BII Insights

Multinationals Use FX Threshold Limits For Secondary Payments

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Multinational companies typically have Global Subsidiary bank accounts in foreign markets that do Secondary FX trades. It is inevitable that large global operations need to have the ability for local operations to do small local FX trades, or trades called Secondary FX. It is a best practice to have the larger FX exposures, and the related Hedging, and large FX trades handled at the Head Quarters by a centralized treasury team. In turn, a company policy will implement an “FX Threshold” for its subsidiaries to send all trades over $1,000,000, for example, to the U.S. Headquarters for execution. A company would do this so they can put the larger FX trades through a “Multibank Platform” (FXAll, 360T, or Bloomberg) and obtain the best and lowest competitive markups. However, due to local management needs, time zone constraints, and process issues, a Foreign Subsidiary may need to do FX trades over a company-wide mandated set Threshold from time to time. Some Foreign Subsidiaries adhere more carefully to FX Thresholds than others. These smaller Secondary FX Payments are often delegated to local operations people that do not have incentive to watch FX Markups, or Spreads, thus these payments are often referred to as “Nuisance Payments”. There are moves to streamline such Secondary and Nuisance Payments with embedded finance and to lower costs.

With **FX Rate Integrity®,** clients have learned that Secondary Payments can often have high FX spreads, resulting in providers making Excess Markups. Therefore, there is an opportunity for greater price efficiency through process improvements. A best practice solution can be having a “Pre-Agreed Spread” negotiated based on the bank relationships, types of trades, and the FX volumes (amongst other factors).

Banks have Limits and Threshold constraints for client and counterparty risk. More and more, companies have definitive policies and procedures for FX Thresholds in global operations. Benefits of **FX Rate Integrity®** are: A) the ongoing monitoring of FX Pre-Agreed Spreads for compliance and; B) helping Multinational Headquarters keep track of when their subsidiaries may do FX trades that go over their Threshold Limits.

Overall, **FX Rate Integrity®** monitors for **FX Pre-Agreed Spread Compliance** in foreign markets, and helps Treasury teams maintain oversight on international subsidiary FX activity, while allowing relationship banks to earn a fair, but not excessive spread.