Supporting your foreign exchange needs
Understanding Foreign Exchange (FX) risk

Trading internationally offers UK businesses the opportunity to buy and sell goods and services in a much larger marketplace. It also provides opportunities for cost efficiencies and revenue growth.

Businesses operating in many international locations can benefit from a level of diversification, which can provide protection against poor performance in any individual market.

However, companies that deal with foreign exchange (FX) or list foreign assets on their balance sheet face additional risk, which increases as the proportion of business denominated in a foreign currency rises.

International currency prices can be volatile and hard to predict. As a result, FX risk is often a key priority for business owners, FDs and Treasury functions when considering financial and business risk.

Identifying and quantifying FX risk can be a challenge, particularly as market trends have changed in recent years; whereas, until recently, many cross-border transactions were priced in US dollars or euros, emerging markets are now providing an increasing source of new commercial opportunities, which can lead businesses to conduct transactions in local currencies.

Selecting your trading currency

Transactions in other currencies can be a concern for many businesses, particularly those new to trading and operating cross-border. Businesses that trade or have operations overseas are likely to be exposed to FX risk arising from volatility in the currency markets. Exposure may not be immediately apparent as suppliers may not invoice directly in the local currency. For example, many retailers pay suppliers based in China in US dollars (USD), and suppliers in Eastern Europe in sterling (GBP).

Failure to manage the risks posed by these currencies early on can lead to increased costs, although, with the right support, working in other currencies can generate competitive advantage.
Should my business trade in GBP or the local currency?
The currency and specific payment terms of a contract usually depend on a variety of factors, such as the bargaining power of the importer and exporter, and the level of trust between the two parties. UK businesses trading overseas may prefer to settle the contract in GBP, but should also consider the following:

- UK businesses exporting overseas and invoicing their buyers in GBP may eliminate their exchange rate risk but could find some buyers not prepared to buy from them, or find that clients are asking for discounts and/or longer payment terms to cover their FX risk.

- UK businesses importing goods may find it easier to pay in GBP but find their supplier has increased their pricing to protect margins against FX risk. Agreeing to pay in the supplier’s local currency could eliminate the supplier’s FX risk and potentially reduce the cost of the goods, as well as increase pricing transparency. Importers may manage to negotiate discounts and/or longer payment terms with their suppliers by agreeing to pay in local currency.

What is best for my business?
Local currency invoicing may increase price transparency in the supply chain. UK importers can benchmark their suppliers’ pricing by requesting dual pricing to gain visibility over the FX rates being applied. For example, businesses should ask their supplier to price their goods in the local currency and compare it to their GBP price.

It is important to note, however, that some suppliers are experienced exporters and have developed expertise for international trade. They may prefer to manage their FX risks rather than pass them on to the client. Another consideration is that they may want foreign currency receipts to offset costs; for example a Chinese supplier may have significant US dollar-denominated raw materials costs and therefore would want payment for their goods in USD.

In these cases, better understanding of the embedded FX risks you are exposed to can help reduce the margin built into prices quoted by suppliers.
Helping you to manage your FX exposures

Even before a contract has been signed in the counterparty’s currency, businesses should consider currency exposure and plan to mitigate it.

**Mitigating transactional risks**
A change in FX rates can impact the profitability of any transaction. If you are purchasing or invoicing in foreign currency, consider safeguarding against currency market fluctuations by locking in and/or maximising current FX rates for future purchases. This can be facilitated through a range of FX alternatives, including FX spot and forward contracts.

**Mitigating translational risks**
Translation risk is the exchange rate risk associated with companies that deal in foreign currencies or list foreign assets on their balance sheets. The greater the proportion of assets and liabilities denominated in a foreign currency, the greater the translation risk.

Raising debt in a domestic currency while purchasing assets outright in a foreign currency (or vice versa) can lead to considerable FX translation risk. Aligning debts and assets in the same currency can offset or minimise such exposure.

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Potential solutions to mitigate FX risk

Spot transactions
Spot deals are so called because they are undertaken ‘on the spot’. However, spot deals generally settle (in other words the physical exchange of currencies) two working days after the deal is struck.

A spot deal is defined as an agreement between a bank and its client for:
• The sale or purchase of a specific amount of foreign currency
• A specified exchange rate
• Delivery on a specified date, generally in two working days.

