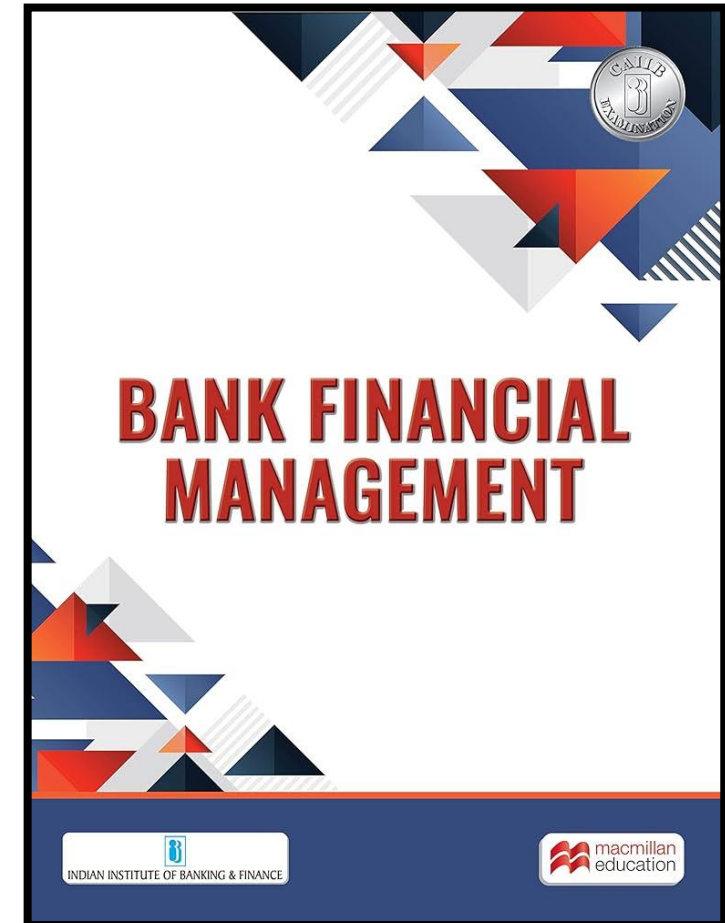


CAIIB Examination

**Bank Financial Management
Module A
Chapter 1 – Exchange Rates &
Forex Business - Part 11**



EXCHANGE RATES & FOREX BUSINESS

2. Forex Business

- 1. Exchange Rates - 1.**
 Meaning of Forex, 2. Forex markets, 3. Factors determining Exchange Rates, 4. Exchange Rate Mechanism, 5. Exchange Arithmetic

- 2. Forex Business -**
 1. Forex Dealing Room, 2. Derivative Products, 3. RBI/FEDAI Guidelines, 4. Forex Arithmetic

1. Meaning



Foreign Exchange is a kind of Commodity transaction – 2 types

1. Meaning - Conversion of Foreign currency, say USD to Home currency (INR) from **inward remittances**

1. Purchase Transaction

1. Meaning - Conversion of INR to USD from **outward remittances**

2. Sale transaction

1. Buying Rate = Rate at which Bank purchases Forex from Customers (BID rate)

Identified from bank's point of view

2. Selling Rate = Bank sells forex to Customers (ASK rate)

2.1 Inward remittances (Purchase transactions)



1. Meaning – Bank receives foreign currency on behalf of customers through Nostro channel or as Foreign Currency Notes / Foreign Currency travellers' cheques

2. In Nostro a/c - Bank applies the applicable TT buying rate at which the foreign currency, say USD, is converted into INR and customer's account credited

3. In Currency note/Travellers' cheque - Bank applies the Currency Buying rate etc.

4. Purposes - Family maintenance, education, Overseas donors, export payments, investors, lenders

2.2 Outward remittances (Sell transactions)



1. Meaning – Request from customers to make an outward remittances in foreign currency on behalf of customers to Overseas beneficiaries through Nostro channel or as Foreign Currency Notes / Foreign Currency travellers' cheques

2. In Currency note/Travellers' cheque - Bank applies the Currency Buying rate etc.

3. Purposes - Family maintenance, education, Indian donors, import payments, investors, Debtors

3. Numerical Problems

Example 1

The following is the Inter-Bank rates quoted in the foreign exchange market.

