



Dbriefs

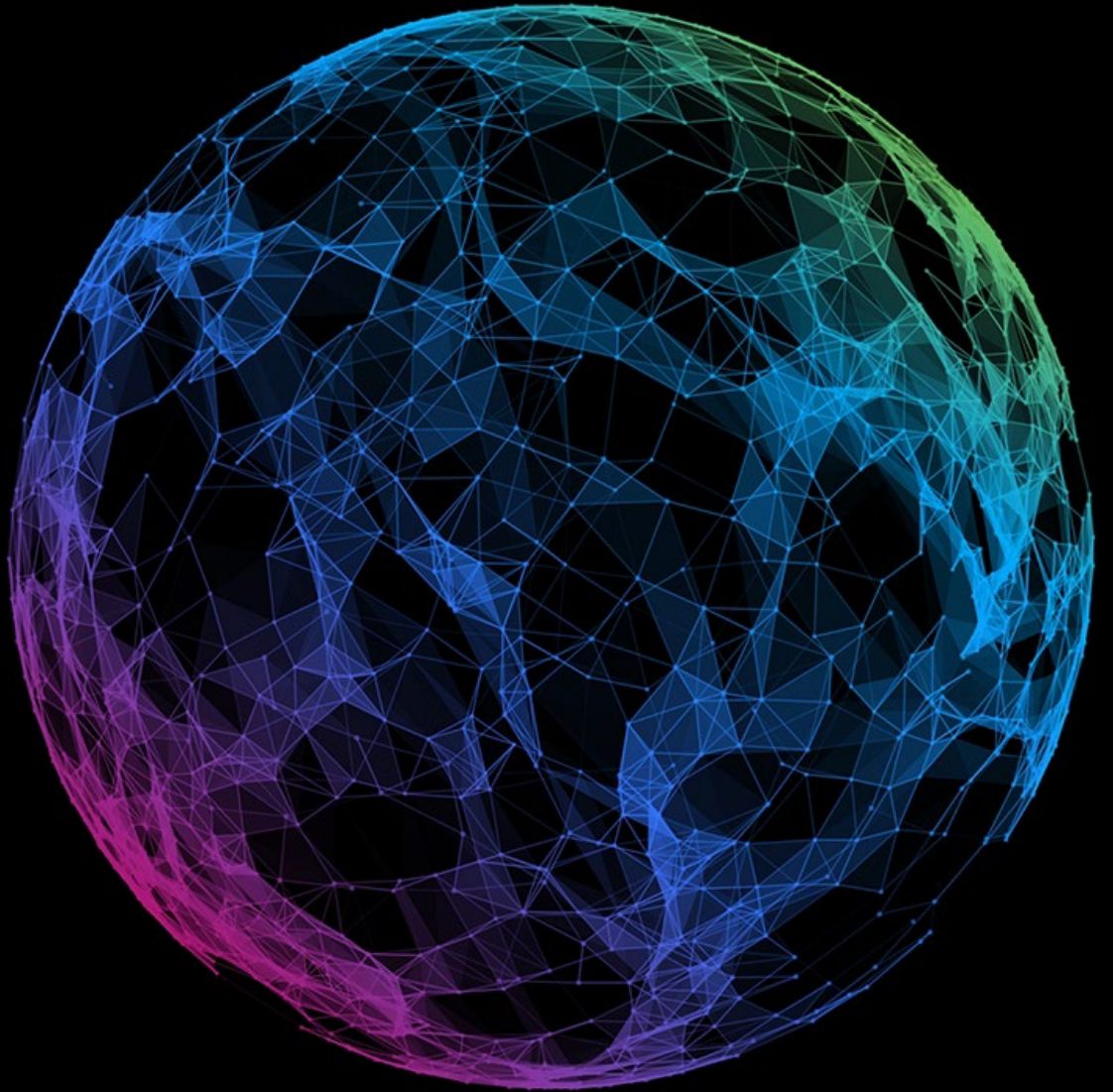
Foreign currency exposure mitigation for global corporates

