



## Product Information Sheet FX Forward Transaction

Prior certainty on payments and receipts in foreign  
currency

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# FX Forward Transaction

## Prior certainty on payments and receipts in foreign currency



### Introduction

Your company is considering using ABN AMRO's Foreign Exchange Derivatives through Franx to manage currency risk. Franx receives your orders and passes them on to ABN AMRO. Franx does this as a tied agent of ABN AMRO. ABN AMRO executes your orders by entering into the Foreign Exchange Derivative Transactions with you. ABN AMRO is therefore your counterparty under the Foreign Exchange Derivative Transactions. In this product information sheet we explain what ABN AMRO's foreign currency derivatives can be used for, how these products work and what the associated risks are.

**With an FX Forward transaction, you agree with ABN AMRO on a fixed exchange rate in advance. This way, you already know exactly how much revenue the international agreement will generate or how much it will cost you.**

### Is an FX Forward transaction of interest to you?

- An FX Forward transaction may be of interest to you in the following situations:
- you have to pay or will receive a sum in a foreign currency in the future;
- you want to be protected against an unfavourable exchange rate development;
- an exchange rate that is determined in advance provides you with the desired certainty; and
- you accept that you cannot benefit from a possible exchange rate development that is favourable to you.

### How does an FX Forward transaction work?

An FX Forward transaction is also referred to as 'FX Forward'. At the moment you enter into an FX Forward transaction, you already agree with ABN AMRO at which exchange rate you will buy or sell a certain currency on a certain date. This way, you know in advance exactly how much revenue the international agreement will generate or how much it will cost you. This will give you more certainty about your operating result.

The FX Forward transaction is a simple way to hedge a currency risk. Good to know: this method is only suitable if you are absolutely sure that you will have to pay or will receive a certain sum in a foreign currency, as concluding an FX Forward transaction will give rise to an obligation on your part. On the date agreed upon, you will have to buy or sell the agreed quantity of foreign currency at the predetermined exchange rate, even if your international agreement is cancelled unexpectedly.

### Not suitable in the offer phase

- Did you issue or receive an offer, but it hasn't been confirmed yet? In such a case, the FX Forward transaction is not suitable. The reason for this is that if the order falls through, you will not be able to terminate the FX Forward transaction.

### When do you have to pay or will you receive the money from ABN AMRO?

If you conclude an FX Forward transaction, you agree on the date on which ABN AMRO will buy or sell the currency for you ('value date'). On the value date, the money will be credited to or debited from your Franx account (a multi-currency account).

### How may an FX Forward transaction work out for you?

An FX Forward transaction is a complex financial product. This means that it involves risks. An FX Forward transaction may work out in your favour. However, afterwards, you may find that it would not have been necessary to conclude the FX Forward transaction. The examples below will show you how an FX Forward transaction works out in different situations.

### There are two possibilities if you receive foreign currency

For example: you will receive USD 100,000 in three months time and you want to convert them into euros. If you chose to conclude an FX Forward transaction with a view to hedge your currency risk, there will be two possible situations on the value date.

#### Your FX Forward transaction

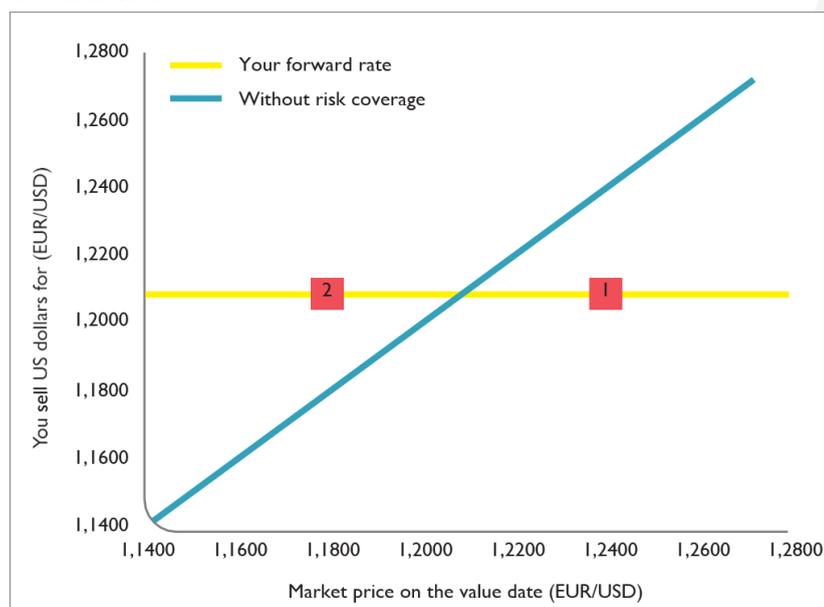
- You sell: 100,000 US dollars for euros
- Your forward rate: EUR/USD 1.2095

