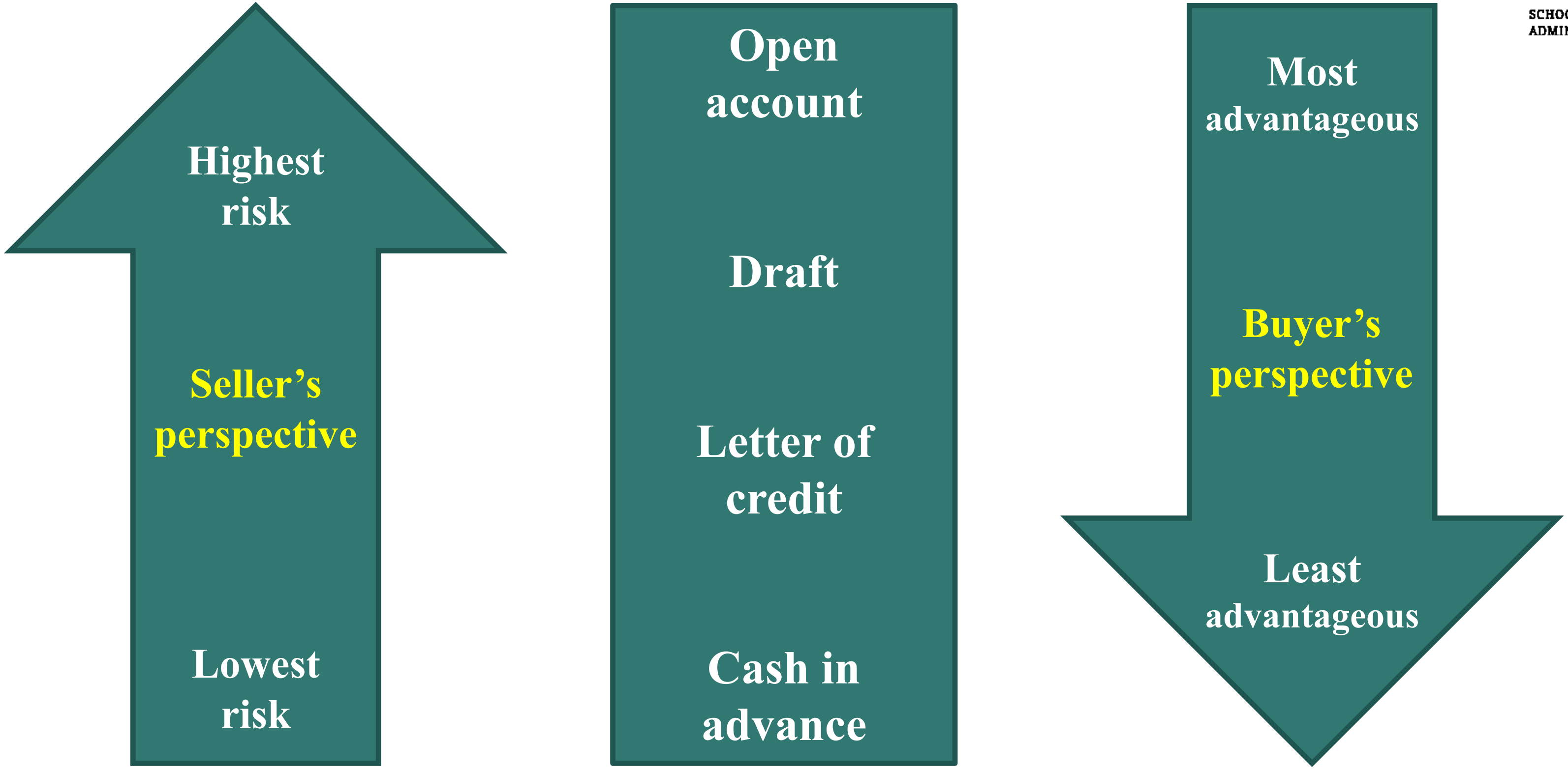
SILESIAN UNIVERSITY
SCHOOL OF BUSINESS ADMINISTRATION IN KARVINA

- Cash in advance
  - Buyer pays for goods prior to shipment
  - Buyer provides the financing
- Open account
  - Seller delivers goods and bills buyer under agreed-upon payment terms
  - Receivables can be discounted or factored (sold); long-term receivables can be sold to a forfeiter
- Countertrade - exchange of goods or services not involving cash
  - Counter purchase
  - Offset
  - Delivery and payment depends on the terms of trade

International Payment Methods

- Documentary credits
  - A letter of credit (L/C) issued by the buyer's bank guarantees payment upon receipt of trade documents
  - In some countries, letters of credit can be discounted or used as collateral for new borrowings
  - Other countries do not follow this practice
- Documentary collections
  - Seller draws a draft (trade bill or bill of exchange) payable to itself on the buyer.
  - Sight drafts: payable on demand
  - Time drafts: payable at a specified future date
    - Trade acceptances: drawn on and accepted by buyer
    - Banker's acceptances: accepted by a commercial bank

The Risks of International Payment Methods



Managing Multinational Cash Flows

SILESIAN UNIVERSITY
SCHOOL OF BUSINESS ADMINISTRATION IN KARVINA

- Cash management
  - Multinational netting
  - Forecasting funds needs
- Managing relations between operating divisions and external partners
  - Credit management
  - Transfer pricing
  - Determination of hurdle rates on new investments

