THIS IS

A GUIDE TO OPTIONS

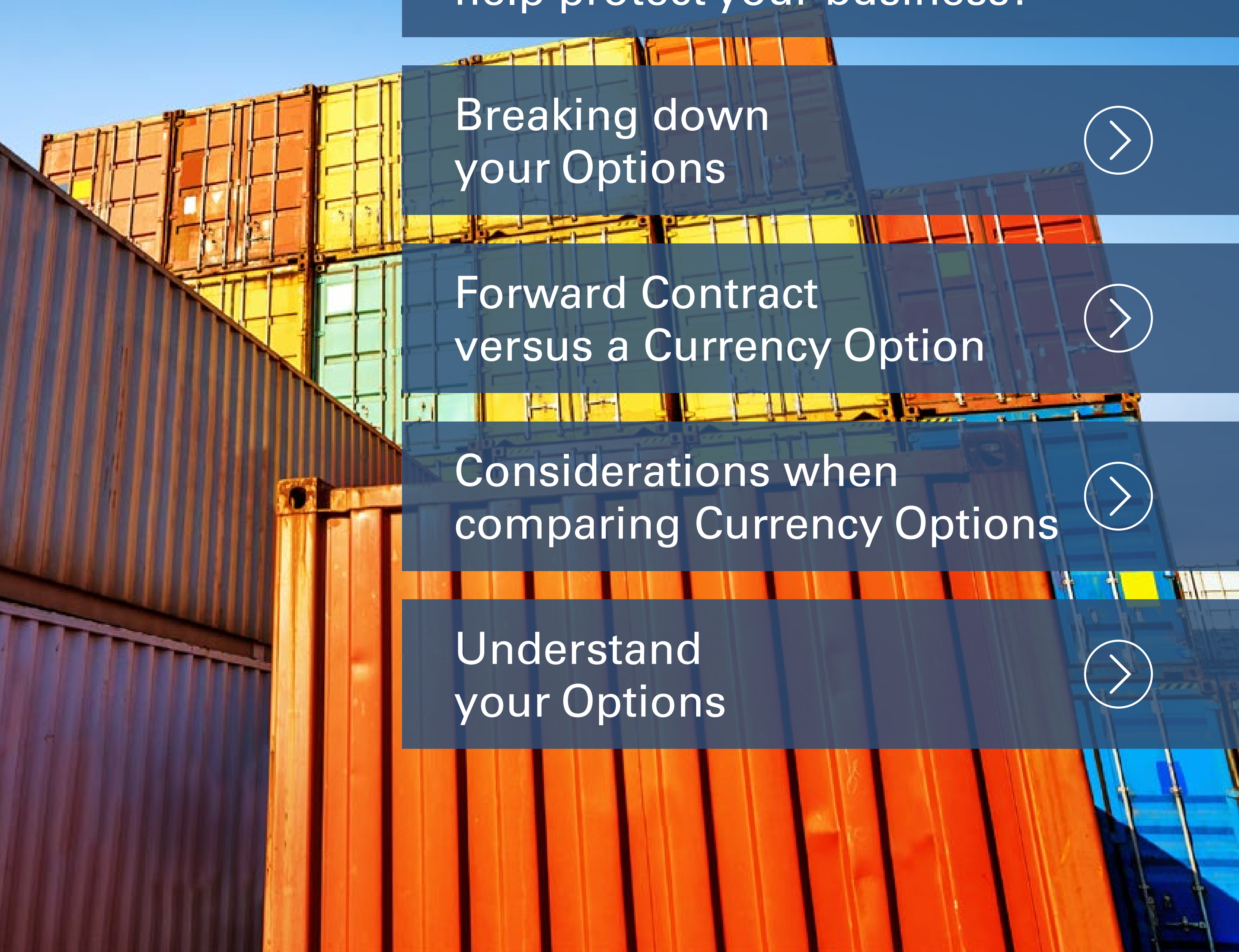
Manage FX risk and expand your business on an international scale.

