

# Highly Commended Winner Best Foreign Exchange Solution

United States Steel Corporation  
Laurie Wiggins, Manager – Corporate Finance



## Combined commodities and FX solution from MARS satisfies GAAP and IFRS

### The challenge

One of the top concerns of any treasury operation involved with volatile markets is managing its exposure and risks. The key to managing both areas and complying with best practices is having fast access to market data and real-time pricing. This information gives financial decision-makers more control and flexibility in managing costs and exposures.

For U.S. Steel, some of the largest expenses are the various raw materials that are required to manufacture the steel products used by the automotive, appliance, packaging, construction and energy industries. The price of these raw materials such as natural gas and base metals, for example zinc and tin, are constantly changing. While U.S. Steel cannot control global market volatility, it wanted to improve its hedging effectiveness and valuations workflow processes to reduce risk and lower overall costs.

While removing risk from raw material prices is a challenge of its own, U.S. Steel also faces risk from fluctuations in foreign exchange rates, given its international footprint. The company utilises an FX hedging programme to mitigate risk, but the trading methods were manual and time consuming, involving multiple emails and manual counterparty bid-rate comparative analyses. In the volatile G10 FX markets, time spent waiting on an email with a quote could have a material impact to the value of a trade.

"Time is money," said Laurie Wiggins, Manager - Corporate Finance. "We needed a faster, more efficient process that would track prices and trading, and improve our reporting process."

The company wanted a long-term solution that was easy to implement, cost-effective and would represent a new industry best practice.

### The solution

U.S. Steel chose to work with Bloomberg on two solutions: electronic FX trading and MTM accounting.

For FX, they were able to utilise a service that was already available to the company through its Bloomberg subscription at no additional cost. U.S. Steel moved its trading

to Bloomberg's FXGO platform, which allowed real-time automated trading. Instead of emailing counterparties for FX quotes, awaiting their responses, and then manually analysing the bids to award the trade, U.S. Steel was able to seamlessly transition to electronic trading. This allowed it to reduce margins in bid-ask spreads, save time, reduce errors and better allocate exposure among its counterparties. The company was also able to generate comprehensive trade statistics, providing an opportunity to perform analytics.

For hedging, it adopted the Bloomberg Multi-Asset Risk System (MARS) Hedge Accounting solution (HEFF) to analyse its trading and align hedging practices to risk management objectives. The company's exposure to changes in raw material prices make buying derivatives essential and, given derivatives need to be accounted for, it needed a robust system to ensure compliance.

### Best practice and innovation

Increasing transparency is essential to best market practice. While the IFRS is in Europe, its rulings are regarded as measures needed to improve the accounting and reporting of financial assets and liabilities worldwide. IFRS specifies how an entity should classify and measure financial assets, financial liabilities and some contracts to buy or sell non-financial items. The best corporations are those that meet these standards, as well as the US GAAP standards.

### Key benefits

- Cost savings.
  - 50% for commodities accounting services.
  - 75% in reduced FX bid/ask spreads.
- GAAP and IFRS satisfied.

"By addressing key areas for improvement within our treasury operations, we have achieved a comprehensive and innovative technology solution that generated material cost savings and freed up time for additional strategic improvements," says Wiggins.



U. S. Steel deserves an Adam Smith Award for its market leadership in re-evaluating and modernizing their FX and commodities hedging processes.

U. S. Steel implemented three key corporate treasury solutions:

- Automated their FX trading via a multi-bank electronic trading platform, Bloomberg's FXGO.
- Settled their trades with a confirmation matching service, Bloomberg's CMS.
- Instituted a multi-asset risk system for mark to market and performing their hedge effectiveness testing via Bloomberg MARS.

These solutions allowed USS to reduce the cost of their hedging programme, tighten spreads, and reduce errors. U. S. Steel now has one unified system, without the need for integrating, supporting and paying for multiple niche providers.

Dave Tamburelli, Head of North American Workflow Specialists, Bloomberg

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Founded in 1901, United States Steel Corporation is an integrated steel producer with major production operations in the United States and Central Europe. Headquartered in Pittsburgh, PA., it manufactures a wide range of value-added steel sheet and tubular products for the automotive, appliance, container, industrial machinery, construction, and oil and gas industries.