

FOREIGN EXCHANGE RISK AND CORPORATE PERFORMANCE IN AN EMERGING ECONOMY-EVIDENCE FROM LISTED COMPANIES IN NIGERIA

Bello, Isiaka Dada PhD

Finance Department, Dangote Industries Limited, Lagos, Nigeria

DOI: <https://doi.org/10.56293/IJMSSSR.2024.5227>

IJMSSSR 2024

VOLUME 6

ISSUE 5 SEPTEMBER - OCTOBER

ISSN: 2582 - 0265

Abstract: Foreign exchange risk is exposure of a firm to the possible impact of fluctuations in foreign exchange rate with the danger that profits would be affected if exchange rates change. This study explores the impact of foreign exchange movement on performance of listed companies on the Nigerian Stock Exchange and examined the robustness of their foreign exchange risk policy as stated in the annual reports. The research design was *ex-facto* using content analysis of 2023 annual reports for listed manufacturing companies with a final sample of thirty companies. The movement in exchange rate resulted into a loss situation for twelve of the sampled companies with direct negative consequences on earnings per share, on equity, and on corporate taxation provision. Only a company recorded a major exchange gain while four others had minor gain. Majority of the companies did not have clear specific policy on the management of foreign exchange risk. This study contributes to accounting literature in corporate reporting on foreign exchange risk impact on performance and how it can be better managed. We recommend that all corporate put a foreign exchange strategy in place, develop risk management template, implement different strategies to manage foreign exchange risk and keep adequate documentation to support realised exchange loss to obtain the desired tax credits. On the operational side, they should look towards reducing dependence on importation of inputs and engage in exports where possible to earn foreign exchange as hedge against foreign exchange exposure from imports.

Keywords: Foreign exchange risk, risk management, financial performance, hedging instruments.

1.0 Introduction

The operating environment for businesses has become very volatile following increased globalization and internationalization of firms. Since majority of the firms either source their inputs or sell their output internationally, they have been affected by the fluctuation in exchange rates calling on them to implement necessary measures to manage the foreign exchange risk.

In June 2023, the Nigeria's President, alongside the Central Bank of Nigeria (CBN), implemented a major policy shift announcing that foreign exchange (FX) rate of Naira to other international convertible currencies would be determined by open market forces. This was aimed to bring cohesion to the country's currency exchange valuation system and boost confidence in Nigeria as an attractive destination for international investors. Unfortunately, the policy has led to unprecedented depreciation in the value of Naira. By 31 December 2023, less than six months after the introduction of the policy, FX rate of Naira depreciated by more 100%, closing at about ₦950:\$1 from around ₦450:1 by June 2023. As of April 2024, Naira has been exchanging for ₦1,400:\$1, exacerbating the financial impact of FX rate depreciation on Nigerian businesses. This singular factor has had far-reaching implications for businesses in Nigeria and can be said to be the major driver of pre-tax losses recorded in 2023 financial year for most companies. The worst hit are companies that are operating in the real sector, who mostly have FX-denominated financial obligations and debt exposures.

Foreign exchange risk is an exposure of an institution/ firm to the possible impact of fluctuations in foreign exchange rates. According to Armitage, Wold & Weissle (2002), foreign exchange risk is the danger that profits would be affected if foreign exchange rates change. Shapiro (1996) states that there are three types of foreign exchange rate risks that are faced by companies namely; translation or accounting risk, transaction risk, and economic risk.

With the expansion of multinational companies, global economic instability is becoming more and more obvious, and the fluctuations in exchange rates are also increasing. This will have a deeper impact on multinational companies. Foreign exchange risk represents the changes in a company's income and expenses or in general cash flow that are caused by an unexpected change in exchange rates. The reasons for exchange rate risk are differences in the economic development of countries that use different currencies, the development level of financial markets, the political stability of a country, the expectations of people who take action in the financial markets and accidental factors. (Habibnia, 2013).

Michael Adler and Bernard Dumas (1984) define a firm exposure to exchange rate risks when its share value is influenced by changes in currency values. Currency risk is not the exposure but where the devaluation is likely. If the devaluation were certain as to magnitude and timing, there would be no risk at all. There are theoretically various channels through which the exchange rate might affect the profitability of a firm. Firms that export to foreign markets may benefit from a depreciation of the local currency if its products become more affordable to foreign consumers. Conversely, firms that rely on imported intermediate products may see their profits shrink because of increasing costs of production.