BUSINESS SOLUTIONS

moving money for better

RISK MANAGEMENT

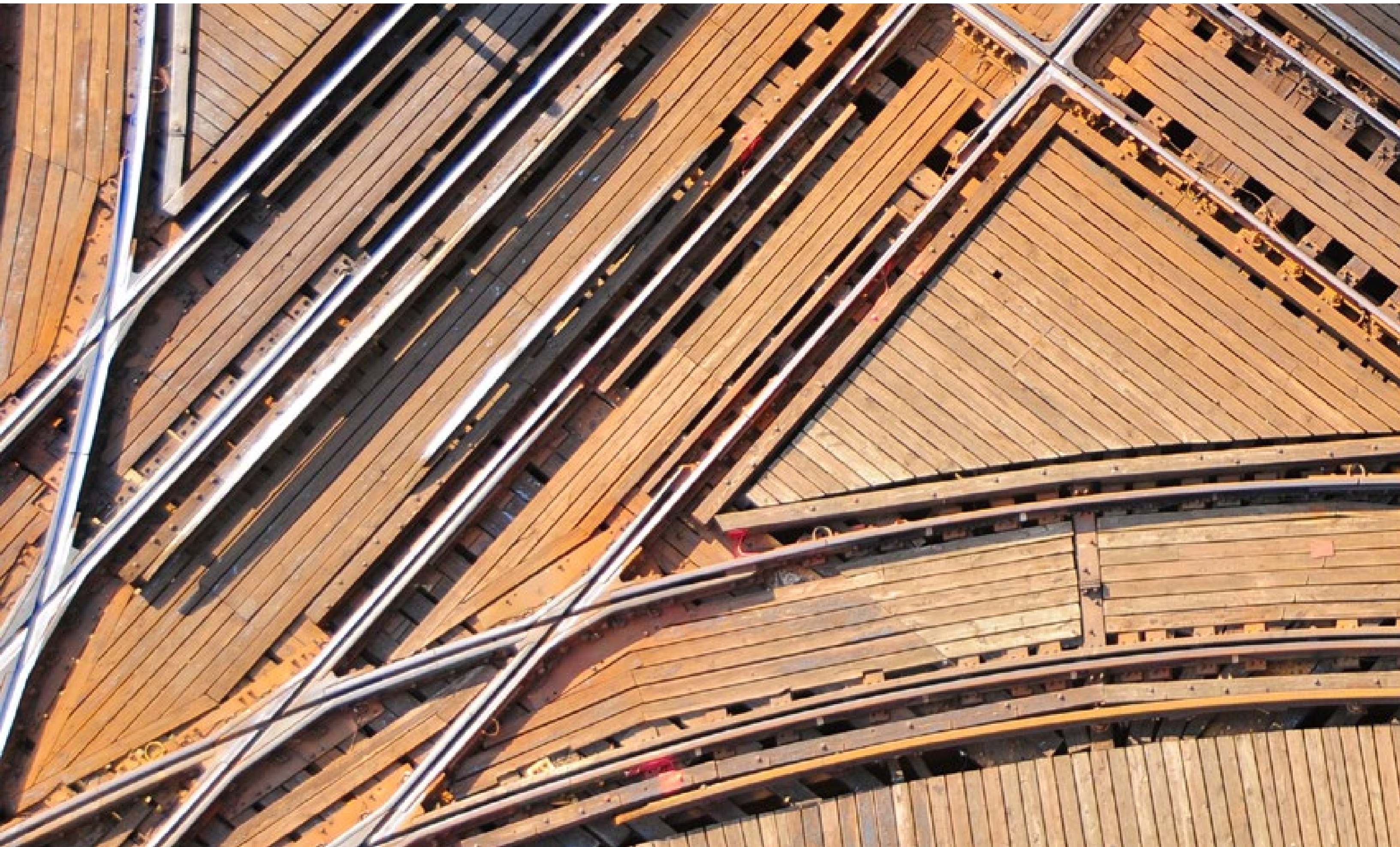
Protect your profit margins from volatile currencies.
Take advantage of favourable market shifts.



