

Managing FX Risk

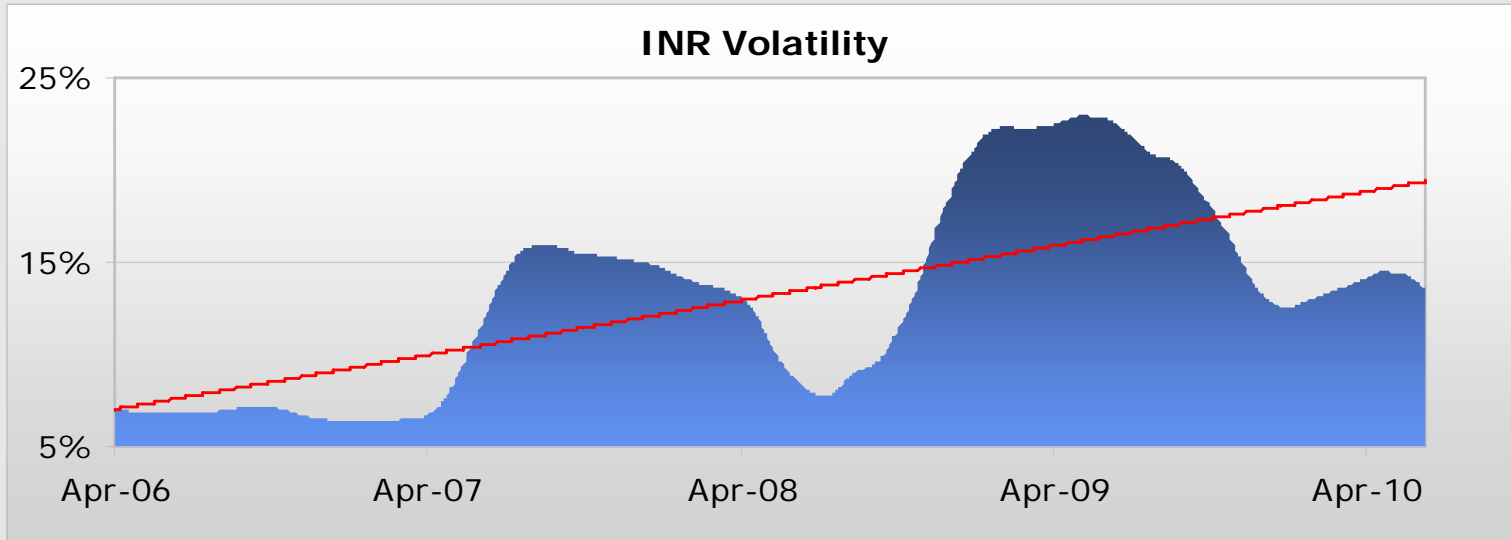
The Mecklai Approach

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■ Market Landscape: The New Reality



High
Volatility



- *Erodes* business value and profits
- Makes risk management more *challenging*
- Reduces room for *error*
- Increases expectation of *opportunity* capture

