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### Hedging Strategy: Proposal to PCT/WG/8

- Equivalent amounts of international filing fee in all currencies other than Swiss franc:
  - fixed in October of each year for the following calendar year
  - “frozen” for the entire calendar year
  - discontinue process of fixing new equivalent amounts in case of exchange rate fluctuations

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## Hedging Strategy: Proposal to PCT/WG/8 (cont.)

- Equivalent amounts of international filing fee in EUR, USD and JPY:
  - fixed at average purchase price of forward contract in each currency (“blended hedge rate”)
- Equivalent amounts of international filing fee in other currencies:
  - fixed according to exchange rates determined by the Director General (as at present)

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## Hedging Strategy: Proposal to PCT/WG/8 (cont.)

- PCT international filing fee income in EUR, USD and JPY:
  - hedged to CHF using forward contracts
  - forward contracts for fixed monthly amount in each currency based on forecast cash flow
  - forward contracts to sell EUR, USD and JPY and purchase CHF for guaranteed amounts payable at a fixed day each month for a twelve month period

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## Hedging Strategy: Proposal to PCT/WG/8 (cont.)

- PCT international filing fee income in all other currencies:
  - not hedged by forward contracts
  - thus subject to the impact of exchange rate fluctuations, since “new equivalent amount process” discontinued

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## Hedging Strategy: Discussions at PBC/24

- Document WO/PBC/24/INF.3 identified risks and concerns related to proposed hedging strategy
- Cash-flow issues — for hedging strategy to be effective:
  - sufficient funds must be available in each currency concerned (EUR, USD and JPY) to purchase forward contracts equal to most of the PCT international filing fee income received in that currency
    - PCT/WG/8/15 proposed that a range of between 70% and 90% of total PCT international filing fee income in the currency concerned must be available

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## Hedging Strategy: Discussions at PBC/24 (cont.)

- Cash-flow issues: for hedging strategy to be effective
  - cash flow must be sufficiently predictable to ensure funds are available in the three currencies concerned on the date of execution of each monthly forward contract
  - use of alternatives, if funds are insufficient, such as FX Swaps, are costly
  - sale of CHF to purchase back a currency if funds in that currency are not sufficient could result in exchange loss or gain

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## Hedging Strategy: Discussions at PBC/24 (cont.)

- PBC/24 decision:
  - to allow for more time for the Secretariat to further analyze issues in detail in order to properly assess all the challenges associated with the implementation of a hedging strategy; and accordingly
  - to postpone its decision with regard to the recommendation [to commence hedging] until such analysis has been undertaken

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## Results of Cash-flow Analysis

(01 January 2015 to 31 March 2016)

### ■ Japanese Yen (JPY)

- sufficient funds would have been available to cover forward contracts for 99% of PCT international filing fee income received in JPY
- monthly cash flow would have been difficult to predict
  - no PCT international filing fees received in JPY in certain months during the period reviewed

## Results of Cash-flow Analysis (cont.)

(01 January 2015 to 31 March 2016)

### ■ United States dollar (USD)

- funds would only have been available to cover forward contracts for an average of 37.8% of PCT international filing fee income received in USD, due to the very high level of WIPO liabilities in this currency
- after factoring out special circumstances in the first four months of 2015, monthly receipt of international filing fees in USD varied significantly and did not appear to follow any historic pattern

## Results of Cash-flow Analysis (cont.)

(01 January 2015 to 31 March 2016)

### ■ Euro (EUR)

- funds would have been available to cover forward contracts for an average of 69.9% of the PCT international filing fee income received in EUR, due to WIPO liabilities in this currency
- the receipt of international filing fees in EUR was at a fairly constant monthly level; disbursements varied, based primarily on outflow for international search fees collected by the IB

## Results of Cash-flow Analysis (cont.)

(01 January 2015 to 31 March 2016)

### ■ Cash flow result summary:

- resources in the three currencies sufficient to provide hedge cover to **only 64.8% of PCT revenue**, less than the lower limit of the proposed minimum range
- 35.2% of the revenue would not be covered (including non CHF receipts in other currencies with a value of CHF 122.2 million) and therefore not protected from currency fluctuation (noting that the process for setting new equivalent amounts would have been discontinued)
- monthly receipts in USD and JPY varied considerably and are difficult to project with sufficient accuracy to maximize value of using forward contracts

## Way Forward

- IB to present further information to the upcoming August 2016 session of the PBC
- At this stage, IB does not expect to proceed with the hedging strategy based on forward contracts in the manner recommended by the treasury consultants FTI
- IB intends to further explore whether an alternative hedging strategy, utilizing a different approach from that proposed by the treasury consultants FTI, might successfully limit WIPO's exposure to exchange fluctuations