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Foreign Currency Accounts

When are they necessary?

Even modest foreign currency activity raises a practical question: Is conversion through the euro account sufficient, or is a dedicated foreign currency account worthwhile? Neither turnover nor transaction volume alone provides the answer. What matters are the direction and regularity of payments, foreign exchange risk, banking terms, interest rates and internal administrative effort. A sound decision must therefore consider the total cost, not just the account maintenance fee.

Executive Summary

A foreign currency account can avoid unnecessary conversions, consolidate payments and provide greater control over the timing of currency exchanges.

For small or irregular volumes, however, account maintenance fees, spreads, transaction charges and additional reconciliation work may outweigh the benefits.

This paper explains when a foreign currency account makes economic sense and which terms should be reviewed regularly.

KEY TAKEAWAYS

- The payment profile and net position matter more than turnover alone.
- Assess exchange rates, spreads and fees as part of the total cost.
- Actively compare credit interest rates and overnight deposit options.
- Consider switching banks or adding a second banking relationship as genuine options.

01 | Foreign Currency Account or Direct Conversion?

The Situation

Many mid-sized companies receive occasional payments in USD, GBP, CHF or other currencies. Their principal bank often converts these amounts into euros automatically.

This is convenient, but not necessarily cost-effective. Exchange rate mark-ups, poor timing and repeated conversions into and out of euros can reduce earnings and put pressure on liquidity.

Typical Warning Signs

- Foreign currency receipts are converted immediately without review.
- Spreads and transaction charges are not transparent.
- Credit balances remain in non-interest-bearing current accounts.
- The banking relationship is not reviewed despite poor terms.

Table 1: Cost-Benefit Assessment

Payment Profile	Total Cost	Interest & Deposits	Bank Comparison
Currency, volume, frequency, offsetting flows	Spread, fees, account maintenance	Account interest, overnight deposits, availability	Terms, service, switching options

GUIDING PRINCIPLE

- An account makes sense when avoided conversions, better exchange rates and interest income exceed the ongoing costs.
- The decision should be made separately for each currency and reviewed at least annually using actual payment flows and bank statements.

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02 | The CFO Agenda: Five Practical Review Steps

#	Action	Management Benefit
1	**Analyse the payment profile**	Record inflows and outflows by currency, including frequency, amounts and seasonal patterns.
2	**Assess natural netting**	Offset inflows and outflows in the same currency instead of converting both sides into euros.
3	**Compare total banking terms**	Assess the exchange rate spread, booking charges, account maintenance fees and payment fees together.
4	**Actively earn interest on balances**	Regularly compare account interest rates, notice periods and overnight deposit options for each currency.
5	**Use switching banks as an option**	If terms remain poor, consider a second bank, renegotiation or moving the account.

Management Perspective

"A foreign currency account is not an end in itself. It pays off when it reduces conversion costs, makes timing risks manageable and earns an appropriate return on surplus liquidity."

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CONCLUSION

- Even modest foreign currency activity may justify a dedicated account if payments recur, offsetting flows exist or automatic conversions generate material costs. A fixed turnover threshold is too simplistic.
- Converting into euros closes the open currency position but may crystallize losses if the exchange rate is unfavorable. Holding foreign currency provides flexibility, but also creates exchange rate, liquidity and decision-making risks.
- Net economic benefit is what matters: exchange rate spreads, transaction costs, account maintenance fees, interest income and internal effort must be assessed together. Poor terms should be renegotiated or replaced by those of another bank.

In a focused Diagnostic Sprint, Alpha Twin Consulting reviews payment flows, conversion costs, interest opportunities and banking terms for your most important foreign currencies.

Transparent. Cost-effective. Actionable.

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