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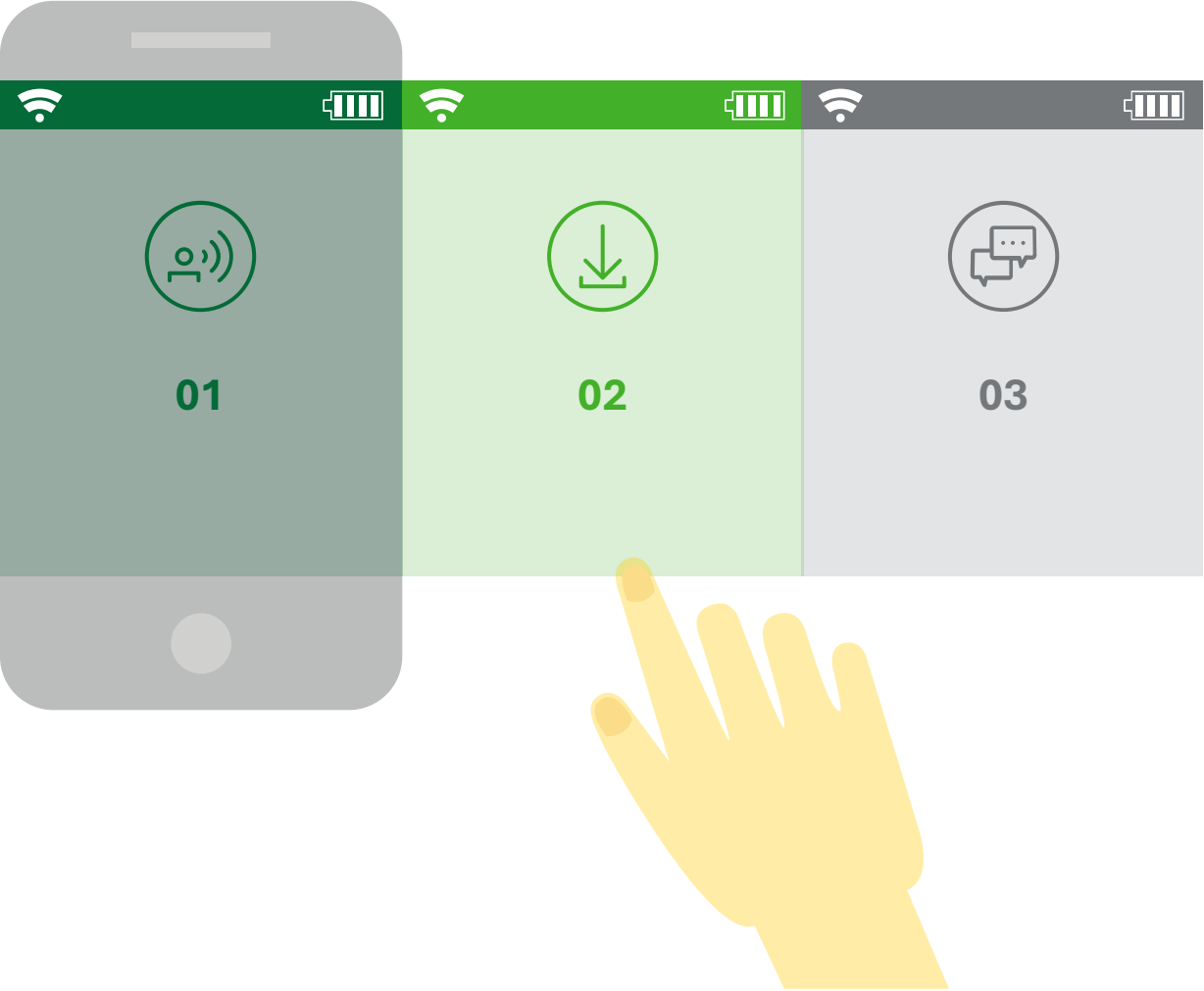
October 8, 2025



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Agenda



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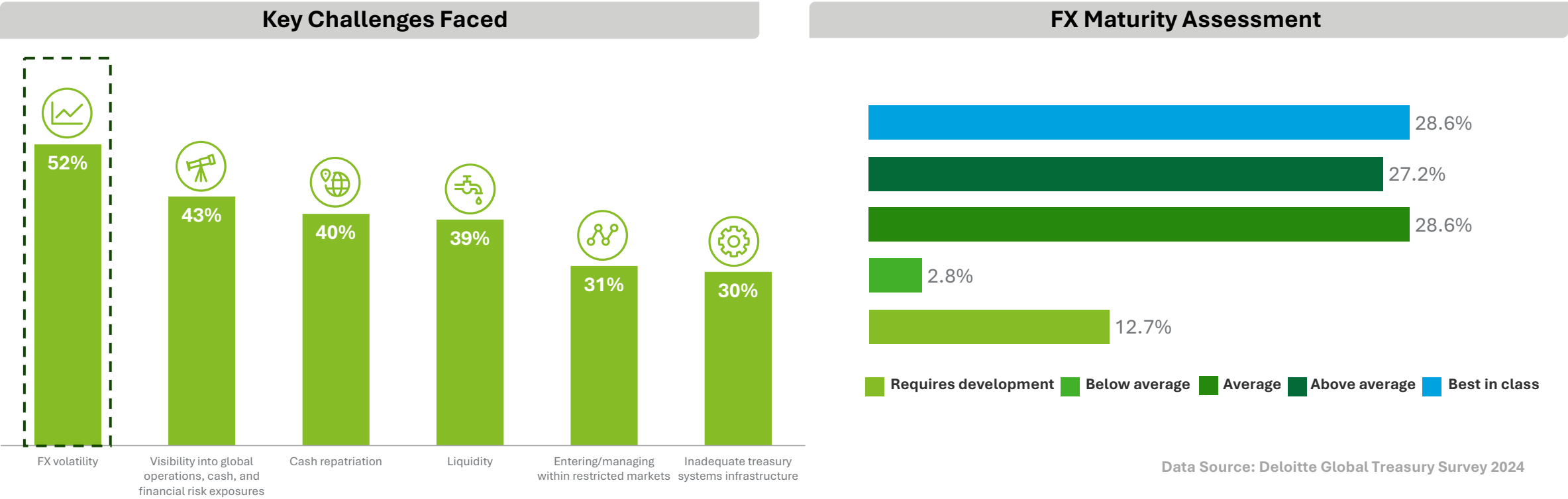
Assessing FX needs	
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Key challenges for the treasurer: FX

Managing FX volatility is the #1 challenge faced by Treasury organizations

Participants in Deloitte Global’s Treasury Survey 2024 answered questions to identify key challenges and rate their maturity in FX risk management

