



# CASE STUDY



## STRATEGIC TREASURER

Strategic Treasurer provides a wide range of advisory and implementation services for the financial professional. Our practice areas include:

### Treasury

#### Management

- Treasury Assessment
- Financial Process Reviews
- Process Efficiency And Controls

### Working Capital

#### Management

- Working Capital Optimization
- Order To Pay & Order To Collect

### Treasury

#### Automation

- Treasury Workstation (Client Server, Asp)
- Risk Management
- Reconciliation
- Bank Account Administration

### Risk Management

- Risk Management Strategy
- FAS133 Assistance

### Contact

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## Financial Risk Management (*Hedging*) System Implementation

### Industry:

Wholesale Distribution (Multi-Billion) North America oriented business

### Situation:

Client's debt mixture included floating rate debt. Interest rate risk exposure was hedged with basic interest rate swaps (pay fixed, receive float). The client has had concerns with the accounting implications of swap portfolio (note: goal is to obtain favorable hedge accounting status per FAS133 but 'short-cut' method was not applicable here) which lead them to purchase a leading derivatives and hedge accounting system. While the software is web-based, the client still needed to get prepared to effectively use the system.

### Issues included:

- Lack of a formal risk management policy in place; a basic requirement for hedge accounting
- No hedge documentation for each individual 'hedge transaction'
- Incomplete information on debt and swap parameters, which were all issued or acquired over time
- Recently acquired a company which doubled its size and added to its floating rate debt exposure
- As is typical the client did not have a deep background in derivatives and hedge accounting issues creating unease

### Solutions:

Strategic Treasurer worked with the client to set objectives and clarify desired outcomes:

- Developed a comprehensive risk management policy based on the client's risk management philosophy
- Assisted client in selecting applicable hedge accounting parameters, which included creation of various hypothetical derivatives
- Developed individual Hedge Term Sheets that designated the hedge accounting parameters for each individual transaction / relationship
- Researched internal and third-party documentation to compile complete list of debt / swap indicatives.
- Provided education on basic swaps and FAS133 hedge accounting issues.
- Set-up derivatives / hedge accounting software with all debt / swap trades and established hedge relationships
- Implemented controls around risk management / accounting activities
- Maintain monthly maintenance of system and hedge accounting reports
- Lack of staff capacity coupled with other critical priorities prevented client from being able to fully manage the system and monthly hedge accounting requirements - Strategic Treasurer provides this service to client on a retainer basis

### Results:

The benefits this firm received include:

- Client able to reap the benefits of hedge accounting treatment for swaps portfolio
- More effective controls around risk management / debt issuance process
- Client now has a partner that is intimately involved in its risk management and monthly hedge accounting process