CURRENCY RISK MANAGEMENT

SELECTED RESEARCH PAPERS

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Preface

Risk management is a combination of multiple ideas to control trading risk. It can be limiting trade lot size, hedging, trading only during certain hours or days, or knowing when to take losses. Currency Risk Management (CRM) can make the difference between the survival and sudden death of an organization which deals with Forex trading.

CRM is indispensable in the ever-changing global business environment. CRM's methodology is used in the banking sector to help enterprises. At present some software tools are providing a comprehensive hedging solution for risk management of companies. However, outsourcing the activities of CRM is an efficacious choice for small-scale and medium-scale business enterprises.

Currency Exchange (CX) transactions could be capital or revenue in nature. It is essential that companies which have exposure to foreign exchange should have a team in their treasury department for effective and expeditious management of exchange-risks. In a floating exchange rate environment, the currency exchange rate responds to the flow of imports and exports, the flow of capital, relative inflation rates and more. Often, limits are placed on currency exchange rate fluctuations according to government policies. There are different tools for hedging currency exchange risk, which includes forwards, futures, swaps and options.

Most currency management instruments enable the firm to take a long or a short position as a part of a hedging strategy. Some of these instruments are derivatives and have recently evolved.

In India, CX business is subject to RBI's rules and regulations, government guidelines and the Foreign Exchange Management Act (FEMA). Whatever may be the strategy the dealers always face severe losses in CX management.

'Currency Risk Management' needs the attention of academicians, bankers and the aspirant management students. Hence, a conference on 'Currency Risk Management' was organized by the Department of Finance, GITAM University, and Visakhapatnam, India in association with Indian Bank, Visakhapatnam, India. We have received qualitative responses from academicians and the following issues were addressed in the conference:

- India's shift to a market determined exchange rate regime and the impact of structural change.

- Consequences of unlimited geographical boundaries with relation to the foreign exchange market.

- Influence of 'Currency Futures' was introduced in August 2008 and their impact on hedgers to manage the risk arising out of increased volatility in exchange rate.

- Problems of the high volatility of exchange rates are a fact of life faced by every company engaged in International business, bringing in uncertainties in their bottom line.

- In recent years, variations in the value of rupee have been very impulsive and unpredictable. These fluctuations have had a profound impact on domestic and foreign sales, profit levels and profit margins of MNCs operating in India.

This book is an outcome in the form of 'conference proceedings from the national conference on currency risk management' and it contains selected research papers.

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