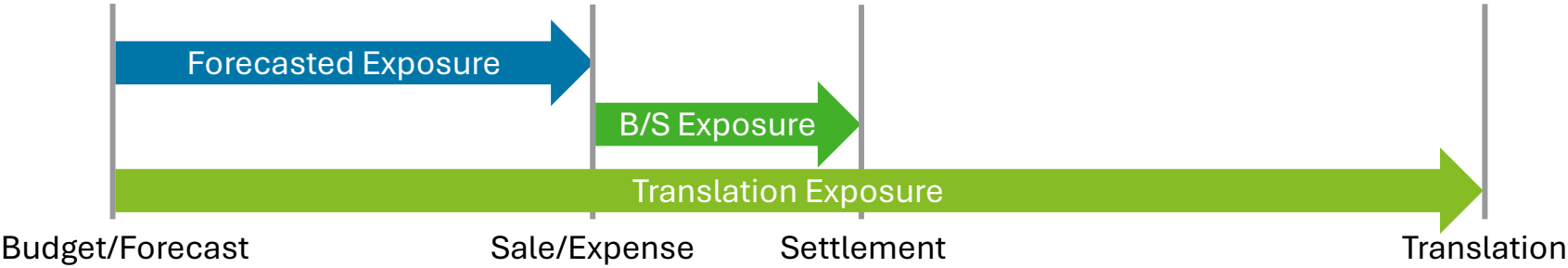
- **Key challenges persist:** Over 50% of Treasurers noted that FX volatility is a challenge, with uncertainty driven by shifting global trade policies, political instability, and rapid interest rate changes
- **Analytical capability is lagging:** 75% of respondents are not actively monitoring key risks using “at risk” measures, despite FX volatility being flagged as the biggest challenge faced by Treasurers.
- **Smaller companies stand out:** Responses indicate that smaller organizations are struggling the most with challenges brought by volatile currencies



Prominent FX exposure

Visualizing impact of exposures & FX risk in organizations

Efforts to identify and measure top risks and their impact on the business are often hindered by the prevalence of non-transparent risks that are not directly revealed in financial statements



		Forecasted Exposure	B/S Exposure	Translation Exposure
Financial Statement Visibility		Non-Transparent Risks (embedded in forecasts and value chain)	Transparent	Transparent
Financial Statement Impact	Source	Revenue, Expenses, Cost of Goods Sold (COGS)	FX Gain/Loss	Earnings
	Impacted Area	Income Statement	Income Statement	Income Statement [Subsidiary cash flow] Balance Sheet [Subsidiary Assets/Liabilities]
Common Hedging Program		Cash Flow Hedging [Typically, forwards, swaps and options]	Balance Sheet Hedging [Typically, short-term forwards]	Via Solid Subsidiary Performance Insight [Typically forwards or swaps]
Key to hedging success		Forecasting Capability	Centralized Balance Sheet	Global Balance Sheet Capture

Risk strategy and guidelines – Risk tolerance

Leadership alignment is needed to determine the overall risk tolerance and develop a risk mitigation program to manage risk within the defined thresholds

Determine risk tolerance

- **Risk Thresholds** – Dependent on financial strength and goals, business strategy and ability to raise capital and operational capability to manage risk
- **Risk Appetite** – Level of acceptable and/or unacceptable risk as defined by senior leadership. Reflects the organization's willingness to take on risk that should be derived from its capacity to bear risk
- **Risk Limits** – parameters or boundaries for acceptable risk taking

