



CHALLENGING TIMES IN FX

'FOR MANY YEARS CORPORATES WERE THE POOR COUSINS OF THE BANKS BOTH IN TERMS OF THE DEALING TECHNOLOGY AND IN THE GENERATION OF MARKET VOLUMES AND LIQUIDITY'

In early January I attended a recorded round-table discussion hosted by *Financial News* at the London Capital Club. The subject was the future of the Foreign Exchange Market in the light of the figures from the Bank for International Settlements which showed a decline in turnover of some \$300bn a day from the 1998 triennial survey to the 2001 survey.

Financial News will be publishing a synopsis of the round-table discussion and I hope that we can bring you some of the material either in *The Treasurer* or on our website shortly. It was interesting how the impact of corporates on the FX market was perceived as growing, particularly through some of the latest technological developments. For many years corporates were the poor cousins of the banks both in terms of the dealing technology and in the generation of market volumes and liquidity. But the increase in hedging activities and the arrival of the euro, and the reduction in speculative opportunities that that has meant for banks, has increased interest in corporate activity. The electronic dealing platforms accessible by the likes of Currenex, Atrix, FXall and others, and the likely move to an internet-based interaction with those platforms, has meant that the dealing costs with corporates potentially can be reduced.

The effect of new accounting regimes, such as FAS 133, is that rule-based hedging has led to a rise in the number of small ticket transactions from corporates which are ideally suited to these new electronic platforms. However, as we know the real saving is the ability to ensure a straight through processing route which automates all the middle and back office entries and minimises the potential for error.

New technology means that the traditional role of the in-house bank in providing an aggregating intermediary for a group's subsidiaries' FX needs, which are then transacted by the treasury company with the market, is likely to change. In-house banks may well turn into agencies, rather than acting as principal, under pressure from treasurers in their subsidiary companies seeking the finest rates for even small deals, and the development of technology which enables the transaction to be booked in the subsidiaries' accounts under the umbrella of a group performance guarantee.

Increasing pressure on corporates to justify their FX dealing activities within a highly defined hedging policy developed to meet

the latest accounting and disclosure requirements means that the historic role of dynamic hedging is changing. Where dynamic hedging is continued it is having to be recognised as a form of speculation and the focus on whether or not this activity adds or detracts from shareholder value will intensify. If companies are to continue to manage their exposures actively, it will be necessary to ensure the resources are available to manage the evaluation of the impact on shareholder value and to implement the new technology needed to make the activity cost efficient.

This will bring treasurers to the continuing dilemma of whether or not to outsource their FX dealing activities. Outsourcing can be for two reasons; one to minimise the cost of dealing and obtain finer rates, but this will require a good data flow protocol between customer and service provider. The other reason for outsourcing, particularly when dealing is taking place within a discretionary environment, is to obtain the best possible advice on instruments to be used and the timing of the placing of hedges.

The Association is trying to provide more information to its members on outsourcing options. It is hoped to run an online discussion and survey which treasurers can access by phone and internet link from their desk, using technology which has been developed in the US and trialled by the Irish Association. Look out for an announcement in our regular email communications with you.

We are also seeing if it will be possible to run a Fellows' event in the Spring which discusses the issues which arise on outsourcing of both foreign exchange and interest rate management and the reasons why treasurers seem to be reluctant to take external professional advice on how to gain value from new market instruments and assessments of future market movements.

OCEAN HOUSE NEWS. The Association is proud to announce the arrival of its new look website, ACTOnline. Log on as usual to **www.treasurers.org** and take a look round the new site. We have tried to bring the site up-to-date with simple and effective navigation. The site comprises news and features, a discussion forum, online learning facilities and many other facilities.

In order to strengthen the service provided to members in maintaining the members' database and services, we have recently established a new executive position of Member Services Manager. Gabrielle Koonin took up this position in early January and Ros Springer, Membership Secretary, will be reporting to Gabrielle. In a report later this year I hope to bring you a round up of our efforts to provide an improved service to members.

Finally, as announced by Anthony Stern on page 62 I have agreed my retirement date as 10 April. I will be working with Council members to find our new Chief Executive, but should the appointment not have been made by that date, Richard Raeburn will step in as Acting Chief Executive. **DAVID CREED**