

ROCHFORD

At Rochford, we are committed to protecting and enhancing your business.

Our simple yet powerful Agile Treasury process has been refined and reinforced through decades of experience and working with hundreds of businesses. Agile Treasury positions a business within a value creation cycle, producing objective calls to action in day-to-day operations through to executive-level strategic decision making. This starts with identifying the operational gaps and value drivers within Treasury. We then deliver fast, flexible and effective solutions, which means stakeholder value is maximised. We can then either step back or provide ongoing strategic advice and support.

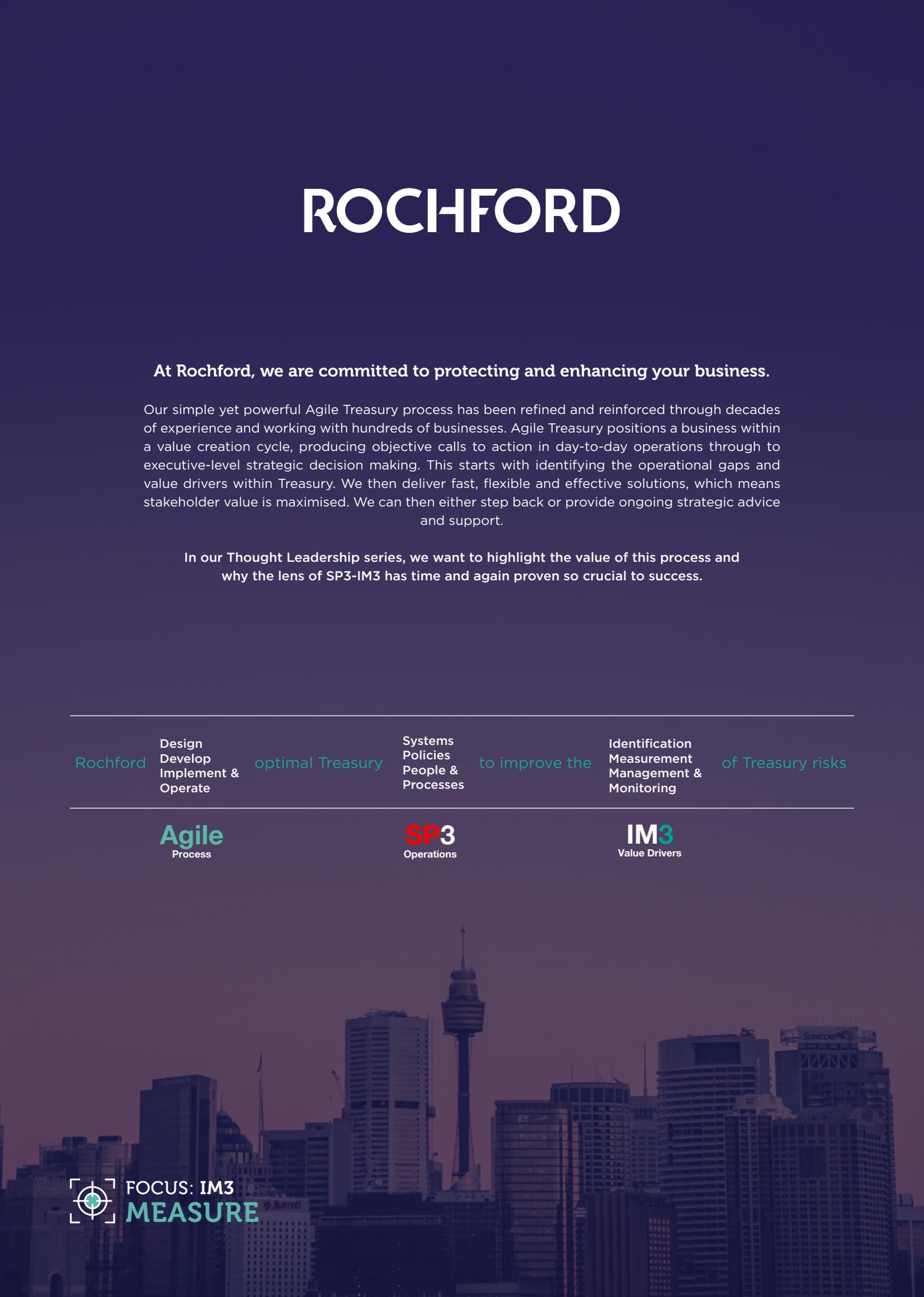
In our Thought Leadership series, we want to highlight the value of this process and why the lens of SP3-IM3 has time and again proven so crucial to success.

Rochford Design Develop Implement & Operate optimal Treasury Systems Policies People & Processes to improve the Identification Measurement Management & Monitoring of Treasury risks

Agile
Process

SP3
Operations

IM3
Value Drivers



FOCUS: IM3
MEASURE



THE IMPACT

IN THIS BRIEF, WE ARE FOCUSING ON MEASUREMENT OF TREASURY RISKS – THE PROCESS OF DETERMINING THE NOTIONAL SIZE OF A RISK SOURCE AND QUANTIFYING ITS POTENTIAL IMPACT ON COMMERCIAL OBJECTIVES AND FINANCIAL PERFORMANCE

Measurement of risk should quantify the impact of identified risks, which means risk management decisions are performed in line with the business' risk appetite and commercial objectives.