Situation 1	Exchange rate	You sell US dollars for	Result
The value of the US dollar drops. On the value date, the exchange rate is <b>higher</b> than your forward rate. EUR/USD 1.2400	EUR/USD 1.2400  USD 100,000 = € 80,645	your forward rate: EUR/ USD 1.2095  USD 100,000 = € 82,679	Your FX Forward transaction <b>protects you</b> against this situation.

Situation 2	Exchange rate	You sell US dollars for	Result
The value of the US dollar rises. On the value date, the exchange rate is <b>lower</b> than your forward rate.	EUR/USD 1.1800  USD 100,000 = € 84,746	your forward rate: EUR/ USD 1.2095  USD 100,000 = € 82,679	Your FX Forward transaction <b>prevents you from benefiting</b> from this situation.

### There are two possibilities if you have to pay in foreign currency

For example: you have to pay USD 250,000 in three months time. You buy these dollars with euros. If you chose to conclude an FX Forward transaction with a view to hedge your currency risk, there will be two possible situations on the value date.



#### Your FX Forward transaction

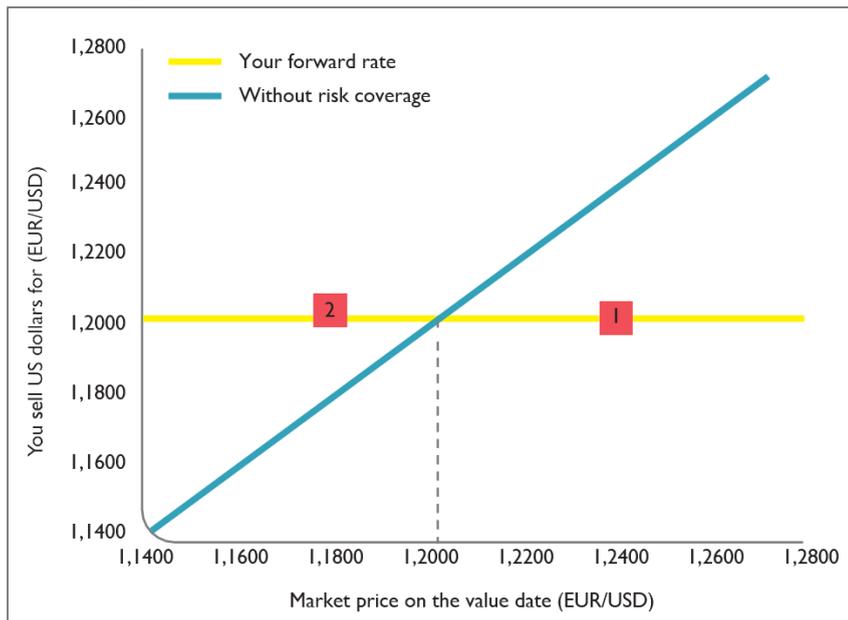
- You buy: 250,000 US dollars with euros
- Your forward rate: EUR/USD 1.2030

Situation 1	Exchange rate	You sell US dollars for	Result
The value of the US dollar rises. On the value date, the exchange rate is <b>lower</b> than your forward rate.	EUR/USD 1.1800  USD 250,000 = € 211,864	your forward rate: EUR/ USD 1.2030  USD 250,000 = € 207.814	Your FX Forward transaction <b>protects you</b> against this situation.

Situation 2	Exchange rate	You sell US dollars for	Result
The value of the US dollar drops. On the value date, the exchange rate is <b>higher</b> than your forward rate.	EUR/USD 1.2400 USD 250,000 = € 201,613	your forward rate: EUR/ USD 1.2030 USD 1,250,000 = € 207,814	Your FX Forward transaction <b>prevents you from benefiting</b> from this situation.