Assessing your Options

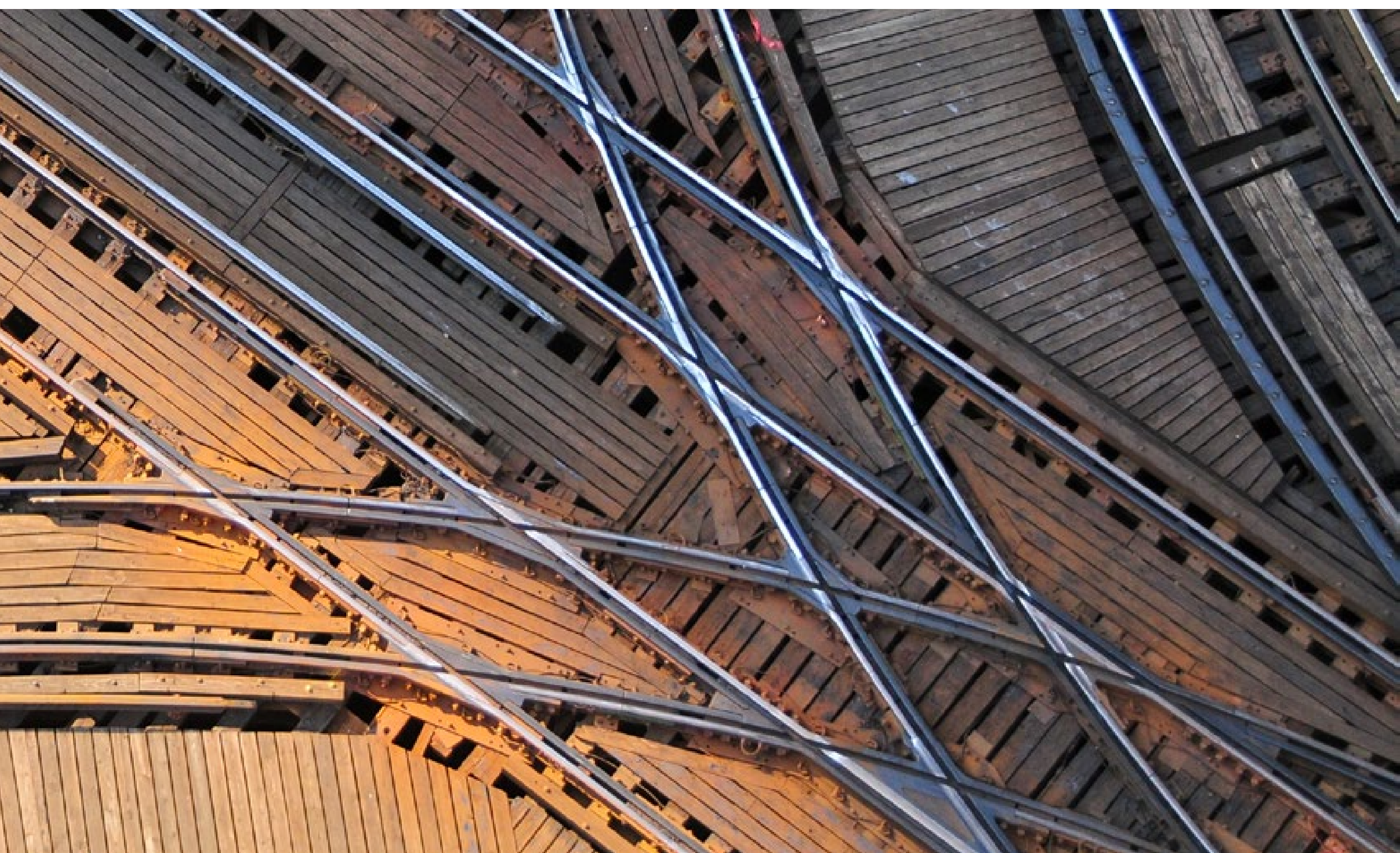
Greece is a good example of how one country's economic activity can have a ripple effect on currency markets around the world. Globalisation has made it easier for businesses to tap into overseas opportunity, but also added new complexity to the management of cash flow. Even small movements in the exchange rate can have an impact on your bottom line.

Foreign currency (FX) risk management used to be associated with large companies, but today many small businesses also realise that it's important to have a plan for dealing with FX risk.



Foreign Currency Options are a common tool available for managing FX risk. But they are often viewed as overly complex, and best suited to larger corporates who have the time and resources to manage them properly.

The truth is that there are a range of foreign Currency Option tools available to meet the needs of any sized business. It's time to shed some light on the basic characteristics of some of these foreign Currency Options.



A blended approach to your needs

Before diving into the world of foreign Currency Options, it's important to assess the specific needs of your business, and put together a unique strategy to help achieve your business goals.

A strong FX risk management strategy may combine a range of currency hedging tools such as Forward Contracts and Options. To succeed in today's marketplace, you have to identify the tools and combination suitable for you.

The first thing you should do is assess where your currency exposures exist and what you currently do to protect your profits from volatility. Once you understand what your foreign invoices cost in local currency, and the impact of fluctuation on your margins, you can begin to define some goals to manage this FX risk.

