2016 AFP Risk Survey

REPORT OF SURVEY RESULTS

AFP ASSOCIATION FOR FINANCIAL PROFESSIONALS

Supported by

MARSH & McLENNAN COMPANIES

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KEY FINDINGS

ASSOCIATION FOR FINANCIAL PROFESSIONALS

2015 AFP

Risk Survey

REPORT OF SURVEY RESULTS

52% of organizations are exposed to greater earnings uncertainty than they were three years ago.

Is yours one?

TOP DRIVERS OF UNCERTAINTY

Financial Factors:
- Interest Rate
- Currency/FX
- Credit

External Factors:
- Regulatory
- Country Risk
- Geopolitical Risks

Commodities:
- Oil
- Metals
- Agricultural

2016 AFP

Risk Survey

REPORT OF SURVEY RESULTS

January 2016

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In a tightly interconnected global economy, it is key that analysis and risk management is equally interconnected

It isn't getting any easier. That is the clear message from this year's annual risk survey. The business environment remains challenging with 89 percent of respondents noting that their organization is exposed to the same or greater earnings uncertainty as three years ago.

The top three risks for U.S.-businesses have remained unchanged for the past three years. As the U.S. heads towards a 2016 presidential election, political and regulatory uncertainty is seen as the top risk factor, followed by increased competition and ensuring customer satisfaction and retention. Concerns regarding the global economy are revealed as more "traditional" concerns for treasury and financial professionals as currency, commodity and interest rate risks rise in the rankings. Indeed, after two years of reduced focus, commodities are tagged as the leading driver of increased exposure to earnings uncertainty for publicly owned companies in this year's survey.

Commodity and currency risks are amplified by the ever-increasing interconnectedness of the global economy and its susceptibility to the cascading effects of public policy shifts, natural disasters or geopolitical conflict in any one country. Few supply chains are immune to the impacts of commodity or currency volatility or the effects of new players or trading patterns within these chains. Yet the survey results suggest that many companies may not be adequately prepared for the resurgence of commodity and currency risks: only 50 percent of respondents currently have plans in place to respond to and reduce the potential impact of these risks.

To help organizations respond to the tightly interconnected global economy, treasury and financial leaders must ensure their analysis and management of risks is equally interconnected. A portfolio approach to measurement, management and monitoring of currency and commodity risks is essential. Further, as companies reconsider how they manage these risks, creating the right governance, infrastructure and analytics to support decision making and evaluate options must be put in place.

In the current business environment, the only certainty is uncertainty. It is clear that risk forecasting will remain a key challenge. A continued focus on improving risk analytics, including quantification and scenario development, to understand the potential impacts of interconnected risks on the organization is critical. Most importantly, the analysis must be considered in the context of the corporate strategy and risk appetite to ensure financial success in the face of continued volatility.

Alex Wittenberg
Partner, Oliver Wyman and Executive Director,
Marsh & McLennan Companies Global Risk Center

Introduction

Forecasting earnings and managing risk in the current environment can be challenging for finance professionals. The environment in which they are operating today, especially, is steeped in unpredictability and volatility. The past year has been marked by a myriad of global issues—the downturn in China's economy and markets, the financial crisis in Greece, the migrant crisis and ruthless terrorist attacks around the world.

At the same time, the U.S. dollar has been gaining strength. While that has positive repercussions, a stronger dollar also increases the price of exports; that could severely impact corporations with a large global presence. It also risks widening the U.S. trade deficit. Even though unemployment is at its lowest level since 2008 and energy prices have been trending downward, finance professionals remain concerned about the U.S. economy going forward and planning for their organizations' financial health.

Against this background of worldwide crises and economic skepticism, treasury and finance professionals need to equip themselves with the tools and resources to effectively manage risks and stay ahead of the curve. In October 2015 the Association for Financial Professionals® (AFP) conducted The Risk Survey focusing on how companies are managing emerging risks and specifically how companies are addressing interest rate, currency and commodity risks. The survey was sent to senior-level corporate member practitioners and prospects; a total of 335 corporate practitioners responded. Survey respondents represented a wide range of organizations, both publicly and privately owned and of varying sizes.

This *2016 AFP Risk Survey* report provides insights on finance professionals' perceptions of the risk environment, the primary drivers impacting uncertainty, their organizations' responses to the risk environment and areas of concern with regard to interest rate, currency and commodity risks and companies' plans to mitigate the potential impact of such risks.

While the U.S. economy has been displaying signs of a gradual recovery, the global economy remains uncertain. Consequently, many anticipate that forecasting will be even more difficult in the future. The risk factors survey respondents rate as most significant are political/regulatory uncertainty, increased competition and customer satisfaction/retention. A vast majority indicate that their organizations' exposure to earnings uncertainty has either increased or remained at the same level compared to three years ago. The increased cost of finance and risks associated with currency translation are of primary concern to this group as well.

This year's *AFP Risk Survey* is once again supported by the Marsh & McLennan Companies' Global Risk Center. AFP thanks Marsh & McLennan for its support of the survey, for help in crafting the survey questions and for sharing its insights into current risk issues. The Research Department of the Association for Financial Professionals® is solely responsible for the content of this report.

Uncertainty in Earnings Increases

Although the U.S. economy remains relatively stable, the broader, global economy is mired in uncertainty. That is contributing to some trepidation among business leaders, and that concern is reflected in the high levels of uncertainty regarding organizations' earnings. Fifty-two percent of finance professionals believe their organizations are exposed to greater earnings uncertainty than they were three years ago. Another 37 percent report the level of uncertainty is unchanged and 11 percent indicate their companies are exposed to less uncertainty compared to three years ago. The share of finance professionals reporting increased exposure to earnings risk is considerably larger compared to the share in last year's (2015) survey, but is smaller than in 2013: 43 percent and 59 percent, respectively.

Corporate practitioners from larger companies (with annual revenues of at least $1 billion) more frequently report that their companies are subject to a greater amount of uncertainty than do their counterparts from smaller companies. This could be due to larger organizations having a greater global footprint.

At **52%** of organizations, earnings uncertainty has increased compared to three years ago

Change in Exposure to Uncertainty in Earnings from Three Years Ago

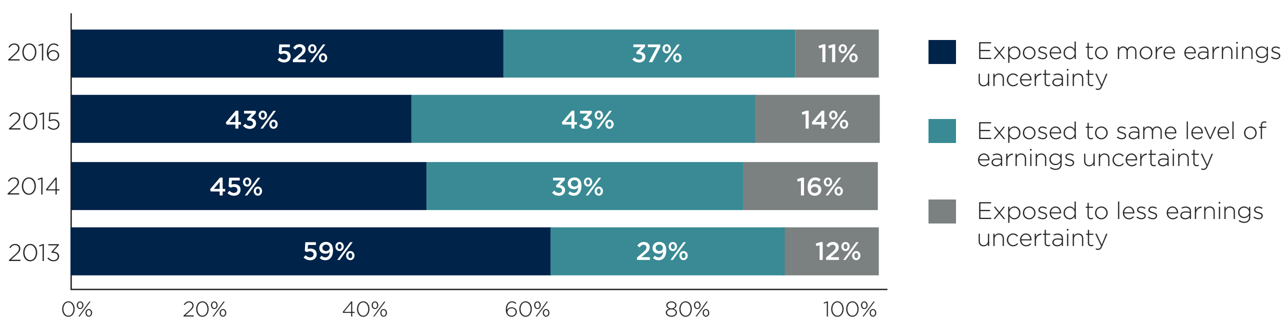
(Percentage Distribution of Organizations)

The global economy faced some severe headwinds this past year: the Eurozone plagued by slow growth, the severe financial crisis in Greece, a weakening Chinese economy, the exodus of refugees from Syria and other countries, and indiscriminate and brutal terrorist attacks just to name a few. But the U.S. economy, too, had its share of challenges: a severe winter resulting in a tepid retail season during the 2014 holidays, a strengthening U.S. dollar causing the price of U.S. exports and currency translation to rise, and until mid-December 2015 a lack of definitive action from the Federal Reserve Board on raising interest rates. These factors have likely contributed to the view held by 89 percent of finance professionals that exposure to uncertainty in earnings is greater or the same as it was three years ago. That is close to the 86 percent who held that same view in 2015 and perhaps suggests that uncertainty may be difficult to shake off any time soon.

