



Denar Financial

AI Powered Treasury & Financial Planning

Foundation Series

FX Risk Checklist for CFOs: 15-Point Assessment





Introduction

Your accounting team just spent another late night reconciling "currency differences."

While you were focused on closing the quarter, a 5% peso movement quietly erased \$75,000 from your bottom line. Your cash flow forecast? Off by 12% because nobody factored in the currency impact on receivables. That board presentation you're preparing? You'll spend half the time explaining FX variances instead of discussing growth strategy.

Sound familiar?

Most CFOs at companies with international operations know they have currency exposure. What they don't know is whether they're managing it effectively - or just hoping for the best. The difference between these two approaches can mean hundreds of thousands in annual earnings volatility.

This 15-point assessment will tell you exactly where you stand. It's designed specifically for finance leaders at companies with \$5M-\$500M in revenue who have meaningful foreign currency exposures. Each checkpoint represents a critical control or capability that distinguishes companies with mature FX risk management from those flying blind.

The scoring is intentionally tough. Companies that score below 12 typically experience significant earnings volatility from currency movements. Those scoring above 12 have built the infrastructure to turn FX risk from a threat into a manageable business factor.

Take 10 minutes to complete this assessment honestly. Your score will tell you whether your current approach is protecting your company - or setting you up for an expensive surprise.



How to Use This Checklist

Rate each item as **Yes**, **No**, or **Partial**. A score below 10 "Yes" answers indicates FX risk that needs attention.

Each checklist item reflects real-world best practices:

Exposure tracking (Questions 1–5)

These cover the critical basics — knowing your exposures, quantifying them, and understanding risk concentration. Tracking forward-looking exposures and correlation effects is more advanced, but appropriate here.

Risk measurement (Questions 6–8)

Use of VaR, scenario analysis, and board reporting are all essential for companies managing material FX risk. These questions move the conversation from operational awareness to executive-level accountability.

Hedging strategy (Questions 9–12)

A written policy, risk thresholds, performance tracking, and execution capability are all core pillars of a functioning hedge program.

Process & controls (Questions 13–15)

These reflect basic governance (segregation of duties, reconciliation, pre-deal risk assessment) and are especially important for audit and regulatory defensibility.

Section 1: Current FX Exposure Assessment (5 Points)

☐ 1. Do you track all foreign currency exposures monthly?

What to check: Accounts receivable, accounts payable, cash balances, and committed future transactions in foreign currencies. **Red flag:** If you only look at FX during month-end close.



☐ **2. Can you quantify your net FX exposure by currency within 24 hours?**

What to check: Total USD equivalent exposure to each major currency (EUR, MXN, CAD, etc.). **Red flag:** If it takes your team more than a day to pull these numbers.

☐ **3. Do you know your largest single-currency exposure as a percentage of annual revenue?**

What to check: If your MXN exposure is \$2M and revenue is \$20M, that's 10% exposure. **Red flag:** Any single currency over 5% of revenue without hedging.

☐ **4. Are you tracking forward-looking FX exposures (future sales/purchases)?**

What to check: Contracted revenue, purchase commitments, and budgeted international transactions. **Red flag:** Only tracking balance sheet exposures, ignoring future cash flows.

☐ **5. Do you monitor correlations between your different currency exposures?**

What to check: Whether your EUR and GBP exposures move together, reducing or amplifying total risk. **Red flag:** Treating each currency as independent when they're highly correlated.

Section 2: Risk Measurement & Reporting (3 Points)

☐ **6. Can you calculate a monthly Value-at-Risk (VaR) for your FX exposures?**

What to check: 95% confidence level estimate of potential monthly FX loss. **Red flag:** No quantified risk measurement beyond "we have some peso exposure."

☐ **7. Do you run scenario analysis for major FX moves ($\pm 10\%$, $\pm 20\%$)?**

What to check: Impact on earnings if the dollar strengthens/weakens significantly. **Red flag:** No stress testing of FX positions.

☐ **8. Is FX risk included in your monthly board reporting?**



What to check: Board gets summary of FX exposures and potential impact on results. **Red flag:** FX only mentioned when explaining variance after it happens.

