



TRADE RISKSTM

TREASURY EXECUTION BENCHMARKING



IS YOUR TREASURY A STRATEGIC ASSET, A SUPPORT FUNCTION, OR A THREAT TO YOUR ORGANISATION?

Corporate treasury functions are coming under much greater pressure to perform well in increasingly turbulent market conditions. The credit crunch, the European debt crisis, and volatile financial markets have all added to the burden of responsibility on corporate treasurers.

Coupled with internal cost cutting exercises and increased strains on organisational resources, it is becoming very difficult for management to adequately monitor treasury risks, make the right decisions internally, and react quickly in a rapidly changing market.

Indeed, your treasury should not be considered as an isolated operational function, but as a complex and diverse portfolio of financial risk exposures, which can often themselves be key drivers of board level strategy or even pose threats to the solvency of an organisation.

As a specialist treasury advisor with 12 years experience, TradeRisks can provide expert support in managing the complex challenges that your treasury function faces. By working together, we can ensure you are equipped to effectively monitor and manage the multitude of risks created by your treasury activities.

A NOVEL APPROACH TO ENHANCING CORPORATE TREASURY PERFORMANCE

Big 4 treasury consulting practices usually focus on improving treasury systems and controls, or streamlining treasury processes. We feel this approach to treasury consulting - whilst clearly important in protecting against errors, fraud, and system failures - can often overlook the most critical issues in treasury management. Namely, an organisation must have:

- (i) a thorough understanding of its treasury risks; and
- (ii) a clear methodology to measure and monitor treasury performance.

Central to our approach is the concept of treasury performance measurement through the quantification of Transaction Execution Costs*. Critically, it is very difficult to misrepresent treasury performance or disguise treasury losses using this transparent methodology. Moreover, there is a strong correlation between treasury functions that have failed in some form and high average Transaction Execution Costs relative to activity levels.

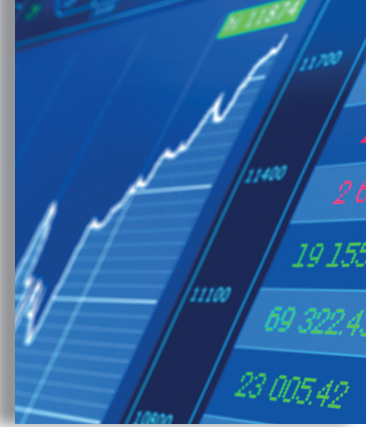
**TradeRisks defines Transaction Execution Costs as the market value (with cashflows discounted at mid-market rates and vols) of the new financial instrument(s), minus the market value of the replaced financial instrument(s), if any, minus any cash amounts received / (paid), if any.*

The case studies highlight some of the areas where having a clear understanding of Transaction Execution Costs has been critical to our clients in making the correct treasury decision.

TradeRisks can perform a thorough risk and performance review) of your treasury function, including historical analysis of Transaction Execution Costs around key treasury events. Utilising our proprietary treasury modelling technology and team of expert data analysts, we are able to construct a complete picture of your treasury portfolio and activities quickly, and at a low cost to your organisation. This exercise will reveal a great deal about your treasury function's strengths and weaknesses.

We will then work with you and your treasury team to identify and implement the appropriate long term solutions that will ensure the value of your organisation is conserved.





CASE STUDIES

The case studies highlight some recent examples where TradeRisks has been able to add significant – and clearly quantifiable – value for its clients.

CASE STUDY 1: Hedge Portfolio Restructuring

TradeRisks advised a corporate client on the unwinding of two counterparty swap portfolios. The unwinding was related to a complex change in the client's corporate structure following an acquisition, where fixed bank loan facilities were to be refinanced through the issuance of a 30-year secured sterling corporate bond. The net PV01 of the transactions was around £275k and the total upfront Transaction Execution Costs under negotiation were in the region of £30m, which was a very material exposure for this client. The transparent presentation of these numbers highlighted to the board the great importance of optimising the execution strategy for the unwinding. When negotiating with the banks proved insufficient to achieve a satisfactory price, TradeRisks recommended obtaining benchmark quotations from reference market counterparties, which resulted in a Transaction Execution Costs saving to the client of £2.1m.

CASE STUDY 2: Structured loan terms analysis

A corporate client asked TradeRisks to evaluate a loan terms offer for a Lender Option Borrower Option (LOBO) loan. In addition to the complexities involved in evaluating the re-pricing options embedded in the loan, the offer also involved the amendment of existing loan terms and restructuring of swaps. TradeRisks' in-house options experts, using our sophisticated treasury systems, were able to establish a hidden all-in funding cost of over LIBOR + 1,000bps for the offer, which was almost five times the borrower's cost of comparable plain vanilla funding. The transparency brought by TradeRisks informed the board sufficiently to enable them to reject the offer, conserving a large amount of value for their business.

CASE STUDY 3: Avoiding a loan re-pricing

TradeRisks was appointed by a corporate borrower which had a pressing requirement for additional funding. The borrower and its lawyers had interpreted an existing loan agreement in such a way as to suggest that they did not have any option other than to approach the existing lenders for new funding, which would have been offered on onerous terms. TradeRisks reviewed the loan agreement and came up with a different interpretation (subsequently supported by the borrower's lawyers) which allowed the company to approach other lenders for new funding, thereby avoiding a very costly re-pricing of existing debt facilities. Economic savings for the client were estimated at £15.0m.

CASE STUDY 4: Sovereign Risk Advisory

TradeRisks advised an EM Ministry of Finance on unwinding and restructuring options for two complex derivative transactions. The transactions were long dated structured cross-currency swaps which had been executed pre-crisis with two major US investment banks. Since inception, the swaps had moved a long way out-of-the-money forcing the client to take action. TradeRisks conducted a review of the unwinding and restructuring pricing received from the banks. We were able to identify Transaction Execution Cost savings of around US\$20m through detailed analysis of transaction structures and associated legal documentation. This information put the client in a much stronger bargaining position to unwind the swaps with the investment banks.

ABOUT TRADERISKS

TradeRisks provides advice, financing and risk management solutions to UK and international corporates and sovereign entities. We offer clients conviction advice based on our intellectual capital and deep financial markets experience. TradeRisks is authorised and regulated by the FSA.

A more detailed description of any of TradeRisks' products and services is available on request. If you would like to arrange a meeting to discuss how TradeRisks can add value to your organisation, please contact one of our senior team:

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