

# AFP® Annual Conference



— November 7-10, 2010 | San Antonio —

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ORIGINAL  
ESSENTIAL  
UNBIASED  
INFORMATION



## Best Practices in Risk Management

Jiro Okochi, CEO & Co-Founder, Reval

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Dennis A. Tosh, Director, Global Trading & Automotive Risk, Ford Motor Company

Jiro Okochi, CEO & Co-Founder, Reval

# **REVAL 2010 RISK MANAGEMENT BENCHMARKING STUDY RESULTS**

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# Agenda

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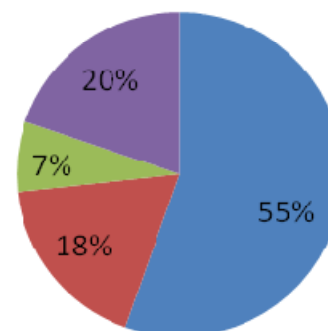
- Reval 2010 Risk Benchmarking Study Results
- Best Practices Case Study: Visa, Inc.
- Best Practices Case Study: Ford Motor Co.
- Panel Session Q&A

# Study Background

- Although risk management continues to be a top 3 topic among treasurers, there didn't appear to be consistency among how companies measured the performance of their risk management practices.
- The survey was conducted Q3 of 2010 and so far has yielded 101 respondents.

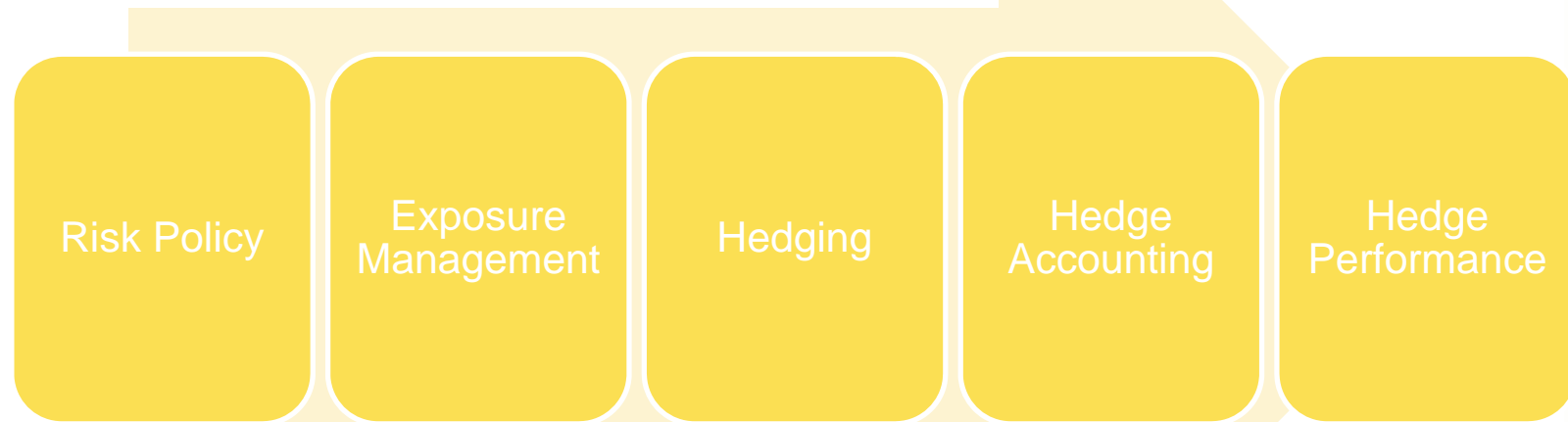
## Company Revenue

- Revenues less than \$5bn
- Revenues between \$5bn and \$10bn
- Revenues between \$10bn and \$15bn
- Revenues above \$15bn



# Risk Management Lifecycle

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Accounting for Risk

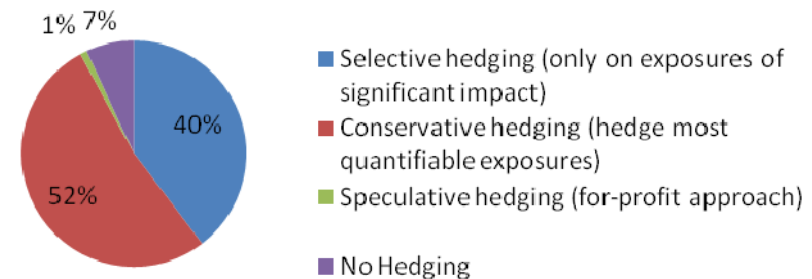


Are you truly measuring hedge performance against the policy objectives?

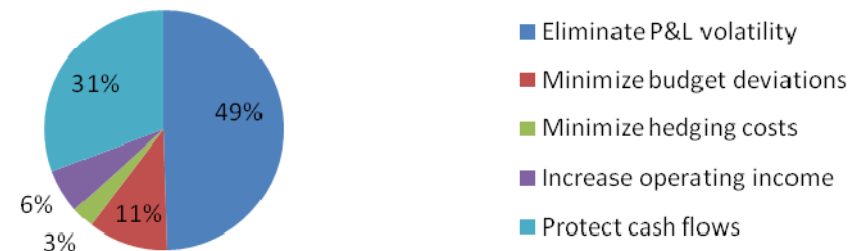
# Risk Policy & Objectives

- Good news  
92% have Risk Policies.
- Only 7% are not hedging.
- 80% are trying to minimize P&L volatility or protect cash flows.

**Hedging Strategy Trends**



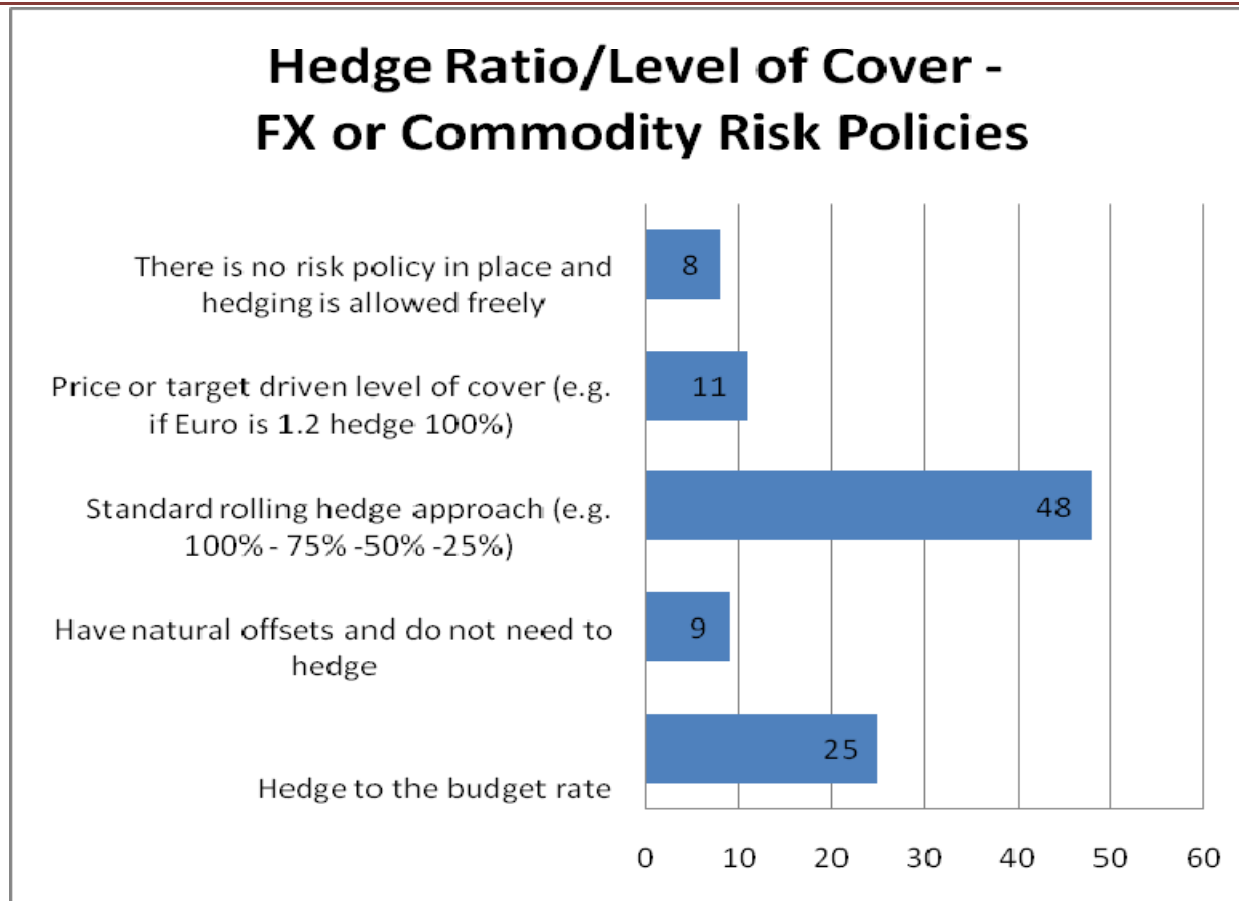
**Top Risk Policy Objectives**



# #25 – FX or Commodity Risk

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Accounting for Risk

## Policies: Hedge Ratio/Level of Cover



# #26 – IR Risk Policy: Hedge Ratio/Level of Cover

## Hedge Ratio/Level of Cover - IR Risk Policies

There is no risk policy in place and hedging is allowed freely

19

Interest expense target (e.g. cap on annual interest expense)

