Revolut Business
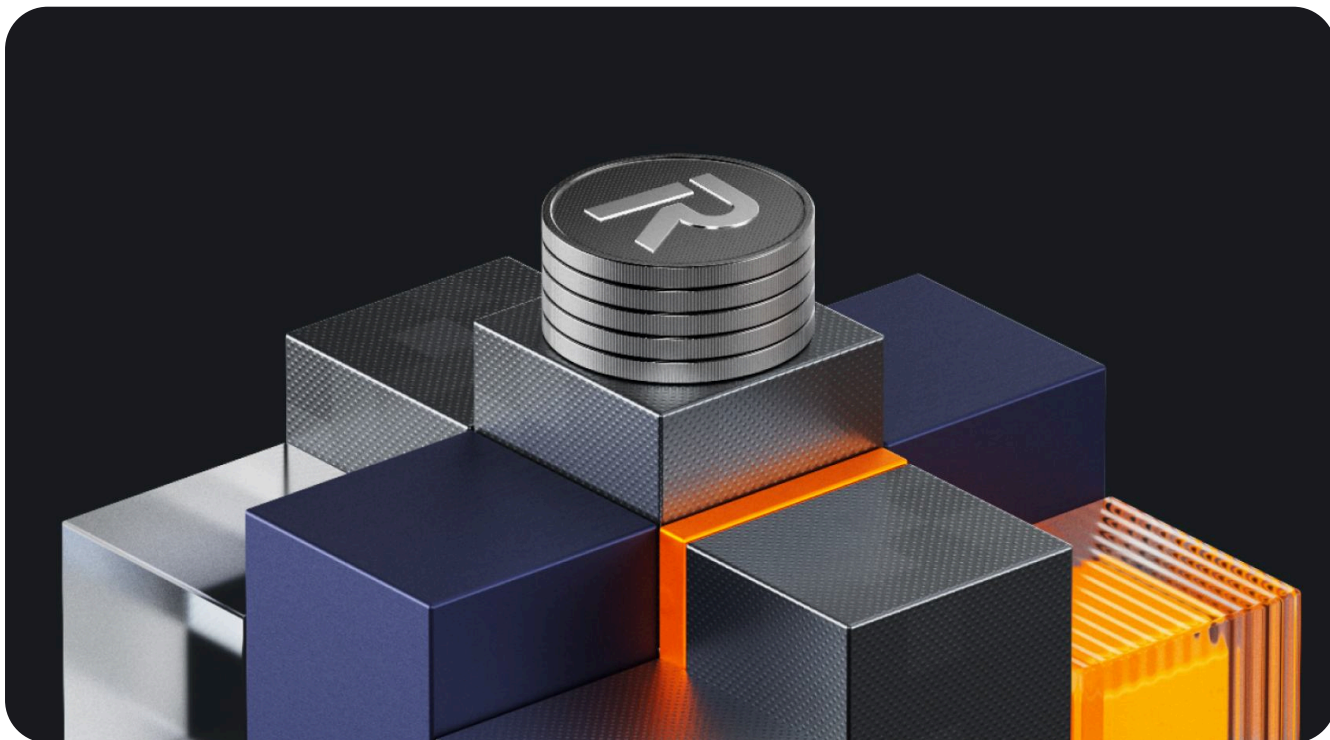
THE ULTIMATE GUIDE TO FX FORWARDS

Protecting your business from currency volatility

Introduction

Let's face it — global business is booming. Though it may feel like borders are fading in today's global economy, operating internationally still comes with its challenges. A big one is currency exchange, and the uncertainty that comes with it.

With 180 currencies circulating worldwide — each with their own ever-changing market value — global businesses need to consider currency volatility. Without managing the risks, the market can hurt your business' bottom line. That's where forward contracts come in.

Say you need to change GBP over to EUR every 3 months to place a supply order from the EU. If the value of EUR increases before you make the exchange, you'll be spending a lot more GBP than you might have expected.

Forward contracts exist to help you reduce this risk — they let you lock in an exchange rate for a period of time, so you don't fall to the whims of the market.