The global economy faced **severe headwinds** in 2015

Change in Exposure to Uncertainty in Earnings Relative to Three Years Ago

(Percentage Distribution of Organizations)



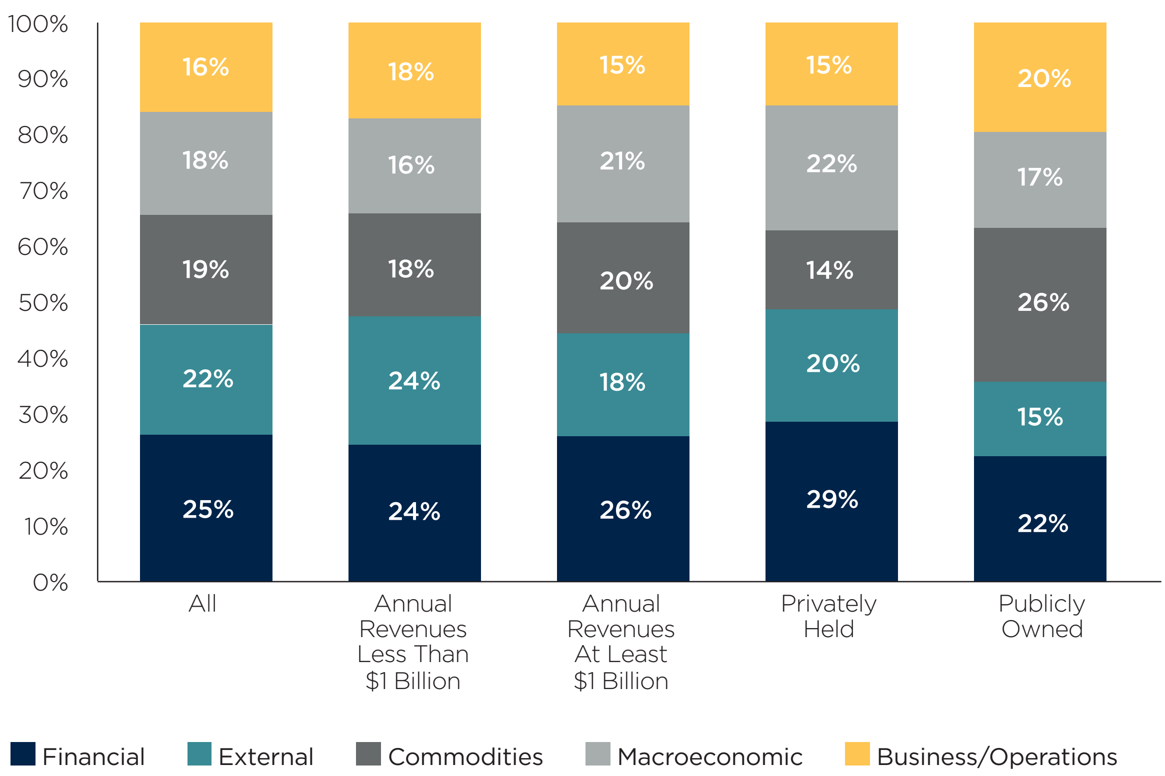
In last year's survey report (the *2015 AFP Risk Survey*) the top three drivers of earnings uncertainty were business/operations (cited by 25 percent of survey respondents), financial factors (24 percent) and external factors (20 percent). This year's top three reasons driving earnings uncertainty differ somewhat: financial factors (e.g. credit, liquidity, interest rate, currency/FX) are the top-ranked driver (cited by 25 percent of respondents), followed by external factors: (country risk, regulatory, natural disaster) (22 percent). But most notable is commodities (19 percent) replacing business/operations as the third most-cited driver. Indeed, the share of finance professionals reporting commodities, (energy, agricultural, metals) as a primary driver of earnings uncertainty has grown considerably from the 11 percent and seven percent reported in the *2015* and *2014 AFP Risk Surveys,* respectively. This is not surprising considering the extreme volatility in the commodities market, which is discussed later in this report.

Smaller companies (with annual revenues of less than $1 billion) and those that are privately held are more likely to be impacted by external factors than are larger companies and those which are publicly owned. A far larger share of finance professionals from publicly owned organizations (26 percent) cite commodities as a key factor in the increase of their organizations' exposure to earnings uncertainty than do their peers from privately held companies (14 percent).

Top drivers for earnings uncertainty are: **financial factors, external factors and commodities**

Primary Drivers of Increase in Exposure to Earnings Uncertainty

(Percentage Distribution of Organizations that Have Experienced Greater Earnings Uncertainty)

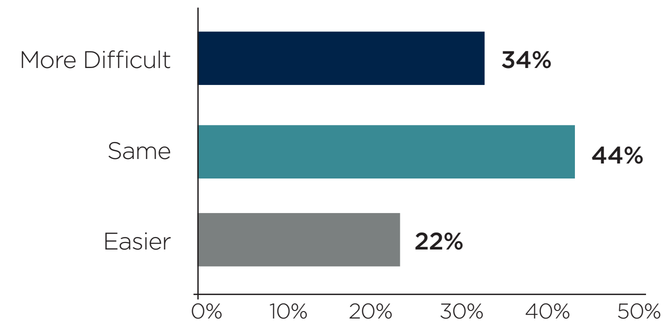


Anticipating Difficulty in Forecasting Risk

Forecasting risk continues to be a challenge for a majority of finance professionals—78 percent—who indicate that accurately forecasting risk is either as difficult or even more difficult as it was three years ago. This result is unchanged from last year's survey. But 34 percent report that forecasting risk is actually *more* difficult, slightly greater than the 31 percent who held this view last year but a significant improvement from the 53 percent in 2012 (as reported in the 2013 survey). At the other end of the spectrum, only 22 percent indicate that forecasting risk is easier currently than three years ago.

Majority of survey respondents report that accurately **forecasting risk** will be more challenging three years from now

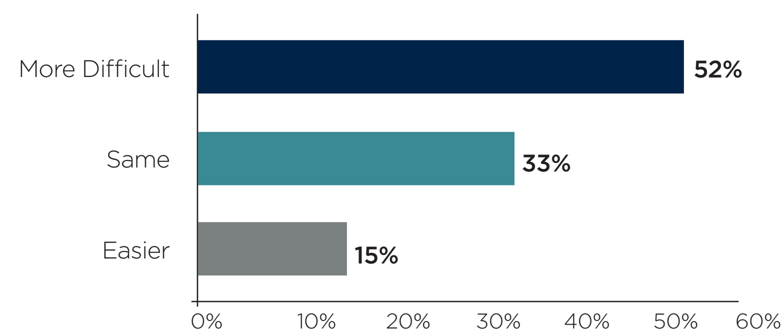
Difficulty of Forecasting Risk Today Relative to Three Years Ago (2012)
(Percentage Distribution of Respondents)



In the five years AFP has been conducting this series of Risk surveys, respondents have reported fairly consistently that accurate forecasting remains a significant challenge compared to previous years. There is also a consensus among finance professionals that forecasting will only become more difficult in the future. Fifty-two percent of survey respondents anticipate it will be more difficult to forecast risk three years from now while only 15 percent believe it will be easier. Since the majority of respondents expects earnings uncertainty to remain the same or increase in the future, these findings suggest that the forecasting environment will continue to pose significant challenges in the years to come, especially given ongoing geopolitical risks and extremely volatile finance markets.

Finance professionals from over half of smaller organizations as well as privately held ones anticipate it will be more challenging to forecast risk in the future. Slightly fewer of their counterparts at larger organizations and publicly owned ones hold the same opinion.