The PwC Global Treasury Survey for 2023 shows that as in past years, foreign exchange (FX) risk continues to remain the top economic risk concern of respondents. Finance professionals face a major challenge in demonstrating to shareholders the distorting potential of foreign exchange rates on management reporting results and financial statements prepared under relevant accounting standards. The IMF update in April 2023 classified Nigeria as emerging market and development economies. According to Dufey and Srinivasulu (1983) there are three types of foreign exchange risk for businesses operating on an international scope which are transformational risk, transactional risk, and translation risk.

In line with this tendency, the scope of this study is to identify the consequences of high foreign currency exposure among corporates in an emerging economy with focus on profitability of listed manufacturing companies in Nigeria. In a world of high globalization and severe competition, floating exchange rate regime is an important risk factor for emerging market companies as the fluctuations in the value of local currency against hard currencies have important effects on firms' financial performance. In addition, the present study examined the foreign exchange risk policy of these companies as contained in their annual reports to determine the adequacy or otherwise of these policies. Existing studies have concentrated on large firms operating within well-developed money and capital markets of industrialized economies and findings from these studies becomes difficult to generalized for small sized firms in an emerging economy as Nigeria. Other studies done in the country focussed on the banking sector rather than the real sector and did not assess the foreign exchange risk policy of this sector. This study fills the gap of focusing on the manufacturing sector, assessed the companies foreign exchange risk policy and used data as recent as 2023 in its methodology framework. Results of this study will serve as a useful guide to corporate managers and investors on the degree of foreign exchange exposure and the need to effectively manage firm exposure.

The rest of the study is organized as follows. Section 2 delineates the general conceptual model of the study. Literature review was in section 3 while methodology in section 4. The analysis and related results are presented in section 5. The final section 6 concludes on the study and the recommendations.

2.0 Conceptual Model

In this Section, we dealt with the meaning and types of risk, the accounting standard on foreign exchange rates, tax treatment of foreign exchange transactions and foreign exchange management techniques.

2.1 Types of Exchange Risk

The Cambridge Dictionary defines risk as possibility of loss or injury. The Committee on Insurance Terminology of the American Risk and Insurance Association proposed in 1966 the definition of risk as "Uncertainty as to the outcome of an event when two or more possibilities exist". Thus, the greater the uncertainty, the greater the risk. The main types of exchange rate risk are transaction risk, translation risk and economic risk (Shapiro, 1996; Madura, 1989):

Transaction risk, which is basically cash flow risk deals with the effect of changes in exchange rate on transactional account exposure related to receivables (export contracts), payables (import contracts) or repatriation of dividends. An exchange rate change in the currency of denomination of any such contract will result in a direct transaction exchange rate risk to the firm. Translation risk is basically balance sheet exchange rate risk and relates exchange rate moves to the valuation of a foreign subsidiary and, in turn, to the consolidation of a foreign subsidiary to the parent company's balance sheet while income statements are usually translated at the average exchange rate over the period. Economic risk reflects the risk to the firm's present value of future operating cash flows from exchange rate movements. In essence, economic risk concerns the effect of exchange rate changes on revenues (domestic sales and exports) and operating expenses (cost of domestic inputs and imports). Economic risk is usually applied to the present value of future cash flow operations of a firm's parent company and foreign subsidiaries.

2.2 Accounting Standard on Changes in Foreign Exchange Rates

IAS 21: *The Effects of Changes in Foreign Exchange Rates* outlines how to account for foreign currency transactions and operations in financial statements, and also how to translate financial statements into a presentation currency. An entity is required to determine a functional currency (for each of its operations if necessary) based on the primary economic environment in which it operates and generally records foreign currency transactions using the spot conversion rate to that functional currency on the date of the transaction. A foreign currency transaction should be recorded initially at the rate of exchange at the date of the transaction (use of averages is permitted if they are a reasonable approximation of actual). [IAS 21.21-22]. At each subsequent balance sheet date: [IAS 21.23]

- I. foreign currency monetary amounts should be reported using the closing rate
- II. non-monetary items carried at historical cost should be reported using the exchange rate at the date of the transaction
- III. non-monetary items carried at fair value should be reported at the rate that existed when the fair values were determined.