At Revolut Business, you can book contracts in USD, GBP, and EUR with FX Forwards, which you can set up, manage, and edit straight from your Business account. No matter the size of your business or your growth stage, by the end of this guide, you'll be able to use FX Forwards with confidence.

So what are you waiting for? Let's dive in.

Contents

WHAT ARE FORWARD CONTRACTS?

Forward contracts are binding agreements between a customer and a bank or broker to exchange a **specific amount between 2 currencies** at a **specific rate** on a **future date or or within a certain time window**.

These contracts help reduce your exposure to currency risk. They let you plan ahead and avoid rate changes that may work against your favour in planned transactions.

Booking currency contracts is different from spot transactions, or exchanging currencies normally at their current rate. Instead, you're committing to a transaction in advance at a set rate.

But there are some limitations to what you can book these contracts for. Revolut Business FX Forwards is only offered for payments towards identifiable goods, services, or direct investments. You can't set them up for investment or speculative purposes. We take these cases seriously and are forced to cancel ineligible contracts.

Normal exchange vs forward contracts

	Normal exchange[1]	Forward contracts
Definition	An immediate currency exchange transaction	A binding agreement to exchange currencies on a future date
Settlement time	You'll get the currency straight away	You'll get the currency at a future agreed date
Pricing	Uses the current market price (spot rate)	Uses a fixed rate, agreed upon contract signing
Commitment	Transaction is completed immediately without future obligation	A binding commitment[2] that completes at the agreed date and rate

[1]Also known as spot transactions

[2]At Revolut Business, **you can cancel** your forward contract at anytime. However, we'll keep the markup fee and the amount that covers market exposure. We'll return the remaining part of the initial deposit to your account.

Contract types

There are two main types of currency contracts you can book:

- **Fixed contracts:** you can only settle the amount of the contract on 1 specific, future date
- **Flexible contracts (or window contracts):** you can settle the amount between 2 agreed future dates in 1 or more drawdowns (a drawdown is when you exchange all or part of a contract amount)

Common portfolio terms

- **Notional limit:** the maximum approved amount of contracts in monetary terms that a customer is allowed to book
- **Initial margin or deposit[1]:** a pre-agreed deposit amount (% of the transaction) that must be placed before the contract can be booked. This is different from spread or fee, and usually gets returned proportionally when you settle the contract
- **Margin call**: when a customer is required to put up collateral (like an additional deposit) if the market moves in an unfavourable direction
- **Variation margin:** the percentage of value drop we'll allow in the contract amount before we ask for an additional deposit
- **Tenor:** the duration, normally in months, that a contract can be booked for
- **Spread:** the fee/price paid to the bank or broker for booking a currency contract
- **Forward portfolio**: the collection of all your forward currency contracts

[1]We may be able to lower the deposit amount based on an assessment we undertake of your businesses' financial health

WHO IS FX FORWARDS FOR?

Businesses that need FX Forwards

If your business falls into one of these categories, FX Forwards is made for you:

- Your business has tight profit margins and operates in competitive environments
- You don't have the flexibility to re-price your goods/services
- You have long payment terms from clients and short payment terms from suppliers, which means cash flow is tricky
- You don't want to check currency exchange rates constantly so you can focus on your core business
- You have long-term projects for which pricing is agreed months or years in advance
- You import or export goods and services
- Your international operations and transactions with vendors expose you to currency risk
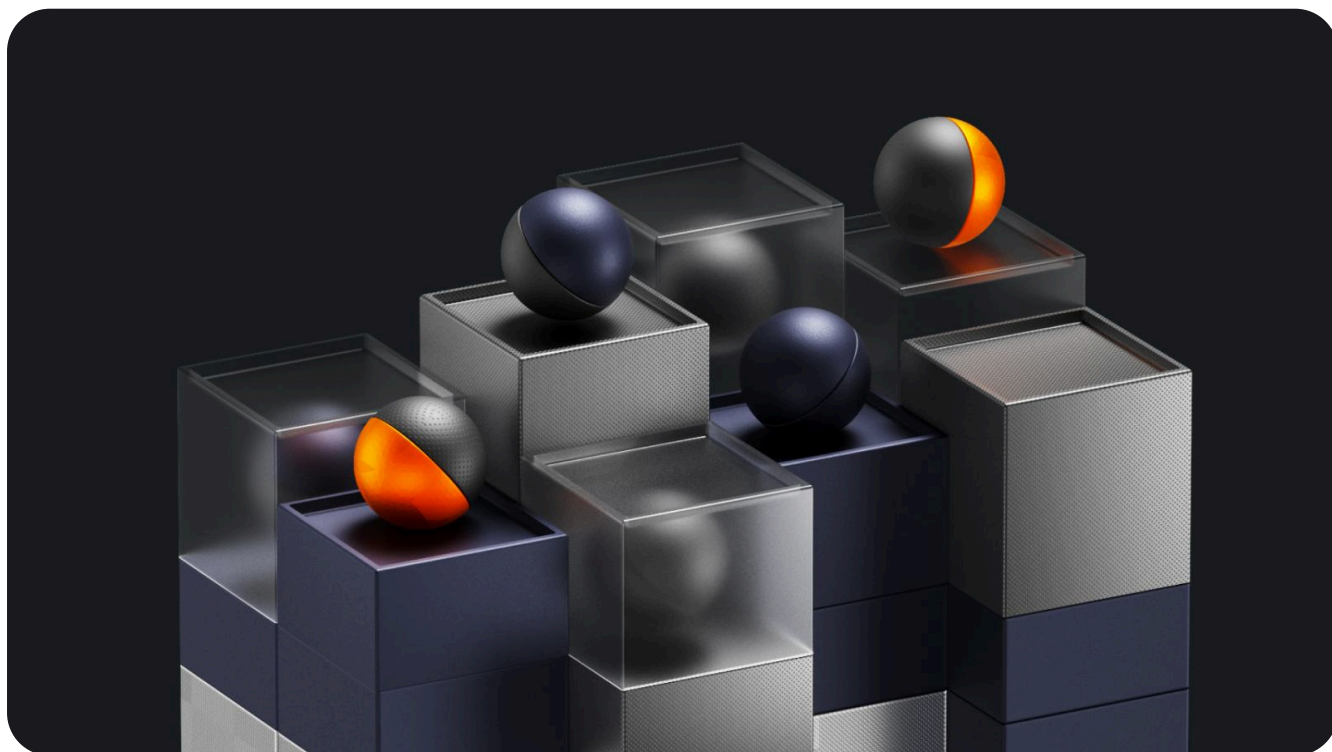
Benefits of using FX Forwards with Revolut Business

Secure exchange rates to manage volatility and costs effectively

Revolut Business FX Forwards allows you to set exchange rates 12 months in advance, or up to 2 years in advance with a credit check. With rates locked in, your future business costs won't fall to the whims of market changes, so you can plan for them accordingly.

Optimise cash flow by protecting against uncertainties in global payments

Revolut Business allows you to book forward contracts in USD, GBP, and EUR. You won't need to worry about moving money between these key markets, so global business goes more smoothly.

Stick to budget and simplify your financial planning

Immediately access up to £500K in active forward contracts with Revolut Business. But if you need more, you can request up to £15M via the web app, or by speaking with our FXForwards specialists. Hold multiple contracts at once, and book new ones whenever you need to.

Cut-down admin by taking full control of your forward portfolio

Manage your FX Forwards portfolio online, 24/7. View rates, set dates, and secure the required amount by booking a contract all by yourself via the web app. If you need higher limits, longer contract times, or extra support, our FX Forwards specialists are always there to help.

Don't miss a thing — we're here to support

We send daily reminders via email and push notification when an additional deposit is pending on your portfolio. Our FX Forwards specialists also reach out to you. You'll have 96 hours from our first communication (excluding weekends) to provide the additional deposit, or we'll need to cancel your portfolio.

Chapter 3

HOW DO I SET UP FX FORWARDS?

With all the technical terms involved, FX Forwards may seem complex. Where are you meant to start? How much do you set it up for? How do you determine the best contract dates for you?

