ERRATA

Essentials of Treasury Management, 8th edition

Edits to be published in the 2nd printing

Page 588- 589 – Foreign Exchange (FX) Risk

Changes to the last paragraph on page 588 and the table at the top of page 589 are noted in red.

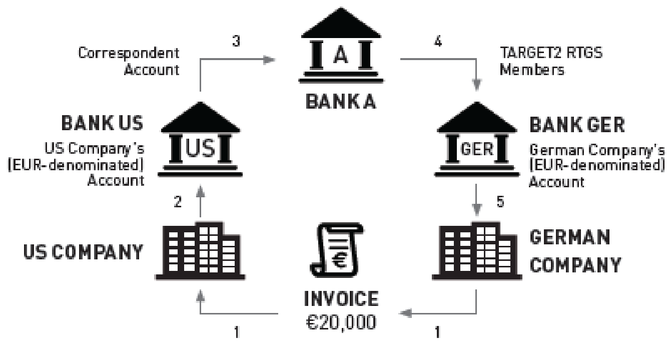
For example, assume a US company buys some goods for EUR 11,000 from a French company on 30-day terms, and it has to translate some of its US dollars into euros to pay on the agreed date. The US company is exposed to a change in the **EUR/USD** exchange rate over the 30 days. If the spot exchange rate is 1.1000 US dollar per 1 EUR on the day the purchase is made, and the exchange rate stays the same over the 30-day period, then it will cost the US company **12,100** US dollars to pay the French company on the agreed date. However, if the exchange rate changes, the cost in USD will change. The table below shows the impact of **an appreciation** (to 1.0500 USD per 1 EUR) and **a depreciation** (to 1.1500 USD per 1 EUR) of the US dollar on the US company's cash flow

	EXCHANGE RATE (EUR/USD)	**USD EQUIVALENT**	**USD GAIN OR LOSS**
CURRENT	1.1000	12,100	N/A
USD DEPRECIATION	1.0500	11,550	USD 550 Gain
USD APPRECIATION	1.1500	12,650	USD 550 Loss

In Exhibit 4.1 – A minor misalignment in the icon used for BANK GER was corrected. The corrected version of exhibit is below.

Edits Published in Second Printing – January 2023

EXHIBIT 4.1 **HOW CORRESPONDENT BANKING IS USED TO SETTLE AN INTERNATIONAL PAYMENT**



A US-based company imports goods from a German company for EUR 20,000. The US company holds a EUR-denominated account with its bank (Bank US) in the United States. The German company's bank (Bank Ger) is in Germany.

There is no direct relationship between Bank US and Bank Ger so the payment is transferred via the use of a correspondent bank. (For ease, the example assumes there are no transaction or other fees.) In this example, Bank US has a correspondent banking relationship with Bank A in the eurozone, which means Bank US holds accounts with Bank A. Bank A is connected to Bank Ger, as both are members of the TARGET2 RTGS system as eurozone banks.

The settlement process occurs as follows:

Step 1. On shipment, the German company invoices the US company.

Step 2. The US company instructs its bank, Bank US, to pay EUR 20,000 into the German company's account at Bank Ger in Germany. Bank US debits EUR 20,000 from the US company's EUR-denominated account.

Step 3. Bank US instructs Bank A to pay Bank Ger EUR 20,000 from Bank US's account at Bank A.

Step 4. Bank A debits Bank US's account and transfers EUR 20,000 to Bank Ger through TARGET2.

Step 5. On receipt of funds through TARGET2, Bank Ger credits the German company's account with EUR 20,000.