

FOREIGN EXCHANGE FOR SMALL AND MEDIUM SIZED BUSINESS

# Exporters' Guide



## Introduction

The Commonwealth Bank has been helping clients to make and receive international payments for many years. We offer exporters a comprehensive range of foreign exchange solutions, competitive prices, information and advice from our foreign exchange specialists. Our specialists can help you to better manage your foreign currency transactions. This guide has been written to provide you with an understanding of the foreign exchange market and to introduce you to a number of foreign exchange solutions. We have also included a number of practical examples so you can see how each solution works. We look forward to working with you to implement the most effective foreign exchange solutions for your business.

## Exchange rates

Exchange rates in Australia operate under a floating exchange rate environment, which means market forces of supply and demand dictate the value of the Australian dollar (AUD). As such, the dollar's value will vary over time, and depending on market conditions, the variation can be significant. Since it was floated in 1983 the AUD has had an average annual trading range of approximately 11 US cents.

## The decision process

Determining the optimum foreign exchange solution for your business can be difficult. By taking into account your specific needs our expert staff can assist you to implement the right solution, or combination of solutions for your business.

Some of the factors you may need to consider include:

- the date you will receive your foreign currency payment
- the payment amount
- the currency involved
- how often you receive your payments
- your cash flow requirements

- your view on the AUD and whether it will move up or down in the future
- your business or hedging policy (if applicable)

The matrix below may assist you to compare some of the simplest foreign exchange products and determine the most appropriate solution for your needs.

## Foreign exchange solutions summary

The Commonwealth Bank offers an extensive range of foreign exchange solutions.

### Foreign Exchange

Simply allows you to buy and sell foreign currencies. Exchange rates are available in all freely floating currency pairs (i.e. AUD/USD, AUD/EUR) for:

- **Value Today:** where the settlement date is the same as the trade date.
- **Value Tomorrow:** where the settlement date is one business day after the trade date.
- **Spot:** where the settlement date is two business days after the trade date.

### Forward Foreign Exchange (Forward Exchange Contract)

Is a risk management tool that exporters use to obtain protection against adverse exchange rate movements. In effect, you agree with the Bank to exchange currencies at a fixed exchange rate on a future date. It enables you to lock-in an exchange rate but you are unable to take advantage of favourable exchange rate movements.

### Foreign Currency Accounts

Provide for foreign currency account management. Foreign currencies can be received into the account and then held

	Value Today	Value Tomorrow	Spot Foreign Exchange	Forward Foreign Exchange
<b>Currency view</b>	You may or may not have a view on the direction of the currency.	You may or may not have a view on the direction of the currency.	You may or may not have a view on the direction of the currency.	Exchange rates will move adversely.
<b>Settlement</b>	Same day as the trade date.	1 business day after the trade date.	2 business days after the trade date.	More than 2 business days and up to 2 years after the trade date.
<b>Exchange rate protection</b>	Yes.	Yes.	Yes.	Yes.
<b>Optional settlement periods</b>	No.	No.	No.	Yes.
<b>Fee payable</b>	No.	No.	No.	No.
<b>Transact online</b>	Yes.	Yes.	Yes.	Yes.

until a payment in that currency becomes payable or until exchanged into Australian dollars, or any other freely floating currency, is required. Deposit interest may be payable.

## Other solutions

We also offer exporters a range of other foreign exchange solutions including:

- Flexible Forwards - provide you with the security of a Forward Exchange Contract and the flexibility of a Currency Option. Flexible Forwards provide protection against adverse exchange rate movements as well as the potential to benefit from favourable exchange rate movements.
- Currency Options - in simplest form it provides the buyer of the option with the right but not the obligation to buy or sell one currency amount against another currency amount at a specified exchange rate on a specified date in exchange for a premium.
- 24-Hour Market Watch - a service that provides you with assistance in monitoring your foreign exchange exposures and executing transactions on a 24-hour basis by involving our London, New York and Sydney dealing centres. You can identify the spot rate level you seek to achieve and instruct us to transact the deal should the target level be reached during a given period. The minimum transaction size is AUD100,000 or equivalent foreign currency.