Same or next day delivery is available for clients in some currencies, such as EUR, USD and CAD. Please speak to your Barclays Relationship Director for information on which currencies can be undertaken on a same day or next day basis.

Points to consider
• Spot transactions are the simplest FX transactions that can be entered into
• You can benefit from positive currency movements in the foreign exchange markets
• You will be fully exposed to movements in the exchange rate
• Future adverse market movements can be hard to predict, making it difficult to set a budget rate.

Forward transactions
A forward exchange contract is a legally binding contract between a bank and its client for:
• The sale or purchase of a specific amount of currency
• A specified exchange rate
• Settlement on a future date* or between two future dates**.

Points to consider
• You are protected against any adverse movements in the exchange rate, but are unable to benefit from positive movement
• Budgets can be set, knowing exactly how much the transaction costs
• You should be prepared to allow your forward contract to run until maturity
• You may be able to terminate a forward contract should your plans change, but there may be a breakage cost, or gain, if you do so, which can be substantial. Please refer to page 6 for further information.

*Fixed-dated Forward Exchange Contract
For completion on a single working day, specified at the outset, i.e. when the forward contract is agreed. These are useful when you know your business will have a certain requirement on a date in the future and there is certainty of the date of requirement.

**Option-dated Forward Exchange Contract
Option dated forward contracts allow a period of time between two agreed dates – the start date and the maturity date (sometimes known as the window) – to take delivery of the currency. Settlement can be on any business day or days within the window but you must settle by the maturity date of the forward contract.
**What happens if your plans change?**

Should your commercial circumstances change and you need to terminate your spot or forward exchange contract with Barclays before settlement, there may be a “breakage cost”, or gain, in doing so depending on how the prevailing forward rate has changed.

At the time of your entry into an FX transaction, the size of those breakage costs on early termination cannot be predicted. Below are two examples to help you understand how the breakage cost or gain is calculated.

### Example 1

1. You sell **GBP 1,000,000** and buy USD at a forward rate of 1.6000, equating to USD 1,600,000 for settlement in 30 days
2. 10 days into the contract, you decide you no longer require the USD and request to terminate the contract. A second contract to sell USD and buy back GBP 1,000,000 must be booked at the new prevailing GBP USD forward rate for when the original contract was due to settle. If the GBP USD forward rate has risen to 1.6800, this would equate to USD 1,680,000
3. You will gain/owe the difference between these contracts: in this example, you would owe USD 80,000 to Barclays for settlement 30 days after the date of the original trade¹
4. Table 1 illustrates the cost or gain to you if the exchange rates move by a given percentage when selling GBP 1,000,000.

### Example 2

1. You sell **GBP 100,000** and buy USD at a forward rate of 1.6000, equating to USD 160,000 for settlement in 60 days
2. 5 days into the contract, you decide you no longer require the USD and request to terminate the contract. A second contract to sell USD and buy back GBP 100,000 must be booked at the new prevailing GBP USD forward rate for when the original contract was due to settle. If the GBP USD forward rate has fallen to 1.4400, this would equate to USD 144,000
3. You will gain/owe the difference between these contracts: in this example, you would gain USD 16,000 from Barclays for settlement 60 days after the date of the original trade¹
4. Table 1 illustrates the cost or gain to you if the exchange rates move by a given percentage when selling GBP 100,000.

¹Forward contracts are designed to be held for the term of the contract. Breakage costs or gains may also be influenced by factors including bid-offer spreads, credit-worthiness, market liquidity and timing of execution. The breakage costs or gains presented in the table opposite are purely indicative and should not be taken as a future commitment by Barclays to cancel the transaction at these levels. Further scenarios can be provided on request.
• As a large global bank, Barclays can help businesses address FX issues by highlighting potential risks and offering a range of solutions designed to mitigate uncertainty when trading in new markets
• Our Risk Solutions Group has experienced FX specialists who work closely with your Relationship Director and focus on high quality service which supports your business needs

How Barclays can help

<table>
<thead>
<tr>
<th>GBP USD forward rate</th>
<th>% change from 1.600</th>
<th>GBP 1,000,000 USD equivalent</th>
<th>Gain or loss to you (in USD)</th>
<th>GBP 100,000 USD equivalent</th>
<th>Gain or loss to you (in USD)</th>
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</thead>
<tbody>
<tr>
<td>1.2800</td>
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<td>1,280,000</td>
<td>320,000</td>
<td>128,000</td>
<td>32,000</td>
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<td>1.4400</td>
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<td>144,000</td>
<td>16,000</td>
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<td>1.5200</td>
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<td>152,000</td>
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<tr>
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<td>–</td>
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</tr>
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<tr>
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</table>

To find out more about how we can help you, visit barclays.com/corporatebanking, contact your Relationship Director, or call 0800 015 4242**.