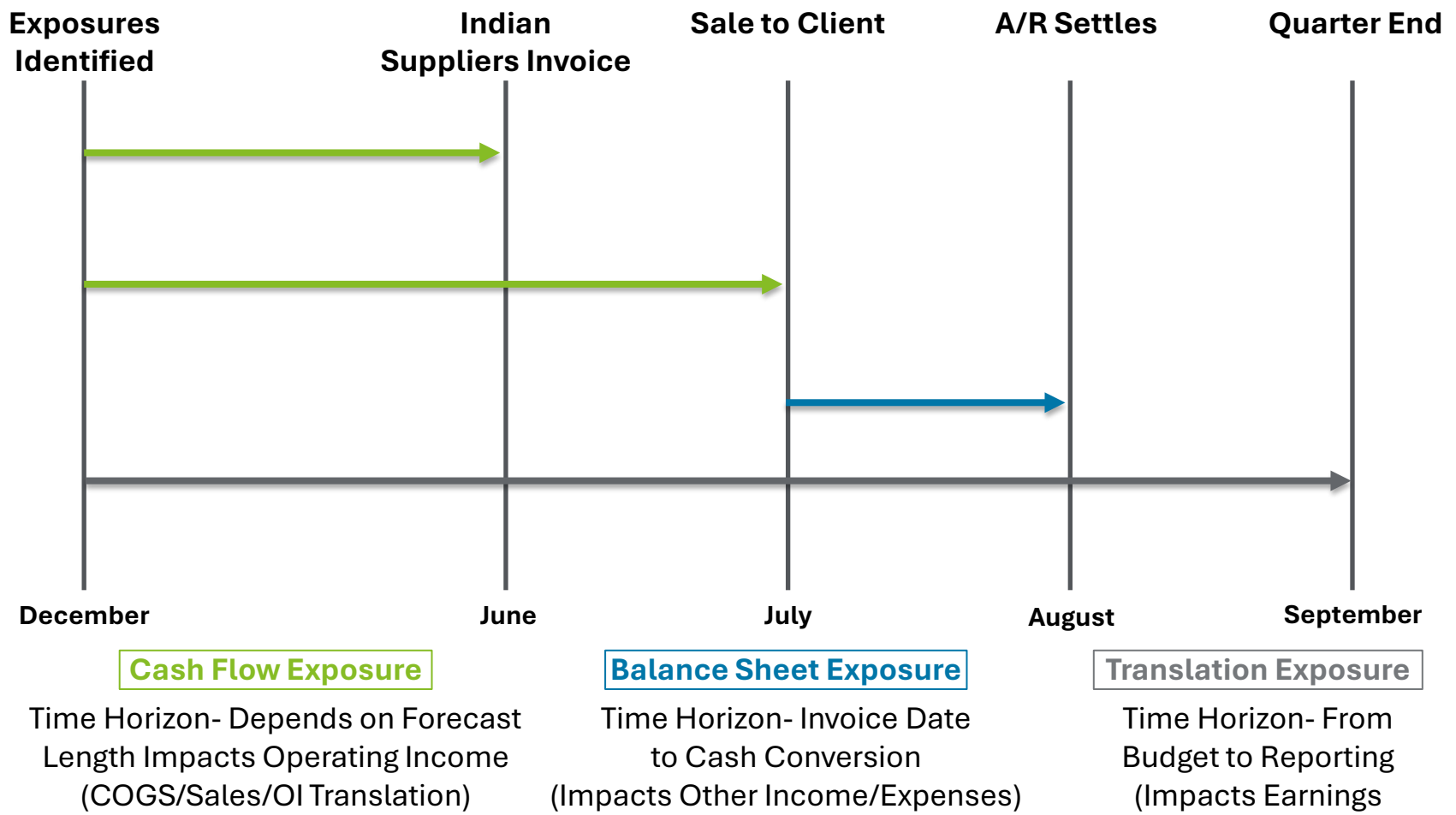
Considerations

- Hedging structure and cost implications
- Regulatory requirements
- FX Risk Management strategy should be formalized cross functionally
- Reassessment should occur on a recurring basis
- Review process of new currencies should continue and include Treasury
- Commercial agreements (suppliers/customers) need to be assessed for embedded currency risks

Exposure timeline: ClothesCo example

ClothesCo is a US-based fashion company that designs, processes, and sells their own clothing lines. The company operates internationally, conducting purchasing from manufactures in India, and selling to vendors worldwide, mostly within the UK via a UK transaction hub. Throughout their operations, they face a multitude of FX exposures

- Procurement costs (silk, cotton, labor, etc.) are invoiced in GBP, but pricing is not locked – dependent on the cost of manufacturing and raw materials in local currency (INR)
- International Sales are projected and executed via the UK hub in multiple currencies and are subject to FX volatility.
- The value of receivables is subject to FX fluctuations from transaction to cash collection
- FX impacts upon translation of UK-based accounts (GBP denominated) to USD for consolidated quarterly/annual reporting



FX exposure insights

What is a cash flow exposure?

Definition | A cash flow exposure refers to the risk that a company's future cash flows will be affected by changes in FX rates. This exposure arises when a business expects to receive or pay cash in a foreign currency at a future date, and the value of those cash flows (when converted to the company's functional or reporting currency) can fluctuate due to movements in exchange rates.

Source of Exposure | Cash flow exposures are denominated from forecasted transactions, unrecognized firm commitments, forecasted functional-currency-equivalent cash flows associated with a recognized asset or liability, and/or forecasted intra-entity transaction resulting from contractual commitments, budgets, and/or forecasts.

Timing | The exposure exists from the moment the cash flow is identified until the cash is received or paid and converted to the functional currency. The exposure converts from into a balance sheet exposure when the relevant flow materializes on the balance sheet.

Profitability | Unhedged cash flow FX exposures can cause actual cash receipts or payments to differ from budgeted or expected amounts, impacting profitability.

Forecasting | Companies need to forecast and manage these exposures to avoid surprises in reported earnings or cash flows.

In summary | A cash flow FX exposure is the risk that the value of future foreign currency cash inflows or outflows can change due to exchange rate movements, potentially affecting a company's financial results.

Cash flow exposure deep-dive

Types of cash flow exposures

Hard exposures

- Firm, contracted foreign currency cash flows (e.g., signed sales/purchases, committed capex).
- Amount, currency and timing are contractually fixed.
- High hedge eligibility and forecast certainty.

Soft exposures

- Forecasted transactions are not yet contractually committed (e.g., rolling sales forecasts, supplier payments)
- Greater uncertainty in amount/timing, higher hedge inefficiency risk.
- Often managed through shorter tenor hedges or layered hedging strategies.

Sources of cash flow exposure

Operating sources:

- Foreign currency sales and purchases
- Service Contracts with FX-linked billing
- Recurring operational payments

Financing sources:

- Projected or budgeted dividends
- Royalties and management fees

Capex/strategic sources:

- Foreign currency asset purchases
- M&A payments in foreign currency (Liquidity Risk)

Cash flow exposure – Invoicing vs. pricing in foreign currency

Impact on Margin from Committed Sales to Foreign Subsidiaries

How cash flow exposures arise

- Cash flow exposures can arise when an organization has a sales contract in their functional currency but, prices to the buyer/seller can be adjusted based on parity between two currencies
- Purchase prices are often negotiated in USD, while sales are denominated in local subsidiary currency.
- Even if invoices are denominated in the functional currency of buyer/seller, cash flow exposures occur when items are re-priced due to FX rate changes.
- Timing differences between invoicing and settlement can magnify exposure.

