FOREIGN EXCHANGE

Event organisers who are dealing with either an international based rights holder or are seeking to attract an off-shore client base may need to undertake a proportion of their business using a foreign currency.

Like any business that operates internationally and deals in an environment subject to foreign exchange variations, event organiser's need to know how they will protect their operations and finances against fluctuations in the exchange rate. Even a small variation in the rate can have an impact.

If conducting any part of your event's business in a foreign currency is a necessity, as an event organiser you need to decide how to make and receive payments in foreign currencies. Your approach will be guided by the level of risk you are willing or otherwise to accept.

What are the risks?

Should your event be required to deal in a foreign currency you are being exposed to risk. For example, you could find after agreeing to pay a rights fee or receive entrance fees in a foreign currency that the exchange rate changes prior to you having to make payment or receiving any revenue.

All foreign currencies are subject to fluctuation, meaning there will be a direct impact on the financial position of your event if this risk is not actively managed. Your bank or financial advisor will be able to provide guidance in how you might manage this risk given your own financial circumstances.

To not actively manage your Foreign Currency exposure you are in essence taking a gamble. It might be tempting to believe (to gamble) that Foreign Exchange fluctuations will work in your event's favour, however this approach could result in significant financial losses.

It is much safer that you mitigate any possible financial losses if your event is required to operate using a foreign currency. A range of different options exist to achieve this.

What are the options?

Hedging is insuring against the Foreign Exchange rate moving against your event at some point in the future.

1. **Forward Exchange Contract (FEC):** A common way to hedge against exchange rate fluctuations is to arrange a Forward Exchange Contract. A forward exchange contract will see your event agree to buy or sell a specified amount of foreign currency at an identified rate on or before a certain date.

   A forward exchange contract is a secure and simple way of hedging when you are certain your event will be staged and the use of a foreign currency will be a part of your financial arrangements.

   Advantages:

   - Your event is protected against negative movements in the exchange rate,
   - You can budget knowing precisely the value of forecast commitments and revenue.
   - You will not need to settle in full until the contract maturity date (although a deposit or portion of the contract maybe required) meaning little impact on your cashflow.

   Disadvantages:

   - Your event is obligated to meet the requirements of the contract regardless of any changes to circumstances beyond your control,
   - The rate is fixed meaning your event will not benefit from any favourable changes in the exchange rate.

   Foreign exchange contracts can be arranged by your bank. They can be adapted to meet your event's unique needs.

2. **Local foreign currency account:** Another way of hedging any currency risk your event might face is to open a foreign currency account. This is a bank account operated in New Zealand in a foreign currency of your choice. If you have an account in the foreign currency your event needs to deal in, you can hedge against exchange rate changes by keeping funds in the account until such time the rate benefits your event's financial position.

   Advantages:

   - Manage the foreign currency account much like a domestic $NZD account
   - You can send and receive funds into and from the account "netting" import and export transactions

   Disadvantages:

   - Bank fees and charges for setting up and operating the account
   - To hedge your total Foreign Currency exposure you will need to have those funds deposited in the Foreign Currency account immediately after the foreign currency exposure is created, impacting your cashflow
   - Should your event need to convert funds from a foreign currency account into $NZ for local use, a loss will be incurred if the NZ dollar is strong in relation to the foreign currency,

3. **Opening an account with an overseas bank:** An alternative option is to keep a bank account in the country whose currency your event is required to use.

   Advantages:

   - As your event's funds will be held in the foreign currency you can consider waiting to convert it when the exchange rate becomes more favourable (if you have no time or cash flow limitations),
   - Your event's customers/partners might prefer to deal with a bank in their own country and (possibly) language.

   Disadvantages:

   - Communication difficulties may arise with no opportunity for face-to-face resolution,
   - It may be difficult to comply with rules regarding who can open and operate the account,
   - Foreign banks may not provide the same level of funds protection or customer service we enjoy and expect in New Zealand.

4. **Buying currency options:** The purchase of currency options is a more flexible form of hedging, albeit more expensive, than a foreign exchange contract. Currency options give you the right, but not the obligation, to buy an agreed amount of currency at a specified exchange rate on or before a certain date. To benefit from this flexibility your event will have to pay a fee.

   Advantages:

   - Your event is protected against negative movements in the exchange rate,
   - You can budget knowing precisely the value of forecast commitments and revenue.