10

Fix / Float % mix target ( e.g 75% fixed rate debt vs. 25% floating rate debt)

41

100% fully matched to notional exposure to the maturity that hedging is allowed

31

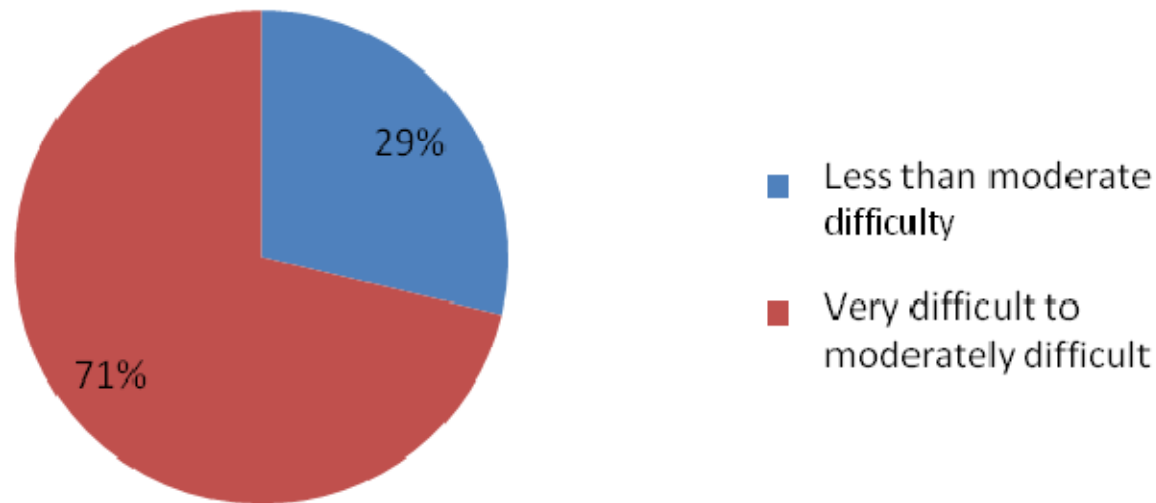
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# Knowing What to Hedge

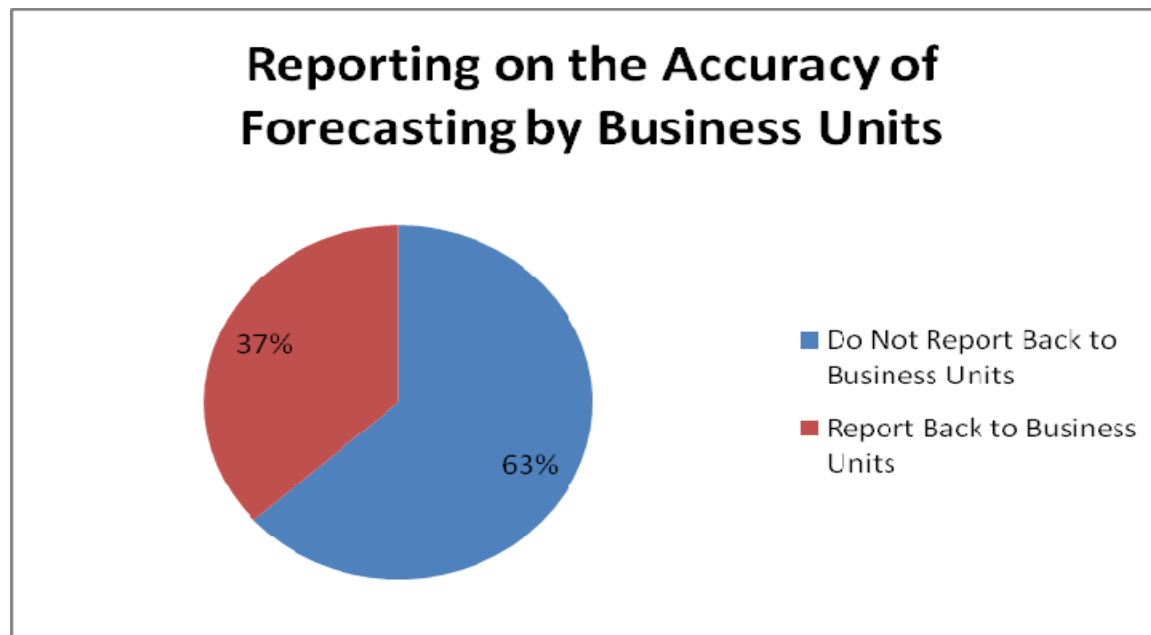
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Accounting for Risk

## Difficulty of Obtaining Exposure Information



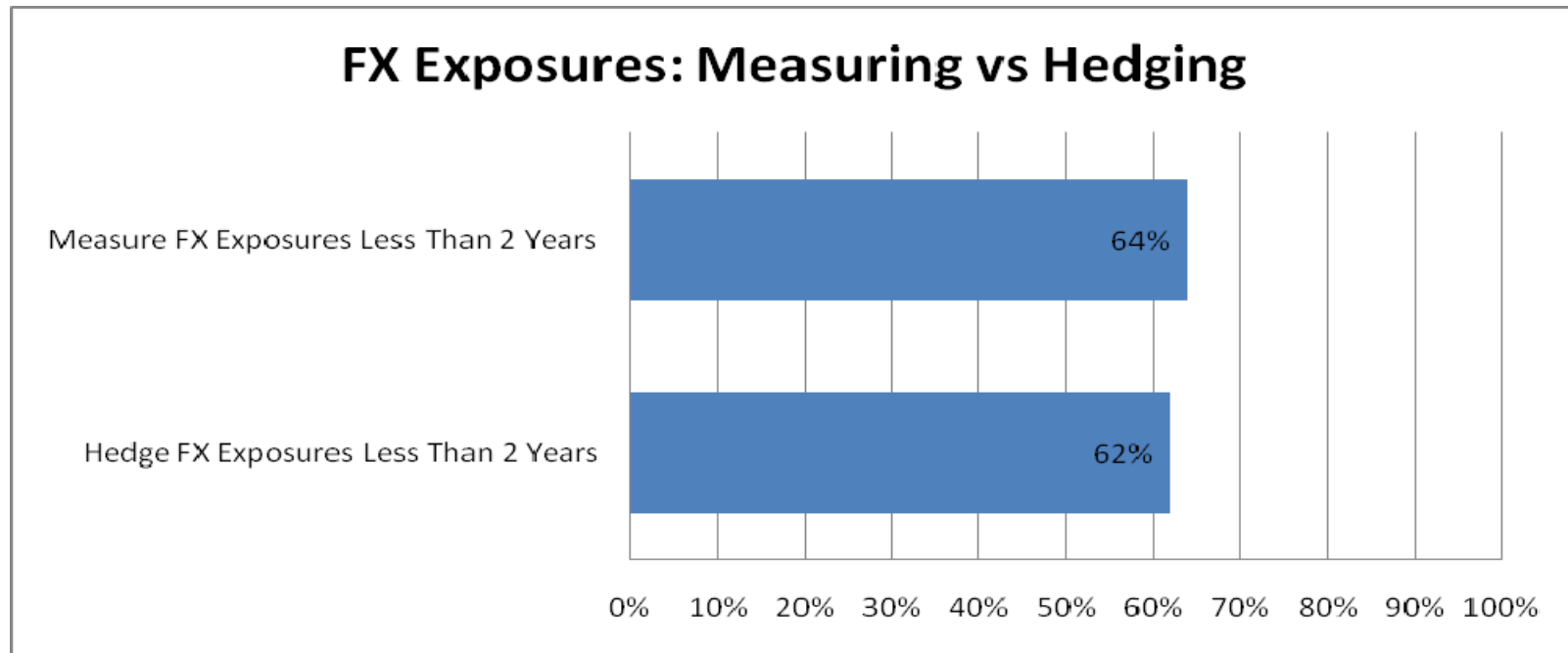
# Getting Buy In

- With 63% of respondents not reporting back to the business units, the majority revealed that reporting didn't take place because of accuracy issues.