Exchange differences arising when monetary items are settled or when monetary items are translated at rates different from those at which they were translated when initially recognised or in previous financial statements are reported in profit or loss in the period, with one exception. [IAS 21.28] The exception is that exchange differences arising on monetary items that form part of the reporting entity's net investment in a foreign operation are recognised, in the consolidated financial statements that include the foreign operation, in other comprehensive income; they will be recognised in profit or loss on disposal of the net investment. [IAS 21.32] For monetary item that forms part of an entity's investment in a foreign operation, the accounting treatment in consolidated financial statements should not be dependent on the currency of the monetary item. [IAS 21.33] Also, the accounting should not depend on which entity within the group conducts a transaction with the foreign operation. [IAS 21.15A]

2.3 Tax Treatment of Foreign Exchange Transactions

Given the prominent issue of foreign exchange loss in financial year 2023, The Federal Inland Revenue Service of Nigeria released an information circular in June 2024 to clarify the relevant adjustments that may be required to determine the tax position from foreign exchange transactions. According to the Circular, exchange differences may be classified as revenue or capital. Revenue exchange differences is accounted for in ascertaining assessable profits or income for income tax purposes while Capital exchange differences will be recognised in ascertaining the amount of gains for Capital Gains Tax (CGT) purposes.

Foreign exchange differences are further classified as either "realised" or "unrealised". Unrealised exchange differences occur when the revaluation of a foreign-currency transaction arose from mere accounting (reporting) purposes and does not result into payment or receipt of the revalued sum. Realised exchange differences occur when a foreign-currency transaction is closed at an exchange rate different from the booking rate, thereby resulting into payment or receipt of the revalued sum. Unrealised exchange differences do not increase or decrease the tax liability as they must be ignored in the computation of the assessable profits. Where unrealised exchange loss is charged to statement of comprehensive income account (i.e., Profit and Loss Account), such unrealised

losses are not tax deductible, while unrealised gain are equally not taxable income. However, realised exchange differences would either increase (in the case of a gain) or decrease (in the event of a loss) tax due as they are included in the computation of the assessable profits.

For treatment of Capital exchange difference, the Circular stated that pursuant to the provision of Section 27 (a) of CITA, realised capital exchange loss, arising from non-current assets (fixed assets) is NOT deductible for tax purposes. However, the amounts can be added to the cost of the assets, in the year that the loss becomes realised, for the purpose of capital allowances. Capital exchange gains, on the other hand, will be subject to Capital Gains Tax at the prevailing CGT rate when the gain becomes realised. Foreign exchange differences arising from hedging transactions are not taxable income or deductible expense until the hedged item is realised. Upon realisation, the treatment either as revenue or capital will depend on the classification of the underlying item.

2.4 Foreign Exchange Management Practices

When a company grows larger and starts to trade with other countries another risk occurs that has to be managed, called exchange rate risk. It is essential for corporations to be aware of fluctuating exchange rates and have knowledge about the tools that are available to manage these fluctuations (Kidwell et al., 2008). Some of the tools are Hedging, Leading and Lagging Strategies, Swaps, Invoice Currency, Exposure netting, and Cash pooling.

2.4.1 Hedging

Companies can use hedging to reduce foreign exchange risk. Hedging is not only used to protect oneself against foreign exchange risk, but also used in all investment situations (Sooran, 2009). A hedge can be seen as an insurance against future fluctuations in, for example stocks, prices of commodities, and exchange rates. A company is able to hedge the foreign exchange risk attached to an investment by taking another offsetting position, and by doing so, protecting itself from a potential loss. Companies hedge is not to make profits, but to ensure the company from losing money, and the cost from the hedge cannot be avoided (Sooran, 2009). There are different hedging techniques but the main ones are futures, forward contracts, and options. These techniques derive their value from an underlying asset and are therefore viewed as derivative contracts, though there are some differences of how they are composed (Damodaran, 2002).

2.4.2 Leading and Lagging Strategies

This is a special kind of hedging activity involving adjusting the timing of payments or collections to reflect future currency expectations (Madura & Roland, 2007). Leading essentially means that a company attempts to collect foreign currency receivables as soon as possible when it expects the currency to depreciate in the near future. Accordingly, the company wants to disburse foreign currency payables prior to the due date if the currency is predicted to appreciate (Hill, 2001). Lagging on the other hand is the complete opposite of leading. It is used to delay the collection of foreign receivables if the company predicts that the currency will appreciate. Consequently, the company delays currency payables if that foreign currency is expected to depreciate (Hill, 2001). Leading and lagging strategies are most often used by companies with subsidiaries in other countries than the parent company.

The biggest advantages with the leading and lagging strategies is that it is simple to execute (Mathur, 1985) and most often implemented within the organization and the company does not have to consider a third party. The main disadvantages are that it might be difficult to implement as the company must be in the position to exercise some control over payment terms and is also a win-lose game, thus while one party benefits, the counterparty loses.

