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INFORMATION



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Managing Interest Rate Risk A Treasury Panel

Mike Bontrager: CEO, Chatham Financial
Mark Cvrkel: Treasurer & Chief Financial Officer,
Susquehanna Bank
Bill Murray: Treasurer, US Foodservice
Karen Weller: Director of Derivatives, Royal
Caribbean

Panel Participants

- Mike Bontrager: CEO, Chatham Financial
 - Mark Cvrkel: Treasurer & Chief Financial Officer, Susquehanna Bank
 - Bill Murray: Treasurer, US Foodservice
 - Karen Weller: Director of Derivatives, Royal Caribbean
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Agenda

- Hedging Objectives: The Why
- Hedging Process: The How
- Regulatory Update: The Now What?

Hedging Objectives: The Why

Susquehanna Bank

Royal Caribbean

US Foodservice

What are your key financial risks and how do you monitor them?

- Interest Rate Risk
- Systems
- ALM Committee

- Rates, FX, Fuel
- Systems
- People

- Rates & Fuel
- Systems
- People

How does your firm think about these risks?

- Major driver of our business

- Impact on our cash flow, earnings and credit metrics

- Leveraged capital structure magnifies rate risk

Hedging Objectives: The Why

	Susquehanna Bank	Royal Caribbean	US Foodservice
Do you target a certain fixed-floating mix?	<ul style="list-style-type: none">• Focus on net interest margin	<ul style="list-style-type: none">• Neutral	<ul style="list-style-type: none">• Higher fixed rate focus
What types of tensions arise when trying to evaluate hedging alternatives?	<ul style="list-style-type: none">• Market views• Regulatory req's	<ul style="list-style-type: none">• Market views• "Natural" hedging	<ul style="list-style-type: none">• Market views• Capital structure plans
Who sets the hedging and risk management objectives for the firm?	<ul style="list-style-type: none">• ALM Committee	<ul style="list-style-type: none">• Senior Management• Hedge Committee	<ul style="list-style-type: none">• Board of Directors• Senior Management

Hedging Process: The How

	Susquehanna Bank	Royal Caribbean	US Foodservice
How are hedging decisions initiated?	<ul style="list-style-type: none"> • Regular review 	<ul style="list-style-type: none"> • Regular review • Market movements • Changes in risks 	<ul style="list-style-type: none"> • Significant changes
Who is involved in approving a hedge?	<ul style="list-style-type: none"> • ALM Committee • CFO 	<ul style="list-style-type: none"> • Hedge committee • CFO/CEO 	<ul style="list-style-type: none"> • Board of directors (IR) • CFO
How do the Treasury and Accounting teams communicate about hedging strategy and hedge accounting?	<ul style="list-style-type: none"> • Board policy • Pre-trade review 	<ul style="list-style-type: none"> • Hedge committee • Pre-trade review 	<ul style="list-style-type: none"> • Board policy • Pre-trade review





Hedging Process: The How

	Susquehanna Bank	Royal Caribbean	US Foodservice
How does your firm implement its hedging program?	<ul style="list-style-type: none"> • Outside advisor • Typically auctioned 	<ul style="list-style-type: none"> • In-house team • Typically auctioned 	<ul style="list-style-type: none"> • Outside advisor • Typically auctioned
How does your firm select new counterparties and negotiate terms?	<ul style="list-style-type: none"> • Existing relationships • Outside advisor 	<ul style="list-style-type: none"> • Credit relationships • Template ISDA • Credit risk 	<ul style="list-style-type: none"> • Credit risk • Legal terms
What are some critical legal terms for you when negotiating with counterparties?	<ul style="list-style-type: none"> • Collateral terms • Termination terms 	<ul style="list-style-type: none"> • Termination terms • Collateral requirements 	<ul style="list-style-type: none"> • Termination terms • Security status

Regulatory Update: The Now What?

- Seeks to (1) contain systemic risk and (2) increase transparency, while (3) exempting non-financial end users from collateral provisions
 - Systemic risk containment measures
 - Clearing requirement
 - Margin requirement
 - Capital requirements
 - Registration and comprehensive oversight of certain market participants
 - Transparency measures
 - Exchange trading or electronic trading requirement
 - Reporting requirement
 - Public reporting of price information
 - End user exemption
 - No clearing, trading, or margin requirement for non-financial hedgers
 - Exemption not available to financial end users or speculators
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Types of Entities Under Legislation

User Categories	Typical Derivatives Use	Possible Examples
Swap Dealer	Those that buy/sell swaps as part of their regular business	
Major Swap Participant (MSP)	Systemically significant institutions	
Financial Entity	Anyone predominantly engaged in financial activities	
Non-Financial Entity (Commercial End User)	Non-financial companies that use derivatives to manage risk*	

* Transactions of commercial end users that do not qualify as "hedges" are subject to requirements applicable to financial entities

Requirements Applicable to Entities

	<u>Dealer</u>	<u>MSP</u>	<u>Financial</u>	<u>Commercial End User</u>
Registration	✓	✓		<div style="border: 1px solid black; padding: 5px;"> Clearing/Trading Exemption if: <ul style="list-style-type: none"> • "Hedging" • "Commercial risk" • CFTC notification • Board approval </div> <div style="text-align: center; border: 1px solid red; width: 40px; height: 40px; margin: 0 auto;">?</div> <div style="text-align: center; color: red; font-weight: bold;"> <i>...but end users will be affected and must stay engaged</i> </div>
Capital requirements	✓	✓		
Business conduct standards	✓	✓		
Reporting	✓	✓		
Bookkeeping	✓	✓		
Bilateral margin*	✓	✓	?	
Central clearing*	✓	✓	✓	
Swap execution facility trading*	✓	✓	✓	
Exchange trading*	✓	✓	✓	

* Provisions apply to some trades, but will not likely apply to all trades

Impact of Derivatives Regulation

Impact

Impacted Participants

Addressing Impact

Set aside **capital reserves**



Reserve capacity on working capital lines
 Borrow via margin lending facility
 Hedge organically (where permitted)
 Optimize jurisdiction (where permitted)

Increased **hedging costs**



Evaluate total transaction cost
 Evaluate new products

Change in **trading spreads**



Evaluate trading platforms
 Evaluate publicly available data

Reduced **counterparty risk**



Evaluate counterparty risk management practices
 Evaluate transaction documentation

Increased **administrative burden**



Evaluate collateral management solutions
 Establish policies & procedures

Regulatory Update: The Now What?

	Susquehanna Bank	Royal Caribbean	US Foodservice
What are the key questions you are worried about regarding the reform?	<ul style="list-style-type: none">• Collateral requirements• Clearing?	<ul style="list-style-type: none">• Post collateral?• Disclosures?• Pricing?	<ul style="list-style-type: none">• Post collateral?• Pricing?• Private firm?
How will the regulatory reform impact your hedging program?	<ul style="list-style-type: none">• Execution process• Collateral requirements	<ul style="list-style-type: none">• Pricing impact• Disclosures / reporting	<ul style="list-style-type: none">• Pricing impact• Disclosures / reporting
What steps are you taking or considering taking to understand the impact?	<ul style="list-style-type: none">• On-going review	<ul style="list-style-type: none">• On-going review	<ul style="list-style-type: none">• On-going review

Questions?

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