Operational significance

- Introduces volatility in reported sales margin FX movements skew realized margin versus budget expectations.
- Adds noise to reported results, making performance harder to forecast and manage.
- Subsidiaries may be shielded from volatility if both sales and procurement are locked in the same currency; but exposures remain in regions were denominated differently.

Illustrative conversion example

- Your company sources a weekly happy hour from the local supermarket and pay in USD. You face invoicing exposure because the market will adapt the price of Champagne to the EUR/USD rate
- Your company books travel via a travel agent and you book a trip to Paris. Your company pays the travel agent in USD and does not FX exposure as the price does not change with EUR parity

How cash flow hedging can help

- Use forwards to hedge expected transaction volumes that flow through the parent company.
- Gains/losses from hedge offset impacts to reported margin.

Cash flow exposure deep-dive

Effective FX management starts with clear identification, length segmentation, and proactive improvement actions tailored to exposure duration



Recognizing exposures

- Future foreign-currency receipts/payments will change functional-currency cash flows before prices can be adjusted (pricing lag)
- Sources show up as firm commitments, forecasted transactions, and contingent flows
- Confirm by tagging currency, trigger and settlements and checking for natural offsets across entities and whether pass-through to customers and suppliers is feasible



Exposure lengths

- Tenor = time from recognition trigger to cash settlement
- Short-term (<3 months): forecasted invoices/Pos, booked IC with fixed terms; high certainty
- Medium (3-12 months): recurring forecasts supported by order-book coverage and historical accuracy; contracts with periodic price resets
- Long-term (>12 months): budget-level volumes, long-lead projects/CapEx multi-year agreements; lower certainty and greater re-pricing optionality.



Improvement actions

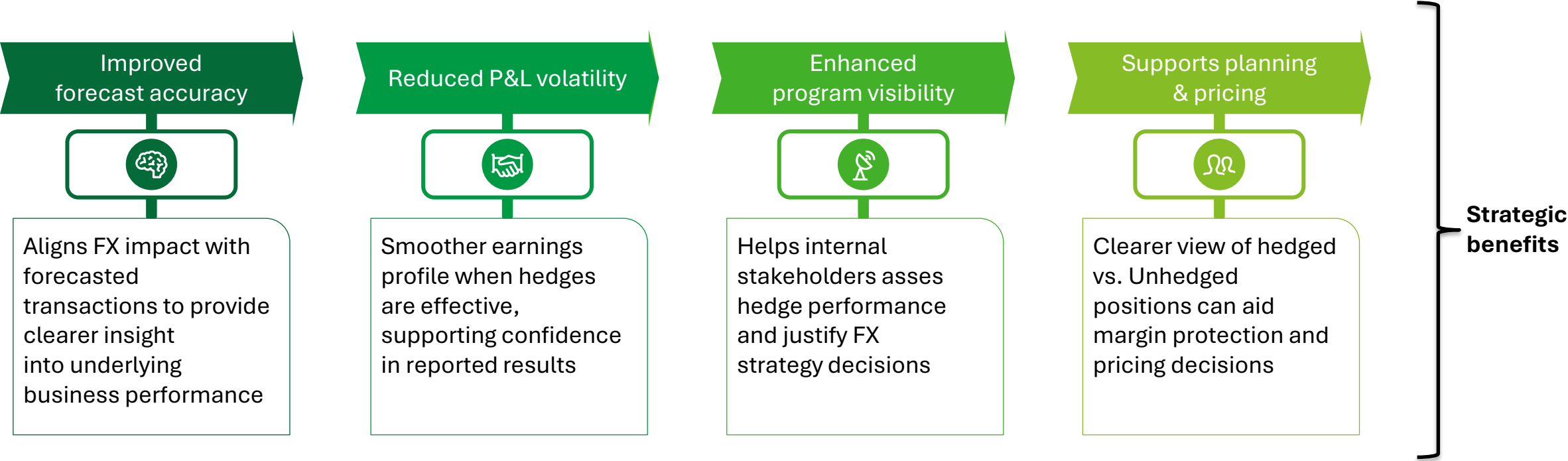
- Materiality/limit breaches: exposure above policy, concentration in pairs or long-dated cash flows without offsets
- Data/forecast quality gaps: low forecast accuracy, missing currency tags, weak linkage between order book and the cash forecast
- Structural issues: limited pass-through, maturity mismatches between inflows/outflows or contracts lacking FX clauses

Hedge accounting – Strategic relevance

Hedge accounting allows that the result of the hedge is reported in the same period as the hedged exposure