Anticipated Difficulty of Forecasting Risk Three Years from Now (2018)
(Percentage Distribution of Respondents)

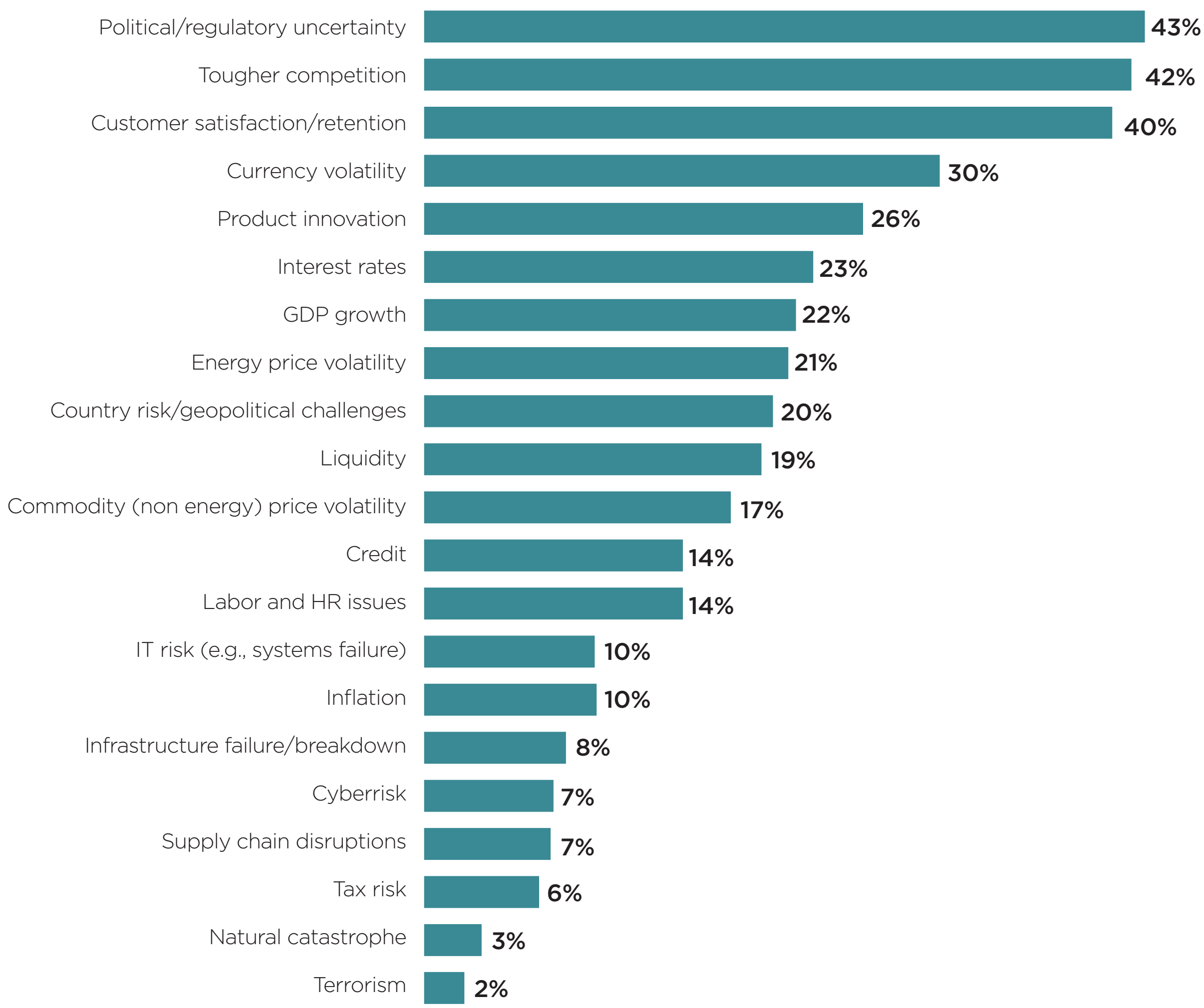


Risk Factors Having the Greatest Impact on Earnings in the Next Three Years

A number of risk factors can impact a company's earnings. Finance professionals rank the highest risk factor in the next three years as political/regulatory uncertainty (cited by 43 percent of survey respondents). Other risk factors practitioners believe will impact their firms' future earnings are tougher competition (42 percent) and customer service/retention (40 percent).

Key Risk Factors which will have the Greatest Impact on Organizations' Earnings in the Next Three Years

(Percent of Respondents)



Those top-ranked factors are similar to those reported in last year's survey. The share of finance professionals citing political/regulatory uncertainty as a key risk factor in their companies' earnings—43 percent—is very similar to last year's figure of 44 percent. The 42 percent citing competition as a major challenge to earnings represents an increase from the 38 percent who held the same view last year, while the share citing customer satisfaction/retention as a key factor is three percentage points higher than last year.

In terms of changes in rankings of risk factors, currency volatility has appeared in the top five risk factors for the first time in the past four surveys (16 percent rated it as top risk factor in 2015 compared to 30 percent in this year's survey); energy and commodity price risks have also increased in ranking. Perhaps most interestingly, only seven percent of respondents rank cyberrisk as a key concern compared to 19 percent in the 2015 survey. This shift in sentiment may likely be due to a growing recognition that cyberrisk is now a core business risk requiring active management rather than a reflection of any actual improvement in the cyberrisk environment.

Corporate practitioners from organizations with annual revenues of less than $1 billion (44 percent) and privately held ones (46 percent) are more likely to suggest that customer satisfaction/retention will affect their companies' earnings than are their counterparts from larger companies (29 percent) and publicly owned ones (30 percent).

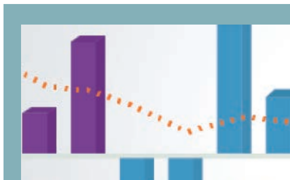
Changes in Risk Factors Expected to Have Greatest Impact on Organization's Earnings in the Next Three Years

Risk Ranking	2014	2015	2016
1	Competition	Political and Regulatory Uncertainty	Political and Regulatory Uncertainty
2	Political and Regulatory Uncertainty	Tougher Competition	Tougher Competition
3	Customer Satisfaction/ Retention	Customer Satisfaction/ Retention	Customer Satisfaction/ Retention
4	Interest Rate	Product Innovation	Currency Volatility
5	GDP Growth	Interest Rates	Product Innovation

Organizations Continue to Actively Mitigate Risk Exposure in Direct Response to Current and Emerging Threats

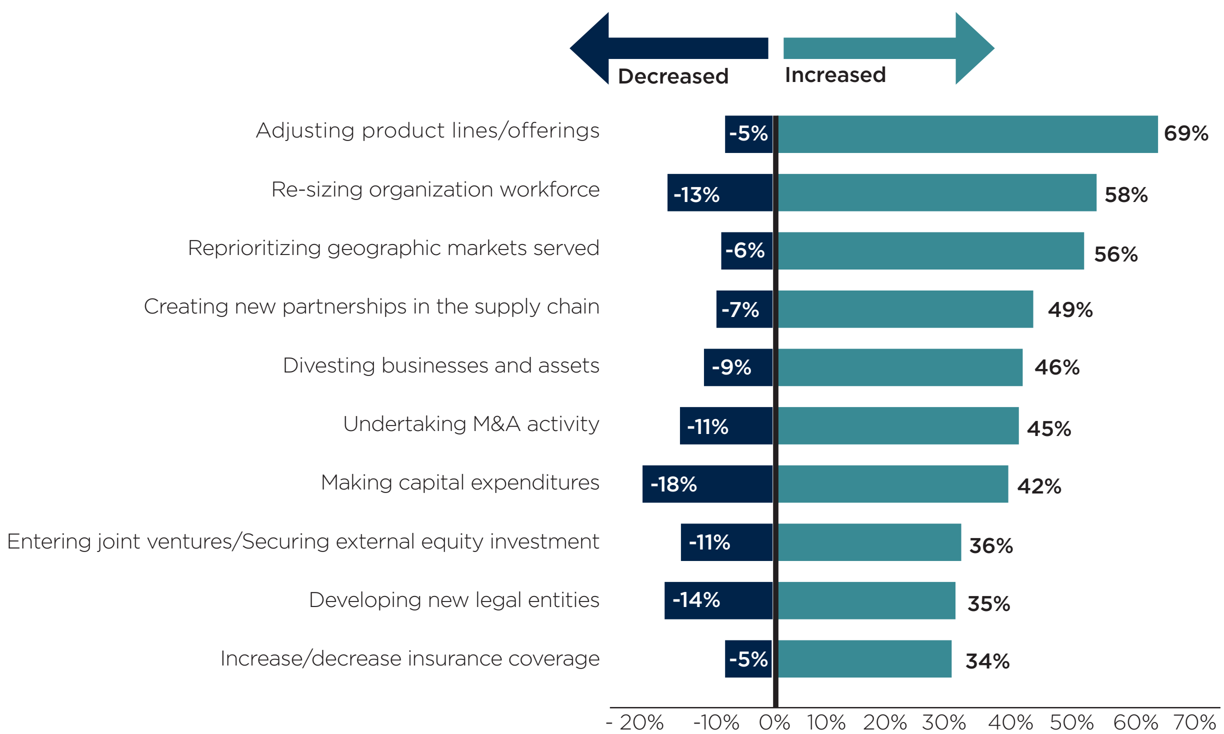
Over seven out of ten (71 percent) survey respondents report that their companies are adopting various strategies to respond to risks of current and emerging threats. Actions most often being taken are aligned to an extent with the factors finance professionals perceive will have the greatest impact on their companies' earnings—greater competition and customer satisfaction/retention. Sixty-nine percent of finance professionals report that their organizations are adjusting product lines or offerings and 58 percent indicate that their companies are re-sizing their workforce. More than half of organizations (56 percent) are reprioritizing their geographic markets and nearly half (49 percent) are creating new partnerships in the supply chain.

