

# QUESTION TIME

HOW DO YOU EXPLAIN FX TO THE BOARD AND OTHER NON-SPECIALISTS? ANDREW BURGESS OFFERS SOME POINTERS

Uh-oh, the board has questions about the FX situation and somebody's given them your name as the 'go-to' expert. What are you going to do?

You've got to clearly convey the company's current FX situation and its implications to a group of decision-makers, not all of whom are specialists in finance, let alone FX. And some might, rightly or wrongly, believe they understand everything well enough already.

Actually, phrased like that, it's a little less scary. After all, you have been doing that your entire career – whether it's to new starters in treasury, accountants, auditors, tax specialists, sales and tendering personnel or procurement staff, or to various levels of FD.

The task is to get enough accurate information across to allow the audience to make a fully informed decision. In effect, you're teaching rather than just presenting because part of the mission is to ensure that the audience understands concepts that are possibly new to them. Unfortunately, you're not allowed to hand out

a multiple choice test paper before telling the board that it is qualified to make a decision, so your explanation had better be good.

The process of explaining FX to the board can be roughly broken down into three parts: planning, presenting and dealing with questions.

## Planning

Obviously, more is better. But time is always limited, so it is useful to focus on what to prepare. When are you due to speak? For how long? What is the issue in question? These are good places to start. Also find out which presentation resources you'll have and who exactly the audience is.

## SOME 'DON'TS' WHEN DEALING WITH SENIOR MANAGEMENT

### DON'T:

- Be patronising... duh!
- Stun with economic theory.
- Try and wing it (uninvited).
- Use wrong or misleading information (ever).
- Get political if you can possibly avoid it (an honest broker is usually in a safe position).
- Use the 'it's policy so our hands are tied' defence to people who set policy.
- Worry. Generally, the more senior managers are, the more thoughtful they are. They don't want to bite your head off.



Next you need to turn your attention to the actual subject matter. Do you understand it sufficiently or will you have to swot up a bit? Would it be better to take a specialist expert with you to answer more detailed questions? (Just don't use a junior team member as a shield because it makes you look spineless.) If you are likely

to have to answer questions relating to a specific FX policy, it would be good to have an understanding of why that policy was adopted in the first place.

A little research into the backgrounds of the audience can also be useful. Different elements of treasury can have analogies with elements of other professional fields, enabling you to find familiar links for getting ideas across. For example, engineers might 'get' the mechanical nature of the carry trade and forward point calculations quicker. Legal will grasp clearing and ownership issues quicker than most. Marketing may be more comfortable with uncertainty and probability estimates. Logistics are going to understand the supplying of currency – it's the same job

for money rather than widgets, after all.

It is useful to check out the location of where you'll present in advance. This allows you to get more comfortable with the space and ascertain the availability of the projector, etc. Make sure you practise with any of the tools you'll be using – it's never a good idea to wave a laser pointer across the CIO's field of vision...

Finally, collate all the files you need in a single folder on your desktop. This avoids fumbling through Explorer when you're centre stage. They can then be archived as a quickly accessible record of what you presented to the audience.

### Presenting

There are lots of good guides to presenting – you've probably used some already – but what's specific for FX?

Several concepts can come up that might be tricky to explain. What exactly is bid-ask spread, for example? Worse, how is it calculated? Having a prepared, two-sentence explanation in advance is a lot easier than trying to wing it. I keep a 'jargon-busting' glossary as a file on my desktop.

### Here is an example:

Volatility is a statistical measure of how much a currency pair

has moved relative to each other in the past. The provision value we use is two standard deviations worse than current market price – which should cover about 95% of cases, in both directions. Assuming volatility remains constant and is normally distributed.

This means that about one time in 40, the downside difference would be bigger than our provision.

What you need to remember is 'need-to-know' applies. The audience does not need to know 'how', or even 'why', so much as 'what'. The technical intricacies are why specialists are employed, after all. A standard forward contract and a non-deliverable forward (NDF) both fix the value of a future flow of funds against your currency of interest as far as the business end user is concerned.

### Dealing with questions

Disruptive questions are distractions that lead away from the main subject of discussion. Some can be relevant for dealing with later, and some not. Try to keep to the point when answering questions and offer to give individual follow-ups if one audience member is fixed on a 'side track'.

Expect attempts to drill down for more data. Even if you're filtering the data on a need-to-know basis, the audience may want to satisfy its curiosity as to the detail. This is reasonable and possible, so if you can anticipate the questions you are likely to get, it would help to have the extra data available to hand.

You may encounter some speculative 'what ifs'. Some of the possibilities that might be discussed could be, shall we say, unorthodox. So be prepared to answer some left-of-field questions. Just don't let them take over the discussion.

### And finally

Any form of presenting can be daunting, and presenting on FX to the board of your company is bound to seem an intimidating prospect. But if you go into the meeting fully prepped, you will be in the best position to get your message across clearly. Finally, don't forget that time is valuable, especially at top levels. Keeping your briefing succinct, focused and useful, rather than padding for extra face time, will be noted. Leave them wanting more. ♡

## Treasurer's toolkit: some useful phrasing to get your message across

"Do you *need* more detail on that?" This avoids you getting bogged down in explanation if a group needs to be moved away from a sub-topic.

"Would you *like* more detail on that?" This allows you more time to expand on a topic. The difference from the above is that 'like' generally gets agreement, whereas 'need' generally gets turned down – nobody likes to admit need.

"As you know, this means..." This allows you to state the screaming obvious when it is unclear if the entire audience understands what you are saying. Don't overdo it, of course.

"I would need x minutes/hours to confirm that" sounds better than "I will have to check". It promises the prospect of you returning with useful information, while still making it clear that the eventual statement of fact is rock-solid.

Keep phrasing neutral as far as possible. So talk about FX impacts rather than FX costs. Downside risk rather than just risk.

Quick, practised explanation is most useful – especially if you can use the phrase "I explain it to project controllers like this..."

## STICK TO THE FACTS

In general, non-specialists are not interested in technical details or how clever treasury is at carrying out its activities. What matters are the practical implications, ie "What does that actually mean?"

Treasury is logistics for money. Think of it as a lorry load of copper, or paper, or sugar, or your company's most common supply item. Buy at one price and sell at another; the difference is the FX impact.

The list of things that might come up during the presentation is obviously huge. You won't have much time to think them through in front of the board, but you can do so in advance. Here are some of the more likely topics:

- Forward points/premium/rate;
- Why we can't give next week's spot market value;
- Predictions – making and confirming other sources;
- Modelling FX costs and risk for planned actions;
- Forwards, NDFs, future and option contracts and strategy;
- FX revaluations and hedge accounting;
- Trapped cash, restricted currencies and fund transmission;
- What are CNH/CNY/RMB or SAR/ZAR or INR/IDR?
- Pegs and controlled exchange rates; and
- Cancelling or reassigning disadvantageous hedge positions.

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