

# FX Week

fxweek.com

The global business of foreign exchange

January 30 2012 v.23 n.4

News

## Fusion pitches FX liquidity hedge to corporates

London-based Fusion Asset Management is seeing increasing interest from corporate treasurers in a new foreign exchange liquidity hedging programme it launched last year following a request from a large European exporter to develop a bespoke overlay solution for its FX hedges that it was not able to get from its banks.

Fusion, which was established in 2004 and employs 20 people in the UK and Moscow, launched the FX liquidity hedge for corporates in October 2011, offering companies an options-based mechanism to offset the impact of large FX moves on their liquidity.

"Liquidity risk has become an increasingly big problem for institutions as well as corporates since 2008, as they tend to hedge their currency risk using plain vanilla forwards. In an environment of high volatility when the market moves significantly, funds have to post more collateral against their hedges, and corporates find their credit lines with the banks restricted. That might be a tail risk that arises only in a crisis, but it needs hedging," says Anton Zherebtsov, partner and head of portfolio management at Fusion in London.

The FX liquidity hedge, which Fusion had already offered to institutional investors since 2009, is not offered by any other buy-side firm, according to Zherebtsov, although French bank Crédit Agricole is understood to offer a similar hedging

strategy to its clients. The bank declined to comment for this article.

The Fusion product uses a combination of long vanilla and barrier options to ensure downside risks are known and costs are limited. According to Fusion, the hedge has consistently outperformed simple downside puts so that clients have liquidity available when they need it most.

"This kind of hedge is a bit like car insurance, because at a perception level it can feel like you're paying for nothing if you never have an accident. The use of options in this case hedges a tail event that might only happen once in three years, but the crisis of 2008 is a clear reminder of the liquidity risk inherent in large currency moves," says Zherebtsov.

In an effort to more effectively sell the product to corporates, Fusion appointed two senior FX salespeople from the sell side in September 2011: Kulmit Bhambra from HSBC and Anushruthi Rai from Bank of America Merrill Lynch (see box). Both now work in advisory services at Fusion in London, with responsibility for driving the distribution of the FX liquidity hedge.

"We are becoming a recognised provider in this space, partly because we are the only asset manager to provide this kind of innovative solution to an ongoing problem that corporates are having to deal with. Given the volatile movements in currencies in recent months, and the potential for a euro break-up, this is an issue they have to deal with," says Bhambra.  Joel Clark

### Expanding the Fusion salesforce

**Before launching the** foreign exchange liquidity hedge for corporates in October 2011, Fusion Asset Management sought to hire an experienced sales team that could successfully pitch and distribute the product.

Kulmit Bhambra joined the firm from HSBC in London, where he worked in FX corporate sales, managing a team that had responsibility for western England, Wales, Ireland and the Channel Islands, covering roughly 300 clients. Bhambra first joined HSBC in October 2005, and most recently reported to Gary Brant, managing director and head of UK corporate and commercial sales.

Anushruthi Rai joined Fusion from Bank of America Merrill Lynch (BAML) in Mumbai, having relocated to London after she left the bank in 2010. At BAML, Rai was responsible for FX sales to large corporates with exposure to the Indian rupee. She reported to Joydeep Sengupta, managing director and head of corporate and institutional FX sales in Mumbai. She joined Bank of America's associate programme in 2007.

Both Bhambra and Rai joined Fusion Asset Management in September 2011.

### 1 Basel guidance on settlement risk delayed

CLS Bank, which became operational in 2002 and mitigates Herstatt risk by guaranteeing that counterparties to a trade will always get back the currency they paid out if the trade defaults, is a key component of the FX market infrastructure and is expected to make up a large part of the report. Specific-

much different currencies trade and what we could do in terms of bringing in either new liquidity providers or new settlement members," said Alan Bozian, chief executive of CLS, in a recent interview with *FX Week* ([www.fxweek.com/2128922](http://www.fxweek.com/2128922)).

Adding more currencies to CLS would

central banks, according to CLS, and often requires changes to a country's legal framework regarding bankruptcy.

But some participants are anxious to see more currencies added. Volumes in emerging market currencies across Asia and Latin America are increasing as they become