Other approaches organizations are adopting to counter current and emerging business risks include divesting businesses and assets (cited by 46 percent of respondents) and undertaking M&A activity (45 percent). Interestingly, last year's *AFP Risk Survey* reported that 59 percent of organizations intended to invest in capital expenditures compared to 42 percent in this year's survey. The finding is consistent with results from *AFP's Corporate Cash Indicators®* (October 2015) which reveals that as volatility in the global scenario prevails and the economy continues to be mired in uncertainty, companies are taking a more conservative approach with their investments.



AFP Corporate Cash Indicators®
(Click here)

Actions Taken in Response to Current and Emerging Business Risks
(Percent of Organizations)



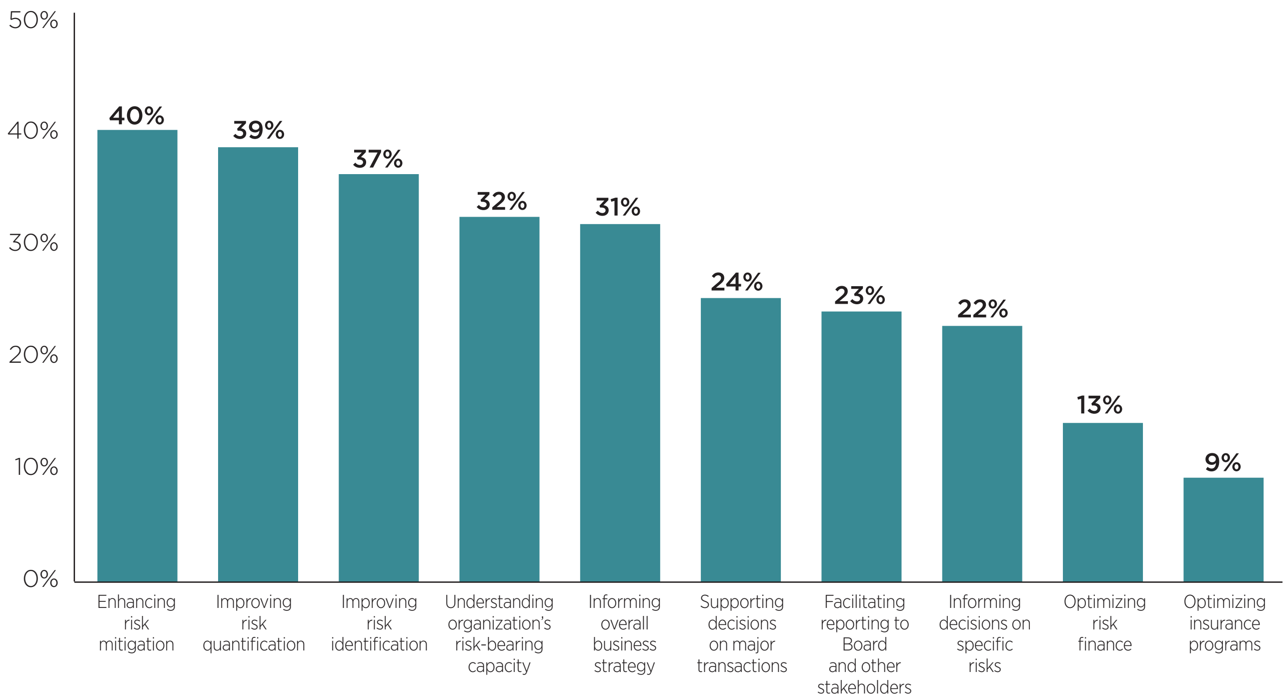
Risk Data and Analytics Used to Support Business Strategy

This year's survey results reveal that organizations are continuing to actively integrate risk management into their decision making. Finance professionals are seeking to lessen the impact of risks by focusing on enhancing risk mitigation, quantifying risks and most importantly, identifying risks.

Corporate practitioners believe that more effective use of risk data and analytics will enhance risk mitigation and improve both risk quantification and risk identification. Finance professionals from publicly owned organizations and larger companies are more likely to suggest that risk data and analytics will improve risk quantification than are their counterparts from smaller and privately held companies.

Benefits of Effective Integration of Risk Data and Analytics in the Organization

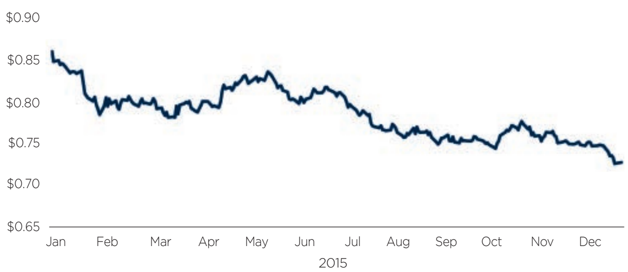
(Percent of Organizations)



Concerns and Opportunities with Regard to Interest Rate, Currency and Commodity Risks

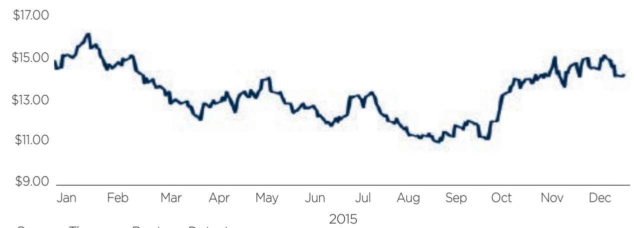
As noted in the Introduction to this report, the *2016 AFP Risk Survey* focuses on interest rate, currency and commodity risks and how finance professionals are helping their organizations respond to those challenges. In many ways, these risks are neither new nor emerging ones for finance professionals. However, the changing conditions and drivers surrounding these risks are presenting new risk management challenges for finance professionals. The survey results show that concerns about the impact of these risks on earnings have risen over the past year.

Canada Dollar (CAD) to USD-Exchange Rate



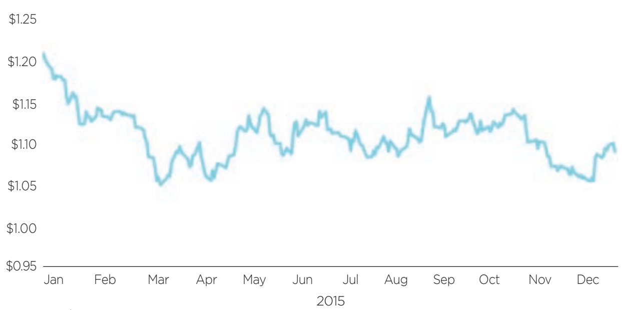
Source: Thomson Reuters: Datastream

Raw Sugar-ISA Daily Price c/lb



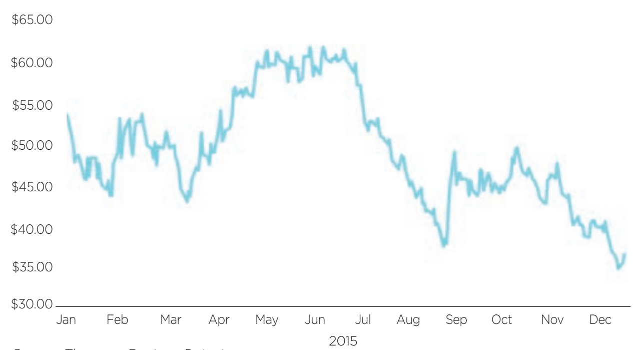
Source: Thomson Reuters: Datastream

Euro to USD-Exchange Rate



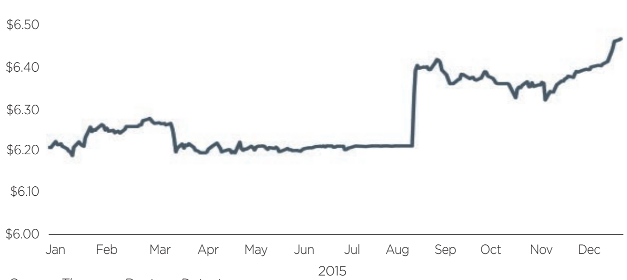
Source: Thomson Reuters: Datastream

Crude Oil-WTI Spot Cushing U$/BBL-DS Mid Point



Source: Thomson Reuters: Datastream

Chinese Yuan to USD-Exchange Rate



Source: Thomson Reuters: Datastream

Copper, High Grade: Comex Spot Price 2005-2015 ($/Lb)

