

Foreign Exchange contracts

Many companies do business with counterparties based in other countries which can result in transactions in currencies different from the home currency. These transactions (e.g. open invoices) have to be paid a foreign currency which means that they have a currency risk position. Currency exchange rates fluctuate which can result in an unwanted profit or loss during payment or receipt of the payment.

Foreign exchange contracts can be closed with banks which removes the currency exposure risk. Up front a fixed rate is set with the bank and during settlement that rate will be used when the foreign currency is exchanged with the home currency.

Within the Advanced FX module these Foreign exchange (FX) contracts can be created, hedged (linked) and processed.

FX contract creation

FX contracts can be created manually from the FX module. It is also possible to copy an existing FX contract by first selecting an existing FX contract and pressing the Copy button. The normal Create FX contract form will open with all values from the initial contract defaulted.

An FX contract can be created against home currency but also a contract can be created with two foreign currencies.

An exchange can be entered on the FX contract which links to the market exchange rate table. This information can be used as a basis for a Mark to market comparison against a specific forward curve.

The create FX contract screen contains a Market indication field showing the latest closing exchange rates from the market rate table, for informational purposes.

FX contract roll

When an existing contract has to be "rolled forward", the Roll functionality can be used. This is done for example when the payment date of the customer is postponed for a month. Two new contracts have to be created for a roll, the first contract will close the initial contract (same prompt date) and the second contract will create the new open position on a date in the future.

The "Roll" form will have many fields defaulted (e.g. amounts, prompt date, currencies and counterparty). After creation of the roll the contracts involved will have a number which links them together for informational / reporting purposes.

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FX contract hedging

DycoTrade supports FX contracts with two foreign currencies and FX contracts with a foreign currency against home currency. In the hedging screen the foreign currencies can be hedged to purchase/sales order lines. Hedging can be done on a many-many basis meaning that one FX contract can be hedged to one or multiple purchase/sales orders and one purchase/sales order can contain hedges from multiple FX contracts.

It is also possible to hedge an FX contract with the VAT of posted invoices. This is used by companies which have a home currency different from the currency of the country in which they are based. VAT will be declared in the country currency which means that every invoice (which includes VAT) creates a currency exposure for the VAT amount. VAT postings are shown in a separate tab in the hedging form.

Trading book

It is possible to enable the Trading book functionality. A Trading book can be created and manually assigned to FX contracts and purchase/sales orders. The Trading book contact is also a financial dimensions, all related postings will contain the Trading book value in the general ledger.

This is used for reporting purposes, for example a margin per Trading book report. It is also possible to setup restrictions regarding products, either FX products (e.g. EUR-USD) or physical products (e.g. Cocoa beans).

E.g. Trading book "Europe" can only create FX contracts for product EUR-USD and can only purchase or sell Cocoa beans.

Financial process

The FX module also contains a posting routine to process the FX contract, linked to a posting profile.

After FX contract creation (on contract date) an initial posting is made from the FX contract which will post the amount to be paid and the amount to be received of the FX contract on different ledger accounts. During contract settlement (on prompt date) the bank postings will be made from the General journal. After selecting the FX contract via a customized way in the General journal, the amounts are filled in automatically. During bank settlement the initial posting transactions is reversed.

Finally, the difference between FX contract rate and system rate (FX result) can be transferred to the P&L via a (batch) job.

Posting rates

Via the parameters it is possible to setup what the posting rate will be of hedged purchase/sales orders. Standard the latest system exchange rate will be used for all ledger postings. When a purchase/sales order has been hedged with an FX contract, it is also possible to use the hedge rate as posting rate. When the purchase/sales order has been hedged with multiple FX contracts, an average is calculated and used as posting rate for postings such as Product receipt or Sales invoice.

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Furthermore, it is possible to block postings if the order is not sufficiently hedged (within set tolerance parameters). Alternatively, a warning message can be shown.

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