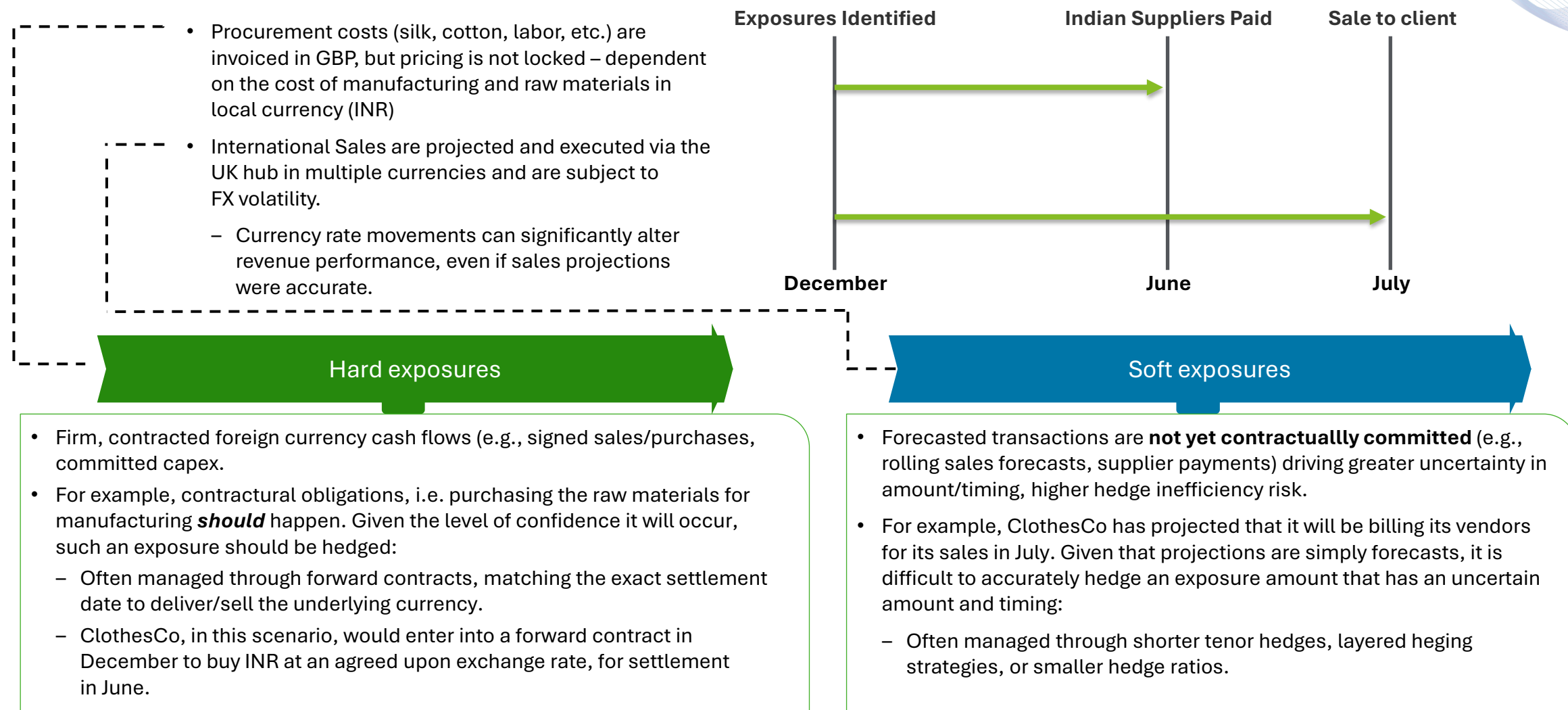
Purpose of hedge accounting

Hedge accounting allows for better alignment between hedging instruments and the exposures they are intended to offset – reducing volatility in reported earnings due to FX fluctuations



ClothesCo cash flow exposure example

Via ClothesCo's operations, the company faces both Hard and Soft Cash Flow Exposures that present an opportunity for FX Hedging



What Is a balance sheet exposure?

Definition | Balance sheet exposure refers to the risk that a company’s financial position will be affected by changes in exchange rates because assets and liabilities denominated in foreign currencies must be translated into the reporting currency at the end of each accounting period.

