# Article information:

Hedging Currency Risks at AIFS - Case - Faculty & Research - Harvard Business School
<https://www.hbs.edu/faculty/Pages/item.aspx?num=31468>

# Article summary:

1. The American Institute for Foreign Studies (AIFS) faces currency risks due to its revenues being in U.S. dollars and costs being in eurodollars and British pounds.

2. AIFS has a hedging policy, but the controllers want to review the percentage of exposure that is covered and the use of forward contracts and options.

3. The controllers need to ensure that the company adequately hedges its foreign exchange exposure and achieves an appropriate balance between forward contracts and currency options.

# Article rating:

Appears moderately imbalanced: The article provides some useful information, but is missing several important points or pieces of evidence that would be required to present the discussed topics in a balanced and reliable way. You are encouraged to seek a more balanced perspective on the presented issues by exploring the provided research topics and looking at different information sources.

# Article analysis:

The article titled "Hedging Currency Risks at AIFS" discusses the foreign exchange exposure of the American Institute for Foreign Studies (AIFS) and its hedging policy. The article provides a brief overview of AIFS's business model, which involves organizing study abroad programs and cultural exchanges for American students. The company's revenues are mainly in U.S. dollars, but most of its costs are in eurodollars and British pounds.

The article highlights that AIFS has a hedging policy in place, but the controllers want to review the percentage of exposure that is covered and the use of forward contracts and options. The controllers need to ensure that the company adequately hedges its foreign exchange exposure and achieves an appropriate balance between forward contracts and currency options.

Overall, the article provides a balanced view of AIFS's hedging policy and the challenges it faces in managing its foreign exchange exposure. However, there are some potential biases in the article that need to be considered.

Firstly, the article does not provide any information about AIFS's competitors or industry benchmarks for hedging policies. This omission could suggest that AIFS is unique in its approach to hedging or that there is no standard practice in the industry. However, this may not be accurate as other companies operating in similar industries may have different approaches to managing their foreign exchange risks.

Secondly, the article does not explore any potential drawbacks or risks associated with using forward contracts or currency options for hedging purposes. While these instruments can help mitigate foreign exchange risk, they also come with their own set of risks such as counterparty risk, liquidity risk, and basis risk.

Thirdly, while the article mentions that AIFS sets guaranteed prices for its exchanges and tours a year in advance before final sales figures are known, it does not provide any evidence to support this claim. Without supporting evidence or data on how often these guaranteed prices are met or missed by AIFS, it is difficult to assess whether this approach is effective or not.

Finally, while the article provides insights into AIFS's hedging policy from a controller's perspective, it does not consider other stakeholders' views such as shareholders or management. This one-sided reporting could suggest that only controllers' opinions matter when it comes to managing foreign exchange risks at AIFS.

In conclusion, while "Hedging Currency Risks at AIFS" provides valuable insights into how one company manages its foreign exchange exposure through hedging policies, there are potential biases and missing points of consideration that readers should be aware of when interpreting this information.

# Topics for further research:

* Industry benchmarks for hedging policies in study abroad and cultural exchange programs
* Risks associated with using forward contracts and currency options for hedging purposes
* Counterparty risk in foreign exchange hedging
* Liquidity risk in foreign exchange hedging
* Basis risk in foreign exchange hedging
* Effectiveness of setting guaranteed prices for exchanges and tours in advance

# Report location:

<https://www.fullpicture.app/item/a2d3c7e46bb40b229b7e61c4b6554293>