BII Insights

Window Forwards: Flexibility Without Hidden Markups

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A window forward locks in an FX rate today and lets a company settle on any day within an agreed window, rather than on one fixed date. That flexibility suits payments whose timing is uncertain. It can also hide markup inside the forward rate, unless the spread is agreed in writing and checked.

Why Window Forwards

Many companies know roughly how much foreign currency they will need over the coming months, but not the exact day each payment will come in or out. A standard forward settles on one fixed date. If the payment moves, the forward has to be extended or closed early, and each change is another trade with another markup.

A **window forward** fixes the rate for the whole window. The company can draw on it in one amount or in several parts, on any business day between the window's first and last dates. One hedge can cover a stream of payments, such as monthly supplier invoices. As long as they are predictable.

How the Rate Is Set

Because the Bank must be ready to deliver on any day in the window, it generally prices the whole contract at the forward points least favorable to the Client across that window. The wider the window, the larger that allowance can be.

The Bank's markup sits on top of those forward points. Both are built into one all-in rate, so the Client rarely sees how much of the rate is markup and how much is the cost of the window itself.

A Case From Our Files

A petrochemical company had an annual flow of about **$25 million in euro payments** converted to U.S. dollars. It did not realize its FX markups averaged **67 basis points**.

Once mandated under **FX Rate Integrity®**, BII reviewed and analyzed the company's FX history and recommended a solution that included more sophisticated, longer-dated window forwards. A nine-month audit of its hedging activity confirmed the result.

67 bps	3 bps	95%
average markup before	average markup after	savings on markup

On a flow of that size, each basis point is worth about $2,500 a year, so the drop from 67 to 3 basis points is roughly **$160,000 a year** kept by the company rather than paid away in markup.

The lesson is not that window forwards are cheap or expensive. The appropriate window rate, like all forwards, is a function of interest rate arbitrage. Some will be more expensive than the spot on the draw date. The transaction must be noted as a hedge at inception to prevent a P&L impact. Differences are assigned to the OCI account.

What the Spread Agreement Should Cover

As we outlined in our **Pre-Agreed Spreads** Insights, a written agreement should cover both spot and forward transactions. For window forwards, it helps to spell out three things:

1. Mid-market spot	+	2. Forward points	+	3. Agreed spread
the Interbank Mid-Market Rate at trade time		for the date in the window the Bank prices to		the Bank's markup, in basis points, in writing

The all-in window forward rate the Client sees combines all three.

When each part is agreed and recorded, every drawdown is drawn using the agreed rate so another market check is unnecessary.

From Principle to Practice

BII recommends two steps:

1. **Match the window to real payment timing.** A window no wider than the business needs keeps the forward-point allowance small.
2. **Agree the forward spread in writing**, measured over the Interbank Mid-Market Rate, at Headquarters and for Foreign Subsidiaries.

This is the work of the **FX Rate Integrity®** review service. Window forwards give treasury the flexibility it needs; **FX Rate Integrity®** makes sure that flexibility does not come with a hidden price.

Learn more about **FX Rate Integrity®**

Visit our website, **www.bladesintl.com**
Or email **fxri@bladesintl.com**

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