   Disadvantages:

   - The fee attached to setting the currency option up.

   Four general Foreign Exchange hedging options are therefore available. It is essential that when selecting the option that is best for your event you seek professional advice.

What are the issues with Foreign Exchange and Accounting?

Your normal accounting procedures will be affected by having business transactions in a foreign currency. Your event will most likely need to convert foreign currency payments and receipts into New Zealand Dollars. Foreign exchange accounting procedures can be complex and you should take professional advice regarding your event's circumstances.

Foreign Exchange Checklist for Event Organisers:

- Do we need to conduct our business in full or part using a foreign currency?,
- Seek professional advice and guidance from an accountant and your bank,
- Consider the risks associated with fluctuating Foreign Exchange rates,
- Decide on the most appropriate means of mitigating the risks of a fluctuating Foreign Exchange rate for your event,
- Ensure your accounting practices meet regulatory and best practice requirements when conducting business using a foreign currency.

Case Example: Event A

Event B is a large New Zealand based event which is reliant on international registrations. The event used a Council treasury function to fix a foreign exchange contract for the event rights fees (these fees were / are in a foreign currency and in the millions). Any fluctuation in exchange rates could have had a material effect on the events operational budgets. Whilst the cost to fix (hedge) had to be taken into account, the certainty this delivered for the whole of programme event budget more than outweighed the cost.

The events online registration system was set up to ensure pricing is advertised in $NZ and the terms and conditions clarify that payment had to be made in $NZ. Organisers had the functionality to process foreign payments via credit card and pay pal methods. Whatever the customer payed, the event received the exact net $NZ that had been planned for each completed registration.

Key Tips:

1. **Remember what your real role is as an event organiser - you are not a currency trader. Concentrate on your core delivery and specific skill sets and leave technical matters to those who are qualified (i.e. your accountant/banker),**
2. Budget for professional advice and other associated costs (such as fees/commissions/hedge costs/forward costs),
3. Avoid any exposure risk if at all possible – simply source all services and goods from $NZ denominated suppliers,
4. Ensure all revenues are in $NZ, and ensure all fees are borne by the customer (so you as the organiser receive cleared net funds at the planned level).

Having financial obligations in a foreign currency has risk. That risk is compounded when:

(a) The obligation is a significant amount relative to your total operating budget,
(b) Your revenue raising is forecast to be received exclusively in your national currency.

Case Example: Event B

An Australian city was awarded the rights to an international event that attracted fee paying entrants from around the globe. A significant rights fee in two parts was negotiated and agreed to. The first part was a fixed US Dollar amount equal to approximately one fifteenth of the total operating budget. It was agreed this fee would be paid in four instalments over the coming four years. Fifty percent of the total fee was due in the final year. At the time of agreement, $1 Australian Dollar bought .68 US Dollar.

The second part of the rights fee was a $50 US Dollar per registrant fee payable to the rights owner for every registration received beyond a "conservative and low" base level. It was intended that all entrants regardless of where they were from, would pay an Australian Dollar registration fee.

When the fourth and final payment of the first part of the rights fee was due, the value of $1 Australian Dollar had fallen to approximately .50 US Dollar. Adding further to the difficult financial situation of the organisers, registrations above the base level agreed to, as the second part of the rights fee, exceeded 8,000 (significantly higher than originally budgeted).

No significant steps had been taken by the organisers to mitigate the risks of a fluctuating Foreign Exchange rate.

In response, the matter was resolved by a renegotiation of the financial arrangements of the rights fee. International (non-Australian and New Zealand entrants) were required to pay their registration fees in US Dollars. Not every event organiser may be so lucky to have a partner who is prepared to renegotiate.

Key Tips:

1. Factor in foreign exchange issues / risks as early as possible in the event planning process (especially in all of your financial modelling),
2. Talk with others in the event industry (e.g. manager, associations, government departments, territorial authorities) about foreign exchange issues,
3. Always get professional advice before acting and select banks / financial advisors with event foreign exchange experience,
4. Always ask questions and gain a full understanding of your different foreign exchange hedging options,
5. Understand your partners' appetite for risk (and your own appetite). Prepare and regularly update a risk register (i.e. risk matrix),
6. Do not enter into legal agreements without first carefully considering foreign exchange issues.

Note: Due to Commercial in confidence requirements, details of the event involved are not disclosed.

Helpful information can be found at www.business.govt.nz