2.4.3 Swaps

The use of swaps aims at reducing long-term risk (Madura & Fox, 2007). A swap is an agreement between two parties to switch cash flows with each other for a specified time period. The cash flows exchanged are most often currencies and interest rates (Chorafas, 2008). The result of the swap transaction is that all parties involved are satisfied with the outcome. Company A receives fixed rate as desired, and obtains it at a lower cost than what

would have been possible to obtain outside the swap transaction. The swap makes it possible for them to give company B a floating interest rate which they desire. Another advantage of swaps is that companies are able to borrow money in whichever market they prefer, no matter which credit rating they have or absence of one. However, it is difficult to create a perfect swap transaction. To find matching parties is not an easy task, since they have to agree on many criterions (Chorafas, 2008).

2.4.4 Invoice Currency

The choice of invoice currency is an important strategy as it is one of the main determinants of a company's exposure to exchange rate fluctuations (Piercy, 1983). A company faces three strategic choices when exporting its goods abroad and must decide upon prices. It may decide to price the goods in its own domestic currency (Producer Currency Pricing), in the foreign currency of the country it is exporting to (Local Currency Pricing), or in a different currency called a vehicle currency (Vehicle Currency Pricing). Another option is to combine these three choices. Companies in industries with low product differentiation are the group that should prioritize their choice of currency the most, since they are affected the greatest by it. The company should choose a vehicle currency that the majority of its competitors use, in order to reduce movements in quantities demanded (Johnson & Pick, 1997).

It is proved by many that the relative size of a country highly influences its use as an invoice currency. If the importing company is industrialized and situated in a large country, it is preferable for the exporting company to choose the local currency of the importing country in its pricing. The reason is because it does not risk the firm's competitive advantage relative to that of domestic firms' (Wilander, 2006). This partly explains why the USD constitutes the vehicle currency that is most often used (Donnenfeld & Haug, 2003).

2.4.5 Exposure netting

Another method companies can use to manage foreign exchange risk exposure is called exposure netting. It involves offsetting exposures in one currency with exposures in the same or another currency. When exchange rates are expected to shift, losses on the first exposed position are offset by gains on the second currency. The underlying assumption of exposure netting is that the net gains or losses on the entire foreign exchange risk exposure in the corporation is what matters, rather than the gain or loss on any individual monetary division (Shapiro, 1999). Exposure netting is not as easy as it may sound as parties may not find anything suitable to purchase in the foreign country in order to create the liability. This technique is mostly used effectively by multinational corporations (Javaid, 1985).

2.4.6 Cash pooling

Cash pooling is a method that centralizes cash management, and in general involves transferring a subsidiary company's excess cash into a centrally managed account, or cash pool. Most companies that use cash pooling have implemented a special corporate entity that collects and disburses funds through a single bank account (Shapiro, 1999). The main objective of cash pooling for firms is to bring together debit and credit balances of all subsidiaries (Ramirez & Tadesse, 2007). Pooling can be arranged in two ways, either automatically where a company's bank transfers the surpluses on specified accounts to a central account by the end of each day, or be administered by the firm's own management who instructs the bank to make the required transfers between the accounts (Graham & Coyle, 2000).

Each subsidiary company only needs to manage their required cash balance and transfer the excess capital to the parent company. All the excess funds are then held by the parent company and transferred into the pool. There are disadvantages involved when using cash pooling. Taking control over a subsidiary company's excess cash can create motivational problems for local managers. They might not feel the incentive to work as hard as they used to and may not feel motivated to take advantage of opportunities on the local market of which only they may be aware (Shapiro, 1999).

3.0 Literature Review

Nzioka and Maseki (2017) examined the effects of hedging foreign exchange risk on financial performance of non-banking stocks listed at the Nairobi Securities Stock Exchange using descriptive research design and target population of forty-nine non-banking firms. They concluded that hedging techniques affected firm's performance i.e. profitability, sales revenue and the cash flow and liquidity position of the firm. The internal techniques were more effective on the performance than the external techniques.

Omar, Taufil, Ahmad (2017) examined the exposure to foreign exchange rate risk in Asian financial markets. The study investigated the exposure to currency risk of different economies and concluded that most of the emerging and developing economies are exposed to higher level of foreign currency exposure. This is due to high level of openness and large amount of import and exports.

Parlak & Ilhan (2016) investigated foreign exchange risk and financial performance of manufacturing and service sector companies in Turkey. The ANOVA test indicated that companies with short foreign exchange positions were able to increase their overall profitability to the same level as companies with long foreign exchange positions in periods when local currency was overvalued, but exposed to serious losses in periods of local currency devaluation.