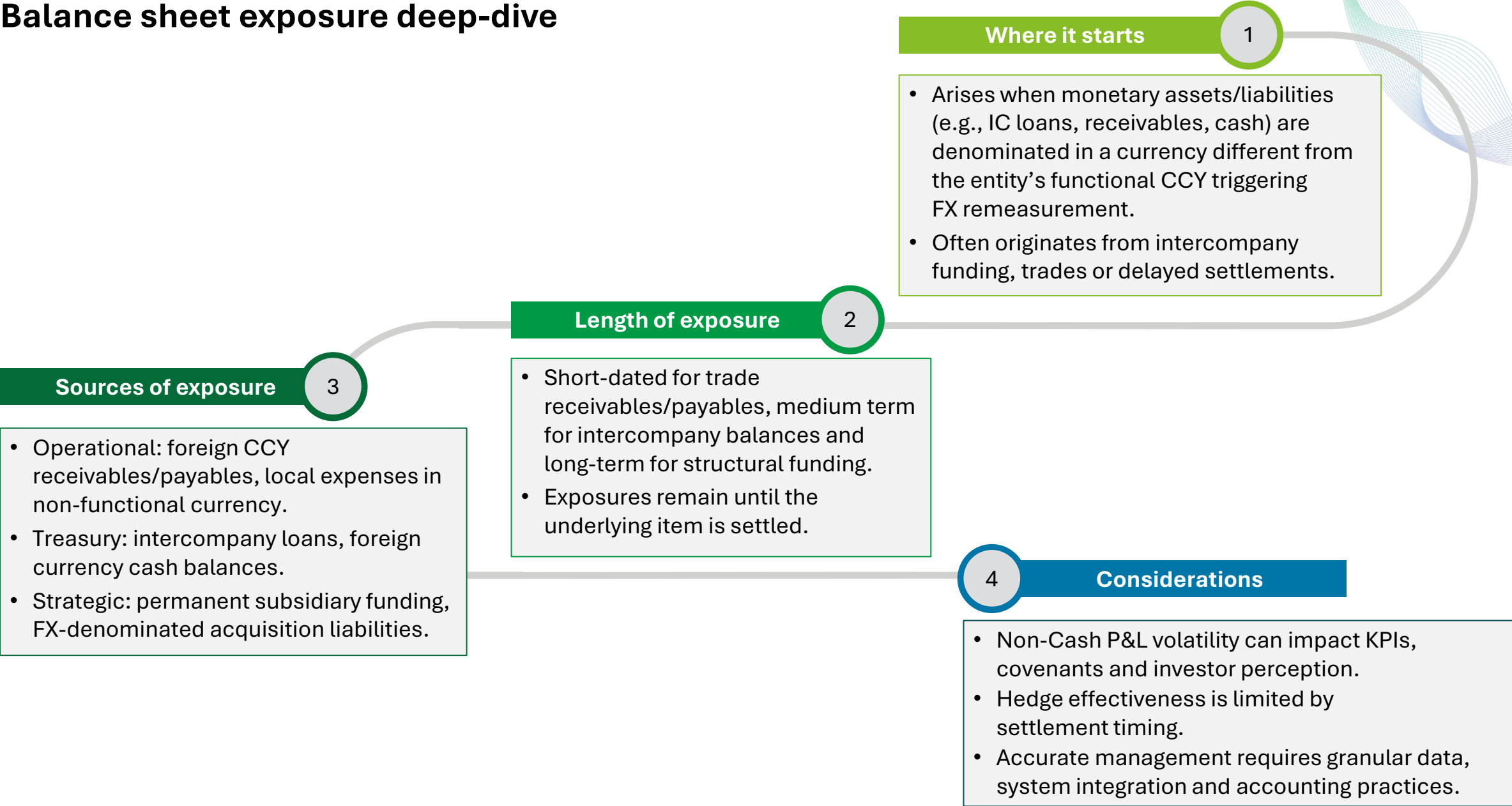
Monetary Assets | Assets and liabilities whose amounts are fixed in terms of units of currency by contract or otherwise. Examples include cash, short- or long-term accounts and notes receivable in cash, and short- or long-term accounts and notes payables in cash.

Applicability | Balance sheet exposure occurs in companies that have significant monetary assets or liabilities denominated in a currency different from their functional or reporting currency



- For example, ClothesCo has invoiced its vendors in EUR, impacting accounts receivable for collections due in a 30 days
- With the A/R quantities known and settlement in a month, ClothesCo will hedge its exposure to the EUR by entering a forward contract to sell the Euro for GBP at an agreed upon exchange rate, one month from now. This way, the company’s receivable exposure to FX volatility has been hedged away.
- Taking it further, technological tools exist to analyze all A/R & A/P on the balance sheet. In doing so, exposures can be consolidated by currency and by projected settlement date to help the organization make the correct hedging decisions.

Balance sheet exposure deep-dive



What Is a translation exposure?

Definition | A foreign currency translation is the process of expressing in the reporting currency of the reporting entity those amounts that are denominated or measured in a different currency

Source of Exposure | Transactional exposures result from subsidiary holding and financials—such as sales, purchases, or other transactions—that are held in local currency, deferring from the parent entities functional currency

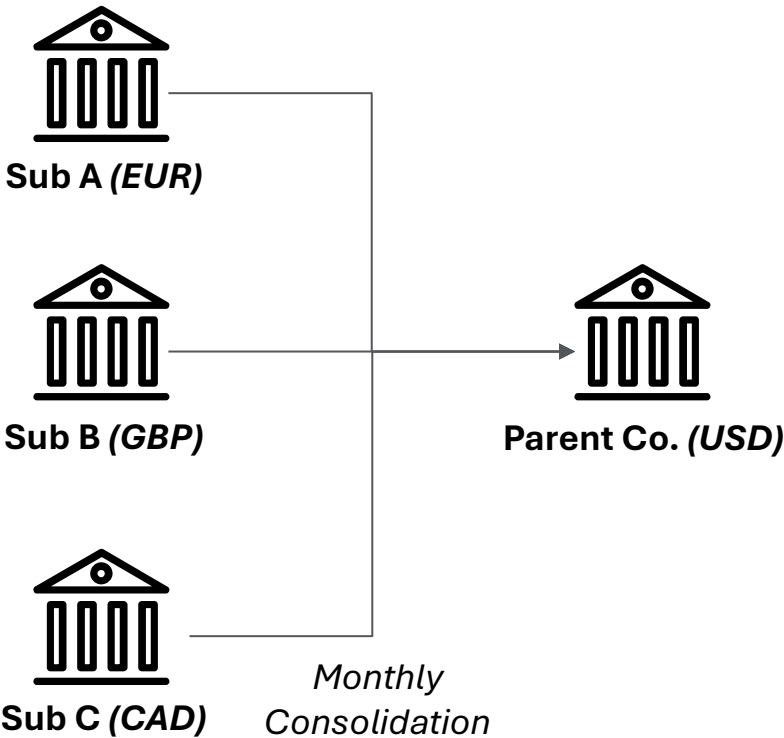
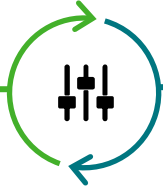
Translation Process | At the end of each reporting period, companies must translate foreign currency-denominated assets and liabilities into their reporting currency. The exchange rates used for this translation can fluctuate between reporting periods, causing the reported value of these items to change—even if their value in the local currency remains the same.