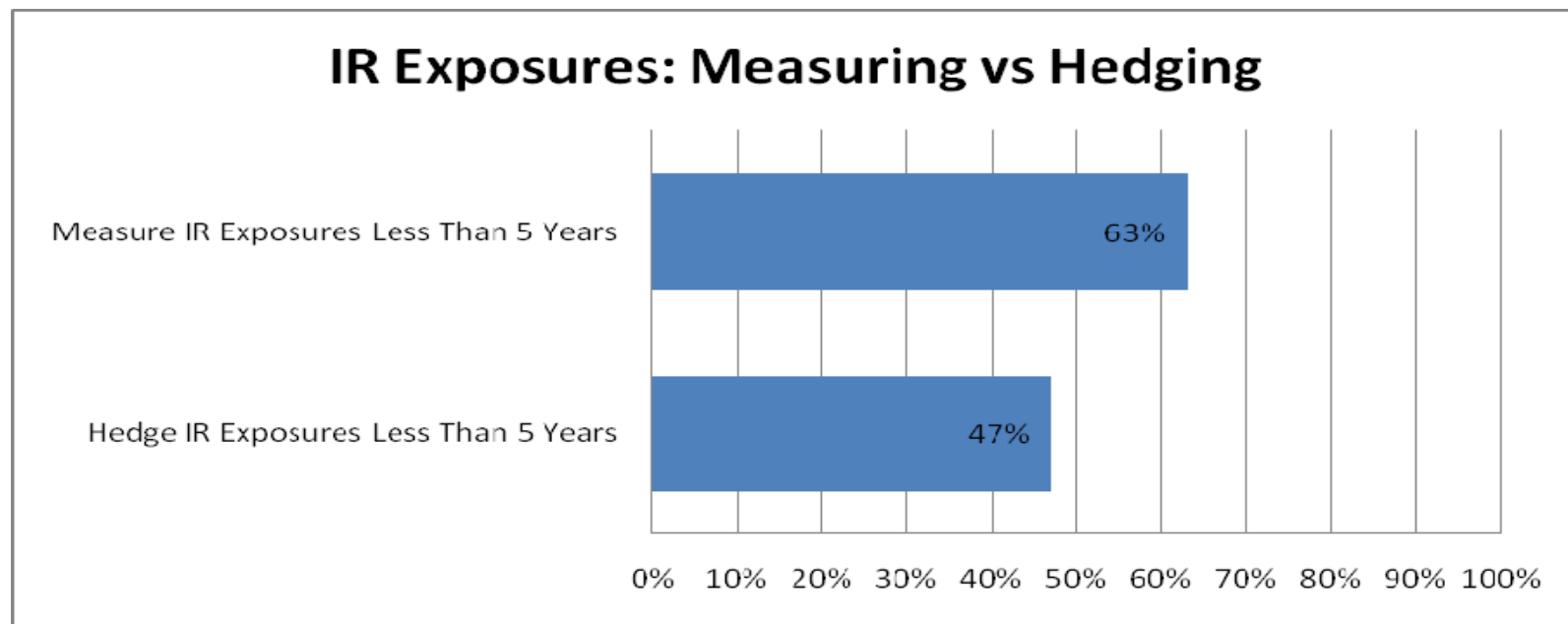
# Hedging What You Can Measure

- Not surprisingly Fx remains the most actively measured and fully hedged.



# Hedging What You Can Measure

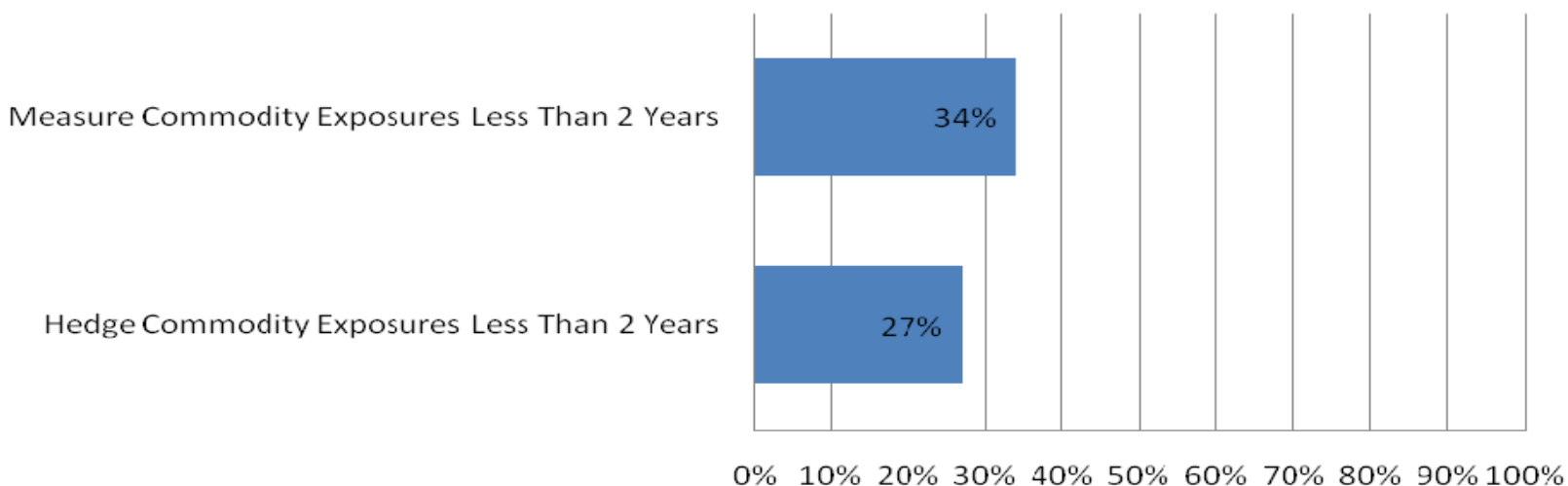
- Shape of yield curve affecting interest rate hedging?