Savani and Mistry (2022) examined foreign exchange risk and firm value in India. The objective was to see the impact of foreign exchange risk on firm value for selected Indian Pharmaceutical companies, Oil and Gas Companies and Textile Companies. Fifteen companies covering ten years data (2009 to 2018) were selected for the study. According to Anova table, it can said that foreign exchange risk affects firm value of selected pharmaceutical, oil and gas and Textile Companies.

Wang, Y (2020) examined the foreign exchange risk management of multinational companies. The study concluded that Chinese foreign-related companies have suffered large exchange losses during this period 2005 to 2015 and their foreign exchange risk management capabilities need to be strengthened urgently.

Asuquo and Tapang (2012) investigated foreign exchange rate risk exposure and the performance of thirty sampled Nigerian companies for the period of 2002-2011. The study revealed that Nigerian listed companies are generally exposed to adverse exchange rate risk of the three currencies under consideration, with a higher magnitude of exposure to the US dollar. The study concluded that exchange rate instability is a significant hindrance to corporate performance.

Etim, Uchechukwu, Ekanem, Inyang, & Akwaowo (2023) examined the relationship between foreign exchange market and financial performance of banks in Nigeria and to see the relationship between official exchange rate, real exchange rate index, net demand for foreign exchange (NDX), and profitability and investments of banks. Quantitative research method was adopted. Secondary data was collected for the period 2000 to 2021. It revealed that the exchange rate has a positive and significant relationship with profitability and investments of banks in Nigeria; and real exchange rate index (RER) has a negative relationship with profitability of banks but a positive relationship with investments of banks in Nigeria.

Asaolu (2010) examined the exchange rate risk exposure of Nigerian listed firms using a sample of 117 samples of Nigerian listed firms from 1998-2007. Findings revealed that Nigerian listed firms are generally exposed to adverse exchange rates risks of the three currencies under investigation, with a higher magnitude of exposure to the US dollar. The study further investigated differences in exposure by financial and non-financial sector firm and found that there are no significant differences in pattern of exposure between the financial and non-financial firm. The study concluded that exchange rates instability is significant hindrance to corporate performance in Nigerian listed firms.

Isaac (2020) assessed the impact of exchange rate risk on banks performance in Nigeria using secondary sources of information and utilised an auto regression conditional model for measuring risk. The model specified the conditional variance as a deterministic function of lagged squared residual. The study revealed that unit increases in exchange rate is driven by an increase in profit after tax (PAT) and that there is a significant relationship

between exchange rate management and performance of financial institutions especially for banks.

Mkpe (2020) examined the effect of risk management on financial performance of quoted deposit money banks in Nigeria from 2009-2018. The independent variable (risk management) is measured by non-performing loan risk and foreign exchange risk while, Return on Assets measure the dependent variable – Financial Performance. Data were sourced from the financial statements of the sampled Deposit Money Banks for the ten (10) year’s period under study. The results show that Non-Performing Loans Risk has a significant negative effect on return on assets. The results further show that foreign exchange risk has an insignificant positive effect on Return on Assets of Nigerian Deposit Money Banks from 2009-2018.

4.0 Methodology

The research design was *ex-facto*. This study used the content analysis of the corporate annual report based on a sample of public listed companies on the Nigerian Stock Exchange. Content analysis is considered a primary tool for analysing published information (Jose & Lee, 2007).

The chosen sector is the Manufacturing Sector as this sector is most hit by movement in foreign exchange impact in the Nigerian economy. There are no “Manufacturing Sector” on the Nigerian Stock Exchange (NGX), but it comprises the following sectors: Industrial Goods, Consumer Goods, and the Health Sectors. Total sampling of the population of firms in the three sectors were intended but those with no annual reports were eliminated and those with inappropriate activity (Ekocorp Plc) who runs an hospital service. At the end, the final sample of companies were thirty for the study.

Table 1:

Sectors	Population	Sample	No. of Coys	No. of Coys
Consumer Goods			20	16
Industrial Goods			11	11
Healthcare			6	3
Total			37	30

Source: Researcher’s Analysis

The annual reports are considered as the main source of communicating with the stakeholders. This was analysed for year ended 31 December 2023 as the change in exchange rate policy occurred in the country in May 2023 with immediate impact on the economy. The analysis of the annual reports was for the two purposes of the objectives of this study which were to analyse the impact of foreign exchange movement on the income statement and equity position of firms in the manufacturing sector and to analyse the foreign exchange risk policies and management by the companies in this sector.