A Five-Step Currency Risk Management Program

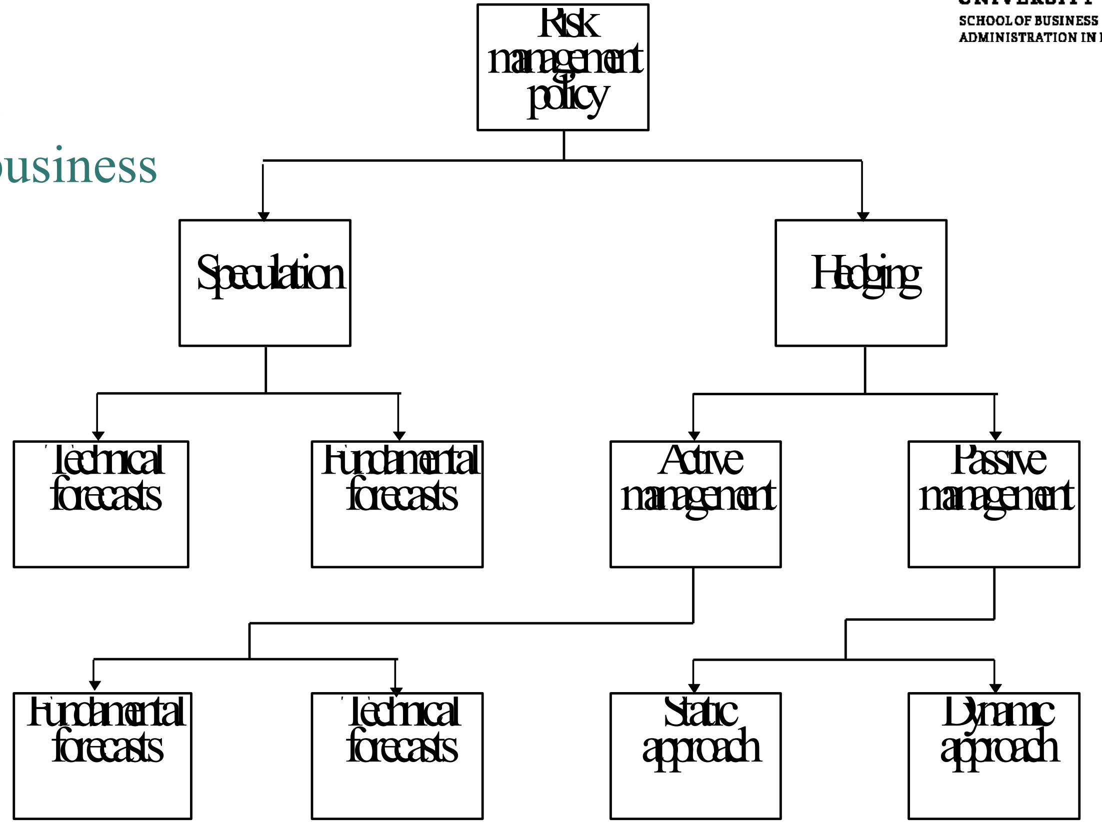
SILESIAN UNIVERSITY
SCHOOL OF BUSINESS ADMINISTRATION IN KARVINA

- Anticipating and responding to changes in exchange rates

1. Identify the distribution of future exchange rates
2. Estimate the sensitivity of revenues and expenses
3. Determine the desirability of hedging
4. Evaluate hedging alternatives
5. Monitor the position and reevaluate

Setting a Risk Management Policy

- Risk management should complement the overall business plan



Market-Based Exchange Rate Forecasting

SILESIAN UNIVERSITY
SCHOOL OF BUSINESS ADMINISTRATION IN KARVINA

- Forward parity

  $E[S_t^{d/f}] = F_t^{d/f}$

- Interest rate parity

  $E[S_t^{d/f}] = S_0^{d/f} [(1+i^d)/(1+i^f)]^t$

- Relative purchasing power parity

  $E[S_t^{d/f}] = S_0^{d/f} [(1+p^d)/(1+p^f)]^t$

Model-Based Exchange Rate Forecasting

SILESIAN UNIVERSITY
SCHOOL OF BUSINESS ADMINISTRATION IN KARVINA

- Technical analysis
  - Uses the recent history of exchange rates to predict exchange rates
- Fundamental analysis
  - Uses macroeconomic data to predict exchange rates
- Econometric analysis
  - Application of advanced econometric tools on estimation of theoretically-based approaches to exchange rate determination

G30 Global Derivatives Study Group

SILESIAN UNIVERSITY
SCHOOL OF BUSINESS
ADMINISTRATION IN KARVINA

- Determine at the highest level of policy and decision making the scope of involvement in derivatives activities
- Value derivatives at market, at least for risk management purposes
- Quantify market risk under adverse market conditions, perform stress simulations, and forecast cash investing and funding needs
- Assess credit risk arising from derivatives activities based on measures of current and potential exposure against credit limits

G30 Global Derivatives Study Group

- Establish market and credit risk management functions with clear authority, independent of the dealing function
- Authorize only professionals to transact and manage the risks, as well as to process, report, control, and audit derivatives activities
- Establish management information systems to measure, manage, and report the risks of derivatives activities
- Voluntarily adopt accounting and disclosure practices for international harmonization and greater transparency

THANK YOU FOR YOUR ATTENTION

☺