For some, it might make sense to cover half of your currency exposure using an Option, and the other half with a Forward Contract. Or, alternatively it could make sense to cover all of your exposure using a combination of Options. No two businesses are the same, and every FX risk management strategy will be unique.


52.19
-67
-54
-24

How will Currency Options help protect your business?

Options are a way to mitigate the impact of fluctuating currencies on your profit margins. They help you prepare for future foreign currency expenses and stabilise cash flow, which helps you budget for the future with confidence.

The basic principle of each Option tool is the same. You lock in an exchange rate to protect your business from volatility, but you may also get the opportunity to take advantage of positive shifts in the currency market. You can think of Currency Options as an insurance policy against undesirable market movements.

Options can offer flexibility aligned to your business goals, which is why businesses of all sizes can incorporate these tools into their FX risk management plans.

Breaking down your Options

The simplest Currency Option is a Vanilla Option. This gives you the choice of whether or not to sell one currency and buy another at a specified exchange rate (the protection rate) on a date in the future (the expiry date).

At the expiry date, if the prevailing market rate is less favorable than your protection rate, you will exercise your right to deal. However, if the spot rate is more favorable you can choose to let your Option expire and deal at the more advantageous spot rate.

To take out a Vanilla Option you must pay a non-refundable amount of money up front (the premium). You can avoid paying a premium by using a Structured Option. These structures may require you to deal some portion of funds at expiry, but can be tailored to your requirements.

Forward Contract versus a Currency Option

A Forward Contract locks you in to selling one currency and buying another at a specified exchange rate on a date in the future. Unlike an Option, if the market moves in your favour, you are still obliged to buy and sell at the specified rate. You do not have the flexibility to benefit from the market movement.

Where the Forward Contract has no upfront cost, the Vanilla Option often requires a non-refundable premium, even if you choose not to exercise your Option on the expiry date. The premium is a known cost that can be budgeted for, so there are no surprises.*

You can avoid paying a premium altogether by using what is known as a Structured Option. These Options can be tailored to your requirements and market conditions, which could make them an attractive alternative.

	Upfront cost	Known rates	Potential to participate in favourable markets
FORWARD CONTRACT	✗	✓	✗
VANILLA OPTION	✓	✓	✓
STRUCTURED OPTION	✗	✓	✓^

* This comparison is a general overview of a basic Vanilla Option versus a Forward Contract. Options with Zero Cost Structures typically have other advantages and disadvantages to consider. Always use your independent judgment in evaluating hedging tools based on your business needs.

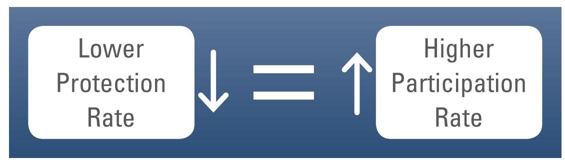
^ There are many Structured Option products available in the market. Each Structured Option is different and some can provide protection against adverse market movements while allowing potential participation in certain circumstances. You should carefully read the Product Disclosure Statement for each particular Structured Option before making any decisions.

Considerations when comparing Currency Options

Options are very flexible instruments and there are a number of ways they can be tailored to suit your needs. Here are some of the most common features that can be tailored.

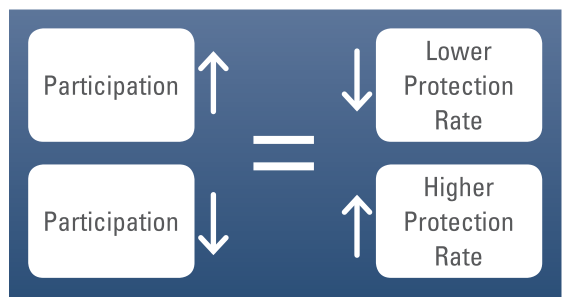
Protection rate

Choose the rate you need to stay within to protect your profit margins against fluctuation. As a general rule, the more favorable the protection rate, the less upside potential there will be and vice versa.



Participation percentage

While some Options provide 100% participation in favourable market shifts up to a given level, others only offer participation on a proportion (the participation percentage). If you reduce the participation percentage, the protection rate can be improved.