Section 3: Hedging Strategy & Execution (4 Points)

☐ 9. Do you have a documented FX hedging policy?

What to check: Written policy specifying hedge ratios, instruments allowed, and approval limits. **Red flag:** Ad hoc hedging decisions without clear guidelines.

☐ 10. Are you hedging based on quantified risk thresholds?

What to check: "We hedge when exposure exceeds X% of revenue or \$Y amount." **Red flag:** Hedging based on gut feel or market predictions.

☐ 11. Do you track hedge effectiveness and performance?

What to check: Measuring whether hedges are actually reducing volatility as intended. **Red flag:** Hedging without measuring if it's working.

☐ 12. Can you execute FX hedges within your banking relationships?

What to check: Established credit lines and approved counterparties for FX transactions. **Red flag:** No banking infrastructure to hedge even if you wanted to.

Section 4: Process & Controls (3 Points)

☐ 13. Do you have segregation of duties for FX transactions?

What to check: Different people initiating, approving, and settling FX trades. **Red flag:** One person handling all aspects of FX risk management.

☐ 14. Are FX exposures reconciled and validated monthly?



What to check: Independent verification of FX positions and mark-to-market valuations. **Red flag:** No independent validation of FX positions.

☐ **15. Do you have procedures for FX risk during acquisitions/major contracts?**

What to check: FX risk assessment required for new international operations or large foreign currency contracts. **Red flag:** No FX due diligence in business development.

Your FX Risk Score

Count your "Yes" answers:

- **13-15 Yes: Low Risk** - You have solid FX risk management
 - **10-12 Yes: Medium Risk** - Good foundation, some gaps to address
 - **7-9 Yes: High Risk** - Significant exposure to FX volatility
 - **0-6 Yes: Critical Risk** - Urgent attention needed
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Immediate Actions by Risk Level

If You Scored 0-6 (Critical Risk):

1. **This month:** Quantify your total FX exposure by currency
2. **Next month:** Implement monthly FX exposure reporting
3. **Within 90 days:** Establish banking relationships for hedging

If You Scored 7-9 (High Risk):

1. **This month:** Calculate monthly VaR for your FX positions
2. **Next month:** Develop written FX hedging policy
3. **Within 60 days:** Begin scenario planning for major FX moves

If You Scored 10-12 (Medium Risk):



1. **This month:** Review and update hedging policy
2. **Next month:** Improve board reporting on FX risk
3. **Within 30 days:** Enhance hedge effectiveness measurement

If You Scored 13-15 (Low Risk):

1. **This month:** Review policy for any recent business changes
2. **Next quarter:** Consider more sophisticated risk metrics
3. **Ongoing:** Maintain current best practices

Common CFO Mistakes to Avoid

"We're naturally hedged"

Reality check: Having both revenue and costs in the same foreign currency doesn't eliminate risk if amounts don't match perfectly.

"We hedge based on forecasts"

Reality check: Predicting currency direction is nearly impossible. Hedge based on risk tolerance, not market views.

"Small exposures don't matter"

Reality check: 5% FX exposure can swing earnings by 1-2% quarterly. That's material for most companies.

"We'll deal with it when it becomes a problem"

Reality check: By then you've already taken the loss. Prevention is cheaper than reaction.

Questions to Ask Your Team

1. "Show me our FX exposure by currency for month-end."



2. "What would a 10% dollar strengthening do to our quarterly earnings?"
3. "How are we measuring whether our hedges are working?"
4. "What's our policy for new international contracts over \$X?"
5. "Who validates our FX positions monthly?"

When to Consider Professional Help

Seek FX risk management consulting if:

- You scored below 10 on this checklist
- Your largest currency exposure exceeds 10% of revenue
- You've had FX-related earnings surprises in the past year
- You're expanding international operations
- Your auditors have commented on FX risk controls

Ready to take control of your FX risk?

- [Calculate your FX exposure](#) - Free, takes 5 minutes
- **Schedule a consultation** - Email consulting@denarfinancial.com

Don't let currency volatility determine your company's success. Take control of your FX risk today.

Denar Financial provides AI-powered treasury and financial planning services to companies with international operations. Our FX risk management solutions help businesses protect profits and plan confidently in volatile currency markets.