Source: Comex

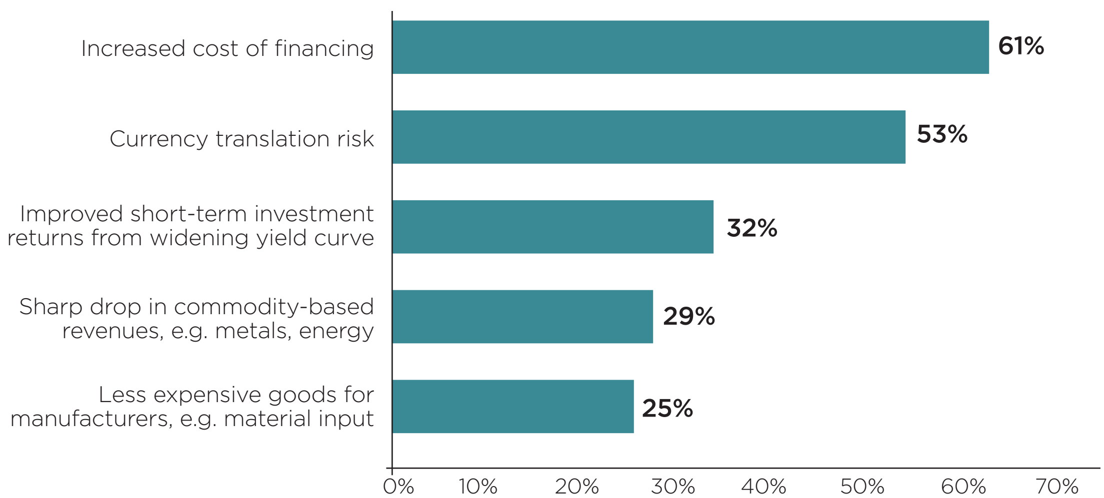
The greatest interest rate, currency and commodity concerns for finance professionals in the current economic environment are the increased cost of financing (cited by 61 percent of respondents) and currency translation risk (53 percent). Given the present scenario in which the dollar is considerably stronger than other currencies—and thus resulting in U.S. exports being more expensive globally—this uneasiness is not surprising. Respondents from smaller companies (with annual revenues less than $1 billion) and privately held ones appear more nervous about the increased cost of financing and currency translation risks than are their counterparts at larger companies or those that are publicly owned. One reason for this is that smaller firms are less likely to have an active hedge program and therefore are more exposed to those risks.

About a third of organizations (32 percent) hope to benefit from improved short-term investment returns from a widening yield curve, while 29 percent anticipate a drop in commodity-based revenues. A greater share of finance professionals from publicly owned companies (37 percent) than privately held ones (26 percent) is apprehensive about risk fluctuations impacting commodity-based revenues. One-fourth of companies expects that a decline in the price of material input will result in less expensive goods and thus be to their advantage.

In the current environment, corporate practitioners are most concerned about the **increased cost of financing** and **currency translation risk**

Areas of Concern and Opportunity Regarding Interest Rate, Currency and Commodity Risk

(Percent of Organizations)



Preparations to Respond to and Mitigate the Potential Impact of Interest Rate, Currency and Commodity Risks

Globally and domestically, businesses are operating in an unpredictable and uncertain environment. Those organizations that are equipped to deal with these challenges can lessen the severity of interest rate, currency and commodity risk. Only half of organizations currently have plans in place to respond to and reduce the potential impact of these risks. An additional 27 percent plan to have some strategy to deal with such risks within the next six to twelve months. Not surprisingly, larger organizations and those that are publicly owned are more prepared than are other organizations. Larger organizations likely have a greater international footprint or supply chain. However, a 2013 report from the Business Roundtable showed that 26 percent of U.S. multinationals are small and medium-sized enterprises.[1] This suggests that some companies may be lagging in their approach to these risks.

Only half of organizations currently have plans in place to respond to and reduce the potential impact of interest rate and commodity risks

Plans in Place to Respond to and Mitigate Potential Impact of Interest Rate, Currency and Commodity Risks
(Percentage Distribution of Organizations)

	All	Annual Revenues Less Than $1 Billion	Annual Revenues At Least $1 Billion	Privately Held	Publicly Owned
Yes	50%	46%	60%	46%	63%
No, but will implement a plan to deal with these risks in the next 6-12 months	27	27	27	28	22
No and have no plans to do so	23	27	13	27	15

Treasury and Finance Functions Continue to Implement Hedge Programs and Deeper Analysis to Respond to Interest Rate, Currency and Commodity Risks.

Foreign exchange (FX) risk poses a challenge for all exporting companies, regardless of size or experience. In today's tough business environment, U.S. multinationals know this to be all too true. The strengthening U.S. dollar has taken a big bite out of their earnings, and those with large euro exposure face a double whammy: declining sales across Europe plus a much lower net income from sales translated into USD.

The majority of organizations (54 percent) continues to put emphasis on implementing hedge programs in order to safeguard themselves from any negative effects of interest rate, currency and commodity risks. This is a key priority for half of organizations regardless of size or ownership type. About one-third of organizations is focusing on either examining the correlation between currencies and commodities (34 percent) or

The strengthening U.S. dollar has taken a bite out of the earnings of U.S. multinational organizations

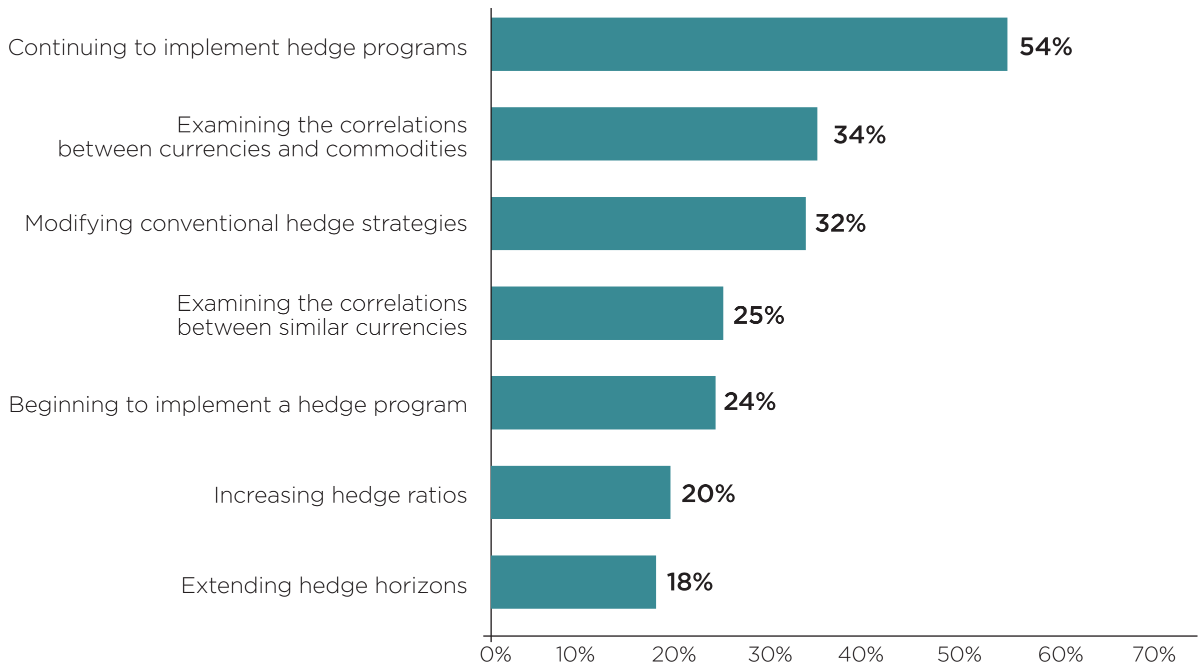
1. American Companies and Global Supply Networks, Business Roundtable, 2013

modifying conventional hedge strategies (32 percent); almost one in four companies is taking steps to begin implementing hedge programs. More than double the share of finance professionals from smaller organizations with annual revenues less than $1 billion (31 percent) indicate that their companies plan to begin implementing a hedge program compared to the share from larger companies (14 percent) that likely already have such programs in place. Smaller shares of companies are in the process of either increasing hedge rations (20 percent) or extending their hedge horizons (18 percent).