Though the intention is to use 12 months results for the year ended 31 December 2023, 7 of the companies included in the sample has 6- or 9-months results (Cutix, Flour Mills, Guinness, Honeywell Flours, PZ Cusson, Northern Nig Flour, and Tripple Gee & Co.). As the exchange impact started in May 2023, these companies still cover the period relevant for this study and included. Descriptive and inferential statistics were employed. The descriptive statistics examined the mean, maximum and minimum parameters of the variables. Content analysis of the foreign exchange risk policy and management of the companies were done to determine its adequacy and robustness.

4.1 Data Analysis and Interpretation

Descriptive Analysis:

Variable	Minimum	Mean	Maximum	Cumulative	No. of Observations
	N’m	N’m	N’m	N’m	

Turnover	2,088	211,132	1,297,639	6,333,966	30
Exchange Loss	56	51,026	195,072	1,071,550	12
Exchange Gain	17	131,238	784,507	787,426	5
Profit Before Tax	351	50,954	562,800	917,167	18
Loss Before Tax	229	57,609	144,690	691,304	12
Equity (negative)	6,514	38264	78,035		3
	%	%	%		
Exch. Loss as % of Turnover	2%	29%	314%		
Exch. Loss as % of Share Capital + Reserves	1%	1315%	32765%		
	Kobo	Kobo	Kobo	Kobo	
EPS (positive)	5	812	7087	15,430	19
EPS (negative)	-67	-1384	-10026	-15230	11

Source: Researcher's Computation 2024

No. of Observations: 30

The minimum Turnover was N2.1bn (Aluminium Extrusion Plc), the mean at N211bn and the maximum N1.3Trillion (Dangote Cement Plc). Exchange Loss has a minimum of N56m (Champion Breweries), the mean was N51bn and the maximum N195bn from Nestle Plc. This was followed by Dangote Sugar Refinery Plc at N172bn and Nigerian Breweries Plc at N153bn. The Exchange Loss as a percentage of Turnover was 2% at the minimum level (Fidson Pharmaceuticals), a mean of 29% and a maximum of 314% for Notore Chemicals. The other companies with high percentages were PZ Cussons (149%) and GSK Plc at 89%. The Exchange Loss situation had direct impacts on the profitability of the companies under study, on Earnings per Share, on Equity, and on their corporate taxation provision.

The Exchange Loss resulted into twelve of the thirty companies in a loss before tax situation for year ended 31 December 2023. The minimum loss was N229m (Aluminium Extrusion), mean at N57.6bn and the maximum at N144.7bn for Nigerian Breweries Plc. The other companies with major losses were Notore Chemicals (N114bn) and Dangote Sugar Refinery Plc at N107bn.

The Exchange Loss has turned eleven companies into negative Earnings Per Share (EPS). The minimum was 67kobo (Neimeth Pharmaceuticals), the mean at 1384kobo, and the maximum value of 10,026kobo (Nestle Plc). PZ Cusson had 1484 and Nigerian Breweries at 1275kobo. Three companies have turned into negative equity position as of 31 December 2023 because of the Exchange Loss. They are Nestle (N78bn), PZ Cusson (N30bn), and Cadbury (N6.5bn). In fact, PZ Cussons has given notice of intention to cease operations in the country. As the Exchange Loss impacted on turning hitherto profitable companies to loss making, this will affect government earnings from corporate tax income in 2024. Six of the companies have made provision for tax credit to the tune of N155.4bn with Nigerian Breweries at the maximum of N39bn tax credit provision.

It is not all bad news as five of the companies in the sample made Exchange Gain during the year ended led majorly by Dangote Cement, NASCO and Unilever.

The researcher also reviewed the company's policy on the management of foreign exchange risk as contained in the audited annual reports of the listed companies. Majority of the companies did not have clear specific policy on the management of foreign exchange risk. These are: Aluminium Extrusion Plc, Berger Paints Plc, BUA Foods Plc, CAP Plc, Lafarge Nigeria Plc and Meyer Plc

Some companies with no specific risk management policy claimed that their foreign exchange exposure is minimal. These are: May & Baker Plc and Neimeth Pharmaceuticals Plc. Cadbury Nigeria Plc claimed that they keep the company's exposure at an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short term imbalances. Some companies claimed that their foreign exchange risks are managed by holding foreign currency bank accounts which function as a natural hedge for these transactions or balancing the sources of financial instruments. These are: Beta Glass Plc, Vitafoam Plc, Nestle Nig Plc, and Notore Chemicals Plc

Monitoring the financial position in each country of operation with the aim of having assets and liabilities denominated in the functional currency as much as possible is the method employed by Dangote Cement Plc. Exchange rate exposures are managed within approved policy parameters utilising foreign forward exchange contracts where necessary by the following companies: Fidson Pharmaceuticals Plc, International Breweries Plc and Champion Breweries Plc.

