



Reconcile-to-Zero

“RTZ”

A new feature for CapellaFX

Case Study: Tellabs, Inc.
Fall 2013



RTZ

Executive Summary

Blair Olexa, Treasurer of Tellabs, faces a common mandate within the Finance organization: to do more with less, and - do it well. This approach, when applied to explaining gains and losses in the FX line, is difficult for even a seasoned Treasury team let alone a team burdened by recent turnover and stringent resource constraints. Over the years, the Tellabs' treasury team has deployed Hedge Trackers' proprietary methodology for explaining why the FX gain/loss line wasn't zero (Reconcile-to-Zero's first, manual process). Prior to implementing the RTZ feature for Capella, this was a manual endeavor the team struggled to execute, being rarely able to complete the task in the face of competing interests.

Key knowledge at Tellabs resided in just a few individuals and it took a fair amount of effort to make the reconciliation of the FX gain/loss line truly meaningful. Inevitably, Treasury felt pressure on both sides of the best practices equation: an increased need to identify and address the sources of ineffectiveness in their hedge program while utilizing less experienced resources with less time to perform the analysis. There had to be a better, smarter way to get this completed and completed well.

Hedge Trackers knew of Bair's dilemma and Tellabs this spring to introduce them to a new innovation in Treasury analytics software. The Tellabs team welcomed the opportunity to automate this process as a beta tester of CapellaFX's newest feature, Reconcile to Zero, or 'RTZ'. Blair says, "We needed to find a smarter, quicker process to reconcile our results and RTZ in Capella was a great solution for us." RTZ automates the construction of a robust analysis that identifies the source of FX Gains/Losses and recommends precise actions to improve hedge performance, while increasing department productivity, and reducing key person risk. Summary reports from RTZ can quickly quantify summary level sources of FX gains/losses for management and provide the detail reporting Treasury needs to identify process changes that will improve the hedge program through global coordination of trade execution, exposure management, and currency conversions.

Client Experience

In the face of turnover, Tellabs needed to develop necessary skills within existing personnel to collect data, analyze transactions and understand what activities were driving an increase in FX gain/loss volatility. As personnel were developing these new skills and adding to existing workload, the manual discovery process was painfully slow and frequently incomplete. Blair explains it as a period, where, "We needed the in-depth analysis required to identify holes in the hedge program but faced the reality of bringing FX novices up a steep learning curve." Too many hedge programs rely on the knowledge-able few (or knowledge-able one) for program analysis. At the same time the CFO wanted accessible, digestible answers regarding volatility in the Other Income and Expense line. The Company's IT team was able to provide general ledger data dumps out of their ERP system and Treasury had been rolling up their sleeves to mine the data. A series of macros, pivot tables, and time consuming gyrations were deployed to extract key drivers of volatility and ineffectiveness in the hedge program.

“With this new functionality in Capella we are now meeting our mandate of doing more with less. Rather than reacting to management queries when something big happens we are proactively managing and improving our hedge program.”

-Blair Olexa Treasurer Tellabs, Inc.

The Solution

Blair Olexa, Treasurer of Tellabs, Inc., embraced the opportunity to shorten the learning curve and time commitment for his staff while receiving an analysis that far exceeded the simple over/underhedge and forward point analysis the team was producing.

As a current licensee Tellabs already used CapellaFX as the system of record for all of its derivatives (both non-designated balance sheet hedges and cash flow hedges). Tellabs imported the general ledger download developed by their in-house IT department, into Capella’s RTZ function, along with any conversion activity not managed by Treasury. In a matter of minutes, the team had detail reports and summary management reports on the performance of the hedge program’s effectiveness. “We saved considerable time and effort using the tool and the outputs are better than we could have produced manually”, says Blair.

The Results

“We no longer have ‘fire drills’ about what is causing our FX Gains and Losses because the RTZ functionality quickly and easily answers that question.”, says Blair.

The ability to quickly and easily identify and report on the sources of FX Gains/Losses on Tellabs hedge program has moved Blair’s team from defensive data manipulation under duress to proactive hedge program enhancement efforts. Olexa notes, “Capella with RTZ has allowed us to flush out deficiencies in our hedging programs by isolating the sources of our FX gain/loss so we can focus our efforts on process improvements, not data mining.”

The Tellabs organization has an integrated cash flow and remeasurement hedge program. When the nature of exposures transform from “anticipated” to “recorded” transactions; subsequent hedge gains/losses become part of the Company’s remeasurment hedge program. CapellaFX’s Reconcile-to-Zero functionality, identifies and reports upon designated and non-designated hedges impacting the FX Gain/Loss line. Specifically, the program isolates any ineffectiveness, excluded components and the occasional effective component where users have documented the recognition of those items in the FX Gain/Loss line. RTZ also calculates the offset provided by hedges that are de-designated and become part of the remeasurment portfolio in the period the hedged item is recorded.

Benefits

Benefits Tellabs experienced since implementing the RTZ feature:

- FX gain/loss analysis preparation has moved from incomplete analysis generated over a number of days to **complete analysis in an hour**.
- A **consolidated view** of the entities, currencies and sources that make-up the FX gain/loss line in the period.
- **Consistent, complete management reporting package** on balance sheet hedge program performance.
- Quantitative transaction based information is now used to drive cross-functional and intra-entity **collaboration**.
- Compliance: **SOX control** over the FX gain/loss line increasing management's **understanding and confidence** in reported numbers.
- **Consistent visibility** into the cost/benefits of "expensive" hedge relationships.
- Visibility into transactions not properly recorded under **ASC830**.

Looking Ahead:

Moving forward, the Treasury team at Tellabs, Inc. has consistent, complete performance reporting on their balance sheet hedge program. Summary and detail reports are produced with every close. Treasury staff can drill down by subsidiary, by currency pair, or by gain/loss category. Time previously spent in data manipulation is now focused on building the relationships and technical understanding of other departments and entities that can contribute to even better performance in the future.



RTZ

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

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