PRESS RELEASE

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Despite the heavy competition, more SMEs in Quebec would benefit from becoming more international

SMEs global success chiefly depends on effective management of currency risk

Montreal, May 14, 2015 – In recent decades, SMEs, which are 99% of businesses in Quebec, have had to deal with direct competition from emerging countries with significantly lower production costs. Instead, many of them have returned their focus towards the Canadian market. However, growth predictions for Quebec and Canada indicate a reduction over the next few years due to changing demographics and certain structural factors.

This is one of the findings of a study entitled *The internationalization of Quebec SMEs: exchange rate issues* released by Desjardins Group at the *Classe Export* trade show held in Montreal on May 13 and 14, 2015.

Hendrix Vachon, the senior economist at Desjardins Group who headed the study, believes that fluctuating exchange rates should not slow down the internationalization of SMEs. “Quebec SMEs should be internationalizing more to ensure their growth. The numerous free trade agreements Canada has entered into are creating opportunities that our businesses can seize. In addition to facilitating access to a larger consumer base, these agreements promote integration into global value chains. By internationalizing, businesses can cut their production costs, diversify their risks and make expansion easier. However, the successful internationalization of our SMEs chiefly depends on effective management of currency risk.”

As exchange rate volatility increases, so does the exchange rate risk businesses are exposed to. In the last 13 years, exchange rate movements have accelerated and intensified. From January 2002 to November 2007, the Canadian dollar rose 65% against the greenback. During the financial crisis and recession, it depreciated by 25% in just 16 months. The loonie then made up the lost ground, but started to trend down again in September 2012.

Simon Jacques, vice-president, Sales and International Business at Desjardins Group, underscores the importance of being adequately prepared to counter exchange rate variations: “Every business must evaluate its currency risk and decide on whether or not to protect itself. In short, the decision not to use exchange rate hedging instruments shouldn’t be the default choice. The decision process is just as important as the conclusions, which may evolve according to the markets targeted by a business. The four-step analysis process can, for example, help determine a coverage strategy that falls in line with the business’s risk tolerance.”

An ongoing four-step process, just as important as its conclusions

Define and measure the firm’s exchange rate exposure	Develop a company policy on currency risk	Hedge the risk through transactions or other techniques	Regularly evaluate and adjust

For SMEs that are internationalizing, there are two types of hedge: the natural hedge and the financial hedge. A natural hedge involves achieving as good a match as possible between revenue and expenses in the same foreign currency. A financial hedge is created using currency hedge instruments. Desjardins Business offers solutions to manage currency risk. It also offers the expertise of International Services specialists who can guide SMEs from the start so they can correctly assess their risk tolerance and the resources needed to bring them to an acceptable level.

Three hedge types offered by Desjardins Business

Instruments	Advantages	Drawbacks
Currency future	• No initial outlay required • Hedges against unfavourable currency movements	• Does not capitalize on favourable currency movements
Currency option	• Hedges against unfavourable currency movements while capitalizing on favourable currency movements	• The premium must be paid regardless of whether the option is exercised
Currency swap	• No initial outlay required • Resolves problems with the synchronization of foreign currency flow while protecting from unfavourable currency movements	• Does not capitalize on favourable currency movements

Visit the Desjardins website to read the complete study and the special report on exchange rates under *Your business* in the Co-opme section.

About Desjardins Group

Desjardins Group is the leading cooperative financial group in Canada and the fifth largest cooperative financial group in the world with assets of over $254 billion. It has been rated one of the 50 Best Employers in Canada by Aon Hewitt. To meet the diverse needs of its members and clients, Desjardins offers a full range of products and services to individuals and businesses through its extensive distribution network, online platforms and subsidiaries across Canada. The group has one of the highest capital ratios and credit ratings in the industry. In 2014, Desjardins was named the fourth safest bank in North America by *Global Finance* magazine and the second strongest bank in the world by *Bloomberg News.*

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