Generation of relevant risk management reports for the monitoring and review on a daily and weekly basis. Some other companies state foreign exchange exposure is monitored by the treasury unit and the board. Companies in this category were: Honeywell Flours Plc, Dangote Sugar Refinery Plc, NASCON Plc and Unilever Plc.

5.0 Conclusions and Recommendations

A review of the financial statements of the companies under review suggests the losses stemmed from the forex obligations and loans carried by the companies over the years. For some, the losses emanate from forex obligations in the ordinary course of business operations. We also observed that some of the companies incurred the losses from intercompany loans denominated in dollars that were obtained at the start of the forex crisis in 2021. Some of the companies resorted to their parent companies for related-party loans to fund raw material inputs. Seen as a lifeline then, the intercompany loans turned out to be a financial weapon of forex losses as the unification of the naira devalued it by over 50% against the US dollar.

Recommendations

The researcher recommends that all Corporates must develop a foreign exchange strategy in place, develop risk management template, implement different strategies to manage foreign exchange risk and keep adequate documentations to support realised exchange loss to get the desired tax credit.

All corporates exposed to material FX risk must have an FX strategy in place, an FX policy document setting out their FX management strategy that will also support the disclosure requirements regarding risk under accounting standards. The FX strategy must be reviewed annually to assure themselves that it remains appropriate. Corporates should develop risk management template to identify, measure, manage and report risk to executive management and the board and implement different financing strategies like Hedging, Leading and Lagging Strategies, Swaps, Invoice Currency, Exposure netting, and Cash pooling to manage risks. The choice of which depends on the context and situation as may be appropriate.

On the operational side, they should look towards reducing dependence on importation of inputs and engage in exports where possible to earn foreign exchange that will serve as a hedge against imports bills FX exposure. They should also do appropriate documentations to support realised and unrealised transactions to support tax computations and filing.

REFERENCES

1. Adler, M. & Dumas, B. (1984). Exposure to Currency Risk: Definition and Measurement, *Financial Management*, 13(2), 41-50.
2. Armitage, J. C, Wold, P.J. & Weissler, R., (2002). Adjustments for Changes in Exchange rates During an Advance Pricing Agreement. Term unpublished Thesis.
3. Asaolu, T.O. (2010). Exchange rate risk exposure of Nigerian listed firms: Empirical examination, *International Business Research*, 4(2), 219-225.

