Exchange Rate Fixing: Specifically Limiting Currency Risks in Procurement

Exchange rate fixing is a contractual or financial arrangement by which buyers and suppliers fix the conversion rate for future payments for a defined period. It protects both parties from unplanned currency fluctuations and makes supplier prices calculable over the contract term. For international procurement in DACH industry, it is a central instrument of risk management and working capital management.

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Key facts at a glance

01 Exchange rate fixing sets a binding conversion rate for a fixed period or a specific transaction.

02 It can be implemented contractually (fixed currency clause), via forward foreign exchange contracts or via currency options.

03 Typically, fixings are agreed for terms of three to twelve months, in special cases longer.

04 Banks and providers often require collateral or a margin, which burdens working capital.

05 The alternative is the flexible arrangement via currency adjustment clauses with defined tolerance bands.

06 Effective fixing requires early agreement with the supplier, ideally already during tender management.

Definition: exchange rate fixing

Exchange rate fixing refers to the contractual or financial agreement of a fixed conversion rate between two currencies for a defined period or a specific transaction. This turns an uncertain future payment into an amount calculable today. In procurement, it particularly affects raw material and component sourcing in foreign currencies as well as price escalation clauses in long-term contracts.

Distinction from the currency adjustment clause

With fixing, one party – depending on the agreement, buyer or seller – bears the full currency risk between rate fixing and payment date. With an adjustment clause, by contrast, the price is flexibly adjusted to the actual rate within defined tolerance bands. In practice, companies combine both instruments: a basic fixing with a tolerance band provides planning certainty while at the same time preserving an offset for the supplier in the event of sharp rate jumps.

Fixed rate versus ongoing fixing

One-off fixing is suitable for individual transactions with a clearly defined delivery date, for example following a Request for Quote (RFQ). For series suppliers with ongoing call-offs, rolling fixing has often proven its worth: partial amounts are hedged monthly or quarterly, oriented towards the sourcing wave plan and the call-off quantities. In this way, the hedging follows the actual demand profile rather than a static annual forecast.

Methods and procedure for hedging

Several options are available for fixing, differing in effort, cost and flexibility. The choice depends on transaction volume, term and risk-bearing capacity. A prerequisite is always a robust currency risk analysis, regularly updated in procurement controlling.

Contractual rate fixing with the supplier

The simplest form is a fixed-price agreement in a specific currency or a clause that fixes the conversion rate for the contract term. This formally shifts the currency risk to the supplier, who usually builds it into their pricing. Buyers should therefore examine whether the surcharge for rate hedging is economical or whether their own hedging via their house bank works out cheaper.

Forward contracts and options

With a forward foreign exchange contract, the company buys or sells a foreign currency at a future date at a rate fixed today. This eliminates the risk completely but excludes positive rate movements. Currency options hedge a maximum or minimum rate and allow favourable movements, but cost a premium typically in the low percentage range of the hedged volume.

Natural hedging within the network

Anyone who both buys and sells in the same currency can net receivables and payables and only needs a fixing for the difference. This natural hedge costs nothing but requires clear reporting on currency positions across all sites. It is particularly suitable for suppliers who source components in euros and invoice in the same currency.

Embedded in procurement strategy and contract design

Exchange rate fixing is not an isolated financing topic but part of the category strategy and contract architecture. It influences price negotiations, supplier selection and the evaluation of quotations from different currency areas.

Currency aspects in tender management

Already during tender management, it should be defined in which currency quotations are submitted and whether exchange rate certainty is part of the quoted price. Uniform specifications – for example, quotation in euros with transfer of the currency risk to the buyer – enable a fair price comparison. In the competitive dialogue and during early market discussions, it can be clarified which hedging instruments the supplier uses themselves.

Clause framework: deadlines, cut-off dates, tolerance bands

Effective contracts define precisely on which cut-off date the rate is fixed – for example, order placement, delivery date or invoice date – and which reference rate applies. In addition, tolerance bands, extension options and the procedure in the event of late payment should be regulated. Unclear cut-off date definitions are one of the most common sources of dispute in foreign currency transactions in practice.

Customs, Incoterms and supply chain

Exchange rate and delivery terms interact: with DDP, the supplier bears the transport and import risk and correspondingly also builds in the currency risk, which increases the price. With EXW or FCA, the risk remains with the buyer, who can control the fixing themselves. Customs clearance also plays a role, as customs values in foreign currency can be determined at different cut-off dates.

Key KPIs and steering in procurement controlling

Without measurable quantities, currency management remains guesswork. Procurement controlling should systematically track the hedging ratio, the deviation from planned prices and the cost of hedging and integrate them into reports such as the Risk Heatmap.

Hedging ratio and plan variance

The hedging ratio describes the proportion of expected foreign currency volume that is hedged at a fixed rate. In practice, values typically lie between 50 and 100 per cent, depending on risk policy. The plan variance compares the amounts actually paid in euros with the prices calculated at order placement and shows how effectively the fixing works.

Costs of hedging and liquidity effects

Forward contracts and options incur direct costs in the form of margins and premiums. With forward contracts, collateral may also be tied up, which burdens working capital management. Both figures

should be shown as a cost ratio relative to the hedged volume so that fixing and flexible clauses can be compared cleanly.

Reporting and responsibilities

Monthly currency reporting showing open foreign currency positions, maturity profiles and outstanding fixings has proven its worth. Responsibilities must be clearly allocated: procurement knows demand and delivery date commitments, the treasury department knows instruments and conditions. Without this interface work, duplicate hedging or uncovered gaps arise.

