



CASE STUDY

Westcon-Comstor

An Award-Winning FX Risk
Management Overhaul

2024

DK
DUKES & KING

OVERVIEW

In response to ongoing FX volatility, leading technology distributor, Westcon-Comstor, embarked on a comprehensive revamp of its foreign exchange (FX) risk management processes, with critical support from Dukes & King. This case study outlines the key elements of this successful transformation project – executed within just 12 months – from improved policies through to proactive strategies and enhanced reporting systems.



BACKGROUND

Amid the upheaval caused by significant global disruptions such as the COVID-19 pandemic, the Russian invasion of Ukraine, and the economic instability brought about by Liz Truss' brief tenure as UK Prime Minister in 2022, Westcon-Comstor recognised the urgent need to reassess and enhance its FX risk management practices.

Market turbulence had highlighted significant vulnerabilities in the company's existing FX risk management framework. As Callum McGregor, CFO, Westcon-Comstor, explains: "The combination of global supply chain disruptions, USD fluctuations, and market instability underscored the need for a more robust and proactive approach to managing FX risk. We realised we needed firm policies and procedures to put us in a position of strength from which to act going forward."



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Responding to this challenge, Westcon-Comstor engaged Dukes & King to initiate a thorough risk policy review and refine its FX processes. The aims were to safeguard the company's USD reporting currency from future global volatility and to ultimately build a more resilient financial structure for the firm.

STRATEGIC OBJECTIVES & IMPLEMENTATION

Beginning in January 2023, the project was guided by several strategic objectives, namely:



Managing exposure to FX spot rates

through improved controls.

Managing the importance and risk associated with interest differentials

as well as the underlying tenor of the company's risk.

Managing credit and the credit-line availability better

including a full counterparty review.

Capturing value from accepted risks more fully

This enables the firm to protect itself against unacceptable outcomes, enabling the company to use (and self-fund) optionality, should a 'Truss' event happen again.



DEEP-DIVE APPROACH

This wide-ranging project led to numerous achievements across the course of 12 months. These included:

Full policy review and framework enhancement

The Dukes & King team undertook a full-scale review of Westcon-Comstor's existing FX policy and risk management framework, mapping of the exposure base and categorising risks into acceptable and unacceptable categories. To maximise control and flexibility in volatile markets, an options-based systematic portfolio hedging approach was implemented. "This decision, paired with real-time monitoring and analysis, has allowed us to navigate FX risks more strategically, creating value and enabling us to improve the all-in hedge position for the entire portfolio," says McGregor.

Reporting enhancements

The commitment to comprehensive risk management extends to the way FX exposures are tracked and reported on. "We have made substantial improvements to our reporting systems, providing a clearer, real-time view of our underlying exposures. This transparency has allowed for better-informed decision-making and risk mitigation," explains McGregor. This included the:

→ Development of a **multi-currency cashflow forecasting** to improve liquidity oversight and FX exposure analysis.

→ Creation of an **in-house derivative Black Scholes valuation model** (without the expense of a TMS) to manage, value, reconcile and report on all derivatives.

→ Redesigning of a **real-time risk reporting** suite.

→ **Redevelopment of treasury operations** to ensure basics managed efficiently with enhanced visibility and reporting.

→ Building of a **bespoke portfolio hedge accounting model** built to remove the burden of accounting while maintaining the reporting benefits.

Counterparty review

Throughout turbulent markets it becomes increasingly clear that having support and relationships with banks is critical. Thanks to a review by the Dukes & King team, Westcon-Comstor has bolstered its relationships, adding and engaging a further four counterparties. This has increased the lines available to support the company's risk, as well as developing and protecting relationships for the future.

These comprehensive improvements have not only helped to safeguard the organisation but also resulted in **substantial value creation** – enabled by the innovative and dynamic focus of Dukes & King.

BENEFITS DELIVERED

IMPROVED CONTROL

Through the introduction of an enhanced FX risk management framework and a renewed focus on mapping exposure bases and acceptable/unacceptable risks, Westcon-Comstor has dramatically improved control over FX risk. Real-time monitoring and options for the entry point of the next hedge have granted greater control, ensuring that the company can respond swiftly and effectively to market fluctuations.



REDUCED RISK

The meticulous review of Westcon-Comstor's FX policy and risk management framework, coupled with improved control, has led to a substantial reduction in risk exposure. The proactive approach to risk management allows the company to identify and mitigate potential risks before they escalate, safeguarding the organisation's financial stability. The new holistic approach has emphasised a renewed vigilance in understanding, measuring, and managing exposures and has been an important change in mindset and vigilance.

BEST PRACTICE GOVERNANCE

Recognising the significance of governance and adherence to industry best practices, the substantial improvements made to the company's FX risk management processes are fully aligned with the FX Global Code of Conduct. In fact, Westcon-Comstor has now signed a statement of commitment to the FX Code, reinforcing its dedication to the highest ethical standards and best practices.

“This has not only enhanced our governance but also instilled confidence in our stakeholders, evidenced by additional counterparties and trading lines.”

IMPROVED REPORTING

The enhanced reporting has resulted in a more transparent and real-time view of Westcon-Comstor's underlying exposures. This improved reporting capability also allows for more informed decision-making and a proactive response to emerging risks and opportunities.



VALUE CREATED

Overall, the new approach has generated real commercial value for Westcon-Comstor which can be redeployed to better enhance the all-in portfolio hedge rate.

Our strategic hedging and improved control have not only protected our financial stability but have also enabled us to become more solution orientated and thus better serve our customers.



COST SAVINGS

The holistic approach to FX risk management has allowed the company to identify and mitigate potential risks at an earlier stage, preventing costly financial losses. This cost-saving is a testament to the proactive stance in managing FX risk. In addition, a renewed focus on counterparty benchmarking has delivered significant cost reductions.

READY FOR MARKET CHANGES

Finally, the enhancements to the organisation's FX risk management tools and approach have positioned it to proactively respond to the dynamic nature of the market.

We are now better prepared to manage risk and capture opportunities, adapting swiftly to what the market throws at us.

CREATING VALUE THROUGH OPTIMISATION AND INNOVATION

Reflecting on the transformation journey, McGregor comments:

"It's not just about addressing immediate challenges; it's about building a solid platform for future growth and continued improvements. Our achievements have laid the foundation for a more resilient, agile and value-creating treasury."

Dukes & King played a pivotal role in the successful execution of this project. Their expertise in corporate finance and risk management was instrumental in designing and implementing the enhanced FX risk management framework. They provided valuable resources and support to our small treasury team, enabling us to achieve our ambitious goals efficiently and effectively.

This project has not only prepared Westcon-Comstor to handle future FX risks but has also set a new standard in FX and liquidity risk management.

The company's achievements were recognised with the Gold trophy for the Best Risk Management Solution at the TMI Awards 2023, underscoring the success and impact of its transformative efforts.

THANK YOU

Inspired by Westcon-
Comstor's success story?



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Get in touch with us to start your
journey towards outstanding results.

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