Impact on Financials | Translation gains and losses are reported in the other income/expense line as unrealized for as long as the asset or liability is outstanding. Once the item is settled, the difference between the value of the asset or liability in reporting currency at the accounting rate when the item was created and its value at the accounting rate when the item is settled is reported as a realized gain or loss.

Reported vs. Real Impact | Translation risk can lead to what appears to be a financial gain or loss that is not a result of a change in assets, but in the current value of the assets based on exchange rate fluctuations.

Translation exposure deep-dive

Foreign subsidiaries reporting in local currency create income statement volatility when results are translated into USD for consolidation



Real-world financial impact

Introduces earnings noise not tied to operational performance
Volatility in FX rates skews performance comparisons versus budget and rolling forecast expectations

Mitigating translation exposure

Organizations face the choice of hedging translation exposure on a pre-tax or post-tax basis
Cash Flow Hedging Mitigation:
Use forwards to hedge the expected OI by operating entity
Gains/losses from hedge offset impacts to reported Operating Income

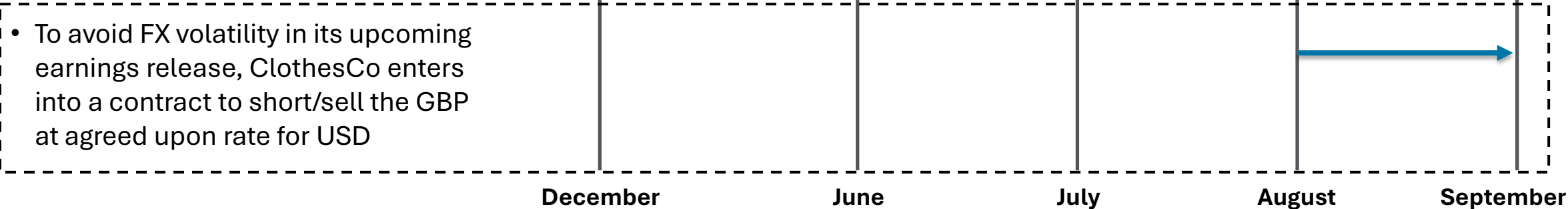
Hedging translation exposure impact

Hedging translation exposure can expose organizations to cash flow/liquidity risk if the company does not repatriate its earnings but, hedges its translation exposure

ClothesCo translation exposure example

ClothesCo has its quarterly reporting requirements upcoming and must translate its subsidiaries' financials to its own

- ClothesCo conducts its operations out of its subsidiary in the UK. The subsidiary has a large surplus of GBP (cash) due to its plan to purchase and furnish a new warehouse in a few weeks.
- Although it does not impact cash inflows or outflows, a swing in rates could significantly impact the value of the GBP when translated to USD.

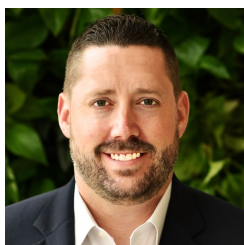


- To avoid FX volatility in its upcoming earnings release, ClothesCo enters into a contract to short/sell the GBP at agreed upon rate for USD

TechnipFMC: Transformation journey

TechnipFMC FX exposure discussion

Caleb Salankey, Assistant Treasurer



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Caleb is an Assistant Treasurer at TechnipFMC who is responsible for Financial Market Risk and Transformation. Joining in May 2012 he has held positions as a Subsea Project Manager, Subsea Manager of Projects & Operations, Subsea Product Management Director and Treasury Director. Caleb holds an MBA from Regis University with an emphasis in Accounting & Finance and a Master of Global Management from Thunderbird School of Global Management.

Project highlights:

- Leading the global implementation of Kyriba [cash management, foreign exchange, hedge accounting, cash accounting, and payments].
 - Implemented new foreign exchange, hedge accounting, cash, intercompany funding and payments policies.
 - Implemented new foreign exchange execution value stream.
 - Implemented new in-house bank.
 - Implementing new hedge accounting scheme.
 - Implementing new centralized payments hub.

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Polling question #1

What is the objective of an FX exposure management policy within your organization

A Protect value of balance sheet items denominated in a foreign currency

B Reduce cash flow volatility

C Protect quarterly earnings guidance

D We do not have an FX exposure management policy

E Don't know/ not applicable



Polling question #2



What are your organization's plans for the treasury FX operating model in the next 12–24 months?

A

Maintain current model

B

Increase outsourcing

C

Decrease outsourcing

D

Restructure internal processes

E

Don't know/not applicable



Polling question #3



What exposures does your organization consider within its FX hedging program?

A

Balance Sheet Exposure

B

Cash Flow Exposure

C

Translation Exposure

D

All of the Above

E

Don't know/not applicable



Polling question #4

What type of FX Exposures does your organization hedge today? (select all that apply)

A

Cash Flow

B

Balance Sheet

C

Translation

D

We do not hedge FX exposure

E

Not sure/Not applicable





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