Exchange Rate Risk Management of Japanese Firms: New Findings from Questionnaire Survey

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It is often said that a strong yen causes a big influence on both the business performances of the Japanese firms in the short term and the corporate strategies including the placement of the production base in the medium to long term. The degree of these influences might depend on each firm's exchange rate risk management. Japanese firms utilize a combination of financial hedges and operational hedges to manage their currency exposure. While the financial hedges are conducted to hedge their currency exposure by using foreign exchange derivatives in foreign exchange market, operational hedges are utilized among the firm's international subsidiaries to reduce their foreign exchange exposure. In addition, Japanese exporting firms have promoted the transfer of production bases overseas, or increase capacity of existing overseas bases, and increase the proportion of imported components from overseas and other measures to ensure the benefits.

In this paper, we investigate the exchange rate risk management of Japanese firms based on the questionnaire survey. Questionnaires were sent to all Japanese manufacturing firms listed in the Tokyo stock exchange in September 2009 with the cooperation of the Research Institute of Economy, Trade, and Industry (RIETI). The questionnaire survey (henceforth, 2009 RIETI survey) covers rich information not only on the firms' foreign exchange rate risk management but also on the firms' choice of invoicing currency and price revision (pass-through) strategy. The survey results are classified by industry and by the firm size, using annual financial reports of sample firms, through which new evidences of Japanese firm's exchange rate risk management, such as the usage of financial and operational hedging and price revision are presented.

Our analysis shows how Japanese firms combine three different tools of exchange rate risk management policies, operational and financial hedging and exchange rate pass-through under their own choice of invoicing currency, to mitigate the influence of exchange rate risk. Given growing regional production network of Japanese firms, our findings based on the questionnaire study will have important implications for future exchange rate policies to support more effective exchange rate risk managements.