

Foreign Exchange Management



Why now?

- The foreign exchange markets have been particularly volatile over recent months, and seem likely to remain so.
- Continuing economic uncertainty as a result of the COVID-19 crisis has made international currencies more volatile.
- Groups are therefore entering into a greater number of external hedges. These can be expensive.
- There are a variety of tools available to manage FX exposures, depending on the situation.
- Some aspects of the Pillar 2 rules are likely to have an impact on some FX management structures – and may require changes to existing approaches to avoid unexpected tax charges arising.

What are the risks if you get this wrong?

- There is a risk of huge unexpected taxable gains arising.
- These tax liabilities are often unfunded as the foreign exchange gains which cause them may not be realised.
- This therefore leads to volatility in the cash tax position and adversely affects cash forecasting.
- This is an area which could lead to reputational damage for both the groups tax team and their advisors. For example, it could be costly if an election is missed or tax matching not properly identified.
- Foreign exchange volatility can also lead to unexpected reserves blocks which could affect a group's ability to repatriate profits and ultimately to pay dividends.

What are the benefits of getting this right?

- Mitigate potential unexpected taxable gains in the UK or overseas.
- Mitigate unexpected hits to distributable reserves.
- Possibility to reduce the cost of expensive external hedges.

Our approach

Understand

- Work with the tax team and their colleagues to understand the legal, accounting, UK and overseas tax constraints.

Design

- Design a bespoke solution to fit individual client objectives.

Implement

- Assist clients with implementing the solution, where necessary working with our legal and accounting specialists.
- Consider relevant elections.

Document

- Assist in preparing documentation setting out the objectives of the structure.
- Review hedging documentation.

Operate

- Ensure all interested parties (e.g. tax, treasury, accounting) understand how the solution operates.

Examples

Undertaking six-monthly FX reviews for a FTSE 100 group to ensure no unexpected tax charges arise

Designing an FX management strategy which successfully operates under parent company's CFC rules

Advising numerous clients on how to manage FX position arising following the introduction of new UK GAAP.

Working with a group struggling to manage overseas foreign exchange exposures. We designed a solution which managed the FX position in the UK

Working with PE houses to ensure that the hedges needed for the deal did not result in unexpected tax charges.

Designing a strategy for managing FX in a situation where the FX position changed on a regular basis.

Advising numerous groups on whether they should make elections in order to minimise volatility in their tax payments.

Helping clients reduce their external hedging costs by designing internal hedging strategies.

Working with a UK group where a historic FX exposure had created a reserves block affecting the ability to pay external dividends.

Working with a group to manage an FX position arising in Eastern Europe.

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