Risks and controls in exchange rate fixing

A fixing eliminates the exchange rate risk but creates new risks: volume forecasts can fail, counterparties can default or internal processes can miss cut-off dates. Controls and clear governance rules limit these consequences.

Volume risk and superfluous hedging

Anyone who concludes fixing volumes based on optimistic sales forecasts that later demand does not materialise is left holding unneeded forward contracts and may have to close out differences at short notice. Hedging should therefore be closely linked to reliable call-off data from framework contracts and to Kanban systems or consumption figures from series supply – not to wishful planning.

Counterparty risk and compliance

Forward contracts are non-cash-settled derivatives; the counterparty must actually deliver on the maturity date. Bank selection should therefore be diversified by creditworthiness. Legal and tax issues – such as the accounting treatment of hedging transactions or limits on speculative transactions – must be examined commercially and legally on a case-by-case basis; this article does not constitute advice.

Process controls and operational implementation

Fixings often fail due to operational details: delayed order placement, changed delivery date commitments or payment dates that deviate from the planned fixing date. Helpful are clear internal thresholds from which hedging is mandatory, a four-eyes principle when concluding derivatives and integration with the payment plan in Accounts Payable.

Current developments and digital support

Currency management is increasingly being digitalised and integrated into broader supply chain and pricing strategies. For technical buyers, the focus is shifting from individual transactions to systematic portfolio and supplier risk management.

Transparency via data platforms

Modern procurement systems increasingly aggregate procurement data, exchange rate positions and

price escalation clauses in central data structures, sometimes in the form of a data lake that combines finance and procurement data. This enables simulations: what net effect would a five per cent rate increase have on the category strategy? Such scenario calculations replace piecemeal reactions with systematic steering.

Supplier selection and commodity linkage

For raw materials such as metals or plastics, currency risks overlap with commodity price risks. In the value analysis process and in supplier discussions – for example at the Supplier Day – it is increasingly discussed whether fixing the exchange rate or rather price formulas with commodity indices is the better route. Models such as co-development and supplier development can also mitigate currency risks when they establish local dual sources in the target currency.

Regionalisation of procurement

The trend towards supply chains located closer to sales markets structurally reduces the volume of foreign currency transactions. While this mitigates currency risk, it does not replace active fixing for remaining international transactions. In practice, both run in parallel: regionalisation as a strategic lever, fixing as operational protection for unavoidable foreign currency transactions.

Typical metrics

Metric	Typical value
Hedging ratio for foreign currency volume	50–100 % *depending on the company's risk policy*
Currency plan variance	< 2 % *deviation of actual euro payment from calculated price*
Hedging cost ratio	0.5–2 % *margins, premiums and collateral relative to hedged volume*
Proportion of fixing dates contractually regulated	> 95 % *proportion of contracts with a clearly defined rate fixing provision*

Practical example

A medium-sized mechanical engineering company sources hydraulic components from an A-supplier in Switzerland and pays in Swiss francs. After a sharp rise in the exchange rate, the planned prices repeatedly exceeded budget significantly. The company responded with a structured package of measures.

- Introduction of rolling fixing: monthly forward contracts for the forecasted call-offs of the next six months, linked to the sourcing wave plan.

- Adjustment of framework contracts with an exchange rate band of plus/minus three per cent, within which the price remains unchanged.
- Natural hedging through balance offsetting with franc receivables from spare parts business.
- Integration of currency reporting into monthly procurement controlling with defined thresholds and escalation routes.

Conclusion

Exchange rate fixing turns an uncertain currency risk into a calculable cost component – an invaluable advantage for costing, quoting and budget planning. However, it replaces neither a sound category strategy nor solid supplier evaluation, because structural risks cannot be defined away with financial instruments. What matters is the interlinking of procurement, treasury and controlling with clear responsibilities and thresholds. Companies that use fixing, flexible clauses and natural hedging in combination are significantly more robust against exchange rate fluctuations in practice. The effort pays off especially with high foreign currency shares and long delivery times.

Frequently asked questions

? What does exchange rate fixing mean in simple terms?

With exchange rate fixing, the conversion rate between two currencies is contractually fixed for a specific point in time or period. A purchase invoiced in a foreign currency therefore always costs the same amount, regardless of exchange rate fluctuations. This creates planning certainty for both contracting parties.

? How does a forward foreign exchange contract work in procurement?

The company agrees with its bank to buy or sell a fixed amount of foreign currency at a future date at a rate agreed today. Regardless of the actual rate on the maturity date, the agreed rate applies. Drawback: favourable rate movements cannot be exploited.

? When is exchange rate fixing worthwhile?

It typically pays off with higher foreign currency volumes, long lead and payment times and tight margins. For small amounts and short time horizons, the cost of hedging often exceeds the benefit. A risk assessment using the Risk Heatmap helps with prioritisation.

? What does hedging currency risk cost?

Forward contracts mainly incur bank margins and, where applicable, tied-up collateral, while options additionally involve a premium. In practice, total costs often lie in the low single-digit percentage range of the hedged volume. What matters is comparing this with the risk that would be borne without hedging.

? Who bears the currency risk when purchasing in a foreign currency?

It depends on the agreement: if the price is offered firmly in euros, the supplier bears the risk and usually builds it into the price. If purchasing takes place in a foreign currency, the buyer bears it. Incoterms such as DDP or EXW additionally influence which price components are currency-dependent.

? What is the alternative to fixed exchange rate fixing?

Frequently, currency adjustment clauses with defined tolerance bands are agreed, within which the price remains unchanged and outside of which it is adjusted. This distributes the risk more fairly between the parties and preserves incentives for continuous improvement. Many combinations of tolerance band and adjustment mechanism are conceivable.

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