The data suggests some companies may be taking a comparatively passive approach and would benefit from a review of their commodity risk management framework. This would include a focus on improved analysis and understanding of their exposure to currency and commodity risk and the correlations between these risks. This will enable them to consider their organizations' appetite for risk in light of their current risk management approach.

A majority of companies continues to put **emphasis on implementing hedge programs** in order to safeguard against interest rate, currency and commodity risks

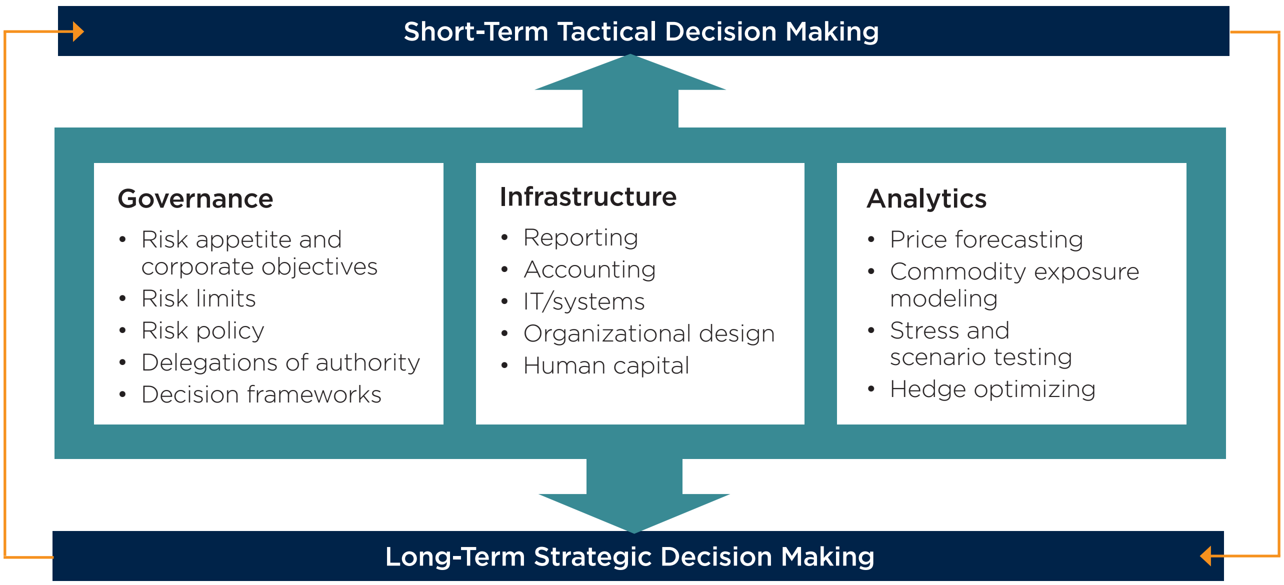
Actions Taken by Treasury and Finance Function to Respond to and Reduce Interest Rate, Currency and Commodity Risks
(Percent of Organizations)



Commodity Risk Management Framework

A structured commodity risk management framework is built around three pillars: Governance, Infrastructure, and Analytics. Together, these pillars support both short-term tactical decisions and long-term strategic initiatives (see below). [See also, "Volatility, Not Vulnerability," Oliver Wyman and AFP, 2011 and "In Practice Guide: Six Steps to Assess Commodity Risk Exposure," Oliver Wyman and AFP, 2011.]

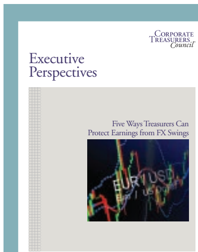
In Practice Guide:
Six Steps to Access
Commodity Risk Exposure
(Click here)



Source: Volatility, Not Vulnerability – Whitepaper by AFP/Oliver Wyman Global Risk Center

For example, companies can undertake a portfolio analysis on a range of currency and commodity scenarios. Such analysis can help structure decisions regarding hedging approaches and can also inform conversations with senior management and the board of directors about a company's risk appetite and desired risk management approaches. That noted, such analysis does require a degree of specific knowledge and resources and leanly staffed treasury departments may face limitations.

There are several approaches utilized most often by treasurers to protect company earnings from FX swings. Two of the most frequently used are hedging intercompany transactions and hedging non-functional currency expenses. [For more detail, access the CTC Executive Perspectives on "Five Ways Treasurers can Protect Earnings from FX Swings."]



Executive Perspectives
Five Ways Treasurers
Can Protect Earnings
from FX Swings
(Click here)

Swaps and Forwards Being Deployed to Combat Interest Rate and Currency Risks

Finance professionals use a number of instruments to combat interest rate and currency risk. One-fourth of them deploys swaps to combat interest rate risk while 28 percent use forwards to address currency risks.

The majority of companies that do hedge interest rates utilize swaps, while forwards is an extensively used instrument to hedge currency exposures. This has been the case for many years. However, given the extreme volatility in the foreign exchange markets, combined with somewhat abnormally low implied volatility, in the past year or two the use of options as a hedging instrument has garnered more interest.

Instruments Being Deployed

(Percent of Organizations)

	Forwards	Options	Swaps	Futures
Interest rate risks	11%	10%	24%	5%
Currency risks	28	13	13	6
Commodity risks	10	9	7	13

Standard Methods for Hedging Risks

Nearly 60 percent of finance professionals report that swaps are very effective in meeting their needs for hedging interest rate risks. Forty-seven percent report that futures are also effective, while 46 percent hold the same view regarding options.

The most successful methods in dealing with currency risks are 12 months layered hedge (cited by 57 percent of respondents) and 3 months forwards (54 percent).

Over half of survey respondents are satisfied with swaps (57 percent) and options (53 percent) in managing commodity risks.

Most Effective Methods for Hedging Risks

(Percent of Respondents who rated a method either “4” or “5” on a scale of 1 to 5, where 1=very ineffective and 5=very effective)

	3 months Forwards	12 months Layered Hedge	Futures	Options	Swaps
Interest rate risks	34%	30%	47%	46%	59%
Currency risks	54	57	43	42	49
Commodity risks	43	43	44	53	57

Meeting Challenges to Reduce Organization's Vulnerability to Interest Rate, Commodity and Currency Risk

Safeguarding their organizations by softening the impact of interest rate, currency and commodity risks and reducing their organizations' vulnerability can be a daunting task for finance professionals. The majority of them reports some difficulties in meeting most of these challenges—especially increased cost of financing (cited by 63 percent of survey respondents) and currency translation risk (62 percent). Other challenges noted by finance professionals include:

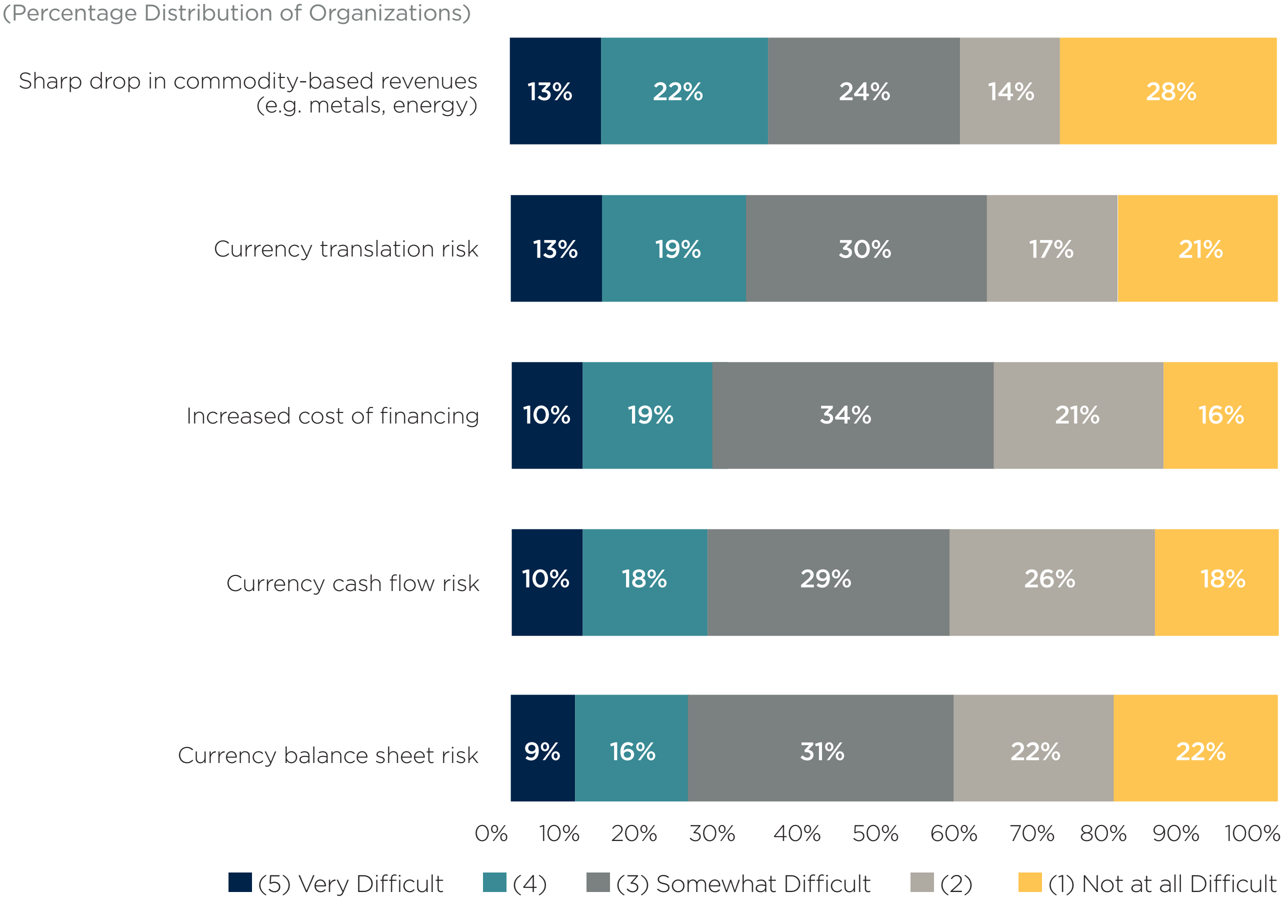
- Sharp drop in commodity-based revenues: e.g., metals, energy (cited by 59 percent of respondents)
- Currency cash flow risk (57 percent)
- Currency balance sheet risk (56 percent)

A number of other factors add to these challenges. As noted earlier, the general business environment and the impact of risk factors is difficult to predict. In the context of globalization and increasingly concentrated supply chains, there is greater recognition that "impossible" events are actually possible and the domino effect of counter-party failure can have greater ramifications. Further, there are potential skill set and generational challenges as younger finance professionals have not yet had to manage or respond to issues such as double-digit inflation rates. Although these are unlikely in the near future, questions like this do highlight that new combinations of currency, interest and commodity risks can pose unpredictable challenges to finance professionals.

Finance professionals report difficulties in meeting challenges associated with **increased cost of financing** and **currency translation risk**

Difficulty in Meeting Challenges to Reduce Organization's Vulnerability to Interest Rate, Commodity and Currency Risk

(Percentage Distribution of Organizations)



Conclusion

The *2016 AFP Risk Survey* reveals that companies are dealing with greater earnings uncertainty than they were three years ago. Over half of finance professionals believe their organizations are more exposed to greater earnings uncertainty. And their task of forecasting risk is not any easier than it was in 2012; most survey respondents anticipate it is only going to become more difficult to do so in the future.

The current risk landscape is also more complex, a consequence of the prevailing global economic and geopolitical volatility. Terrorist attacks have shaken many people, governments and markets; the consequences of such events can be widespread and reach far beyond the countries or regions in which they occur. The mass exodus of refugees from Syria and other areas of conflict are placing added burdens on countries that are still recovering from a severe recession. The U.S. is less than a year away from a presidential election and that is likely raising the levels of uncertainty. Currency and commodity markets have been fluctuating wildly and finance professionals are concerned about the risks arising from these issues.

Notable highlights from the *2016 AFP Risk Survey Report* include:

Uncertainty continues to grow in the business environment.
Fifty-two percent of finance professionals report that their organizations are exposed to greater uncertainty than they were three years earlier, almost 10 percent more than those who held this view last year. Forecasting risk continues to be considered a challenge, with over half of survey respondents anticipating it will be more difficult to forecast risk three years from now.

Commodity volatility is one of the top three drivers increasing exposure to earnings uncertainty.
The top three drivers increasing exposure to earnings uncertainty are financial factors (cited by 25 percent of survey respondents), external factors (22 percent), and commodities (19 percent) which rose to the third-highest ranked driver from fifth in the previous survey.

The risk factors seen as having the greatest impact on organizations' earnings remain unchanged.
Once again political/regulatory uncertainty, tougher competition and customer satisfaction/retention are considered the primary factors which will impact organizations earnings in the next three years—each cited by at least 40 percent of respondents. Other concerns noted are risks associated with currency translation and interest rates. Nearly two-thirds of finance professionals are concerned about the increased cost of financing and over half are apprehensive about currency translation risk.

Most organizations are either prepared or soon will be prepared to soften the impact of interest rate, currency and commodity risks.
Slightly over half of finance professionals report their companies have plans in place to mitigate the effects of interest rate, currency and commodity risks; more than one-fourth are confident they will be prepared within the next year.

Organizations safeguard themselves by continuing to implement hedge programs.
A majority of finance professionals (54 percent) continues to focus on implementing hedge programs in order to protect their companies from any negative impact of interest rate, currency and commodity risks.

About the Survey

In October 2015, the Research Department of the Association of Financial Professionals® (AFP) surveyed its senior level corporate practitioner membership about earnings uncertainty and how their organizations manage risk. The survey was sent to AFP members and prospects who held job titles of CFO, Treasurer, Controller, Vice President of Finance and Assistant Treasurer. Responses from 335 professionals form the basis of this report. The respondents profile closely resembles that of AFP's membership and is presented below.

AFP thanks Marsh & McLennan Companies Global Risk Center for being a valued partner and for its continued support of the AFP Risk Survey series, including sharing subject matter expertise for the design of the questionnaire and for the final report. The Research Department of the Association for Financial Professionals® is solely responsible for the content of this report.

