

## COLLAR OR ENHANCED COLLAR

### TAKE ADVANTAGE OF FAVORABLE CURRENCY RATE MOVEMENTS

Global business exposure may require you to hedge your currency risk; however, you want the opportunity to achieve some benefit from a favorable move in the currency markets. A collar or enhanced collar, which can be structured with no upfront premium, may be the answer.

#### PNC DELIVERS

PNC's team of experienced foreign exchange specialists can help you take advantage of favorable currency rate movements, while still protecting you against unfavorable market moves. Through a collar or enhanced collar, you gain protection against unfavorable currency fluctuations, while allowing limited participation in favorable market movements, usually with no upfront premium.

#### WHAT IS A COLLAR OR ENHANCED COLLAR?

A forward contract is a contractual obligation to buy from or sell to PNC a fixed amount of foreign currency on a future maturity date at a predetermined exchange rate. Forward prices are determined by an adjustment made to spot, based on the interest rate differential between two currencies (countries), otherwise known as forward points. Similar to a forward contract, a collar provides protection against unfavorable currency fluctuations. However, with a protection level slightly worse than a forward rate, a collar allows participation in favorable currency exchange rate movements up to a predetermined level. An enhanced collar works similarly but includes a barrier or trigger that increases the potential benefit. The strategy involves buying one option (protection) and financing the premium associated with it by selling another option.

#### OVERVIEW OF A COLLAR OR ENHANCED COLLAR

- Usually structured with no upfront premium
- Provides protection against adverse currency movements
- Allows participation in favorable currency moves up to a predetermined level (a cap)

#### CONSIDERATIONS FOR USING A COLLAR OR ENHANCED COLLAR

- Floor is less attractive than the forward rate.
- Participation in favorable market movement is limited.

#### WHO CAN BENEFIT FROM USING A COLLAR OR ENHANCED COLLAR?

- Importers looking to reduce the cost of foreign payables
- Exporters looking to increase the value of foreign currency receivables
- Businesses that need to protect their budget at a defined rate, while benefiting from favorable currency moves
- Businesses that need to accommodate different views on currency direction, yet still meet hedging requirements
- Businesses that want to take advantage of positive currency fluctuations but do not want to pay a premium upfront

#### EXAMPLES OF HOW A COLLAR OR ENHANCED COLLAR WORKS

Your company protects against a strengthening euro by executing a collar with a 1.10 floor and a 1.15 cap expiring on June 29. If at expiry the EUR spot is:

- Above 1.15, you purchase EUR at 1.15
- Below 1.10, you purchase EUR at 1.10
- In between this range, you purchase EUR at the prevailing market rate.

## PNC'S FOREIGN EXCHANGE SALES AND TRADING DESKS

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**Washington, D.C.:** 1-877-856-6957



### READY TO HELP

At PNC, we combine a wide range of financial resources with a deep understanding of your business to help you achieve your goals. To learn more about how we can bring ideas, insight and solutions to you, please call PNC's Foreign Exchange group or visit [pnc.com/fx](https://pnc.com/fx).

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