# Hedging What You Can Measure

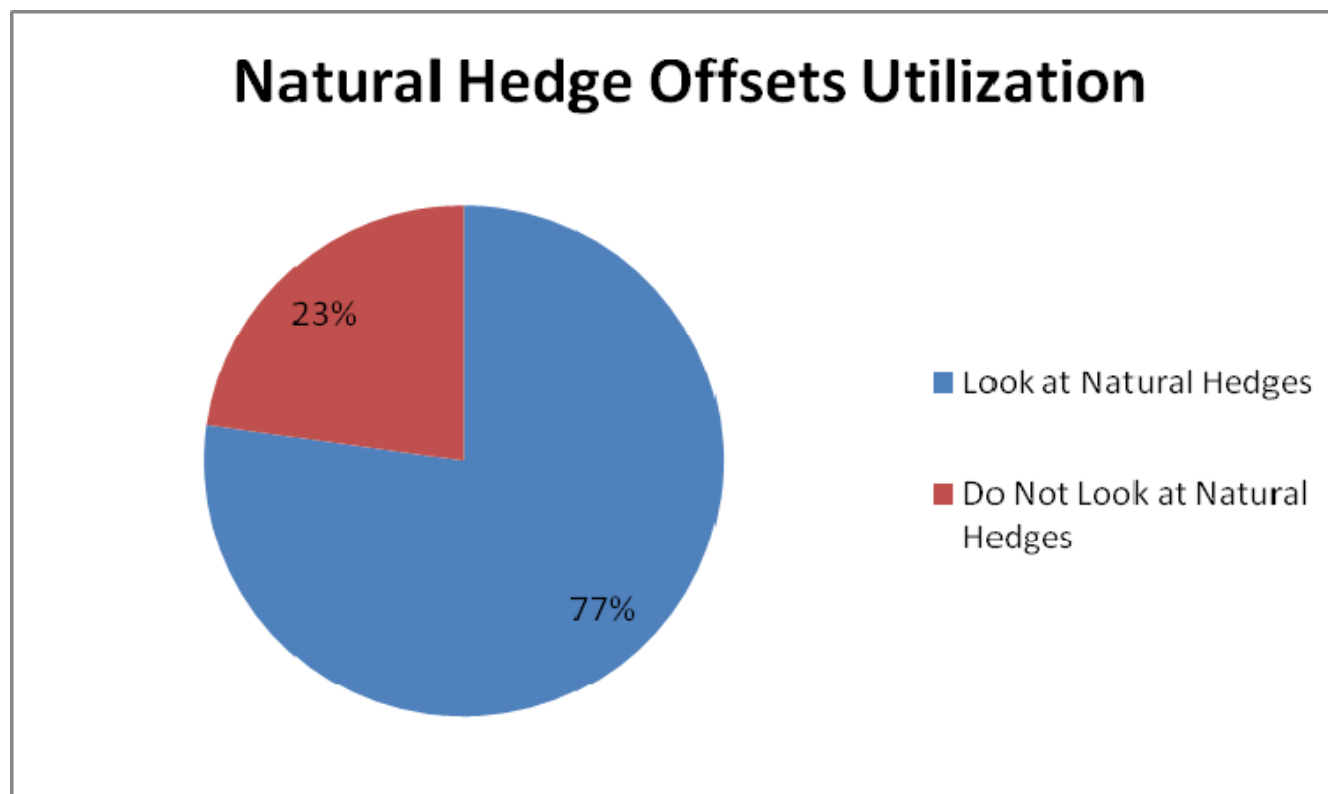
- Taking out those without Commodity risk, 79% measure and 63% hedge 2 years or less.

## Commodity Exposures: Measuring vs Hedging



# To Hedge Or Not To Hedge

- 23% don't look at natural hedge offsets at all

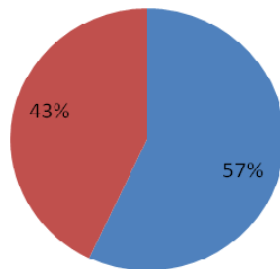


# Know What You Pay For!



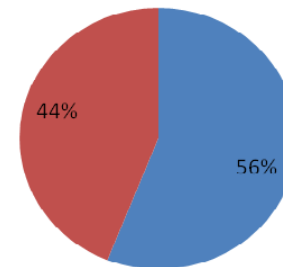
## Companies >\$5bn in Revenue

■ DO measure cost ■ DO NOT measure cost



## Companies <\$5bn in Revenue

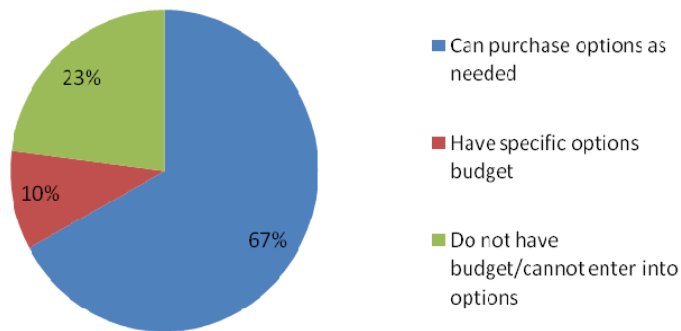
■ DO measure cost ■ DO NOT measure cost



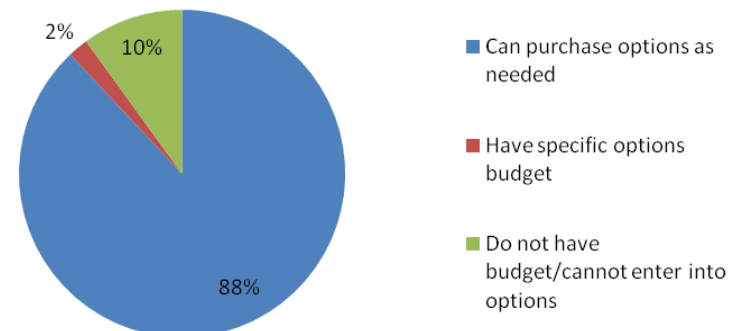
# Low % With Options Expense Budgets



Companies >\$5bn in Revenue



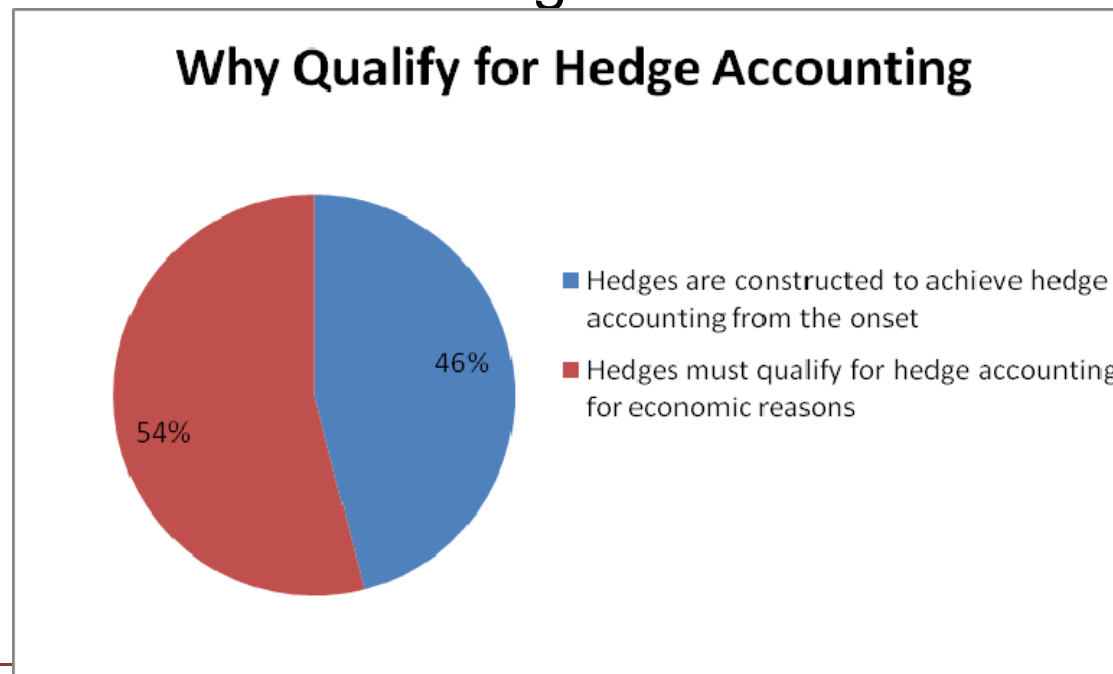
Companies with <\$5bn in Revenues





# Hedge Accounting Still Playing Role

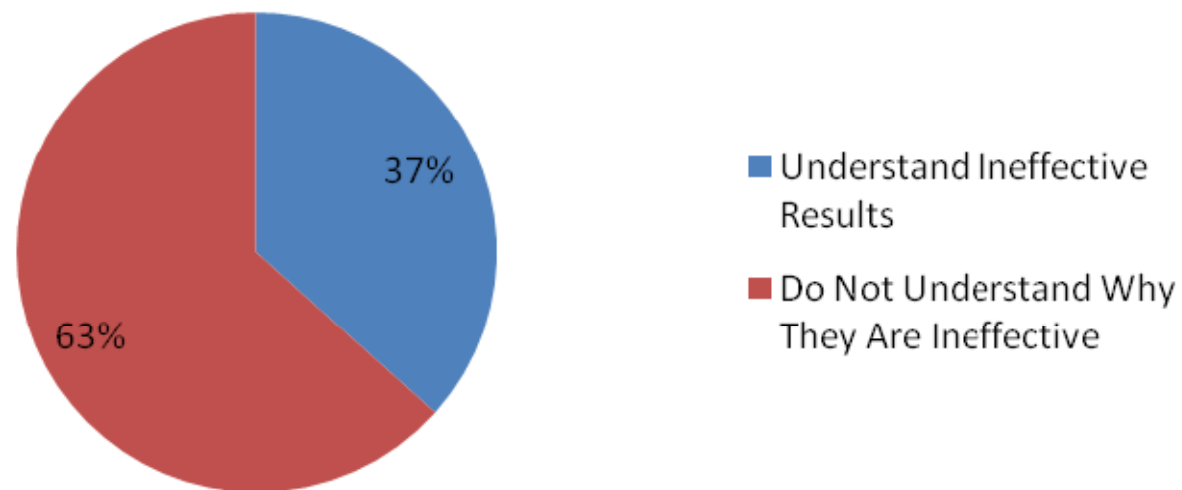
- 26% are marking to market derivatives.
- Companies with hedges that qualify for hedge accounting must do so for the following reasons:



# But Understanding Ineffectiveness Low

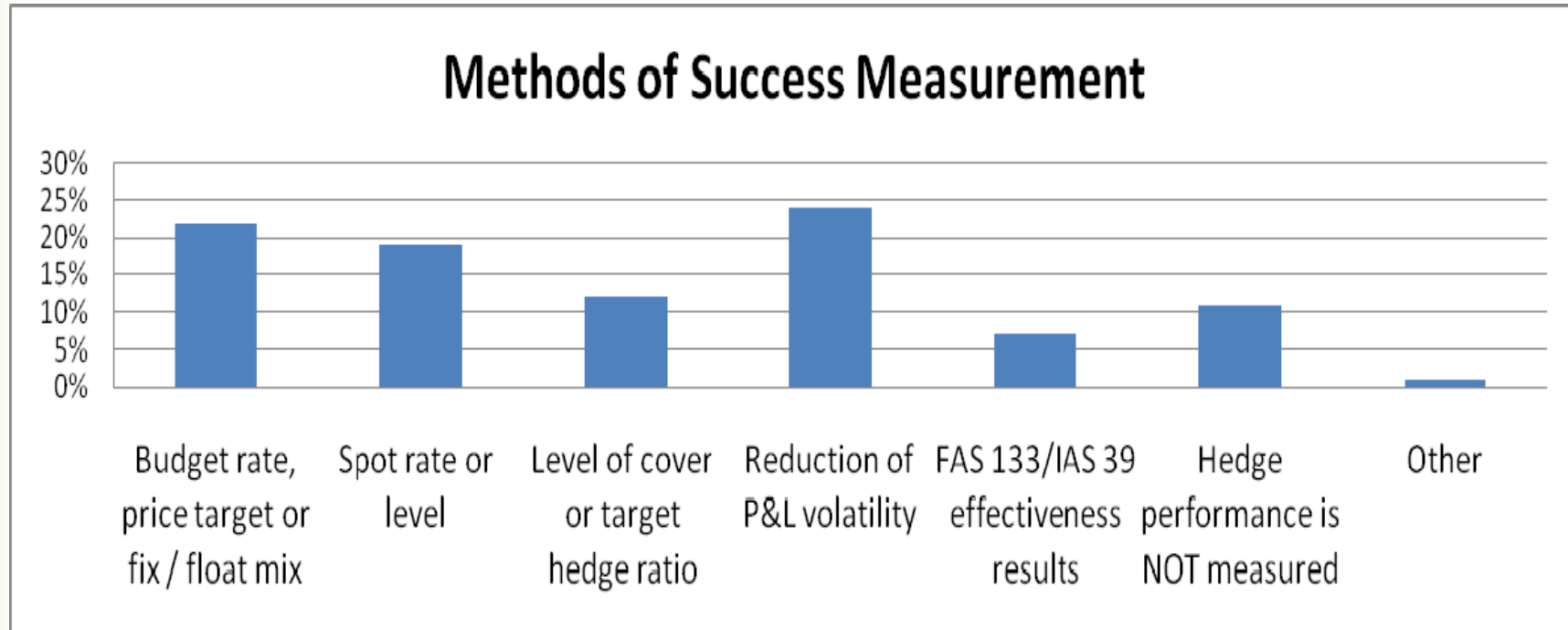
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Accounting for Risk

## Understanding Ineffective Results Under FAS 133/IAS 39



# How do you measure success?

- Hedge performance measurements:



# Benchmarking Hedging

- Not many companies are benchmarking their hedge to measure performance.
- You may want to employ a few methods below
  - And show only the best results to the Board!

Type of Benchmark	Survey	Description
No Hedge Benchmark	38%	Compare vs. if you did not hedge
100% fully hedged Benchmark	36%	Compare if you fully hedged
50:50 Benchmark	10%	Compare if you hedged 50%
Rearview Mirror Benchmark	9%	Compare against historic best prices
Top Of Month Benchmark	7%	Compare if you 1 <sup>st</sup> day of the month

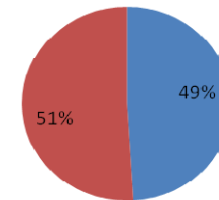
# Are You Meeting Cash Flow Hedge Goals

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- 31% want to protect cash flows.
- Most stopping with reporting against level of cover or budget rate reporting.
- Most not using Cashflow at Risk type tools to model risk to cash flows.
- Best practice to utilize CFaR.

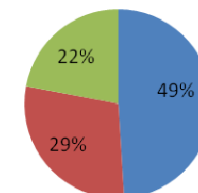
## Using Cashflow at Risk (CFaR)

■ Do not use CFaR ■ Currently use or are looking to use CFaR



## Uses of CFaR

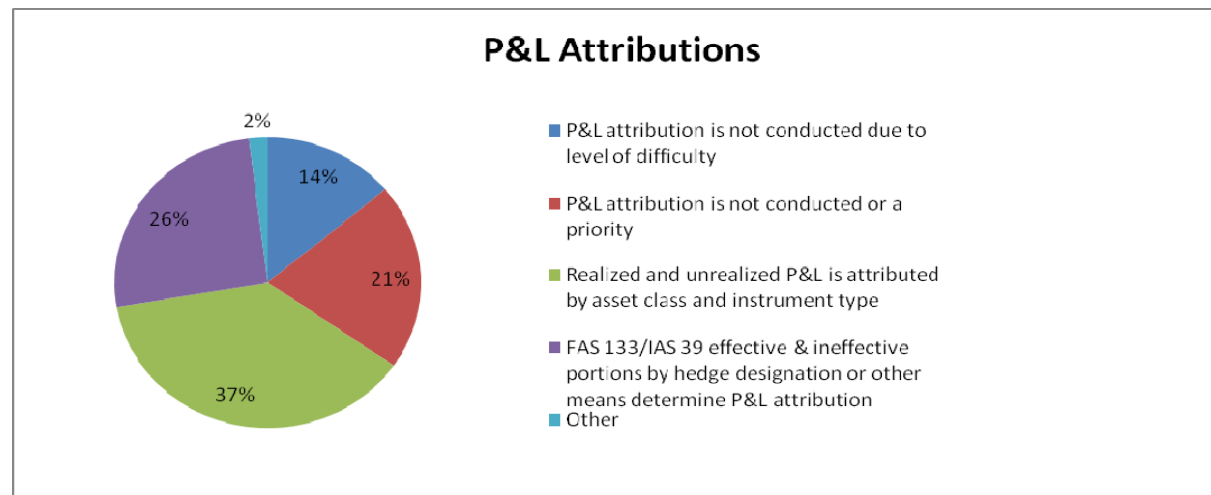
■ Potential to model the cash flows and measure the risk  
■ Measure risk of interest expense/income  
■ Measure risk of operating cash flows impacted by FX and/or commodities



# Are You Meeting P&L Volatility Reduction Goals



- Not the 26% who mark to market derivatives.
- Not the 35% who do not perform any attribution.
- Not the 37% of the 26% who use FAS 133.

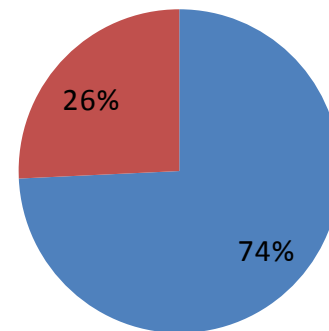


# Are You Meeting P&L Volatility Reduction Goals

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Accounting for Risk

- 49% of survey said P&L Volatility management was the primary goal.
- 74% not utilizing proper tools to model earnings risk.
- Why is it so hard?

