SOS POLITICAL SCIENCE AND PUBLIC ADMINISTRATION MBA FA 406(A) SUBJECT NAME: INTERNATIONAL FINANCIAL MANAGEMNT

TOPIC NAME: IFM VS DOMESTIC FINANCIAL MANAGEMENT

IFM:

- International financial management, also known as international finance, is the management of finance in an international business environment; that is, trading and making money through the exchange of foreign currency. The international financial activities help the organizations to connect with international dealings with overseas business partners- customers, suppliers, lenders etc. It is also used by government organization and non-profit institutions.

DFM:

- Domestic financial management can include financial operations in a home country for a government or corporation. This term is also used in reference to controlling household finances. The intended meaning is typically clear from the context of the term. Coursework and degrees in both senses of the term are available for people like accountants, political scholars, and members of the financial industry.

DIFFERENCE BETWEEN IFM & DFM:

1. Exposure to foreign exchange:

- The most significant difference is of foreign currency exposure. Currency exposure impacts almost all the areas of an international business starting from your purchase from suppliers, selling to customers, investing in plant and machinery, fund raising etc. Wherever you need money, currency exposure will come into play and as we know it well that there is no business transaction without money.

2. Macro business environment:

- An international business is exposed to altogether a different economic and political environment. All trade policies are different in different countries. Financial manager has to critically analyze the policies to make out the feasibility and profitability of their business propositions. One country may have business friendly policies and other may not.

3. Legal and tax environment:

- The other important aspect to look at is the legal and tax front of a country. Tax impacts directly to your product costs or net profits i.e. ‘the bottom line’ for which the whole story is written. International finance manager will look at the taxation structure to find out whether the business which is feasible in his home country is workable in the foreign country or not.

4. The different group of stakeholders:

- It is not only the money which along matters, there are other things which carry greater importance viz. the group of suppliers, customers, lenders, shareholders etc. Why these group of people matter? It is because they carry altogether a different culture, a different set of values and most importantly the language also may be different. When you are dealing with those stakeholders, you have no clue about their likes and dislikes. A business is driven by these stakeholders and keeping them happy is all you need.

5. Foreign exchange derivatives:

- Since, it is inevitable to expose to the risk of foreign exchange in a multinational business. Knowledge of forwards, futures, options and swaps is invariably required. A financial manager has to be strong enough to calculate the cost impact of hedging the risk with the help of different derivative instruments while taking any financial decisions.

6. Different standards of reporting:

- If the business has a presence in say US and India, the books of accounts need to be maintained in US GAAP and IGAAP.
- It is not surprising to know that the booking of assets has a different treatment in one country compared to other. Managing the reporting task is another big difference. The financial manager or his team needs to be familiar with accounting standards of different countries.

7. Capital management:

- In an MNC, the financial managers have ample options of raising the capital. A number of options create more challenge with respect to the selection of the right source of capital to ensure the lowest possible cost of capital.
- There may be such more points of difference between international and domestic financial management. Mentioned above are a list of major differences. We need to consider each of them before taking any decision involving multinational financial environment.

DIFFERENCES IN SHORT:

INTERNATIONAL & DOMESTIC FINANCE

POINTS OF DIFF.	INTERNATIONAL FINANCE	DOMESTIC FINANCE
Exposure to Foreign Exchange	Currency exposure impact this transaction	No impact of currency exposure
Macro Business Environment	Exposure to different economic and political environment	Exposure to same economic and political environment
Legal and Tax Requirement	Exposure to different tax laws and regulations	Exposure to same tax laws and regulations.
Stakeholder's group	Stakeholders with different cultures, beliefs, languages etc.	Stakeholders with similar cultures, beliefs, languages etc.
Foreign exchange derivatives	Knowledge of forwards, futures, options and swaps is required.	Knowledge of forwards, futures, options and swaps is not required.
Standards of reporting	Books of accounts needs to be maintained as per GAAP and AS.	No need to maintain separate books.
Capital Management	Ample options of financing creates challenges in selection.	Limited options are available, hence no such challenge