"HOW CAN a foreign currency deposit account benefit my business?" This question might have come up in your mind when reading the news that the Bank of Thailand recently eased regulations on FCDs. If your business is involved in international trade and doesn't yet have an FCD, after reading this article you might be interested in getting one, as an FCD can be a tool in managing foreign exchange (FX) risk. Let me show you how!

For a Thai exporter or Thai company earning foreign currency from abroad, depositing the funds in an FCD can be beneficial in many ways.

First, you can keep your foreign currency earnings in the account to pay for future FX obligations abroad.

This can save you some transaction costs in the form of the buy-sell spread on currency conversions back and forth.

Second, you can make payments in foreign currency via FCD inter-account transfers to other Thai companies for the purchase of goods and services. The regulation limiting transfers has recently been relaxed, which should help industries with pricing linked to the US dollar, such as the shipping industry.

Prior to this relaxation, Thai companies had to pay freight in baht at a rate that also includes the "volatility fee" charged by the receiving agents in Thailand.

The fee covers any exchange losses from converting the baht into the dollar for payment to the shipping companies abroad. Being able to price in dollars will remove this FX risk and so there is no need for the volatility fee to be charged.
Third, by depositing received foreign currency funds in an FCD, you can choose when to convert the foreign currencies into the baht, thus enhancing multi-currency management flexibility.

If you are in urgent need of baht liquidity, but prefer not to convert foreign currency proceeds right away, the FCD can serve as collateral for baht borrowing from banks.

However, you may need to take into account the costs and benefits of doing this, as you will be incurring baht interest payments while receiving FCD interest income.

If you have a credit line with your bank and are in need of liquidity, you can also draw on the FCD overdraft facility when needed without having to wait for your export proceeds to arrive.

For an importer or company with future foreign currency obligations abroad, having an FCD is also a good idea.

Other than receiving foreign currency earnings from abroad, you can obtain foreign currency to be deposited into the FCD through these three channels - converting baht funds, borrowing in FX from banks in Thailand, or transferring from another FCD of those with foreign currency export proceeds.

The benefit is that you can use the opportunity when the baht is strong to buy foreign currency and place it into your FCD in preparation for future payments. These can range from paying import bills or buying machinery for productivity improvement, to investing in a factory abroad for capacity expansion.

What I have mentioned above is how FCDs can help Thai companies doing business internationally, but it can also help Thai individuals in managing FX risk.

As a Thai individual, if you expect future foreign currency expenses abroad, such as the payment of tuition for your kids in the US or as pocket money for your next trip to Europe, you can manage your FX risk ahead by converting baht into foreign currency and depositing it into your FCD.
So perhaps you should start thinking about how an FCD can fit into your FX risk management toolkit. Normally, when we talk about managing FX risk, we often think about derivative products such as forwards and options. An FCD might seem to be a very simple tool compared to those FX derivatives but it does work efficiently in its own way.

Simple is beautiful, isn't it?

(The views expressed are the author's own.)

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