## Are You Using Earnings At Risk Models?



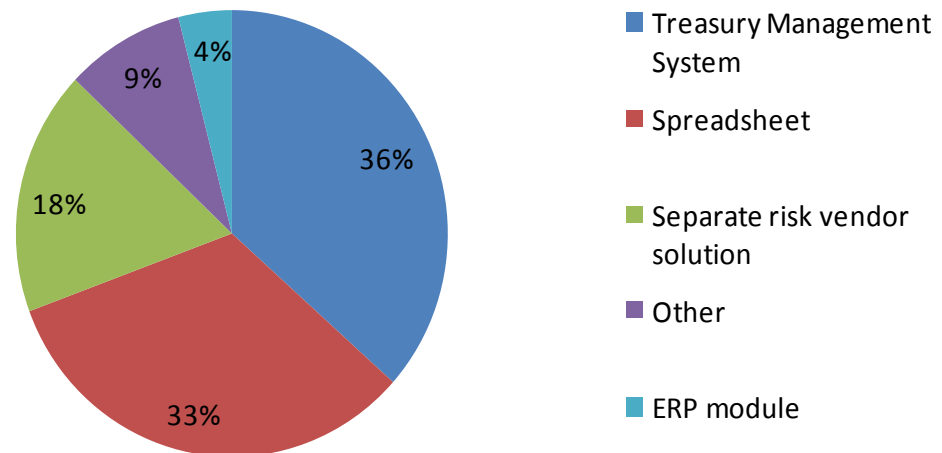
■ Not Using EaR ■ Using EaR

# Do You Have The Right Risk Systems?

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- 33% are using spreadsheets to manage risk.
- Need a good system to manage lifecycle of the risk management process.
- Garbage into a good system still means garbage out.

## Do You Have The Right Risk Systems?







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Alan L. Weindorf, Senior Business Leader, Global Treasury, Visa, Inc.

**VISA, INC.**  
**FOREIGN EXCHANGE**  
**RISK MANAGEMENT**

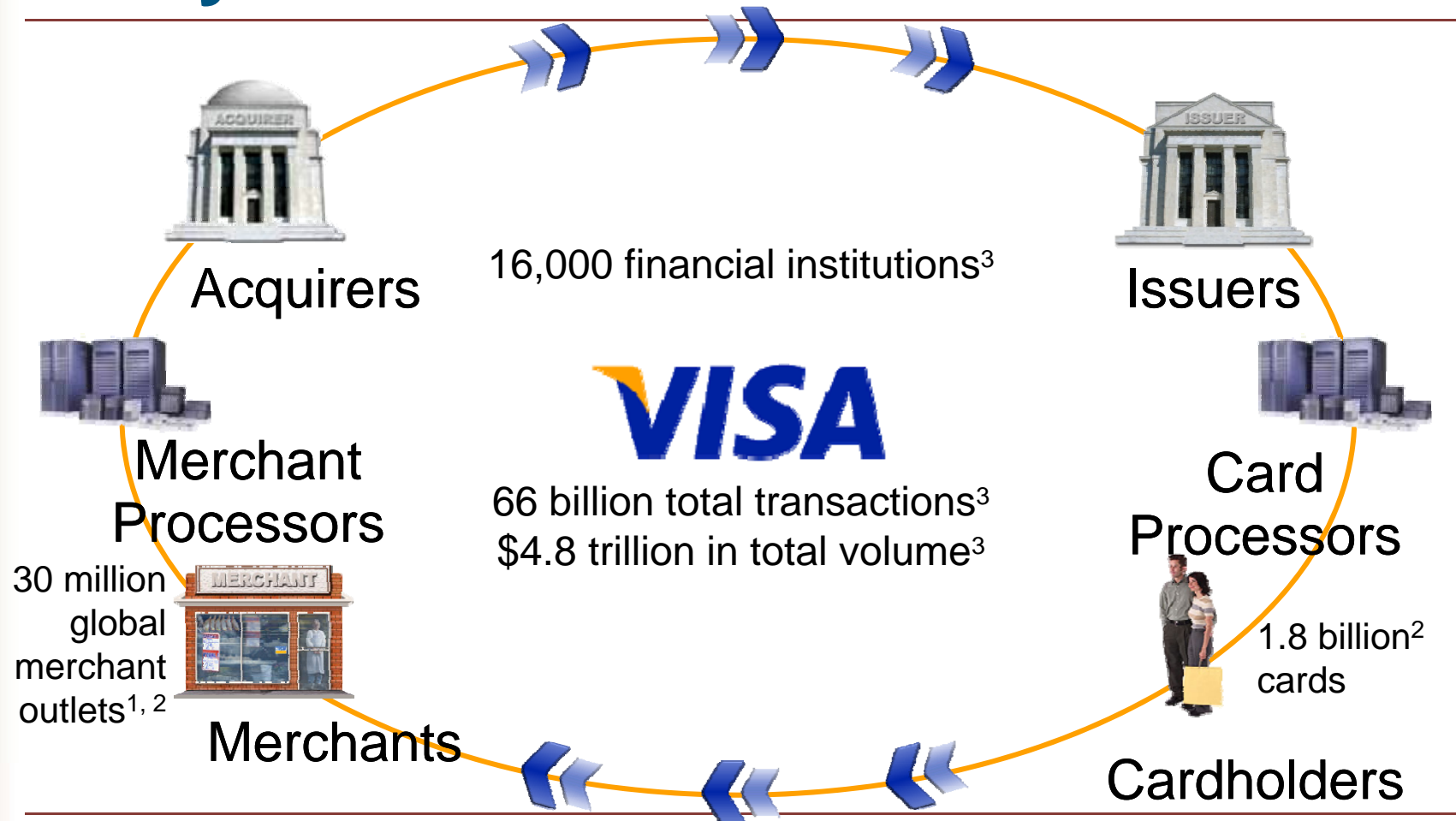
# Safe Harbor Reminder



- Certain statements contained in this presentation are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which are subject to the “safe harbor” created by those sections. These statements can be identified by the terms “continue,” “will” and similar expressions which are intended to identify forward-looking statements. In addition, any underlying assumptions are forward-looking statements. Such forward-looking statements include but are not limited to statements regarding certain of Visa’s goals and expectations with respect to tax rate, capital expenditures, revenue, incentives, expenses, operating margin, earnings per share, free cash flow, and the growth rate in those items, as well as other measures of economic performance.
- By their nature, forward-looking statements: (i) speak only as of the date they are made, (ii) are not guarantees of future performance or results and (iii) are subject to risks, uncertainties and assumptions that are difficult to predict or quantify. Therefore, actual results could differ materially and adversely from those forward-looking statements as a result of a variety of factors, including all the risks discussed under the heading “Risk Factors” in Part 1, Item 1A – “Risk Factors” in our most recent Annual Report on Form 10-K and any subsequent Quarterly Reports on Form 10-Q or Periodic Reports on Form 8-K, if any. You are cautioned not to place undue reliance on such statements, which speak only as of the date of this presentation. Unless required to do so under U.S. federal securities laws or other applicable laws, we do not intend to update or revise any forward-looking statements.

