CORNHILL
International Payments

When buying currency there are two types of contract:

SPOT CONTRACT

Objective

To buy currency now. Sometimes you will have a limited timeframe to buy currency.
This could be because you need to settle an invoice quickly but, whatever the reason, it means that you aren't able to monitor the market in order to achieve a better exchange rate.

How it works

To buy currency now you simply agree a rate using the live **spot market** and settle straight away. We would send you a receipt or 'contract note' giving details of our client account at Barclays. Once your funds have cleared we send your purchased currency to your specified beneficiary's bank account. There are no fees or transfer charges for transactions above £5,000 (or currency equivalent).

Benefit

It is fast (some currencies have same day delivery) and buying now eliminates any future exchange rate risk.

FORWARD CONTRACT

Objective

To fix a rate now for payment at a later date.
There are numerous scenarios where you don't have funds to buy on the spot market. A forward contract is the perfect solution: fix today's rate for a future date. You lock into the price but don't pay for it until your specified 'value date'.
You may be required to pay a 'margin' deposit of between 3-10% depending on the timeframe and volatility of the currency you are buying.

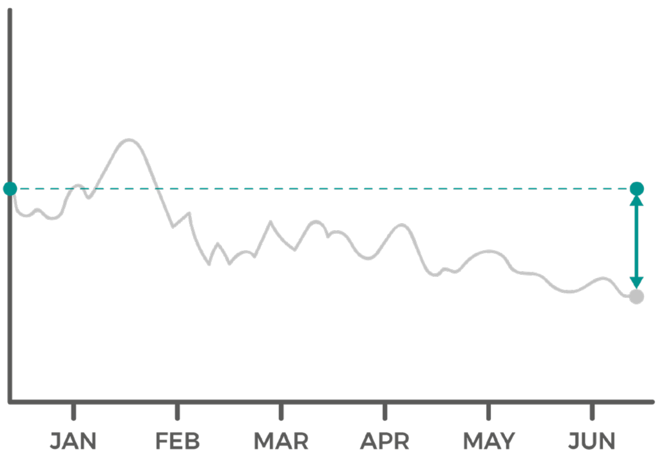
How it works

You know that you will need a specific amount of currency for various payments over the next six months. You simply fix a rate now for the total with a 'value date' in six months time. You can draw down amounts as and when you need to make payments.

Benefits

- Flexibility: you can draw money down as and when you need it in stages or you can 'roll' the contract to extend your time frame (although this might adjust the fixed rate slightly).
- Peace of mind: securing a rate fixes your costs and locks in your profit margin.
- Accountability: if you are responsible for protecting the company's bottom line.

When your forward contract matures, you simply send the balance of the funds due (the cost less the margin deposit) and we transmit your bought currency, as per a spot trade.



Example

Imagine that your company has won a contract in Germany and you have agreed a fee of 200,000 euros. If the current exchange rate is 1.14 you would receive £175,440 including a competitive 10% profit margin (£17,544).
You will be paid in 4 equal payments of 50,000 euros over a period of 6 months. Without fixing the exchange rate your profit is exposed to currency risk.
Fig 2. shows the market rate during that 6 month period. You will note that in month 2 the rate is better than the fixed rate but in months 4 and 6 it is worse. The result is an average exchange rate of 1.1650. This reduces your profit by 20% (£3,552 less).
A 2% difference on the rate = 20% impact on your profit margin

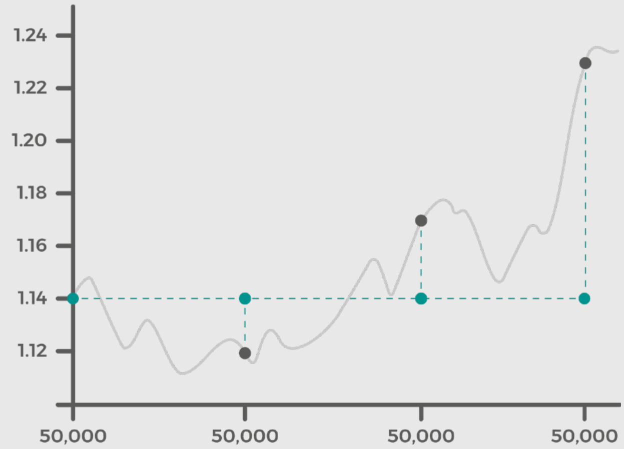


Fig 2. 6 month GBP/EUR chart showing fixed forward rate and variable spot rates.

4 receipts of EUR 50,000 sold for spot and forward

Payment date	Spot	GBP received	Forward	GBP received
Now	1.14	43,860	1.14	43,860
Month 2	1.12	44,643	1.14	43,860
Month 4	1.17	42,735	1.14	43,860
Month 6	1.23	40,650	1.14	43,860
Average rate	1.165		1.14	
Total GBP received		171,888		175,440

These rates are for illustration only.

Forward Contracts are better than your home insurance policy:

Most people have home contents insurance, yet only 2.2% of adults will experience a domestic burglary in the UK*. If you leave exchange rates to chance and don't fix a rate using a forward contract, the chances of financial loss are much higher (50/50). If you insure against the risk of losing your possessions, why would you expose yourself to currency risk which is, statistically, over 20 times more likely?
*ONS survey 2018

I work to very tight margins in my business and currency volatility has a major impact on how well my business performs. I now rest easy knowing I have a team of people working FOR my business and adding true value to it.

- Martin Fisher, FD of a Packaging Business

To speak with one of our team call **+44(0) 203 409 5400** or email **info@cornhillfx.com**
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