### On which topics will you agree with ABN AMRO?

When you opt for an FX Forward transaction, you conclude an agreement with ABN AMRO. As part of the agreement, we therefore agree upon five topics:



1. Which currency pair it concerns. For example, euros and US dollars. In most cases, one of the currencies will be the euro. However, you can also conclude an FX Forward transaction that involves two foreign currencies.
2. Which of these two currencies you want to buy. Do you need to pay in British pounds in the near future? In this case, you will need British pounds and therefore agree to buy British pounds which you will pay for with euros. Do you expect a payment in US dollars? In this case, you agree to sell US dollars and receive euros.
3. The amount you want to buy. There is no minimum amount. The maximum amount is determined in advance for each currency pair.
4. The exchange rate at which you will buy the currency ('forward rate').
5. The date on which you will buy this currency ('value date'). The period between the conclusion of the FX Forward transaction and this date is called the 'term'. There is no minimum term. The maximum term is 1 year.

#### Important terms

- **Forward rate:** the predetermined exchange rate at which you buy or sell the currency.
- **Value date:** the date on which you buy or sell the currency and on which the amount will be credited to or debited from your account.
- **Term:** the period between the conclusion of the FX Forward transaction and the value date.

#### Advantages of an FX Forward transaction

- You have certainty about the costs or revenues.
- You are protected against unfavourable exchange rate developments for the amount and the term agreed upon.
- It is simple: one agreement, one result.

## Disadvantages and risks of an FX Forward transaction

- You cannot benefit from a favourable exchange rate development.
- You have an obligation to buy or sell. Even if the exchange rate agreed upon proves to be unfavourable to you. Or if the agreement, for which you have concluded an FX Forward transaction, is cancelled unexpectedly.
- You cannot terminate an FX Forward transaction, you can only 'offset' the transaction, which may cost a lot of money.

### What if you will receive or have to pay the currency at a later date?

- What if the date on which you will receive or have to pay the currency is delayed? In such a case, you can postpone the currency transaction.
- In such a case, you agree to buy a certain amount of currency from ABN AMRO and then to sell the same amount back to ABN AMRO at a later date and at a predetermined exchange rate.

## What does an FX Forward transaction cost?

ABN AMRO doesn't charge any premium for the conclusion of an FX Forward transaction. ABN AMRO does take account of the difference in interest rates between the two currencies. If the interest rate of the foreign currency that you buy is higher than the interest rate of the currency that you sell, the forward rate will be more favourable for you than the current exchange rate. However, if the interest rate of the foreign currency that you buy is lower than the interest rate of the currency that you sell, the forward rate will be less favourable for you than the current exchange rate. The costs for ABN AMRO are included in the forward rate. In addition, you pay a fee for the Foreign Exchange Derivatives Services provided by Franx.

## What if you want to terminate the FX Forward transaction prematurely?

It is not possible to terminate the agreement during the term of the agreement. However, you have the option to 'offset' the FX Forward transaction. In that case, you conclude another FX Forward transaction with ABN AMRO, which is the opposite of the first FX Forward transaction, for the same notional amount and currency, but with a new forward rate. The costs of ABN AMRO and Franx will again be included in this forward rate.

Both transactions will be executed on the value date agreed upon:

- The original transaction will be executed first, at the original forward rate.
- Subsequently, ABN AMRO will execute the opposite transaction, at the new forward rate.
- The difference between these two transactions will be settled with you. This may make you money (if the new forward rate is more favourable to you), but it may also cost you a lot of money.

## An example

Your customer goes bankrupt **one month** prior to the value date and the agreement is cancelled. If you opt to offset your FX Forward transaction, two possible situations arise.

### Your original FX Forward transaction

- You sell: 100,000 US dollars for euros
- Your forward rate: EUR/USD 1.2095

Situation I	Transactions on the value date	Result
The value of the US dollar has <b>dropped</b> . At the moment of offsetting, the new forward rate is EUR/USD 1.2300.	1. You sell 100,000 US dollars at an exchange rate of 1.2095. 2. You buy 100,000 US dollars at an exchange rate of 1.2300.	The bank settles both transactions with you. You will <b>receive</b> € 1,378.

Situation 2	Transactions on the value date	Result
The value of the US dollar has <b>risen</b> . At the moment of offsetting, the new forward rate is EUR/USD 1.1900.	<ol style="list-style-type: none"> <li data-bbox="603 181 1031 241">1. You sell 100,000 US dollars at an exchange rate of 1.2095.</li> <li data-bbox="603 248 1031 315">2. You buy 100,000 US dollars at an exchange rate of 1.1900.</li> </ol>	The bank settles both transactions with you. You will have to <b>pay € 1,355</b> .

### More information

Would you like to receive more information about FX Forward transactions? Or about other possibilities for currency management? Then please contact your financial adviser, they'll be happy to help you.