



FX Governance Built for Last Year's Business

SCENARIO TYPE	Corporate Treasury – Growing Corporate with Cross-Border Revenue and Procurement
ASSET CLASS	USD and EUR transactional FX exposure across revenue and procurement cycles
RISK FOCUS	Stale FX policy, decision-right gaps, over-hedging during volume downturns, unexplained hedge P&L
PRIMARY OFFER	Derivatives Portfolio Review™
RELEVANT SERVICES	Derivatives Portfolio Review™ · FX policy redesign · Decision-rights framework · Counterparty and execution review · Structuring-as-a-Service™ ongoing

THE SITUATION

A corporate with growing cross-border revenue and USD and EUR procurement had written its FX treasury policy three years earlier, when the business was predominantly domestic. The policy was clear: hedge 75% of forecast exposure. The board had approved it. The banks had been briefed.

Since then, the business had changed substantially. International revenues had grown from a minor line item to a material portion of total income. Procurement relationships had diversified. The timing between commercial commitment and invoice had lengthened. One significant contract had shifted billing currency mid-term.

The FX policy had not changed. The hedge programme was doing what the policy instructed. The policy was no longer describing the business.

HOW THE FAILURES ACCUMULATE

FX policy failures rarely announce themselves as a single event. When international revenue contracted following a client renegotiation, the hedge notional – set against the prior year's forecast – significantly exceeded the actual exposure. The forward contracts generated mark-to-market losses as the hedged currency moved. Treasury was asked to explain losses on positions that, from an operating perspective, had no counterpart.

The policy said treasury would hedge 75% of forecast exposure. It did not say who owned the forecast, who was responsible for updating it when commercial terms changed, or at what point in the sales cycle the hedge decision should be triggered. The commercial team committed to pricing in USD. Treasury was sometimes notified at commitment, sometimes at invoice, sometimes when the receivable was already partially settled.

One contract had been renegotiated mid-term with a billing currency shift from USD to AUD. The hedge against the original USD receivable remained in place for several months while the contract ran in AUD – a naked FX position the treasury had not decided to take. No process existed for flagging commercial changes that had hedging implications.

WHAT TYPICALLY BREAKS

Hedge ratios without decision rights

The policy defined what proportion to hedge but not when, against what, or who owned the trigger. Treasury knew the target ratio. Nobody owned the moment at which the economic exposure was actually taken on by the commercial team.

Hedge P&L disconnected from operating performance

Directors had approved a policy intended to reduce FX volatility. The policy transferred uncertainty from spot exposure to forecast-versus-actual variance. When volumes moved, the hedge produced losses that looked arbitrary from outside the treasury function.

Forecast exposures that are not dynamically updated

Hedge notional remained static while underlying exposures changed. Volume revisions, billing currency shifts, and contract renegotiations had no defined escalation path to treasury – and therefore no effect on what was hedged.

Hedge accounting not reviewed since inception

Several hedges intended as cash flow hedges were not qualifying because the hedged item was insufficiently specified. The accounting treatment had not been reviewed since the original policy was approved despite the underlying business changing substantially.

THE STRUCTURAL INSIGHT

The policy described an exposure that no longer existed. The business the FX policy was written for had changed fundamentally – revenue mix, procurement profile, and commercial cycle length had all shifted. The policy was governing a business that no longer existed in the form it described.

The decision-right gap was the primary failure mode. The economic exposure was being taken on by the commercial team at the point of pricing commitment. Treasury was sometimes hedging before that, sometimes after, and sometimes not at all because the information had not been passed across. Fixing the policy without fixing the decision-rights framework would have produced the same outcomes with better documentation.

The redesigned policy mapped the commercial lifecycle and defined hedging obligations at each stage: at commercial commitment, a defined proportion of the contracted amount hedged; at invoice, coverage reviewed against confirmed receivable; at receipt, hedge settled against actual cashflow. The commercial team was given a defined responsibility to notify treasury within a specified timeframe of any pricing commitment above a defined threshold involving non-AUD elements. Billing currency changes were added to the commercial change management process with a mandatory treasury notification step.

INTENDED OUTCOMES

- ▶ Hedge P&L that connects to operating performance – hedges executed against actual commercial commitments rather than forecast proxies; FX line in board reporting explained by reference to specific exposure stages.
- ▶ Over-hedging eliminated – hedge notional dynamically adjusted as commercial outcomes are confirmed; volume downturns no longer produce naked hedge positions against cashflows that did not materialise.
- ▶ Decision rights documented and operational – commercial team owns notification of hedgeable commitments; treasury owns execution and instrument decisions within policy; billing currency changes and volume revisions have a defined escalation path.
- ▶ Execution pricing benchmarked – second-quote process in place for all transactions above threshold; spread leakage quantified and materially reduced; pricing outcomes in the quarterly treasury report.
- ▶ Directors understand the FX programme without a technical briefing at each board meeting – the connection between hedging activity and operating outcomes is visible and explicable.

WHERE THIS APPLIES

Works best where the business has grown or changed substantially since the FX policy was written; the commercial cycle is longer than the hedge decision cycle creating timing gaps; hedge P&L requires regular board explanation because it does not connect visibly to operating outcomes; decision rights over when and what to hedge are ambiguous between commercial and treasury teams; and over-hedging has occurred during volume contraction or commercial renegotiation.

Less relevant where the business is predominantly domestic with minor or stable FX exposure; the FX policy has been reviewed within the past 12 months and reflects the current business model; commercial cycles are short and exposures are confirmed quickly after commitment; or a mature decision-rights framework already connects the commercial and treasury functions.

TYPICAL ENGAGEMENT PATH

Derivatives Portfolio Review™ – FX policy gap analysis, exposure stage mapping, and decision-rights framework design.

Secondary: FX policy redrafting alongside in-house or external counsel, commercial team integration design, hedge accounting qualification review, execution benchmarking framework, Structuring-as-a-Service™ ongoing oversight.