Calculate the rates for inward remittances and outward remittances value spot assuming a margin of 10 paise over the Inter-Bank rate.

Spot USD/INR : 75.0050/75.0075

Answer

(a) Rate for Inward remittance

Spot interbank rate 75.0050

Deduct margin 0.1000 (for inward remittances, margin to be deducted since Bank buys low).

Rate for customer 74.9050

(b) Rate for outward remittance

Spot interbank rate 75.0075

Add margin 0.1000 (for outward remittances, margin to be added since Bank sells high)

Rate for Customer 75.1075



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Example 2

Inflow of USD 100,000.00 by TT for credit to your exporter's account, being advance payment for exports (credit received in NOSTRO statement received from New York correspondent). What rate you will take to quote to the customer, if the market is 76.09/11/?

Answer

It will be purchase of USD from customer for which USD will have to be sold in the market. Say when USD/INR is being quoted as 76.09/11, meaning that market buys USD at INR 76.09 and sells at INR 76.11. We shall have to quote rate to the customer on the basis of market buying rate, i.e., 76.09 less our margin, as applicable, to arrive at the *TT Buying Rate applicable for the customer transaction*.

Example 3

On 03-10-2021, your exporter customer tenders an export bill for USD 500,000.00, drawn 120 days from the date of shipment, (shipment date 03-10-2021) due date 01-02-2022. Compute applicable rate, presuming (a) exchange margin of 0.15% to be loaded on spot rate, (b) Spot USD/INR 75.14/15 and premium Spot – Jan. 45/46 paise, (c) Rate to be quoted to nearest 0.25 paise, and rupee amount to be rounded off, and (d) Applicable interest at 8.50% for Post shipment export finance up to 180 days and Commission on bills purchased 0.0625 % to be charged upfront.

Answer

- (i) Calculation of bill buying rate:

Spot rate	Rs. 75.14
Less: 0.15% margin	0.1127
	75.0273
Add: Premium	say 75.0270
	0.4500
Rate for the transaction (<i>Bill Buying Rate</i>)	75.4770

- (ii) Calculation of amount payable to the customer:

USD 500,000.00 at 75.4770 = Rs. 3,77,38,500
 Interest 120 days @8.50 % = 10,54,610.00
 (365 days convention in India)
 Commission @0.0625% = 23,587.00
 Amount payable to exporter customer:

3.66.60 30%

Example 4

Retirement of import bill for GBP 100,000.00 by TT Margin 0.20%, ignore cash discount/premium, GBP/USD 1.2175//85, USD/INR 75.4770/4870. Compute applicable GBP/INR rate for Customer.

Answer

For retirement of import bill in GBP, we need to buy GBP, and to buy GBP we need to give USD and to get USD, we need to buy USD against INR, i.e. sell Rupee.

At the given rates, GBP can be bought at 1.2185 USD, while USD can be bought at 75.4870. The GBP/INR rate would be 91.9809 (1.2185 x 75.4870), at which we can get GBP at market rates. Thus, the interbank rate for the transaction can be taken as 91.9809.

Add Margin 0.20% 0.1839

Applicable GBP/INR rate would be 91.9809 + 0.1839 = 92.1648 or say 92.1650 for effecting import payment. (*Bill Selling Rate*).

Example 5

On 15 September, a customer requests for booking of a forward contract for export bill of USD 150,000 to be realized in the month of December.

Given that USD/INR spot is 75.45/50 and forward premium is as under:

October:	18/19 paise
November:	30/32 paise
December:	41/43 paise

Margin to be charged 0.05 paise per USD.

Calculate the forward rate to be quoted to the customer.

HW Q



Thank You

For More Info Contact us:



+91 8146207241



hello@edutap.co.in



www.edutap.co.in

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December:	41/43 paise

Margin to be charged 0.05 paise per USD.

Calculate the forward rate to be quoted to the customer.

Answer

For calculating rate for forward purchase contract, we need to take forward premium for November, the one that the market would pay, i.e., 30 paise.

Spot rate being 75.45, we arrive at forward interbank rate as 75.75 and deduct 0.05 paise as margin to arrive at 75.70 which is the customer forward rate for delivery of export proceeds during December, full month at the option of the customer (Forward TT Buying Rate).

Forward margin for the period prior to the start of the delivery period would be passed on, as the customer has an option to deliver currency on the first day itself, i.e., 1st December.

