



**Commercial Customer Foreign
Currency accounts**

A Customer Foreign Currency account is a useful mechanism for managing the flows of foreign currency.

Customer Foreign Currency accounts

Companies active in the international market, be it in trade or the provision of services, may find a Customer Foreign Currency account a useful mechanism for managing the flows of foreign currency receipts and payments.

Purpose

A Customer Foreign Currency account (CFC account) is an account:

- denominated in a foreign currency,
- conducted in the books of Standard Bank,
- in the name of the company.

It can be opened in a variety of international foreign currencies. The most commonly used currencies are US dollars, British sterling, euro, Japanese yen and Swiss francs.

The account makes provision for short-term offshore finance, eliminates the need for early deliveries under forward exchange contracts as well as the off-setting of payments against receipts and vice versa.

CFC accounts are held for:

- Importers and exporters – for the movement of goods only.
- Service providers – for services associated with import and export transactions. Ships' agents, freight forwarders and marine insurance brokers fall within this category.

- Tour wholesalers and operators, insurance brokers, stockbrokers and entities with similar business operations.

Establishment

To open a CFC account, a credit limit needs to be approved by a bank's credit lending manager as the account caters for finance (overdraft) facilities – this is applicable for import/export accounts only, all other accounts have to run on a credit basis. Once this formality is completed the account is opened in the foreign currency requested by the company.

Features

It is suitable for businesses with a high import and/or export turnover, including large volumes of shipments of relatively small values.

Any credits to the account that are received from a non-resident source may only remain in the account for a period of 180 days.

If your CFC account is in overdraft, you can reduce or eliminate the shortfall by debiting your current account and crediting your CFC account. The conversion can be done at a spot rate of exchange or by using an existing forward exchange contract. Similarly, the overdraft/shortfall, caused by a payment that has already been effected from the CFC account or a shortfall created on an offset payment, can be reduced or eliminated as outlined above.

The facility affords both importers and exporters the opportunity to finance these relatively low value shipments. The amounts can be accumulated in the account until the sum is sufficient to refinance in the euro-currency market.

The account also enables a company to eliminate the administrative burden associated with early deliveries or extensions of forward exchange contracts, for example:

- an importer can draw down on the account to effect a payment prior to the maturity date of the forward exchange contract. The account is refunded in due course using the relative forward exchange contract; the account may only be funded with the amount originally debited;
- an exporter can draw down on the account, prior to the receipt of the export proceeds, using a maturing forward exchange contract. The account is reimbursed in due course on receipt of the relative export proceeds;
- companies dealing in both imports and exports have the benefit of off-setting the cost of their imports against the foreign currency accruals of their exports. Such off-setting can be conducted through the medium of a CFC account only.

Advantages

The advantages of a Customer Foreign Currency account are:

- The simplicity of the operation.
- The capability of pooling numerous small amounts until a marketable amount (say the equivalent of US\$250 000 or more) is reached, which can then be refinanced at more favourable interest rates.
- The overdraft interest is calculated daily on the outstanding balance and payable monthly in arrears, whereas certain other financing facilities call for interest to be paid on commencement of the financing period.
- The interest on credit balances is calculated daily on outstanding balances and payable monthly in arrears.
- The ability to switch to a cheaper form of finance should this become available.
- Exporters can eliminate exchange risk by selecting an account in the same currency as that in which the export proceeds will be received.
- Exporters can use the facility for both pre- and post-shipment finance.
- The benefit of off-setting import payments against export accruals (a unique feature to this facility).
- Natural hedging mechanism which does away with the need to take out forward cover if one has foreign currency receivables which can be utilised to effect foreign currency payments.

Disadvantages

The disadvantages of conducting a Customer Foreign Currency account are:

- The interest rate can fluctuate from day to day, making accurate costing of the goods fairly difficult.
- As the interest rate changes daily and if the account is conducted on an overdraft basis, the cost of finance can increase where the interest rate in the relative country is trading upwards.

Statements

Depending on the requirements of the company, statements for CFC accounts can be provided:

- monthly
- weekly and monthly
- daily and monthly

Period of finance

CFC accounts may be used to finance trade transactions for any period up to six months. If transactions are refinanced, the total period financed can be up to twelve months.

Interest rates

Interest on debit balances will be calculated at a negotiated margin over the ruling overnight euro deposit lending rate in the country of the foreign currency concerned.

Interest on credit balances will be calculated daily at a negotiated

margin below the ruling bid rate for overnight deposits in the country of the foreign currency concerned.

Conclusion

For further information on any of our products and services, please contact your nearest International Trade Services office, visit our website at www.standardbank.co.za (select Corporate and Investment, click on Banking/ Finance solutions and go to International Trade Services), or call 0860iTrade/0860 487 233.

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