

## PARTNERS IN FOREX

A new technology collaboration can help companies fine-tune their foreign-exchange hedges.

BY ALIX STUART

**O**n most counts, Google had a great third quarter. The Internet giant reported its revenues grew for the first time in 2009, coming in 7% higher year-over-year, while profits rose 27% year-over-year. But CFO Patrick Pichette still saw something missing: \$300 million. That's the amount he says foreign-exchange fluctuations took out of the company's total revenues, and that he is trying to recapture through an intense currency-hedging program.

With about half of its revenues currently coming from outside the United States, Google uses cash-flow hedges to protect earnings and transaction-related hedges to protect foreign-denominated receivables. The company's foreign-exchange-related costs increased by a net \$126 million in the first nine months of the year, according to its latest 10-Q, and Google expects to boost spending on hedging even further as revenues increasingly come from other parts of the world.

"We're putting a lot of science into this," Pichette told an analyst in the company's third-quarter earnings call. Part of that science involves technology; namely, a new collaboration between Sungard and Fireapps that has afforded treasurer Brent Callinicos better insight into Google's foreign-exchange exposures over the past year or so. In October Sungard, a leading provider of treasury-management systems, announced that all of its customers would be able to access Fireapps's foreign-exchange-exposure tracking and

management services through its systems (for an additional charge).

In partnering with Fireapps, Sungard "is enhancing its solutions and at the same time really going after a pain point," says Laurie McCulley, a principal in consulting firm Treasury Strategies's technology practice. Gathering data to calculate foreign-exchange exposures and determine optimal hedge strategies is still a struggle for many companies, she says, because standard treasury workstations have only limited capabilities to

**[Brent] Callinicos [Treasurer of Google] says one of the service's key benefits is that it enables him to see net exchange-rate exposures rather than just one or two exposures at a time. "...the difference between having the system and not having it is material," he says. Google recognized \$316.6 million in hedging gains to revenue in the first nine months of the year.**

capture foreign-exchange data. In most cases, the process is manual intensive, with employees manipulating days-old data from various divisions or subsidiaries into spreadsheets.

In contrast, Fireapps gets the data directly from ERP systems and feeds it into the treasury-management system. That eliminates two steps from the process and provides fresher data, says McCulley.

Callinicos says one of the service's key benefits is that it enables him to see net exchange-rate exposures rather than just one or two exposures at a time. That's important, he says, because with so much cross-currency data, "having only a few

pieces of information can lead you to overhedge, which you never want to do." The system also allows him to do more hedging, since it tracks more currencies than he and his team could using the old system.

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While Callinicos can't quantify the savings, "the difference between having the system and not having it is material," he says. Google recognized \$316.6 million in hedging gains to revenue in the first nine months of the year.

Still, "Fireapps hasn't had the take-up to this point that you would expect," says McCulley. She says that about 90% of her firm's clients are taking steps to better manage foreign-exchange exposures, but that "for most, it involves standardization around reporting frequency and models," with most companies developing models on spreadsheets.

Sungard asserts that the service will eventually become a necessity for multinational companies, thanks to volatility in more currencies. "While most companies used to be able to get by with simply hedging major currencies to cover the bulk of their exposures, things have changed in the last year or so," says Andrew Woods, group vice president of global treasury solutions for Sungard. "The spike in volatility we've had tends to be exaggerated in some of the less liquid currencies," meaning companies may find they're not as well hedged as they thought.

In general, Woods says the service may save companies money by preventing them from entering into unnecessary hedges. "Options premiums can run into the millions of dollars, and if you're paying that insurance premium because you don't have confidence in your data, that's a cost you can take away from the business," he says. "The more you know, the less you have to spend."

Hedging can also become more dynamic, allowing treasurers to react to actual data rather than just aiming to hedge a fixed percentage of the company's exposure, adds Woods. "It is not unusual for five days to have elapsed after the period close before all FX exposures are quantified," he says. That means treasurers deal with "weekly volatility of 10% compared with daily volatility rates of 1%, which translates into increased costs for many companies."

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No one knows whether the dollar will stay up, go down, or flatline in 2010. But Google executives are sure of one thing: they're not going to let up on hedging. "For anybody who has a perception that the dollar is going to continue to weaken over the coming two or three or four years, then you would say you don't need your hedging program...[but] that's the danger that every hedging program falls into," Pichette said in the earnings call. "The next thing you know, you have a crisis like we had last year [in which the dollar significantly strengthened] and then they say, 'Where's your hedging program?'"

**CFO**

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