

# Kyriba FX Advisory Brief – Balance Sheet Hedging in Volatile Markets

Treasury organizations and CFOs have the dual objective of managing risk to an acceptable level while also containing the cost of hedging across their portfolio of currencies. Several best practices stand out that separate the hedge programs that show cracks (or fall apart) under stress, from the best performing hedge programs.

## Kyriba Balance Sheet Hedge Program Best Practices

Balance Sheet Program Activity	Why This Matters?	Applicable Best Practices
Automate Exposure Capture with Dynamic Queries	Companies using static queries to capture exposures commonly miss new exposure activity, and only catch it after it becomes a P&L problem.	Capture data using automated dynamic queries. If dynamic, any new monetary asset/liability activity in the source data will get reported from the start.
Monitor Exposures with Increased Frequency	Waiting for month-end actual exposure data just once a month (and usually several days delayed) may not cut it during volatile times, where the market is less forgiving on unhedged and over-hedged positions.	Leverage technology to monitor positions daily (especially, but not limited to companies in daily rate ERP environments). Monitor weekly, if daily is not possible. Monthly is not enough.
Revisit Hedge Adjustment Thresholds	Higher thresholds reduce administrative burdens of a hedge program, but leave more risk exposed. The cost-benefit equation of threshold levels changes during volatile markets and should not be static.	FX policies are drafted such that the thresholds express the mandated max level but leave flexibility for discretionary adjustments at lower levels. Adjust levels during volatile periods, or on a per currency basis.
Reconcile FX Gain/Loss Remeasurement	Reconciliation highlights any exposure visibility issues or underlying transactional accounting issues that may have developed since last time it was thoroughly reviewed.	Reconcile remeasurement results daily to monthly and quickly work with accounting on potential issues. Kyriba clients leverage our Daily FX Gain/loss Analytics tool, to accomplish this even in daily rate environments.
Analyze Hedge Performance	Further analyzes FX Gain/Loss as it pertains to hedge program P&L impacts. Highlighting the key drivers or FX noise, whether that be forecasting issues, execution timing, or cost of hedging.	Derive clear explanations of the key drivers to hedge program noise as quickly as possible each month end. Leading companies can pinpoint issues and address them before they repeat themselves in subsequent periods and distribute performance KPI reports.
Clean-up Exposures	Erroneous material exposure positions on the GL are common. Intercompany balances, incorrect manual JEs and phantom balances can skew exposure reports and remeasurement results.	Continuously identify and monitor growing intercompany balances and opportunities to net exposure positions or naturally hedge. All outlier transactions creating FX exposures are understood.
Make Cost-Effective Decisions with Portfolio VaR or Aggregation	Various levels of sophistication exist to make hedge coverage decisions more efficient and cost effective. Forward point markets are currently costing companies significantly more money than months ago, and this shows in the FX Gain/Loss line.	The rising trend is incorporating portfolio VaR with Cost of Carry to make portfolio-based hedge decisions. At a minimum, companies must be capable of aggregating exposure positions globally to minimize numbers of trades required.
Evaluate Back-to-Back Hedging	A spin-off of efficiently aggregating hedge positions is formally pushing down internal hedges to subsidiaries. This can improve internal reporting or can assist in keeping subsidiaries accountable for their hedge results.	When it makes sense from accounting and tax perspectives, back-to-back hedging is a common balance sheet hedging approach as an extension of making efficient aggregated topside hedge decisions.

Kyriba's FX Advisory team helps multi-national companies optimize hedge programs and evaluate FX risk holistically to complement a full end to end FX Risk Management solution.

Reach out today to our [FX Advisory team](#) to learn more. Also, visit <https://www.kyriba.com/products/risk-management/> to view more on our FX Risk Products or schedule a demo with the team.

