Book Review

BOOK REVIEW

Tax Efficient Forex Management. By John Chown. London, England: Professional Publishing Limited, 1986. Pgs. 182.

When a corporation enters foreign markets it must confront the complications of foreign currency exchange. Foreign exchange management ("forex management") taxes the skills of the most creative corporate financial managers. Achieving tax advantages through forex management, or at least avoiding financial disasters, requires the talents of a prophet. To maintain profits, the tax efficient forex manager must reduce taxes while reducing foreign exchange risks.

In *Tax Efficient Forex Management,* John Chown supplies forex managers with the knowledge required to achieve significant tax advantages from managing foreign currency and asset exchange. According to Mr. Chown, the book is intended for both corporate treasurers and tax specialists and attempts to present a unified approach to these often separate functions.[1]

Mr. Chown has written and lectured extensively on taxation and international finance, contributed a regular column, "Taxation and the Investor," to the *Financial Times,* and edited the *Financial Times* Tax Newsletter. In addition to *Tax Efficient Forex Management,* he has written *Taxation and Multinational Enterprises,* (Longman, 1974). He is founder of J. F. Chown and Company Limited and, as a practicing attorney, has achieved acknowledged expertise in international taxation. While his newest work succeeds in covering the complex and technical subject of forex management, it is difficult to read cover to cover. But even if one cannot digest all 182 pages at one sitting, Mr. Chown's book certainly merits attention. The book should be one of the first to be consulted on a practical problem in the area.

Mr. Chown does not offer a treatise or "hornbook" on forex management. Rather, he presents a practical handbook for treasurers of multinational corporations who must insure against foreign exchange losses

[1] J. CHOWN, TAX EFFICIENT FOREX MANAGEMENT 1 (1986).

and ensure after-tax profits. Forex management requires knowledge of international tax laws and familiarity with foreign currencies. The management of foreign exchange involves issues ranging from currency translation on short-term trading to translation of the assets and liabilities of a foreign branch or foreign subsidiary corporation. To succeed in this area, Mr. Chown believes the forex manager must consistently integrate forex management with tax strategy and recognize that each foreign exchange decision and realized transaction has tax implications which must be acknowledged.[2] Multinationals that have not recognized the tax implications of forex transactions have suffered the consequences.[3] Mr. Chown attributes a large part of the forex problem to the irrational approach of many governments to taxation of foreign exchange gains and losses. When coupled with widely fluctuating exchange rates, this lack of sensible government policy frustrates forex managers.[4]

By integrating forex planning and tax planning in his book, Mr. Chown intends to help forex managers do the same. His work is unique in this respect. Most other authors recognize the importance of tax strategy in forex management, but fail to explain how to use it. For example, there are many books and essays dealing with foreign exchange risks apart from tax risks on both a practical and a theoretical level.[5] Such books recognize the importance of tax strategy in this area. A. R. Prindl, author of *Foreign Exchange Risk* (Wiley and Sons, 1976), considers "the tax element in international business. . .possibly more essential than that of foreign exchange *per se*, since correct tax strategy decisions can outweigh the total foreign exchange risks of the average company."[6] Prindl's book, however, does not enable the forex manager to make these decisions. The major tax treatise dealing with the United States tax aspects of foreign currency risk provides the reader with little insight into the tax aspects of forex management.[7]

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2 *Id.* at 3.

3 These companies are known to exist, but their names are rarely publicized. The reluctance to release such classified and potentially damaging information is understandable. As Robbins and Stobaugh correctly observed, "[a] formidable obstacle to any one who aspires to analyze the financial practices of multinational enterprises is the veil of corporate reticence." ROBBINS & STOBAUGH, MONEY IN THE MULTINATIONAL ENTERPRISE 13 (1978). Mr. Chown points to the *Hoover* case as a prime example. J. CHOWN, *supra* note 1, at 95-96.

4 J. CHOWN, *supra* note 1, at 3.

5 *See, e.g.*, MANAGING FOREIGN EXCHANGE RISK (R. Herring ed. 1983); A. PRINDL, FOREIGN EXCHANGE RISK (1976); M. JILLING, FOREIGN EXCHANGE RISK MANAGEMENT IN U.S. MULTINATIONAL CORPORATIONS (1978).

6 A. PRINDL, *supra* note 5, at 109.

7 *See* D. RAVENSCROFT, TAXATION AND FOREIGN CURRENCY (1973). For a brief treatment of the subject, see D. RAVENSCROFT, CURRENCY REVALUATION AND DEVALUATION—TAX EFFECTS, T.M. 280 (1973).

Although Mr. Chown supports an integrated approach to international taxation and forex management, he fails, quite understandably, to develop fully either area. This is probably an impossible task in 182 pages. One cannot fault him for trying, but he does attempt to do too much in too little space.

Mr. Chown aims Part One chiefly at the corporate treasurer, finance director, strategic planner, or chief executive. In this section he adequately explains tax efficient forex management while constructing a framework for implementing it at the corporate level. He explores how various companies in different countries approach the problem, correctly or incorrectly. In Parts Two and Three, he provides a legal analysis of the main tax issues which he considers to be "reference material."[8] Here, he succeeds in encapsulating the tax treatment of both interest and forex gains and losses in many countries, an important achievement since interest risk and forex are inextricably linked. Dealing with one and not the other has cost many multinational companies dearly.[9] A major flaw in Parts Two and Three, however, is the absence of the tax treatment of interest in Canada, despite the presence of a lengthy section on Canadian forex taxation.[10] Here, Mr. Chown has, perhaps inadvertently, ignored his own good advice.

In Part Four, Mr. Chown details the economics of forex and interest rate risks and sets out the key statistics. This section contains complex mathematics and, with the exception of a short section on some modern financing techniques, will interest only the statistically inclined.[11]

Mr. Chown admits that limited space has kept him from achieving the comprehensive treatment of forex management which he considers to be so important.[12] He has settled instead for a framework from which indepth analysis may follow. As a framework, his book succeeds in combining the two traditionally separate areas of international taxation and forex management. The treasurer of the multinational corporation concerned with the "bottom line" will owe a great debt to Mr. Chown for the useful advice in *Tax Efficient Forex Management.*

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8 J. CHOWN, *supra* note 1, at 2.

9 *Id.* at 3.

10 *Id.* at 35-72, 129-33.

11 *Id.* at 169.

12 *Id.* at 2.

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