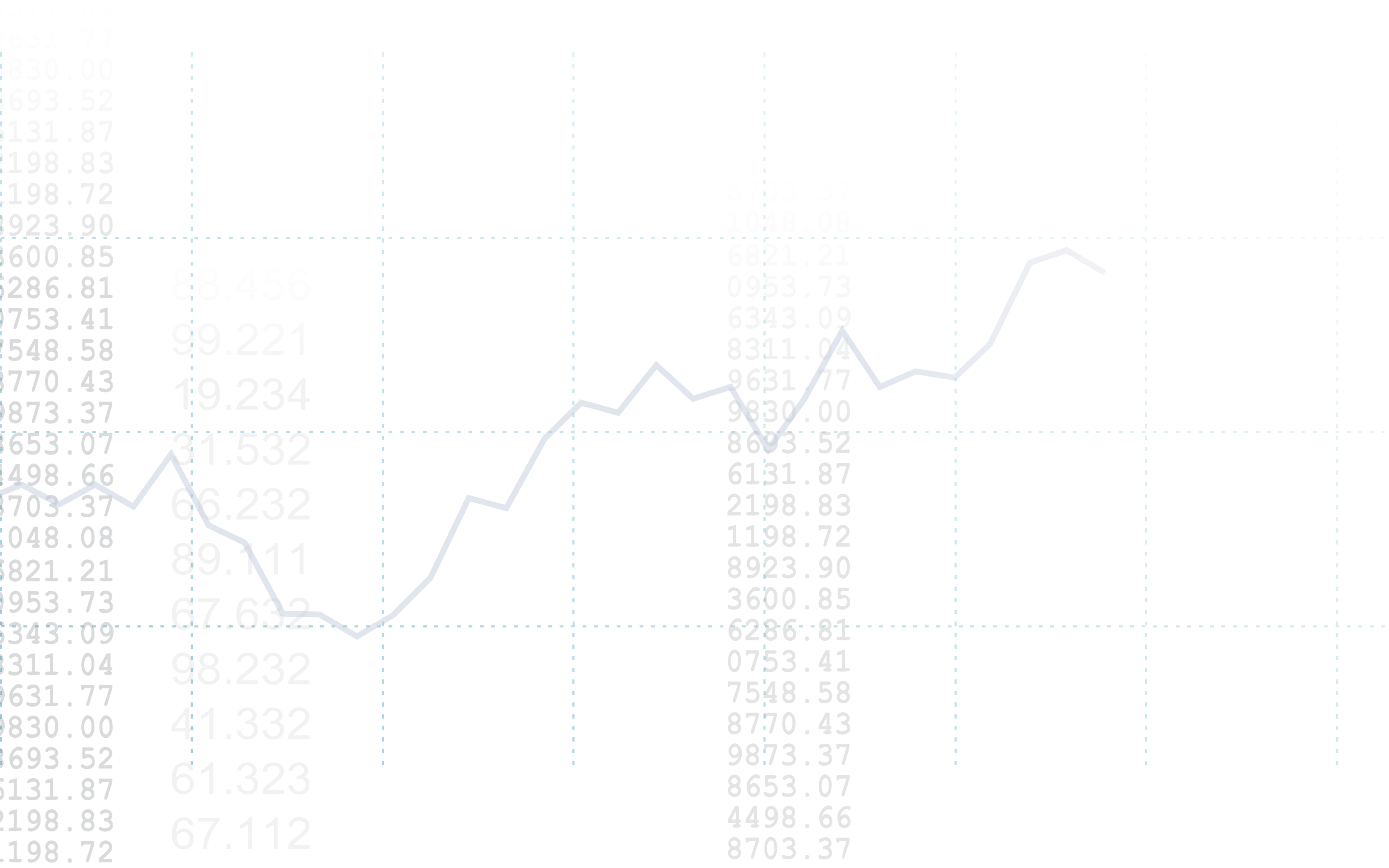
Barrier or trigger rate

Setting a barrier or trigger rate can help flex your Option but if this rate is breached it triggers a contingent obligation that either initiates or removes a previously set hedge.

Understand your Options

Cash flow is the number one reason why many businesses fail, and without risk management, you leave profit margins vulnerable to erosion. To give your business the best chance of succeeding at international business, it’s critical to manage your currency risk.

Don’t be afraid to consider incorporating Options as part of your FX risk management strategy. There is an Option strategy to suit the needs of most businesses that transact internationally, and your bottom line may thank you.



Start protecting your profit margins from currency risk

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