need to know

07|2014

THE ASSOCIATION FOR UK INTERACTIVE ENTERTAINMENT

How to get the best foreign exchange rate

To a greater or lesser extent, every company with an international element to their operations is in the position where the gross profit is reliant on the ability of the treasury team to buy and sell currencies at attractive rates. If they don't do that well, then your margin can be reduced or possibly decimated by exchange rate fluctuations.

That is not to suggest the treasury team needs to be populated by avid traders and city pundits. Good risk management, prudent sourcing of currency and a little bit of market insight will make a significant difference to any company's currency management. Your overall strategy can be broken down into four sensible steps.

How to get the best foreign exchange rate

Planning

In such volatile and uncertain times, forecasts are often be seen as a complete shot in the dark but it is worth projecting your currency needs where you can and taking steps to mitigate the risk if possible. The better you forward planning, the lower your exchange rate risk and the more likely it is that the market will deliver the right exchange rate within your time frames but what if the rate falls?

Managing the risk of a negative exchange rate movement is easier than most companies imagine. Whether you decide to buy your currencies on a forward contract, guarantee a minimum (worst case) exchange rate with an automated order or choose some other risk management option, as long as you can guarantee to get at least your cost level exchange rate or better, you will never again have to declare "we win some and lose some" on your currency operations.

Partner

In most circumstances, high street banks are expensive. Wire transfers can cost £20-40 and the difference between the 'interbank' market exchange rate and the exchange rate offered to corporate clients by high street banks can be sizeable. It will be worth speaking with a specialist broker to compare rates and service. At worst, it will let you benchmark your rates and at best, you will discover a more cost effective service. Specialists can generally offer greater flexibility and a variety of market orders, spot and forward contracts and even option products if they are deemed useful in your particular circumstances. A good broker will be regulated by the FCA as an Authorised Payment Institution- walk away if they are not. And a good broker should be able to demystify the machinations of the currency markets to narrow down a suitable strategy for your company in your circumstances.

Timing

Your greatest ally is timing because no one can play King Canute against the tide of market. The Bank of International Settlements calculated $4 trillion a day is moved through the global FX markets, so even the largest institutions can't influence exchange rates. But if you can't make the rate change for you, be ready to transact when the market does the right thing on the exchange rate which impacts your needs.

That could involve employing someone to monitor market movement on a 24/7 basis or using your bank or broker to do that for you. Automated market orders take the long hours out of that; they activate automatically if and when your targeted exchange rate is achievable, no matter what time of the day or night that happens.

Review

Like all ongoing business arrangements, currency requirements will need to be reviewed from time to time. As your business grows and you add new suppliers or overseas clients, the nature of your currency needs may change. It may provide opportunities to save money by selling US Dollars and buying Euros for example. It may be that you can net currency receipts and expenses to avoid exchange rate risk completely. However, if those dates don't coincide, the use of swap contracts may be worthwhile to achieve a cash flow advantage. There are many ways to make the best use of your currency transactions; some to manage the risk, to enhance profits and some to improve cash-flow. As a starting point, speaking with a currency specialist will help you determine what will work best for your business. But wherever you are in the business growth cycle, with a review of your existing arrangements, the right partner, and good timing, there is every opportunity to add value to the process of currency exchange and reduce or remove the risk associated with cross border transactions.

What should I do next?

For further information on this document contact David Johnson, at Halo Financial on **020 7350 5470** or visit **halofinancial.com/ukie**