MEASURE: Is it meaningful?

DESIGN

Risk measurement design is critical in ensuring responsiveness to changes in business or market conditions aligned to the risk appetite of the business. In short, there are four key considerations:

- » How significant is the source of risk?
- » What is the potential worst-case impact?
- » How effective are risk management activities in reducing risk?
- » Does the reduction in risk produced by risk management activities reduce the residual risk impact to a level that is tolerable on key metrics (eg: cash, P&L, covenants)?

DEVELOP

To position the business to answer these questions, the appropriate identification of risk is first required and should be agreed by key stakeholders. Then, the process of accessing relevant data, building appropriate calculations that produce agreed outputs to make decisions needs to be articulated. First building this process in Excel is a great next step ahead of potentially



Common Shortfalls

Failure to translate an identified risk into a potential P&L and/or cash impact

Uncertainty of the impact that risk management is having on reducing risk

Lack of process to monitor ongoing performance of risk management activities

Lack of transparency on hedging costs charged by hedging counterparties



Solutions

Cash flow at risk analysis

Stress testing and proactive determination of foreign exchange budget rates

Portfolio risk analysis assessing impact of diversification

Global subsidiary risk, cash and liquidity management back to centralised treasury

Impact of refinance interest rate hedging on interest paid and forecasted cash flow

then moving the Excel structure into a more robust treasury risk management system.

IMPLEMENT

Once the process for the measurement of risk can be performed at agreed periodic intervals, the parameters can be put to paper in a policy that ideally gets approval from the Board. From here, the business should seek to make the process of measuring risk faster, more effective and more flexible over time while always being able to resort to the previous holistic process should any additional development encounter material delays or challenges.

OPERATE

Come operation, the hard work should be complete. The calculations for measuring risk and the potential disparity of relevant data (cash flows, financial markets, derivatives, policy parameters) are arguably the most onerous in Treasury. Without the appropriate systems handling this heavy lifting, people are left performing ad hoc, potentially inconsistent and error-ridden calculations with hours spent compiling reports only to repeat the process the following week or month. Getting the measurement workflow right and then optimising the systems to standardise and expedite the process ensures that people are best positioned to perform risk management and develop innovative risk and commercial solutions.

CASE STUDY

[HEAVY MACHINERY IMPORTER]

The hedge book of a relatively simple product imports business model had become excessively difficult to manage due to a wide array of small leveraged option structures across multiple brokers.

PROBLEM

Why the challenge was proving difficult to solve

- ⚙️ A lack of a clear policy meant that overall hedging requirements were not certain
- ⚙️ The diversity of leveraged option products and current Excel administration processes made isolating overall exposure highly ad hoc and variable, without active consideration of potential downside impact
- ⚙️ The option structures made transaction costs highly non-transparent

SOLUTION

Rochford actions to address and correct the problems

- ⚙️ We input cash flow forecasts and outstanding hedges into a Rochford-built model to isolate and clearly visualise current exposure, taking immediate hedging actions based on prevailing market conditions
- ⚙️ We included scenario analysis to monitor changes in hedging based on movements in foreign exchange spot markets
- ⚙️ By also designing and implementing an updated hedging policy, we simplified the hedge book over future months using FECs aligned to clear required hedge amounts

RESULT

End outcome, leaving the business in a better position

- ⚙️ A consistent, practical and appropriate product mix is providing heightened clarity on future CoGS commitments, enabling flexibility in sales pricing and forecasted earnings
- ⚙️ Drastic reductions have been achieved in transactional pricing, particularly on option structures, due to Rochford's product and pricing knowledge and increasing competition amongst dealing counterparties



If you are facing these challenges, or would like to find out more, contact Rochford and begin your treasury improvement journey today.



WHAT OUR CLIENTS SAY ABOUT US

“Rochford has played a key role over the years in assisting us to protect our gross margins in times of AUD volatility. Their dynamic and consultative hedging approach has allowed significant uplift during periods of favourable FX trends.”

| GREG DARWELL, FOUNDER & CEO MULWARRA EXPORT PTY LTD

“Their research and advice consistently provide us with the tools to both mitigate risk and take advantage of opportunities as they arise. They have also provided invaluable advice with regard to the structure of the appropriate hedging solutions allowing us to achieve margin protection whilst still participating in favourable market moves.”

| CARL SCUDERI, CFO DYNAMIC SUPPLIES PTY LTD

“We are delighted with the positive changes they have made to our business and are enjoying a relationship that has developed further than our expectations. The team are a true pleasure to work and be associated with.”

| PETER CALOPEDIS, GROUP FINANCE MANAGER, TNA AUSTRALIA PTY LTD