Annual Revenues (USD)

(Percentage Distribution of Organizations)

Under $50 million	21%
$50-99.9 million	12
$100-249.9 million	13
$250-499.9 million	7
$500-999.9 million	11
$1-4.9 billion	22
$5-9.9 billion	5
$10-20 billion	2
Over $20 billion	6

Ownership Type

(Percentage Distribution of Organizations)

Privately Held	57%
Publicly Owned	29
Non-profit (not-for-profit)	8
Government (or government-owned entity)	7

Industry Classification

(Percentage Distribution of Organizations)

Financial Services (Banking, Investment, Brokerage, Insurance, etc.)	19%
All Other Manufacturing (excluding consumer products, pharmaceuticals, technology)	15
Consumer Products (Manufacturing, Sales, Distribution, etc.)	10
Energy (Utilities, Oil, etc.)	10
Government/Not for Profit	8
Technology (Development, Manufacturing, Sales, Distribution, etc.)	6
Healthcare Provider	5
Media/Professional Services	4
Mining and Metals	4
Retail	4
Automotive	3
Surface Transport (Maritime, Motor Transport, Rail)	3
Agriculture	2
Chemicals	2
Communications	2
Pharmaceuticals/Biotechnology (Development, Manufacturing, Sales, Distribution, etc.)	2

Appendix: Survey Data Tables

Change in Exposure to Earnings Uncertainty Relative to Three Years Ago

(Percentage Distribution of Organizations)

	All	Annual Revenues Less Than $1 Billion	Annual Revenues At Least $1 Billion	Privately Held	Publicly Owned
Exposed to more earnings uncertainty	52%	48%	60%	53%	53%
Exposed to the same level of earnings uncertainty	37	36	35	34	40
Exposed to less earnings uncertainty	12	16	5	13	6

Primary Drivers of Increase in Exposure to Earnings Uncertainty

(Percentage Distribution of Organizations That Have Experienced Greater Earnings Uncertainty)

	All	Annual Revenues Less Than $1 Billion	Annual Revenues At Least $1 Billion	Privately Held	Publicly Owned
Financial (e.g., credit, liquidity, interest rate, currency/FX)	25%	24%	26%	29%	22%
External (e.g., country risk, regulatory, natural disaster)	22	24	18	20	15
Commodities (e.g., energy, agricultural, basic resources)	19	18	20	14	26
Macroeconomic (e.g., GDP growth, inflation, consumer price index (CPI))	18	16	21	22	17
Business/Operations (e.g., supply chain disruptions, production interruptions, litigation, labor, outsourcing, IT, cyber)	16	18	15	15	20

Key Risk Factors which will have the Greatest Impact on Organizations' Earnings in the Next Three Years
(Percent of Respondents)

	All	Annual Revenues Less Than $1 Billion	Annual Revenues At Least $1 Billion	Privately Held	Publicly Owned
Political and regulatory uncertainty	43%	41%	46%	39%	45%
Tougher competition	42	41	44	45	47
Customer satisfaction/retention	40	44	29	46	30
Currency volatility	30	26	37	32	34
Product innovation	26	25	25	28	27
Interest rates	23	21	27	22	21
GDP growth	22	18	29	21	27
Energy price volatility	21	17	26	19	24
Country risk/ geopolitical challenges	20	19	24	20	23
Liquidity	19	22	12	21	16
Commodity (non-energy) price volatility	17	13	25	16	22
Labor and HR issues	14	16	8	16	7
Credit	14	15	11	15	16
Inflation	10	10	11	8	11
Information technology risk (e.g., systems failure)	10	12	7	8	8
Infrastructure failure / breakdown	8	10	4	8	6
Supply chain disruptions	7	9	4	8	6
Cyberrisk	7	8	6	5	6
Tax risk	6	7	6	6	6
Natural catastrophe	3	3	3	4	1
Terrorism	2	2	2	2	4

Difficulty of Forecasting Risk Today Relative to Three Years Ago (2012)
(Percentage Distribution of Respondents)

	All	Annual Revenues Less Than $1 Billion	Annual Revenues At Least $1 Billion	Privately Held	Publicly Owned
Easier	22%	24%	19%	25%	16%
Same	44	39	52	40	36
More Difficult	34	37	30	35	48

Anticipated Difficulty of Forecasting Risk Three Years from Now (2018)
(Percentage Distribution of Respondents)

	All	Annual Revenues Less Than $1 Billion	Annual Revenues At Least $1 Billion	Privately Held	Publicly Owned
Easier	15%	16%	17%	15%	16%
Same	33	32	37	31	48
More Difficult	52	53	56	54	36

Actions Planned or Taken to Mitigate Risk in Direct Response to Current and Emerging Threats
(Percentage Distribution of Organizations)

	All	Annual Revenues Less Than $1 Billion	Annual Revenues At Least $1 Billion	Privately Held	Publicly Owned
Yes	71%	69%	74%	69%	72%
No	29	31	26	31	28

Actions Taken in Response to Current and Emerging Business Risks

(Percent of Organizations)

	Increased	Same	Decreased
Adjusting product lines/offerings	69%	27%	5%
Re-sizing organization workforce	58	29	13
Re-prioritizing geographic markets served	56	38	6
Creating new partnerships in the supply chain	49	44	7
Divesting businesses and assets	46	45	9
Undertaking M&A activity	45	45	11
Making capital expenditures	42	39	18
Entering joint ventures / securing external equity investment	36	53	11
Developing new legal entities	35	50	14
Increase/decrease insurance coverage	34	61	5

Benefits of Effective Integration of Risk Data and Analytics in the Organization

(Percent of Organizations)

	All	Annual Revenues Less Than $1 Billion	Annual Revenues At Least $1 Billion	Privately Held	Publicly Owned
Enhancing risk mitigation	40%	40%	40%	39%	41%
Improving risk quantification	39	36	41	37	47
Improving risk identification	37	34	41	37	40
Understanding organization's risk-bearing capacity	32	35	25	32	21
Informing the overall business strategy	31	31	34	32	36
Supporting decisions on major transactions	24	27	22	31	16
Informing decisions on specific risks	22	23	22	18	27
Facilitating risk reporting to board and other stakeholders	23	20	27	22	23
Optimizing risk finance	13	15	9	16	11
Optimizing insurance programs	9	12	5	10	8

Key Areas of Concern and Opportunity Regarding Interest Rate, Currency and Commodity Risks
(Percent of Organizations)

	All	Annual Revenues Less Than $1 Billion	Annual Revenues At Least $1 Billion	Privately Held	Publicly Owned
Increased cost of financing	61%	63%	57%	63%	54%
Currency translation risk	53	51	60	58	57
Improved short-term investment returns from widening yield curve	32	34	31	30	28
Sharp drop in commodity-based revenues: e.g. metals, energy	29	30	26	26	37
Less expensive goods for manufacturers e.g. material input	25	26	24	28	24

Actions Taken by Treasury and Finance Function(s) to Respond to/ Reduce Potential Impact of Interest Rate, Currency and Commodity Risks.
(Percent of Organizations)

	All	Annual Revenues Less Than $1 Billion	Annual Revenues At Least $1 Billion	Privately Held	Publicly Owned
Continuing to implement hedge programs	54%	53%	54%	56%	58%
Examining the correlations between currencies and commodities	34	36	32	36	33
Modifying conventional hedge strategies	32	31	34	36	28
Examining the correlations between similar currencies	25	28	22	27	26
Beginning to implement a hedge program	24	31	14	25	21
Increasing hedge ratios	20	23	16	19	23
Extending hedge horizons	18	16	22	20	21

Annual Revenue (USD)

(Percentage Distribution of Organizations)

	All	Annual Revenues Less Than $1 Billion	Annual Revenues At Least $1 Billion	Privately Held	Publicly Owned
Under $50 million	21%	33%	–	27%	10%
$50-99.9 million	12	19	–	17	2
$100-249.9 million	13	20	–	16	8
$250-499.9 million	7	11	–	6	5
$500-999.9 million	11	17	–	9	19
$1-4.9 billion	22	–	61	20	25
$5-9.9 billion	5	–	14	1	15
$10-20 billion	2	–	6	2	4
Over $20 billion	6	–	18	3	12

Ownership Type

(Percentage Distribution of Organizations)

	All	Annual Revenues Less Than $1 Billion	Annual Revenues At Least $1 Billion
Privately held	59%	66%	41%
Publicly owned	28	20	47
Non-profit (not-for-profit)	6	7	5
Government (or government owned entity)	8	7	7

AFP Research

AFP Research provides financial professionals with proprietary and timely research that drives business performance. AFP Research draws on the knowledge of the Association's members and its subject matter experts in areas that include bank relationship management, risk management, payments, and financial accounting and reporting. Studies report on a variety of topics, including AFP's annual compensation survey, are available online at www.AFPonline.org/research.

AFP® ASSOCIATION FOR FINANCIAL PROFESSIONALS

About the Association for Financial Professionals

Headquartered outside Washington, D.C., the Association for Financial Professionals (AFP) is the professional society that represents finance executives globally. AFP established and administers the Certified Treasury Professional™ and Certified Corporate FP&A Professional™ credentials, which set standards of excellence in finance. The quarterly AFP Corporate Cash Indicators® serve as a bellwether of economic growth. The AFP Annual Conference is the largest networking event for corporate finance professionals in the world.

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