

**WORKING TITLE:**

**Financial risk management in international money markets.**

**PURPOSE:**

The purpose of this project is two fold. First we aim to give a full overview of the existing classifications of exchange rate exposures, focusing on the one that is the most useful, i.e. "transaction exposure". Secondly, we would like to apply it to a couple of real companies and compare these applications in order to help them to improve transaction exposure management strategies. One of the main things in measuring the company's transaction exposure is to assess if and to which extent the company's business transactions are exposed. The key concept at this stage is how to define the exposure problem that depends on the firm's target set. One way to meet the purpose is to find out what kind of exposure management the companies are using. In our analysis, we will also answer the question of whether the companies we picked up are hedging the transactions exposure, and, if so, how they are doing it.

Another important issue is how to choose an appropriate strategy to manage transaction exposure. While more and more firms realize that they should manage transaction exposure, not all of them have come up with the appropriate management strategy. The complexity of foreign exchange rate changes appears in the following way: it influences not only a firm's existing financial position, but also sales and prices which in turn will affect the firm's future value. Therefore, the choice of an appropriate transaction exposure management strategy is another task we are going to work out in our project. We are going to review the chosen companies' transaction exposure management strategies, compare them with the theoretical framework and new observation and notations and the differences between theory and practice. Finally, we are going to come up with our suggestions on improvements of the companies' exchange rate exposure management strategies.

Another important reason why we have chosen this particular topic is the applicability of the topic in our future world. The knowledge gained in this topic will be very useful due to the fact that in recent years, almost all companies are more or less exposed to this type of financial risk.

**AIM**

We aim to present the companies' transactional strategies in the following way:

- To present the real companies' transaction exposure management system and compare them with the theoretical framework.
- To make observation and the differences between the theory and practice along with possible reasons, and to come up with suggestions and the transaction management strategies improvements.

## **METHODOLOGY**

There are two methods- literature study and case study. In order to get a clearer picture of the exchange rates risk management, we start with the extensive literature study. We begin our literature study from a survey of books, and articles related to the purpose, though it appears to be somewhat difficult this topic is debatable. We need to cover as much literature as possible in order to get a clearer understanding.

In order to reach the second part of our purpose a real companies CASE STUDY method id used. We chose two Indian companies (Reliance industries Ltd. And Power grid Corp.) Which, are from different industries in our case study? According to our prepared questionnaire, which is based on the previous study, we will ask both the firms question related to our topic along with the request to provide us with some additional financial data. We also interviewed the representatives of these companies and analyze the data to find out why they calculate foreign exchange exposure. Finally, we make observations on the differences between theoretical framework and real life practice along with our suggestions and recommendations on the topic.

## **LIMITATIONS**

There are a lot of factors effecting the firm's financial risk management, such as interest rate changes and fiscal policy changes. For different firms different measurements might be used to, such as the stock price movement or cash flow change. To overview all the possible factors influencing company's financial risk management we found too broad to be analyzed in such type of academic paper as a thesis. Therefore we will focus only on the transactional exposure management. We base risk management strategies evaluation o the short term exchange rates risk management related to the international cash management evaluation. Another limitation is that since exchange rates changes effects firms business, not only in financial aspects, such as pricing sales volumes, and costs, but also in a broader competency, organization firms, it is not possible to discuss all possible effects in this project. There fore we are going to concentrate only on the financial aspects of exchange rates change effects.