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# Where **serenity** meets **financial** **markets**

**Decoding n°10:**  
**Forward accumulator**  
And other « TARF », with leverage effect and KO

# The « forward accumulator» at a glance

A family of structured financial products that combine (i) forward hedging, (ii) sold options and (iii) knock-out clauses (sold binary options) that allow the hedge to disappear in certain market scenarios.

## Main disadvantages

### ■ HIGH MARKET RISK

Accumulators carry a high risk of substantial losses if the market moves strongly in one direction or the other: risk of increasing the notional hedged (x2 to x4) if the hedging is unfavorable and of expiration of the hedging when it becomes significantly remunerative.

### ■ COMPLEXITY

Accumulator management is very complex to follow and time-consuming. The advantages displayed (optimized price and management of deadlines) are in fact much less favorable than with simple, well-managed products, the flexibility of which is often poorly understood by CFOs.

### ■ TRANSACTION COST

These “structured” strategies, often spread out in “strips” or weekly series of small amounts, are ultimately often very unfavorable for the company in terms of friction and management costs, and in the end strongly degrade the net hedging rate and put sometimes companies in financial difficulty.

## These products do not qualify for hedge accounting

### Why?

- An instrument can be qualified as an accounting hedge if it provides a “worst-case” exchange rate whatever the market scenario and is never a net seller of options.
- However, these leveraged products disappear when the company needs them the most (KO clause) when the currency moves unfavorably, and multiply when the company would like to part with them in the event of a favorable change in rates. That implies a loss in both cases.

### What consequences?

- Auditors must reclassify the strategy as an isolated (speculative) open position.
- Changes in fair value must therefore be recorded in financial income as they arise instead of being recycled into EBIT at the same time and on the same P&L line as the underlying billings.
- This can strongly influence key financial ratios, including EBITDA, company valuation, and readability of accounts.

# A speculative product by nature

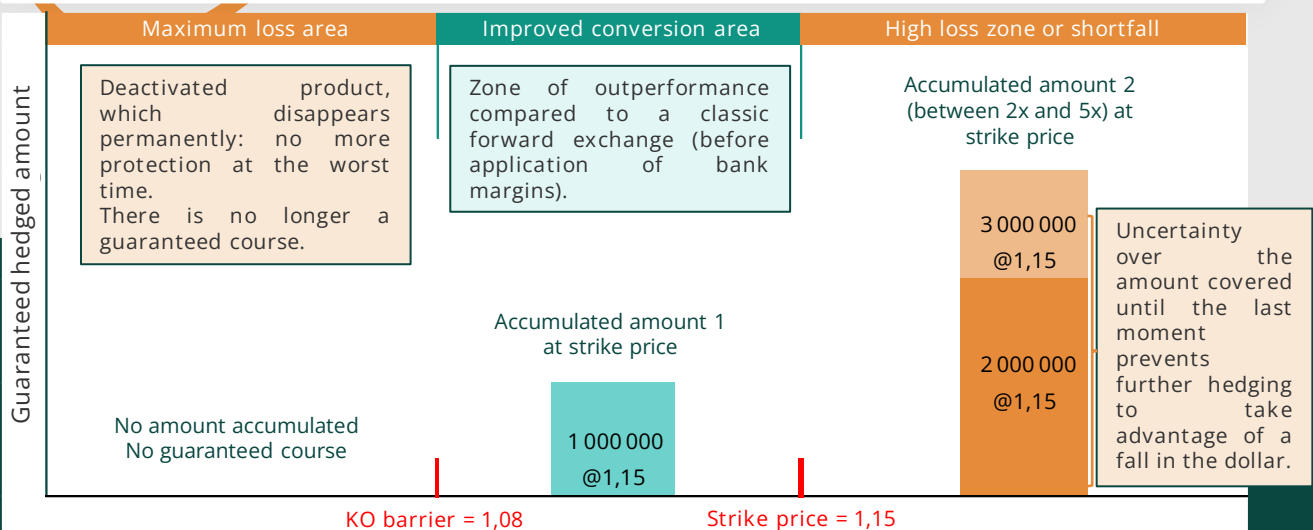
## A « BEST SELLER » FOR SMALL & MIDSIZE COMPAGNIES

- These products are found more and more often in the portfolios of small and midsize companies, on the basis of two commercial arguments: (i) improved conversion rate compared to the classic futures contract, and (ii) no need to ask the question of the timing of receipt or sending of currency flows.
- The bonus (often small) mechanically leads to unlimited risk-taking due to options sold embedded on the basis of the principles of accumulation and KO/deactivation. These sales will prevent the company from benefiting from a favorable currency movement (loss of hedging) and multiply the losses in the event of an unfavorable movement. In fact, the multiplier effect forces the company to sell or buy several times the initial amount at an unfavorable price.

## COMPLEX AND EXPENSIVE MONITORING

- In this scenario, the company can find itself paralyzed by not knowing before the maturity of the instrument what amount will be covered and at what price; therefore, unable to complete the hedging if it proves to be insufficient, at the risk of being over-hedged in the end and having to unwind.
- Concerning the management of due dates, the argument is false because this management is much simpler and less expensive with simple forward or optional hedging, by carrying out extensions or early, partial or total deliveries.

## Technical operation of the KO accumulator dollar buyer





# Your main contacts



## Sébastien Rouzaire

### Founding Partner

30 years of experience in Corporate Finance and market risks management

Background: Crédit Lyonnais Capital Markets London, Bouygues, LVMH (Head of dealing room) and Gemplus (VP & Corporate Treasurer).

Financial risk management advisor to corporates, funds and multi-family offices. Master in finance at Audencia.



## Solal Huard, CFA

### Director

7 years of experience in financial risks management & analysis

Background: Pléiade & Cie (Portfolio management), Luxcellence (Market risks).

Since 2018 at KERIUS Finance: analyst and market risks advisor for small and midsize companies.

Director since 2022. Master in market finance at Neoma Business School.



## Marion Dondin

### Operations Manager

4 years of experience in corporate and market finance

Background: Pyramide Conseils, Fifty Bees (Financial auditing). Since 2020 at KERIUS Finance: analyst and external treasurer assistant for small and midsize companies.

Operation Manager since 2023. Master in corporate finance at IAE Lyon, Master in corporate finance.



# Three pillars of services

## TEMPORARY OR RECURRING MISSIONS



### Diagnosis advisory

- Risk analysis
- Diagnosis
- Due Diligences (FX, interest rates and commodities)
- Advisory / Hedge policy definition & implementation (FX, interest rates and commodities)
- Feasibility study and implementation of in-house treasury / financing / hedging
- Debt and Asset / Liability management



### Dealing room assistance

- Assistance in hedging: market surveillance, banks relations & negotiations supervision, quotations, reporting
- Technical assistance during arbitrations regarding complex structured products
- Structured & complex derivative products portfolio simplification
- Valuation of all derivatives products, free shares, stock-options, warrants, convertible bonds



### Customized reporting

- Design and production of:  
Back-office, middle-office and controlling dashboard
- Customized IFRS documentation and reports
- Debt management tools and reports (FX, interest rates and commodities, micro/macro hedging, all industries, all types of simulations and bridges)



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