■ Mecklai's Approach to Risk Management From Business to Markets

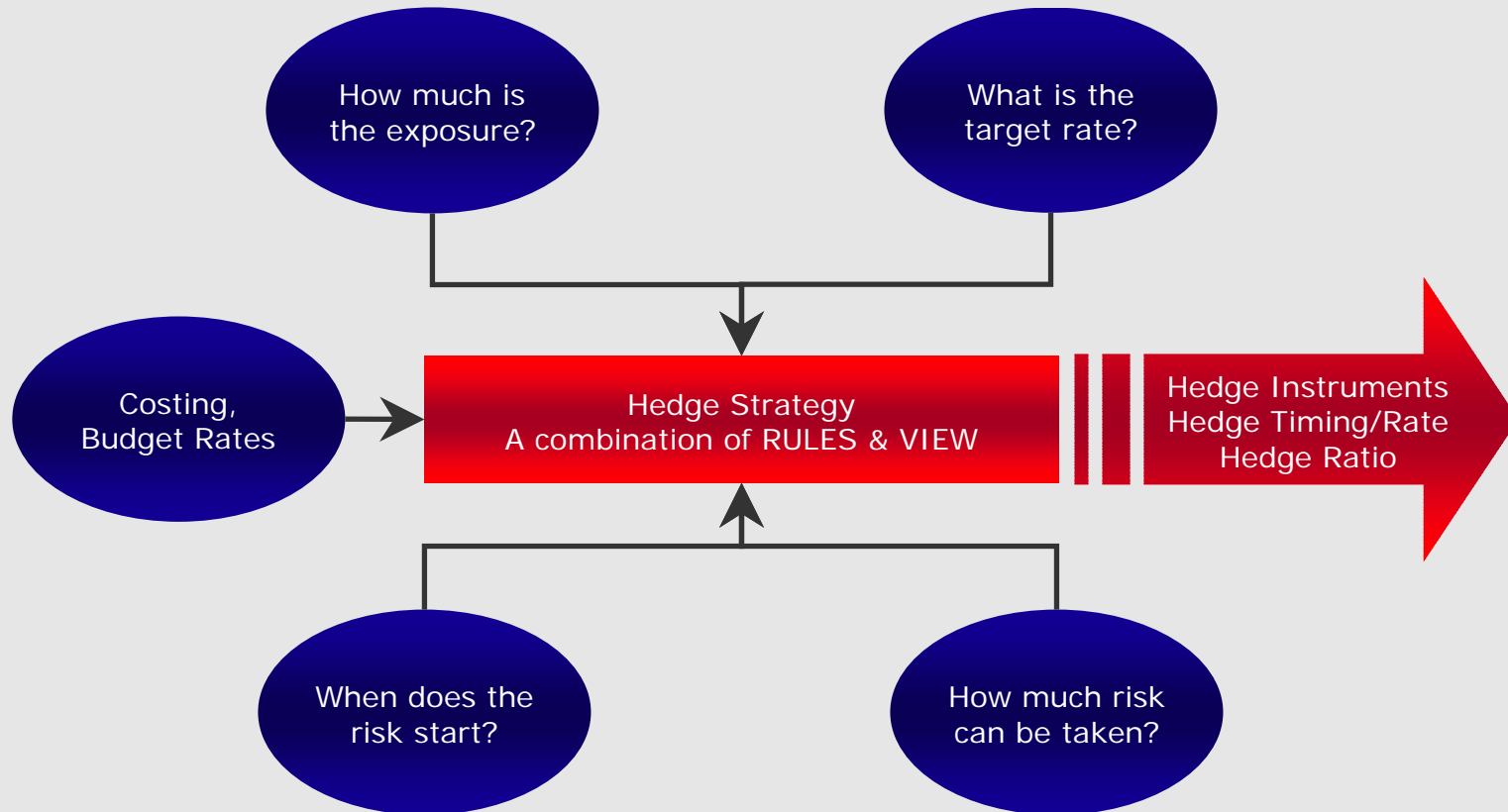
- Focus on the business and its risk footprint FIRST; and THEN develop hedge strategies aligned to business.

Mecklai Approach



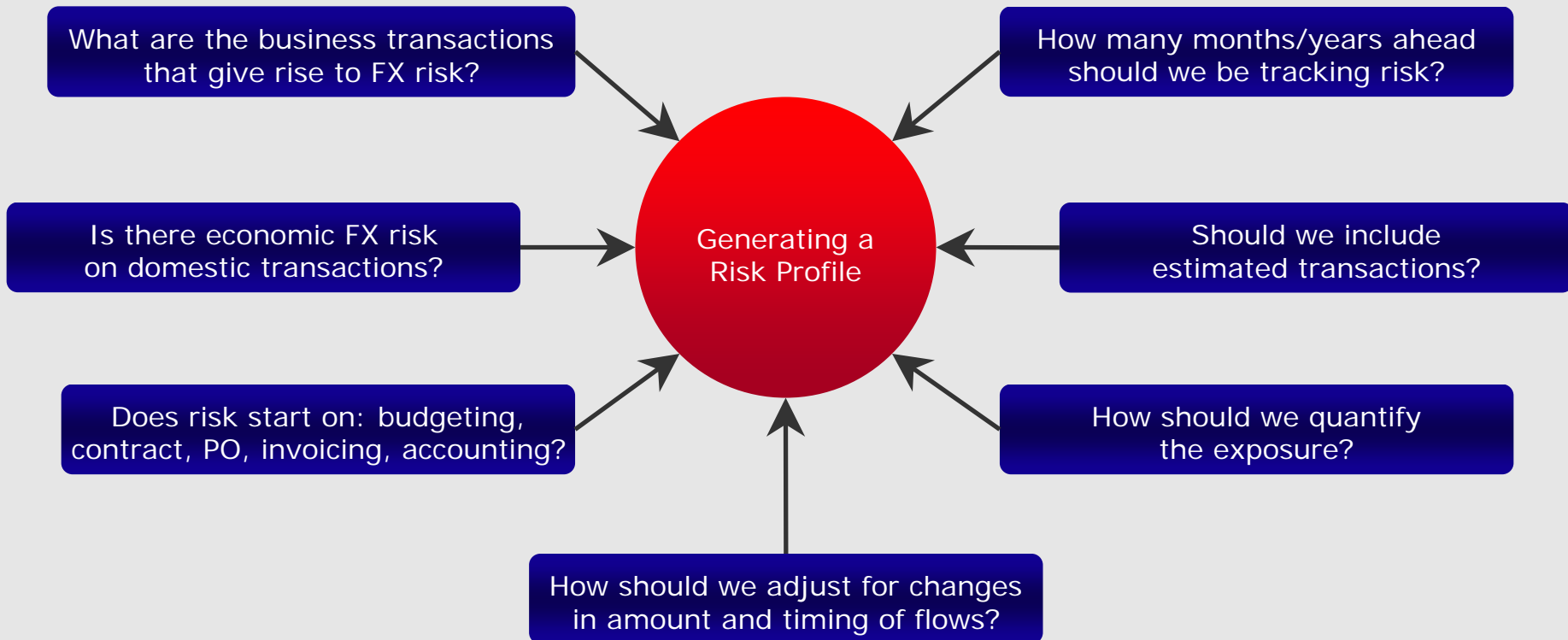
- Hedge Strategy should be formulated only after we:
 - Understand risks in the context of the business model & strategy
 - Quantify exposure on time, through an well-defined process
 - Quantify the risk appetite for each exposure
 - Measure risk on a continuous basis