# The Center of Electronic Payments

**VISA**



<sup>1</sup> Includes merchant outlets in Visa Europe region

<sup>2</sup> Source: Visa Inc. data for 12 months ended March 2010

<sup>3</sup> Source: Visa Inc. data for 12 months ended June 2010

Source: Visa Inc. data for 12 months ended June 2010

# Putting \$4.8T in perspective

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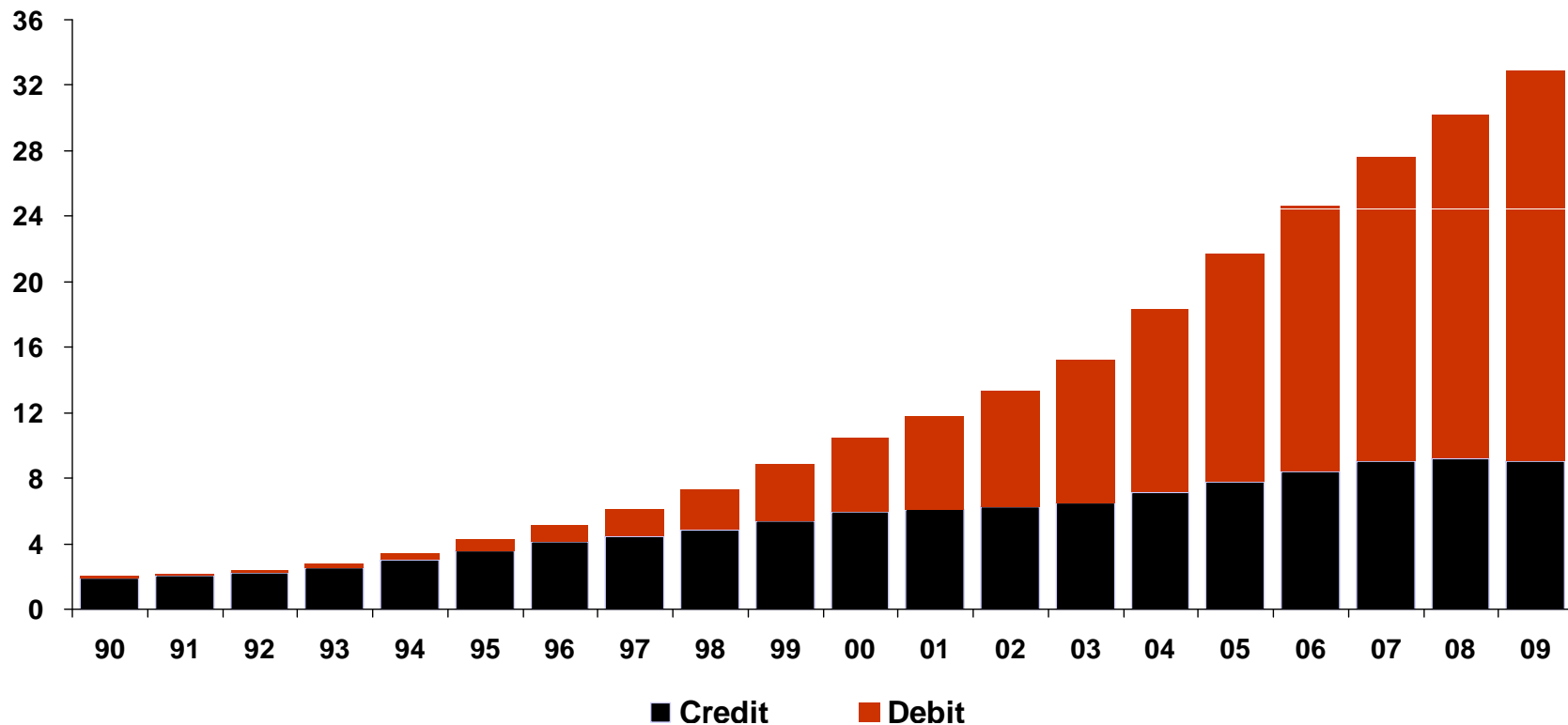


- Global GDP by Country (source CIA World Factbook, 2009)

1. US	14.5T
2. China	8.8T
3. Japan	4.1T
4. India	3.5T
5. Germany	2.8T

# Visa: Transaction Growth

U.S. Annual Payments Transactions (# billions)



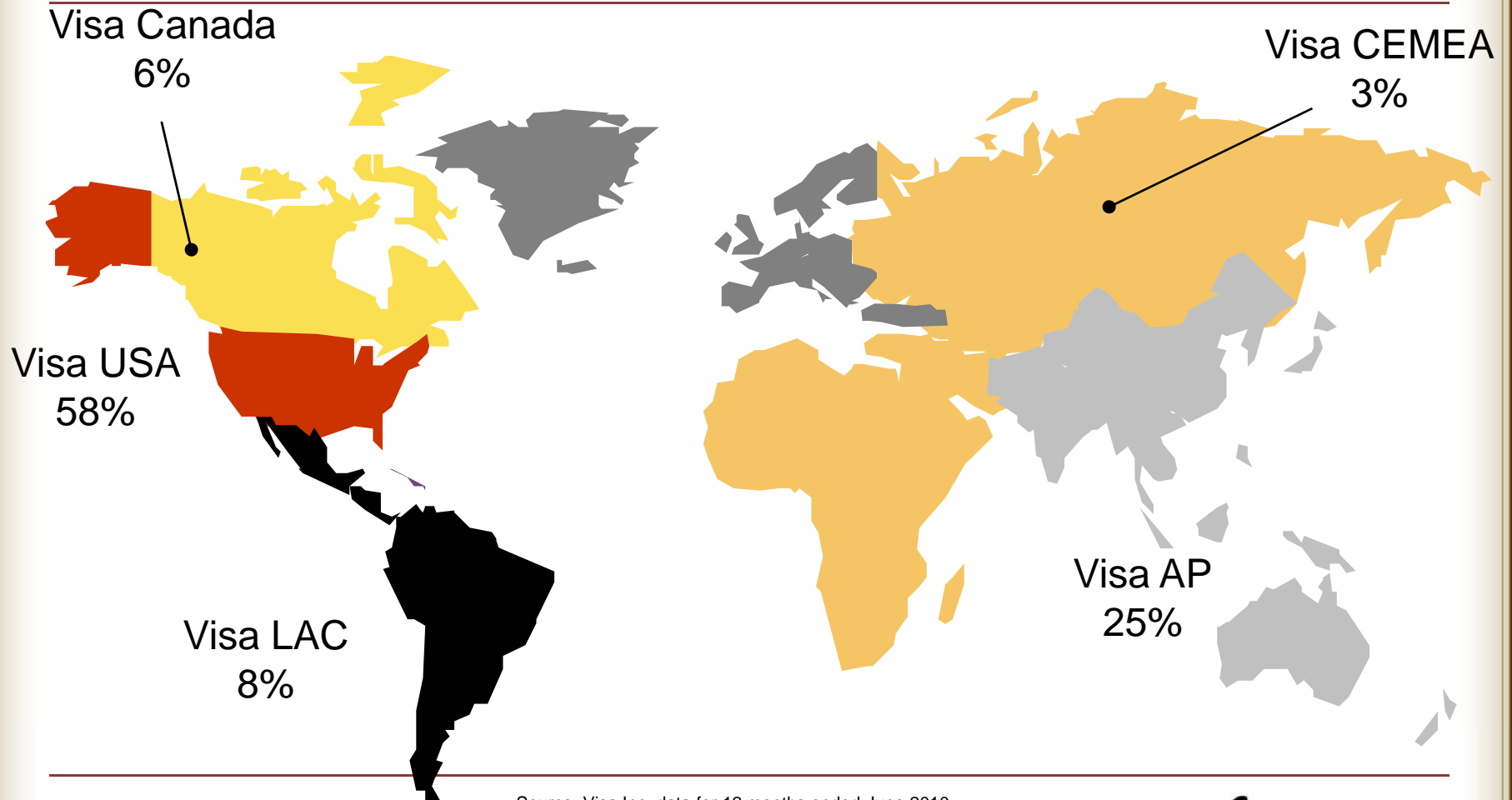
*Secular trends drive transaction growth, regardless of macroeconomic environment*

Source: Visa Inc. data for 12 months ended December 2009

# Globally Diversified Business



Payments volume by region, four quarters ended June 30, 2010



Source: Visa Inc. data for 12 months ended June 2010

# Treasury at Visa

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- One Global Treasury team
- Approximately 40 professionals in four geographic locations
- All functions are led out of California with addition to teams in Denver, London and Singapore
- Typical MNC corporate functions, with the exception of daily settlement activities

