



Reconcile-to-Zero

“RTZ”

A new feature for CapellaFX

Case Study: Polycom, Inc.
Fall 2013



RTZ

Executive Summary

Polycom Inc. hedges foreign currency risk with derivative contracts to protect both margin (revenue and expense) and Other Income and Expense (FX gains and losses). One of Polycom's key treasury mandates is to remove currency volatility in the P&L. Until recently, Polycom mined data manually to unravel the interaction of foreign currency gains and losses generated by remeasurement and the forward contracts that hedge their balance sheet. Reconcile-to-Zero® (RTZ) was not a new concept to long time client Polycom. Grace Wong, Assistant Treasurer, says, "Helen [Kane] taught us the RTZ concepts several years ago, and we use them to analyze FX variances and communicate how our hedge program is performing".

The Challenge

Manual analysis of currency gains and losses had been a very tedious, manual process at Polycom. Therefore, the process was frequently abandoned once the most material foreign exchange gain/loss components were identified. "Historically, there just wasn't enough time to prepare a more granular assessment of the information since management typically wanted the answers quickly--after the books close each quarter end and before earnings announcement," reports Grace. In the summer of 2013, Polycom, Inc. implemented the new Reconcile-to-Zero feature of Hedge Trackers' best-in-class derivative accounting software CapellaFX. Polycom partnered with Hedge Trackers to implement the software feature prior to its official release.

"We always knew there were certain transactions causing more noise in the gain/loss line than we wanted, but without the right tool, finding the source of each problem *was* a very manual and time consuming process"

-Grace Wong

Assistant Treasurer and
Director FX and Corporate Finance
Polycom, Inc.

The Solution

RTZ has reduced Polycom's FX Gain/Loss performance reporting process from days to hours, while providing the increased accuracy and depth needed to drive better hedge decisions. Grace noted, "We always knew there were certain transactions causing more noise in the gain/loss line than we wanted, but without the right tool, finding the source of each problem was a very manual and time consuming process". Leveraging Hedge Trackers' decade plus of focused FX currency and hedge accounting experience, Capella FX now automatically calculates the impact from the eight legitimate sources of foreign currency gain/loss arising from your hedging program, including over/under hedging, market timing mismatch between hedges and exposures, unhedged exposures, unmanaged currency conversions, and more. (continued, page 3)

“What I like about it, is that when a company has unmanaged conversions the user can know exactly *where* it came from and *what* entity triggered the FX impact. I can also send my subsidiaries a report showing the specific impact of their forecast accuracy--that helps *communicate* the importance of *working together to manage these risks*”

-Grace Wong

The Solution, continued

RTZ performance reporting includes two depths of reporting: summary information (to effectively communicate hedge program performance to senior management) and more detailed exposure and trade data to communicate with global stakeholders their impact on hedge performance. The consistent, comprehensive reviews inform treasury’s day-to-day hedge decisions and hedge performance. As a result, Polycom now quickly generates automated, efficient analysis. The increased scope and breadth of review provides not only a deep understanding of prior period currency impacts, but provides added insight for timely, more effective hedge decisions.

Capella’s RTZ feature allows companies to automate and accelerate the reporting on their hedging program performance, releasing sophisticated resources from data entry and data manipulation. RTZ automates the complex analysis and reporting frequently executed and understood by the “knowledgeable few”. It strengthens core Treasury functions and mitigates key person risk. RTZ provides the team more time for analysis, and mitigates the threat of a single point of failure.

The Results

“CapellaFX manages our hedge accounting for us. Each month-end, we simply upload into Capella our exposures, reported gains/losses from consolidation, our accounting rates, and spot conversion data --and RTZ compartmentalizes the sources of FX gains and losses reported on the FX gain/loss line. Gain and loss impacts are captured by currency and entity, so we know instantly where something is off, and why. The new process saves us time since we don’t have to figure out each source of gain/loss by hand anymore. In addition, the tool serves as a good SOX control for us since we can explain a material portion of our gain/loss activity each period with the confidence gained from both automation and the Hedge Trackers’ expertise. We run the summary report for the Treasurer so he can communicate our hedge performance to senior management and we use the detail reports to help my team make better hedging decisions”, says Polycom’s Grace Wong. (continued, page 4)

The Results, continued

RTZ synthesizes deep technical treasury, hedging, and foreign currency accounting expertise of Hedge Trackers professionals and outputs a thorough reporting package harnessing the power of automation for your team. Treasury staff quickly become experts in identifying and resolving weaknesses within a balance sheet hedging program. This tool can strengthen a hedge program by identifying structural problems that plague an effective results and recommending practical improvements. Better information equals better decisions and better results.

“The best thing about RTZ, for me, is that the reports come from Capella vs. my manual spreadsheet. Hedge Trackers’ proven track record lends instant credibility to my analysis when communicating with internal management and our external auditors.”

-Grace Wong

Assistant Treasurer and
Director FX and Corporate Finance
Polycom, Inc.

Looking Ahead:

CapellaFX’s all new feature, Reconcile-to-Zero (RTZ) harnesses the power of Hedge Trackers’ deep and profound understanding of foreign currency accounting, hedging and Treasury operations to supercharge your team’s performance reporting capabilities. RTZ provides automated answers to why your hedged FX gain/loss line isn’t zero and categorizes the sources of gains and losses into useful information that has never been available before. RTZ reporting makes communicating hedge performance to management faster and easier and provides your staff with insights that drive better hedge decisions.



RTZ

For more on Reconcile-to-Zero, CapellaFX, and Hedge Trackers’ line of derivative accounting and compliance services, visit us online at:

www.hedgetrackers.com

Copyright © 2003 - 2013 Hedge Trackers, LLC | Reconcile-to-Zero is Patent Pending