■ Drivers of Hedge Strategy



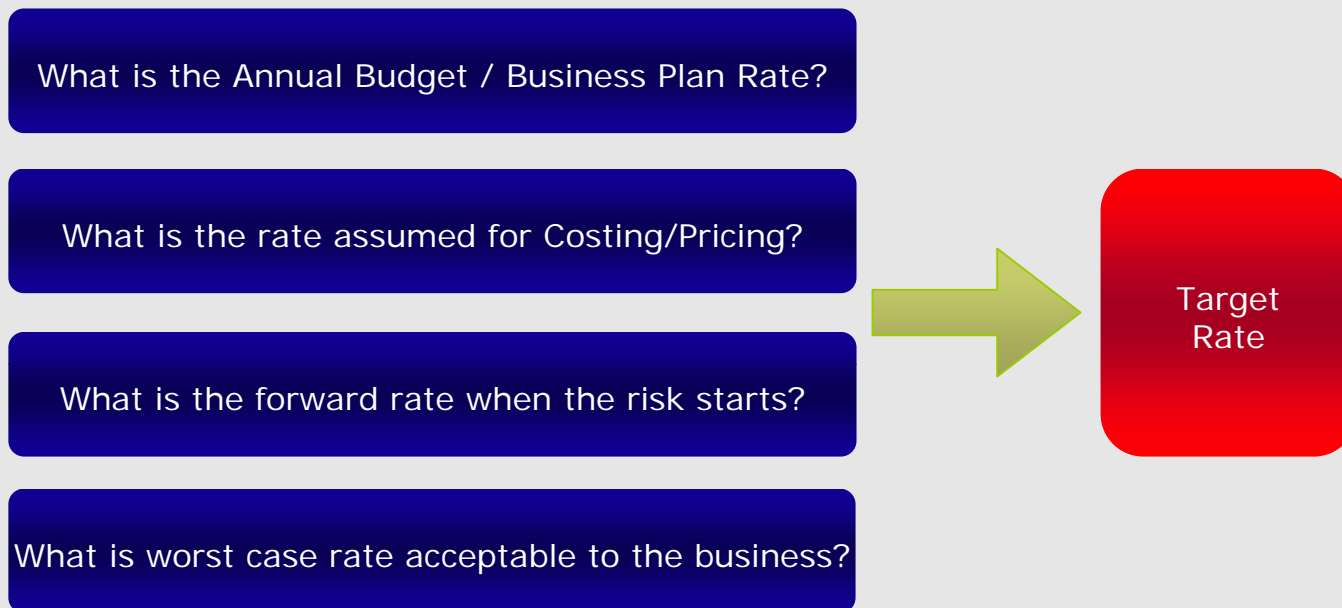
Putting it into Practice

■ Step I – Generate a Risk Profile



■ Step II – Define Target Rate

- Defining the Target Rate lets us know the objectives and boundaries of the hedge strategy



■ Step III – Define Hedge Strategy

What is the volatility of the currency/s?

