



Commitment FX Drift – Structuring FX Ownership into Local-Currency Private Credit

SCENARIO TYPE	Private Credit – Local-Currency Commitments (Repeat Origination)
ASSET CLASS	Sponsor-Backed & Direct Lending (IDR / VND / THB / PHP / AUD Pricing)
RISK FOCUS	Commitment-stage FX drift, underwriting erosion, governance gaps, IC blind spots, repeatable leakage
PRIMARY OFFER	Structuring-as-a-Service™
RELEVANT SERVICES	Commitment-point FX structuring · Conditional hedge frameworks · Decision-rights architecture · Execution sequencing · Ongoing oversight

THE SITUATION

A Singapore-based private credit manager doing sponsor-backed and direct lending across SEA and ANZ. Deals are frequently priced and negotiated in local currency – IDR, VND, THB, PHP, AUD – but the fund's reporting and return optics are USD. Typical close timelines run 8 to 36 weeks depending on diligence, conditions precedent, and regulatory timing.

The recurring pattern: the fund commits to a local-currency purchase price well before closing certainty exists – and the FX rate moves materially before the wire is sent.

This was not a bad FX trade, a failed hedge, or a macro call gone wrong. It was a structurally ungoverned exposure window created by the commitment process itself.

HOW THE RISK MANIFESTS

In private credit transactions priced in local currency, FX risk does not begin at funding. It begins at commitment.

Once a price is agreed – at LOI, term sheet, or equivalent binding stage – the fund is economically exposed to FX movements, even though no cash has yet moved. The USD cost of the transaction is floating, while underwriting assumptions remain fixed.

Investment teams view FX as a treasury issue to be addressed at funding. Treasury teams see no executable exposure until closing is certain. The result is a structurally ungoverned window where FX volatility directly impacts returns but is not actively managed.

Over multiple transactions, these individual FX drifts accumulate into a measurable drag on portfolio-level IRRs – not through bad market calls, but through timing mismatches embedded in the commitment process itself.

WHAT TYPICALLY BREAKS

The commitment gap

Local currency pricing becomes binding well before funding, while FX risk remains floating. The fund has limited ability to reprice, renegotiate, or walk away – yet bears full FX exposure.

Fragmented ownership

No single function owns FX risk during the commitment phase. Investment teams focus on credit; treasury teams wait for certainty. Governance gap rather than execution failure.

Late recognition of exposure

FX is treated as 'not real' until funding is imminent, even though economic sensitivity exists from the moment commitment is made. Decisions are forced at the least optimal point.

Retrospective acceptance

FX slippage is rationalised post-close as unavoidable market noise. Over time this normalisation masks the fact that the same exposure pattern repeats across deals.

THE STRUCTURAL INSIGHT

The core issue was not a lack of hedging instruments or market access. It was the absence of a clear operating definition for when FX risk became economically real, hedgeable, and owned.

Once reframed as a governance and timing problem rather than a market problem, the exposure became diagnosable, quantifiable, and addressable.

What was missing was a sequenced structuring approach that allowed FX ownership, control, and response to scale as commitment hardened – not a better hedge choice, but a standing structuring function embedded into the commitment process itself.

Entry-price erosion averaged a low-single-digit percentage of committed value per transaction. Manageable in isolation. Compounding into a material drag on portfolio-level IRRs across origination cycles.

INTENDED OUTCOMES

- ▶ Re-anchor USD economics at commitment – FX exposure reframed as beginning when price becomes binding, not when funds move.
- ▶ Elevate FX into IC decision quality – sensitivity presented alongside credit and leverage risks, enabling explicit acceptance or mitigation rather than silent absorption.
- ▶ Separate process risk from market risk – FX losses caused by governance failures distinguished from those arising after risk was consciously owned.
- ▶ Establish ownership without mandating execution – clear responsibility from commitment onward, without forcing premature hedging action.
- ▶ Prevent repeat leakage across vintages – episodic FX pain converted into institutional learning embedded at the process level.

WHERE THIS APPLIES

Applies when the purchase or funding amount is in local currency but fund economics are USD or another base currency; close windows are long enough for FX to matter; and the platform does enough deal volume that repeatability is valuable.

Does not apply where the fund naturally matches currency through local-currency vehicles and liabilities; close timing is near-immediate or FX is contractually passed through; or deal sizes are so small that governance overhead dominates.

TYPICAL ENGAGEMENT PATH

Structuring-as-a-Service™ – Deal-Stage FX Ownership & Execution. A standing structuring function embedded into the origination process, spanning multiple transactions. Secondary: Rapid Diagnostic (initial scoping or retrospective review).

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