4. Asuquo, A.I., & Tapang, A.T. (2012). An empirical analysis of foreign exchange rate risk exposure and the performance of Nigerian companies: 2002-2011, *International Journal of Currency Research*,4(23),1-8.
5. Adegbe, F. F., Akintoye, I. R. & Bello, I. (2019). Evaluation of Integrated Reporting and the value of Listed Manufacturing Companies, *European Journal of Accounting, Auditing and Finance Research*, 7(6), 693-121.
6. Bulletin of the Commission of Insurance Terminology of the American Risk and Insurance Association, March 1966. 2(1).
7. Cambridge Dictionary: <https://dictionary.cambridge.org/dictionary/english/risk>
8. Chorafas, D. N. (2008). Introduction to Derivative Financial Instruments: Options, Futures, Forwards, Swaps, and Hedging (p.295-320). New York, USA: Mc-Graw Hill.
9. Chugh, A., Sharna, R. & Mehta, K. (2017). Foreign risk management by SME's and unlisted non-financial firms: A literature survey, *Journal of Technology Management for Growing Economies*, 8(2), 145-166.
10. Damodaran, A. (2002). *Investment valuation*, University Edition, New York: John Wiley & Sons, Inc p.296.
11. Donnenfeld, S., & Haug, A. (2003). Currency Invoicing in International Trade: an Empirical Investigation, *Review of International Economics*, 11(2), 332-345.
12. Dufey, G. & Srinivasulu (1983). The Case for Corporate Management of Foreign Exchange Risk, *Financial Management*, 12(4),54-62
13. Federal Inland Revenue Service Information Circular (2023). Tax Treatment of Foreign Exchange Transactions. 2024/03
14. Graham, A. & Coyle, B. (2000). *Cash Flow Management - Cash Flow Forecasting and Liquidity* (pp. 15-16). Chicago, IL, USA: Fitzroy Dearborn Publ.
15. Habibnia, A. (2013), Foreign Exchange Rate Risk Measurement and Management Conference: 5th Conference on Development of Financing System; Affiliation: London School of Economics. [10.13140/RG.2.2.32352.79366](https://doi.org/10.13140/RG.2.2.32352.79366)
16. Hill, C.W.L. (2001). *International Business: Competing in the global marketplace* (3rd ed.).Irwin/McGraw-Hill, Boston, MA.
17. <https://www.pwc.com/hu/hu/assets/fx-risk-qr.pdf>
18. <https://www.imf.org/en/Publications/WEO/weo-database/2023/April/groups-and-aggregates>
19. IAS 21- The Effects of Changes in Foreign Exchange Rates: <https://www.iasplus.com/en/standards/ias/ias21>
20. Isaac, L. (2015). Assessing the impact of exchange rate risk on banks performance in Nigeria, *Journal of Economics and Sustainable Development*, 6(6),1-13.
21. Jakobsson, C, Edvardsen, D., Henriksson, O. (2009). Foreign exchange risk management practices: a study of Swedish medium-term and large-sized companies: *A bachelor Thesis of the BBA-programme of Jonkoping International Business School*, 1-59.
22. Johnson, M., & Pick, D. (1997). Currency Quandary: The choice of invoicing currency under Exchange-Rate Uncertainty. *Review of International Economics*, 5(1), 118-128.
23. Jose, A., & Lee, S. M. (2007). Environmental reporting of global corporations: A content analysis based on website disclosures. *Journal of Business Ethics*, 72(4), 307-321.
24. Kidwell, D. S., Blackwell, D. W., Whidbee, D. A., & Peterson, R. L. (2008). *Financial Institutions Markets, and Money* (pp.112-113, 121, 327-333). John Wiley & Sons, Hoboken, NJ.
25. Madura, J., & Fox, R. (2007). *International Financial Management* (pp. 411, 413). Thomson Learning, London.
26. Mathur, I. (1985), Managing foreign exchange risks: *Strategy considerations*, Elsevier Science Ltd.7-8.
27. Mitra, A. (2013). Comparative analysis of foreign exchange risk management practices among non-banking companies in India, *Africa Development and Resources Research Institute*, 3(3),38-51.
28. Mkpe, N.O., Ekpa, F., & Ochepe, A. A. (2020). Effects of risk management on financial performance of quoted deposit money banks in Nigeria, *Journal of Leadership, Accounting Development, and Investigation Research*, 4(1), 102-111.
29. Nzioka, O.M. (2017). Effects of hedging foreign exchange risk on financial performance of non-banking companies listed at the Nairobi Securities Exchange, *European Scientific Journal*, 13(10), 402-416.
30. Omar, A.B., Mohamad, K.N.T., & Ahmad, N.B. (2017). Exposure to foreign exchange rate risk: A review of empirical evidence, *Journal of Insurance and Financial Management*, 2(5), 79-91.
31. Parlak, D. & Ilham, H. (2016). Foreign exchange risk and financial performance: The case of Turkey, *International Review of Economics and Management*, 4(2),1-15.

32. Piercy, N. (1983). Pricing Exports: Which Currency to Choose? *Management Decision*, 21(6), 39-50.
33. Ramirez, A. & Tadesse, S. (2007). *Corporate Cash Holdings, National Culture, and Multinationality*. Retrieved December 5, 2009, from <http://deepblue.lib.umich.edu/bitstream/2027.42/57256/1/wp876%20.pdf>
34. Savani, M.J. & Mistry, D. (2022). Foreign exchange risk and firm value: The case of India, *Global Journal of Social Sciences*, 5(3), 37-42.
35. Shapiro, A. C. (1999). *Multinational Financial Management* (6th ed.) John Wiley & Sons, Inc, NY.297-298,431-432.
36. Sooran, C. (2009). *What is Hedging? Why do companies Hedge?* Retrieved 28 October, 2009, from <http://www.finpipe.com/hedge.htm>
37. Wang, Y. (2020). Foreign exchange risk management of multi-national companies, *Advances in Social Science, Education, and Humanities Research*, 480, 141-143.
38. Wilander, F. (2006). *An Empirical Analysis of the Currency Denomination in International Trade*. Retrieved December 5, 2009, from <http://www.snee.org/filer/papers/262.pdf>