What is the tenor of risk?

What is the risk appetite and buffer available?

How important is capturing opportunity?

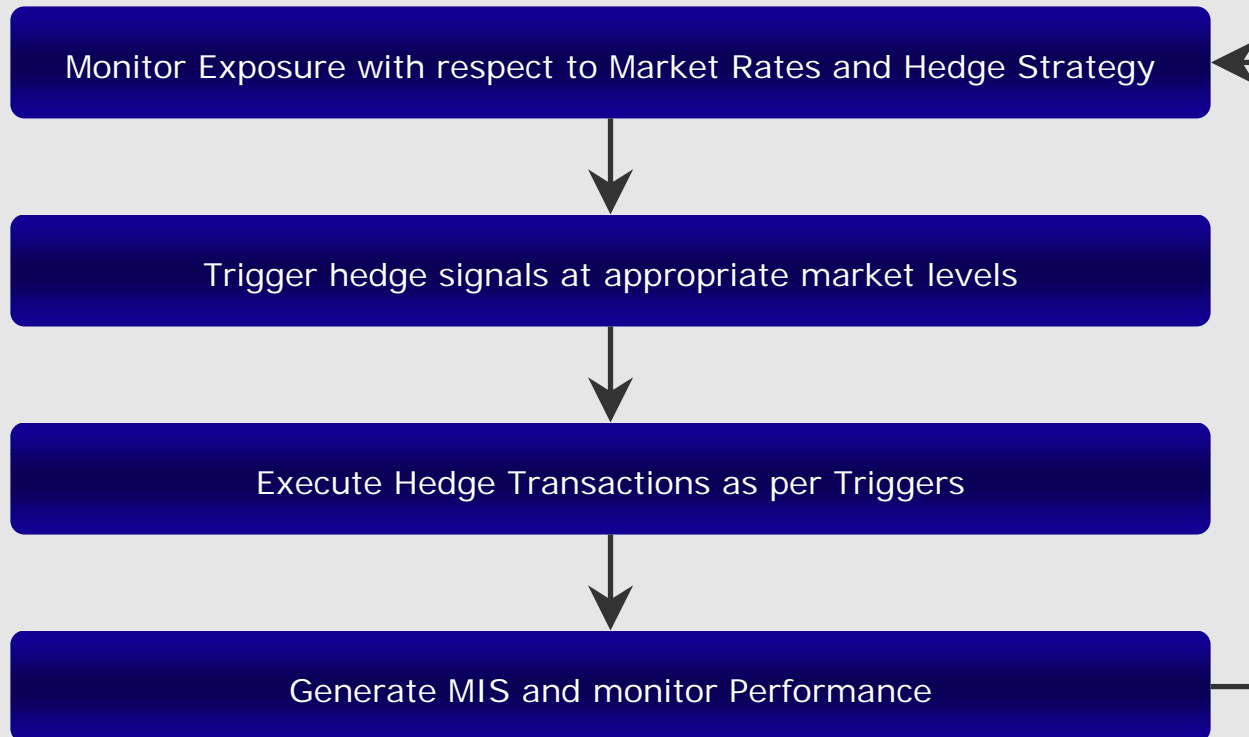
Is buying options feasible?

Hedge Instruments
Hedge Rate
Hedge Ratio



Initial Hedge
Protective Hedge
Lock-in Hedge

■ Step IV – Monitor & Hedge



Implementation Methodology

■ Formulate a Policy

- The concept and framework should be articulated in a Policy Document; and detailed in comprehensive SOPs.
- The Policy should cover:
 - Objectives of Risk Management
 - The Risk Appetite and risks to be hedged
 - Process for deciding the Hedge Strategy
 - Roles, Responsibilities & Performance Measurement
 - Organisational and Governance Framework

■ Standardize & Automate Processes

- The Processes should be ***standardized*** to:
 - Give all stakeholders a clear visibility of their roles, responsibilities
 - Avoid communication or expectation gaps
 - Save time, effort and delays
- The processes should be ***automated*** to:
 - Reduce errors and mistakes
 - Provide with decision support on a real-time basis
 - Reduce time spent on treasury activities
 - Make the system process-driven instead of person-driven

■ How Can We Add Value

Mecklai works with leading Indian and Multinational Corporations to:



Let's Talk

■ Typical Coverage of FX Risk Management Policy

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