- Foreign Currency Term Deposits - allow you to invest in foreign currencies for fixed time periods.

## Internet solutions

We offer two Internet foreign exchange solutions for our clients. They are both security protected and convenient ways for you to make and receive foreign currency payments. Business Foreign Exchange is designed to meet the foreign exchange needs of small to medium size businesses, and Ecommmcorporate is typically used by large businesses and institutions.

## Examples of foreign exchange solutions for exporters

Two of the most common foreign exchange solutions used by exporters are:

- Spot Foreign Exchange
- Forward Foreign Exchange

This section lists examples of these transactions. They are for illustrative purposes only.

### Spot Foreign Exchange

<b>What is it?</b>	A spot exchange rate applies to a foreign exchange transaction with a settlement date that is 2 business days after the trade date.
<b>Benefits</b>	<ul style="list-style-type: none"> <li>- It provides you with cashflow certainty.</li> <li>- You receive exchange rate protection between the trade and settlement dates.</li> <li>- You pay no fees.</li> </ul>
<b>Points to consider</b>	<ul style="list-style-type: none"> <li>- You cannot benefit from future favourable exchange rate movements.</li> <li>- You may incur a cost if the transaction is terminated before the settlement date.</li> </ul>

### Example

<b>Your need</b>	To receive a payment of USD 50,000 in 2 business days.	
<b>Market dynamics</b>	AUD/USD spot rate	0.7000
	Term	2 business days
<b>Outcome on settlement date</b>	Sell USD and buy AUD at 0.7000.	
<b>More information</b>	Refer to the Foreign Exchange Product Disclosure Statement.	

Exchange rates can also be quoted as:

- Value Today where the settlement date is the same as the trade date.
- Value Tomorrow where the settlement date is one business day after the trade date.

## Forward Foreign Exchange

<b>What is it?</b>	A forward exchange rate applies to a foreign exchange transaction with a settlement date that is more than two business days and up to two years after the trade date. They are also known as Forward Exchange Contracts.
<b>Benefits</b>	<ul style="list-style-type: none"><li>- It provides you with cashflow certainty.</li><li>- You are protected from adverse movements in the exchange rate.</li><li>- You pay no fees.</li><li>- You have the flexibility of optional settlement periods.</li></ul>
<b>Points to consider</b>	<ul style="list-style-type: none"><li>- You cannot benefit from future favourable exchange rate movements.</li><li>- You may incur a cost if the transaction is terminated before the settlement date or outside of the optional settlement period.</li></ul>

## Example

<b>Your need</b>	To receive a payment of USD 50,000 in 90 days.	
<b>Market dynamics</b>	AUD/USD spot rate	0.7000
	Term	90 days
	Forward points	-0.0050
	Forward exchange rate	0.6950
<b>Outcome on settlement date</b>	Sell USD and buy AUD at 0.6950.	
<b>More information</b>	Refer to the Foreign Exchange Product Disclosure Statement.	

## Choosing the Commonwealth Bank

We take a partnership approach with our foreign exchange clients and work hard to understand your business and meet your objectives. We believe that we have the best people, products and prices to ensure we meet and exceed your expectations around international payments.

## Contact us

If you would like to know more about our foreign exchange solutions, please see your relationship manager, email [businessfx@commbank.com.au](mailto:businessfx@commbank.com.au), or contact our Business Foreign Exchange Specialists by calling 1300 735 734, Monday to Friday 8am to 6pm, except Wednesday 8am to 5pm.

**Important Information.** As this advice has been prepared without considering your objectives, financial situation or needs, you should, before acting on the advice, consider its appropriateness to your circumstances. Product Disclosure Statements for Foreign Exchange, Flexible Forwards, Foreign Currency Accounts, Foreign Currency Term Deposits, Ecommcorporate and Business Foreign Exchange, issued by the Commonwealth Bank are available from [commbank.com.au](http://commbank.com.au), or by calling 13 2221 and should be considered before making any decision about these products. If you have a complaint, the Bank's dispute resolution process can be accessed on 13 2221.

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