*Please note: Some Emerging Market currencies have restrictions to the extent that Barclays is not able to buy those currencies from clients. Please ask us for more details.

**To maintain a high quality of service, your call may be monitored or recorded for training and security purposes. Calls to 0800 numbers are free of charge, when calling from a UK landline. Charges may apply when using a mobile phone or when calling from abroad. Lines are open from 8am to 6pm Monday to Friday.
DISCLOSURES

Non-advised services
We will not provide any advice, representations as to suitability, or provide you with any personal recommendations in relation to a Transaction or advice or representations in respect of the tax, legal or accounting treatment of any Transaction. We will not assess whether a Transaction meets the objectives of your business and you must determine on your own behalf or through independent financial advice, the merits, terms, conditions and risks of a Transaction and the potential impact on your business. You may also wish to obtain independent legal, accounting or tax advice in relation to a Transaction.

We act as principal and not as agent on your behalf. You confirm that the information that you have provided and provide from time to time to allow us to assess the appropriateness of the activities and services we are providing to you is accurate and complete.

Formation of contract
Each Transaction will form a separate contract between us. Each contract entered into by you and us in respect of a Transaction will be deemed to incorporate the terms of the spot and forward agreement into which you will enter or may have entered.

Risk Factors
The performance and valuation of Transactions linked to currency exchange rates will fluctuate due to market volatility which may be sudden and large and may be affected by other factors including, but not limited to, economic and political events.

You should be prepared to allow a Transaction to run until maturity. If not, you may incur a breakage cost. Early termination of Transactions will be subject to a breakage cost (or profit) based on the market value of a Transaction at that time. Breakage costs will differ from a mid-market valuation due to factors including, but not limited to, bid-offer spreads, credit-worthiness, market liquidity, and timing of execution.

It may be possible for you to transfer (novate) a Transaction to another financial institution if they are willing to accept the novation. Should you wish to novate such a Transaction, it will be your responsibility to identify any such financial institution.

Where you have other facilities with us a Transaction may be linked to those facilities for reasons including, but not limited to, cross-default, and other early termination events. In addition, we may be entitled to enforce any security held if there is a default under a loan or a hedging contract, in which case a Transaction may be terminated early. The terms of any such facilities and/or security will be contained within your facility, security and/or transaction documentation. Any such linkages may restrict your ability to move your banking relationship without either novating such Transaction or terminating it early.

An indicative mid-market valuation of your position is available upon request.

Where you are entering into a Transaction to hedge an underlying exposure to market risk, you are responsible for determining the extent and nature of your underlying exposure, and the effectiveness of the Transaction as a hedge. Any mismatch between the underlying and the hedge transaction may lead to under-hedging or over-hedging with consequent market risk.

Depending on the liquidity of the underlying market, there may be instances where we are not able to terminate a Transaction on demand. Where we accept an Instruction or an Order in relation to a currency or currencies which are or become illiquid, it is possible that execution or settlement of a Transaction will be affected by such illiquidity. In some cases, it might not be possible to execute or settle a Transaction as specified in an Instruction or an Order.

A Transaction carries our credit risk.

We may have positions in, and non-public information about, the markets underlying a Transaction. We will not disclose any such information to you. Our trading and hedging activity may impact these markets.

You should be aware that foreign exchange rates move continuously throughout the day and it is possible that the foreign exchange rate at which an Order is executed may be worse than the foreign exchange rate specified in the Order as a result of market movements or otherwise. The foreign exchange rates used for the purposes of any Transaction (including, for the avoidance of doubt, any Instruction or Order) will be the rates that are available to you as a customer of Barclays Bank PLC and, as such, these rates may differ from published inter-bank rates.

barclays.com/corporatebanking

You can get this in Braille, large print or audio by calling 0800 400 100* (via Text Relay if appropriate) or by ordering online from barclays.co.uk/accessibleservices

*Lines are open 7 days a week, 7am to 11pm. To maintain a high quality of service we may monitor or record phone calls.

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