# Treasury at Visa



## Treasury Management

Insurance

Foreign Exchange

Cash and Investments

Liquidity & Capital  
Markets

Global Treasury  
Settlement



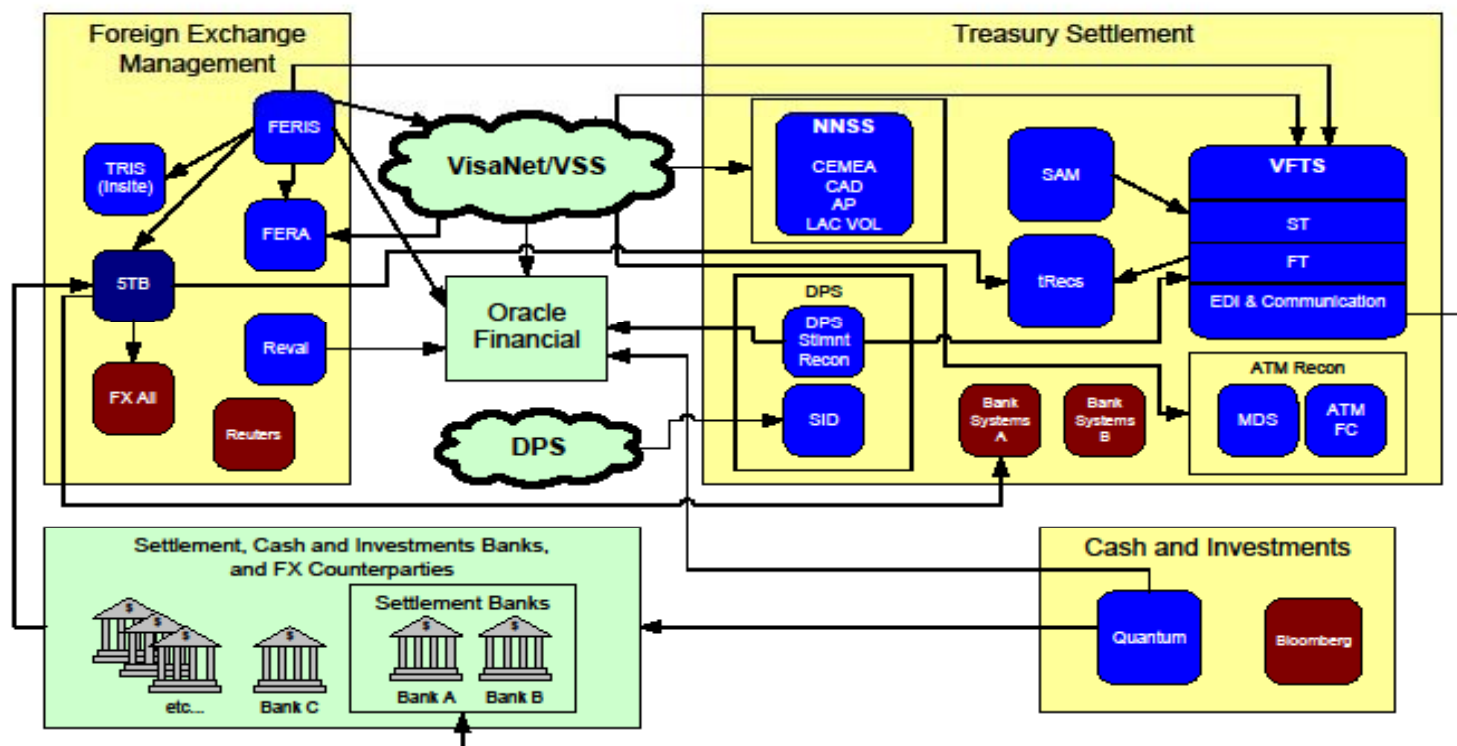
# Visa Treasury Systems

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- Unique global treasury structure
- Evolving landscape; transition from a bank association to public company
- Mix of proprietary, home grown systems, 3rd party data sources, and best of breed software providers
- Premium placed on reliability
- Automation / removing manual tasks
- Continuous improvement

# Visa Treasury Systems



# Managing Foreign Exchange Risk

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- What drives Visa's FX exposure
- How significant is the exposure
- What is Visa's approach to hedging

# What Drives Visa's FX Exposure?

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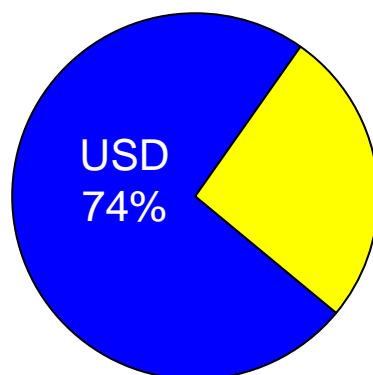
- Operate in 190 countries and territories, representing 165 currencies
- Maintain offices in almost 30 countries
- Define FX exposure on a “net basis”

$$\begin{array}{lcl} \text{Net FX} & & \text{Gross Revenue} \\ \text{Exposure} & = & \text{Less Incentives and Expenses} \end{array}$$

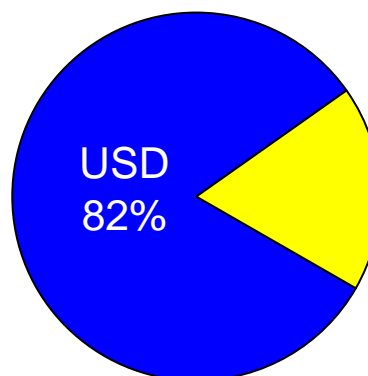
# How significant is the exposure?

## Currency Distribution

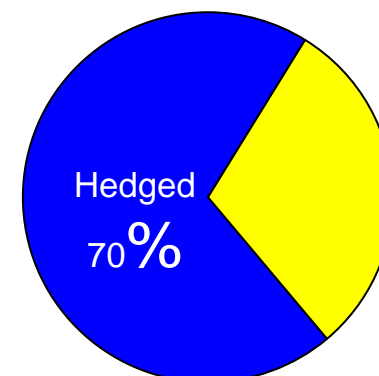
Net Revenue



Expenses



Approx % of  
Exposure Hedged



- The above distributions are based on underlying currency and are not comparable with geographic breakdowns.

# Visa's approach to hedging

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- Solve for reduced risk and volatility
- Execute only accounting hedges that reduce risk
- Use Value at Risk model to determine currencies to hedge; evaluate top 25
- Hedge 17 currencies on a rolling 12M basis
- Record gain/loss at maturity at specific P&L lines

Revenue: Service and International

Expense: Personnel and Marketing

# Hedge accounting at Visa

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- Treasury and Accounting are both involved
- Best of breed solution involving FXall (trade execution), SunGard Quantum (GL) and Reval (hedge accounting and reporting)
- Straight-through-process between the systems
- Posting at the detailed level

## Hedge accounting at Visa (cont.)

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- Four separate legal entities
- Eight separate hedging strategies; ties to GL line item
- Mapped actual results to managerial reporting lines
- Significantly reduced time for month end processes
- Improved hedge accounting analysis and reporting





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Dennis A. Tosh, Director, Global Trading & Automotive Risk

# **PRINCIPLES OF EFFECTIVE FINANCIAL RISK HEDGING**

# ***HOW A MIDDLE-AGED MALE RESPONDS TO A MID-LIFE CRISIS:***

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My present “ride”



- 2010 Taurus SHO
- 365 HP V6
- 6 speed “paddle shift” auto

My next “ride”



- 2011 Mustang GT convertible
- 412 HP V8
- 6-speed manual
- Driver’s license put in escrow

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My previous ride:



# ***DENNIS A. TOSH – FORD MOTOR COMPANY***

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Director, Global Trading & Automotive Risk

- Global cash investments
- Global derivatives transactions
- Automotive risk management
- Unsecured funding – Auto & Credit
- Commercial paper pricing & sales

# ***HEDGING IS MORE THAN A TREASURY ISSUE***

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- Operating management needs to be a partner in the process of financial risk management
- Operating management is making the decisions that create the exposures
- Treasury needs to ensure complete transparency with respect to hedging objectives and consequences

# ***HEDGING IS A TEMPORARY SOLUTION***

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- Buys time to address underlying issues
- If the underlying exposure physicals do not change, the it is a zero sum game over time
- Natural offsets the best long-term hedge
- Reduces income and cash volatility
  - Demonstrates disciplined processes
  - Reduced volatility → reduced cost of capital

# ***EFFECTIVE HEDGING STARTS WITH EFFECTIVE EXPOSURE MEASUREMENT***

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- Requires close alignment with operating management
- Aligned with financial reporting systems
- Captured in a way that facilitates scenario analysis



# ***EFFECTIVE STRATEGY = KEEP IT SIMPLE!***

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- Complexity is the root of all evil
- Have clear, well-articulated objectives
- Socialize strategy extensively and repeatedly with operating management (transparency!)
- No surprises



# ***ROBUST, CONSERVATIVE ACCOUNTING IS CRITICAL***

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- Well-reasoned, well-documented and extensively socialized accounting policies
- Strong control environment
- Robust systems