

# SFbulletin

By Stephen Barlas, Michael Bollinger



## Treasury Eases Concerns about Foreign Exchange Derivatives

By Stephen Barlas

There were some key U.S. federal agency decisions about corporate use of derivatives in April. Late in the month, the Treasury Department ruled that foreign exchange swaps and forwards used by U.S. companies aren't "swaps" under the Dodd-Frank law and therefore won't have to be cleared through clearinghouses, sending sighs of relief through large manufacturing and industrial multinationals who hedge foreign currency.

But most large and small manufacturers predominantly hedge commercial risks through interest rate swaps and, to a lesser degree, commodity swaps. While those have been "exempted" from having to be cleared as well, companies who contract for interest rate and commodity swaps through their commercial lenders will have to post margin depending on the risk level their bank sets. This "margin" requirement is the big derivatives issue stemming from Dodd-Frank for nonfinancial companies in the U.S.

The Federal Reserve, Federal Deposit Insurance Corporation (FDIC), and other banking regulators—the "prudential" regulators, for short—issued their long-awaited proposed rule on April 12. The rule requires banks to set risk thresholds for each company they deal with. The thresholds basically relate to the company's creditworthiness and require margins of some indeterminate size when the company falls below that threshold. The Coalition of Derivative End-Users released a statement after the proposed rule was issued, saying,

"Despite the clear legislative history to the contrary, the regulators continue to misinterpret the Dodd-Frank Act as giving them authority to impose margin requirements on end-users. This misinterpretation exposes end-users to margin requirements that Congress did not intend regulators to impose, and the economy to the harm associated with these new requirements."

The Treasury exclusion of foreign exchange swaps and forwards from clearing eased some of the sting caused by the prudential regulators' proposed rule on margins. Dorothy Coleman, vice president for tax and domestic economic policy at the National Association of Manufacturers (NAM), says that managing fluctuating currency exchange rates is the primary focus of the risk management and hedging programs for many manufacturers. She adds, "Manufacturers are pleased with Treasury's announced proposal to exempt foreign exchange swaps and forwards from the definition of a 'swap' under the Commodity Exchange Act (CEA), as amended by the Dodd-Frank Wall Street Reform and Consumer Protection Act."



We welcome all opinions on articles and departments published in *Strategic Finance*. E-mail correspondence to Kathy Williams at [kwilliams@imanet.org](mailto:kwilliams@imanet.org).

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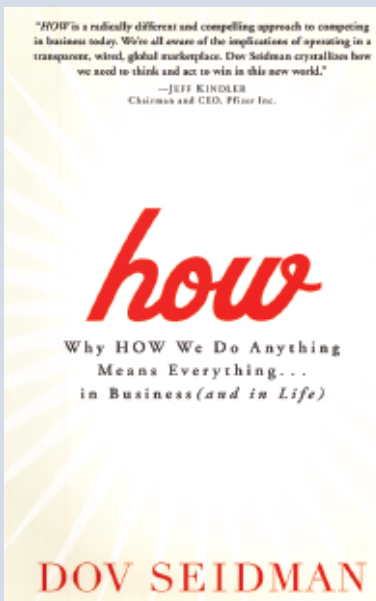
## BOOKS



# The Means to Differentiation

In their constant quest to make a profit, businesses look to differentiate their products or services to gain a competitive advantage. There have been many attempts through the years to provide “how to” steps for differentiating a business, but in *How: Why How We Do Anything Means Everything...in Business (and in Life)*, Dov Seidman argues that the business environment has moved beyond such prescriptive advice and instead requires a focus on how a company behaves in delivering products and services and operating its business—how it makes decisions, how it develops strategy, how it treats customers, etc. Seidman provides a framework that enables business leaders to focus on their and their company’s behavior—the how—in order “to outbehave the competition.”

The manner in which your company carries out every aspect of its business—its values, ethics, and behavior—can’t be replicated easily by competitors because it’s something that is internalized and is only indirectly noticeable in the results. Being the first to make a product or perform a service doesn’t necessarily make you the most profitable. Competitors—imitators—can easily replicate the actual product, often at a lower cost. But Seidman argues it’s much more difficult for them to recreate how you achieve the end results. After all, that’s why businesses began developing and implementing management tools such as Lean



Six Sigma to differentiate themselves with more efficient processes. Now that there is a large pool of individuals with strong skills in these areas, however, the effect on differentiation has diminished.

Seidman provides different examples emphasizing the need to look at how you behave in order to achieve the sought-after differentiation. One aspect is a need for transparency and trust, which impacts reputation. Seidman emphasizes that we are in a very connected world, and a positive reputation can be sustained only if a company realizes that how things are done has a lasting impact on its reputation.

In addition, the emphasis on “how” can’t be sustained by simply following written principles. You need to internalize and appreciate why those principles exist

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before they will help differentiate you from your competitors. Throughout the book, Seidman uses graphs addressing various topics that illustrate how having a basic understanding leads to a small wave of achievement, whereas mastery of these principles leads to a higher wave where you have differentiation.

Seidman ends the book by stating that a simple focus on self-improvement doesn’t automatically move you to the next higher wave and increase your achievement. If you behave and internalize how you should approach every aspect of your business, however, you will progress to the higher wave and achieve differentiation. The book provides a very good perspective bolstered by Seidman’s years as a consultant working with a variety of companies to help them focus on the “how.” In a crowded marketplace with a number of similar options, acting right and doing good—the how—is now the true differentiator.—Michael A. Bollinger, CMA, CFM, CPA, CIA, CGFM, CDFM

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