

CASTLE CURRENCY

Measuring & Managing

Your Currency Performance

Any plan is only as good as its results.

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Why Measuring Matters

Many companies implement some type of currency strategy without having any means to determine its effectiveness. Without measurement, underperformance, excess costs, or missed opportunities can go undetected.

Without an understandable and relevant means to measure results against expectations, you're operating blind. You can't tell whether your approach is protecting your margins, whether your provider is giving you fair value, or whether the decisions being made are improving your outcomes - or making them worse.

Developing the right benchmark is not one-size-fits-all. The most appropriate benchmark depends on your company's specific risk factors, objectives, and how you use currency in your business. This guide covers why measuring matters, what good reporting looks like, and the common mistakes companies make.

You can't manage what you don't measure.

Choosing the Right Benchmark

There are several ways to measure currency performance - and each tells you something different. The right benchmark depends on your company's specific risk factors, financial objectives, and how currency flows through your business.

What we can say is that the starting point for any company is knowing your budget rate - the exchange rate you assumed when building your financial plan. If you're not measuring your actual conversion results against that number, you have no way of knowing whether your currency activity is supporting your financial plan or undermining it.

Beyond the budget rate, the right combination of benchmarks is something that should be discussed and designed around your specific situation. A company with a straightforward import operation has different measurement needs than one with complex hedging across multiple currencies and time frames. This is where working with an experienced currency professional adds real value.

The Danger of Not Benchmarking

Without a benchmark, a currency strategy can look successful when it isn't - and look like a failure when it's actually working.

Consider a company that locked in a forward rate and then watched the market move in their favor. Without a benchmark, this feels like a loss - "we would have been better off not hedging." But if the forward rate exceeded their budget rate and protected their margin, the hedge worked exactly as intended. The benchmark reveals that.

Conversely, a company that doesn't hedge might have a great quarter because the market happened to cooperate. Without a benchmark, this looks like success. But it was luck, not process. The next quarter the market moves the other way and there's no protection.

Benchmarking separates skill from luck, process from accident, and informed decisions from reactive ones.

Building Effective Reporting

Once you know what to measure, you need a way to report it consistently. Good currency reporting doesn't need to be complicated, but it needs to be regular and understandable to the people making decisions.

What Good Reporting Looks Like

At a minimum, a quarterly currency report for management or the board should include:

1. Actual average conversion rate vs. budget rate - are we on plan?
2. Range of conversion rates achieved (high, low, average) - are results consistent?
3. Total volume converted in the period - how much exposure are we managing?
4. Forward contract positions and mark-to-market (if applicable) - where do we stand on hedges?
5. Variance analysis - how much of the margin variance is attributable to currency?

The goal is that management can look at these numbers and understand in minutes whether the currency approach is working, needs adjustment, or has created an issue that requires attention.

Verification and Controls

Reporting also serves a controls function. Executed hedges and account statements require verification to ensure proper allocation and to prevent errors. Daily or periodic reconciliation of positions, confirmation that directives are being followed, and ensuring that hedges are being recorded in the appropriate accounting periods are all part of sound currency reporting.

This verification function is often overlooked. Regular reconciliation of positions and confirmation that directives are being followed are straightforward steps that strengthen any currency program - and make your reporting more reliable.

Proper Accounting

Currency transactions need consistent accounting procedures: uniform booking methods, multicurrency general ledger treatment, and reconciliation of realized hedges in the correct periods. If your accounting for currency is inconsistent, your reporting will be unreliable - and decisions based on that reporting will be flawed.

If your accounting team doesn't have clear procedures for how currency transactions are recorded, this is a gap worth addressing before building performance reports on top of it.

Common Measurement Mistakes

Measuring One Transaction in Isolation

A single transaction can look good or bad depending on what the market did that day. Currency management is measured over quarters and years, not individual trades. Trends matter. Single data points don't.

Confusing Spread Savings With Good Results

Saving a few points on spread while converting at the worst time of the month is not a good outcome. Total cost includes timing, process, and the gap between your plan and your result - not just the provider's margin.

Not Benchmarking at All

This is the most common and most costly mistake. If you're not measuring, you have no way to know whether your approach is working. You may be leaving significant money on the table without ever seeing it.

Where to Start

If your company isn't currently benchmarking currency performance, don't try to build a comprehensive reporting system overnight. Start with two things:

1. Establish your budget rate. If your budget has a currency assumption - and it should - that's your primary benchmark. Start tracking your actual conversion rates against it.
2. Review your last 3-6 months of conversions. Look at the range of rates you achieved. Is it wide or narrow? Were results consistent or all over the map? That tells you whether your current process is structured or reactive.

Those two steps alone will give you more visibility into your currency performance than many companies have. Everything else builds from that foundation.

What You Can Do Next

Castle Currency helps companies establish the right benchmarks for their situation, build reporting that management can act on, and improve the processes that drive results. A free Currency Review is a good starting point - it gives you a clear baseline to measure from.

For companies that want to go deeper, our consulting services include designing reporting frameworks, conducting independent reviews of existing programs, and benchmarking your results against what a structured approach would have produced. If you want ongoing expert guidance, our Daily Best Rate Conversion Strategies give your team specific targets on when to convert and our Weekly Hedging Strategies provide guidance on when and where to place forwards - which you can align to your specific financial goals. Both are available as subscriptions through Castle Currency.

READY TO SEE WHERE YOUR CURRENCY PROCESS CAN IMPROVE?

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