We've developed the 'IDEA' framework to simplify the approach to creating your forward contracts. Here's a breakdown:

Identify your currency exposure

- **Measure how much you spend or receive in different currencies** over a specific time period, like a quarter or year.
- **Evaluate the timing, frequency, and reliability of these payments** — are they monthly, quarterly, annually? Are they regular or irregular?
- **Gauge how sensitive your profit is to currency fluctuations** — have your transaction amounts differed greatly over the last few cross border payments?

💡 Make sure you clearly understand why you're hedging against currency risk and what exactly you want to achieve with forward contracts.

Develop your plan to hedge currency risk

- **Determine the right amount, currency pair, and tenure of your contract** — you may work primarily between GBP and EUR, and want to create a contract for how much you typically exchange each year.
- **Decide whether fixed or flexible contract would best suit your transactions** — for example, if you have a supply order you place regularly, you may know exactly when you want to complete a contract, so a fixed date would work for you.

💡 At Revolut Business, our FX Forwards specialist can guide you through the process of setting up the contract that suits your needs.

Execute your strategy

- **Create your forward contract** through Revolut Business.
- **Check the terms** including the fee or spread charged, the deposit required, and the margin call process.

💡 Usually the forward contract terms such as price, notional limit, deposit etc. are negotiable based on the financial health of your business.

Assess your performance

- **Analyse the performance of your forward contract** at the end of the contract against the goals you set in the beginning.
- **Reflect on the learnings** and incorporate them into your future currency exchange risk management strategy.

💡 You may want to try out a mix of currency exchange tools we offer on top of FX Forwards, like Limit and Stop orders or rate alerts.

SEEING FX FORWARDS IN ACTION

Here's an example of how a fictional business, Wooden Toys Ltd., could have saved ~£62K using FX Forwards.

Context: imagine a UK-based wholesaler of children's toys called Wooden Toys Ltd. They purchase their wooden toys in USD from China, and sell them to wholesale clients like John Lewis, who pay them in GBP.

Situation: John Lewis approaches Wooden Toys Ltd. to purchase several hundred toys in January 2022 for delivery in September 2022. As the wooden toys market is very competitive, Wooden Toys Ltd. quotes John Lewis a price of £241,122 to purchase the toys based on a 10% gross margin at the prevailing GBP/USD market price, or spot rate, as reference.

Description	Value
Cost of wooden toys (USD) - to be paid to Chinese supplier	$300,000
GBP/USD rate	1.3686
Cost of wooden toys (GBP)	£219,202
Margin applied by Wooden Toys Ltd.	10%
Price quoted to John Lewis (GBP)	£241,122
Expected Profit (GBP)	**+£21,920**

Situation continued: On 12 January 2022, John Lewis agreed to the fixed GBP price of £241,122 to purchase the toys. They'll make the payment to Wooden Toys Ltd. on 26 September 2022.

On 12 January 2022, Wooden Toys Ltd. agreed with their Chinese supplier to purchase and pay for the toys on 26 September 2022. This will be at the fixed price of USD $300,000

However, on 26 September 2022 GBP/USD fell to 1.0672. When Wooden Toys Ltd. went to pay their supplier the $300,000 on 26 September, they now needed £281,109 instead of the previous estimation of £241,122 due to the fallen GBP/USD rate.

Description	Value
Cost of wooden toys (USD) - paid to Chinese supplier	$300,000
New GBP/USD rate	1.0672
New cost of wooden toys (GBP)	£281,109
Money received from John Lewis (GBP)	£241,122
Loss to Wooden Toys Ltd.	**-£39,987**

If Wooden Toys Ltd. had created a forward contract for $300,000 at the original spot rate, the situation would have been much better. They could have:

- Protected their original profit margin — the spread fee and temporary deposit would have been a small cost in comparison to the loss
- Avoided losing £39,987 due to the fallen rate of GBP/USD

Opportunity cost of not using FX Forwards: **-£61,907**

Save smart with FX Forwards

We hope this guide gives you the confidence and clarity to protect your business from currency volatility.

Revolut Business FX Forwards is a powerful instrument to hedge your currency exposure, allowing you to protect your profit margins and protect your global business finances against risk. If you have any more questions, visit our FAQs.

Revolut Business is tried, tested, and trusted by hundreds of thousands of businesses. It takes just 10 minutes to open an account with us and get started.

Explore now