FOREX CLASS 11

CLASS WORK COVERAGE

To streamline our learning process, I've categorized the questions we'll tackle in class into four distinct groups:

1. ***Classic:*** *These questions are exactly as presented in your book, providing a familiar foundation.*
2. ***Transformed:*** *Here, we've converted book questions into multiple-choice format to enhance your analytical skills.*
3. ***Adapted:*** *These are similar to book questions but with altered numbers or names, presented as multiple-choice questions for varied practice.*
4. ***Original:*** *These are entirely new questions not found in your book, designed to challenge and expand your understanding.*

This structure will help us navigate through a range of problems, ensuring a comprehensive grasp of the material. Looking forward to our next session!

Q. No	Type	Book	Page No.
28	Classic	CW Q BOOK	10
Question	Classic	CW Q BOOK	10
30	Classic	CW Q BOOK	11
31	Classic	CW Q BOOK	11

PART II: REGULATORY STUFF

Topic 8 CANCELLATION

Question 28: SSEI CW Book Page No. 10

On 15th January 2015 you as a banker booked a forward contract for US$ 250000 for your import customer deliverable on 15th March 2015 at ₹ 65.3450. On due date customer request you to cancel the contract. On this date quotation for US$ in the inter-bank market is as follows:

Spot	₹ 65.2900/2975 per US$
Spot/ April	3000/ 3100
Spot/ May	6000/ 6100

Assuming that the flat charges for the cancellation is ₹ 100 and exchange margin is 0.10%, then determine the cancellation charges payable by the customer.

(Source: ICAI)

ANSWER:

Bank will buy from customer at the agreed rate of ₹ 65.3450.

Since this is sale contract the contract shall be cancelled at ready buying rate on the date of cancellation as follows:

Spot Buying Rate on 15 March 2015	₹ 65.2900
Less: Exchange Margin	₹ 0.0653
	₹ 65.2247
Rounded to	₹ 65.2250
Dollar sold to customer at	₹ 65.3450
Dollar bought from customer	₹ 65.2250
Net amount payable by the customer per US$	₹ 0.1200
Amount payable by the customer	
Flat Charges	₹ 100.00
Cancellation Charges (₹ 0.12 x 250000)	₹30,000.00
	₹30,100.00

Question: SSEI CW Book Page No. 10

You as a banker has entered into a 3 month's forward contract with your customer to purchase AUD 1,00,000 at the rate of ₹ 47.2500. However after 2 months your customer comes to you and requests cancellation of the contract. On this date quotation for AUD in the market is as follows:

Spot	₹ 47.3000/3500 per AUD
1 month forward	₹ 47.4500/5200 per AUD

Determine the cancellation charges payable by the customer.

(*Source: ICAI)*

ANSWER:

The contract shall be cancelled at the 1 month forward sale rate of ₹ 47.5200 as follows:

AUD bought from customer under original forward contract at	₹ 47.2500
On cancellation it is sold to him at	₹ 47.5200
Net amount payable by customer per AUD	₹ 00.2700
Thus total cancellation charges payable by the customer	₹ 27,000

Question 30: SSEI CW Book Page No. 11

A bank enters into a forward purchase TT covering an export bill for Swiss Francs 1,00,000 at ₹ 32.4000 due 25th April and covered itself for same delivery in the local inter bank market at ₹ 32.4200. However, on 25th March, exporter sought for cancellation of the contract as the tenor of the bill is changed.

In Singapore market, Swiss Francs were quoted against dollars as under:

Spot	USD 1 = Sw. Fcs.	1.5076/1.5120
One month forward		1.5150/ 1.5160
Two months forward		1.5250 / 1.5270
Three months forward		1.5415/ 1.5445

and in the interbank market US dollars were quoted as under:

Spot	USD 1 = ₹	49.4302/.4455
Spot / April		4100/.4200
Spot/May		.4300/.4400
Spot/June		.4500/.4600

Calculate the cancellation charges, payable by the customer if exchange margin required by the bank is 0.10% on buying and selling.

(*Source: ICAI)*

ANSWER:

First the contract will be cancelled at TT Selling Rate

USD/ Rupee Spot Selling Rate	₹ 49.4455
Add: Premium for April	₹ 0.4200
	₹ 49.8655
Add: Exchange Margin @ 0.10%	₹ 0.04987
	₹ 49.91537 Or 49.9154
USD/ Sw. Fcs One Month Buying Rate	Sw. Fcs. 1.5150
Sw. Fcs. Spot Selling Rate (₹49.91537/1.5150)	₹ 32.9474
Rounded Off	₹ 32.9475
Bank buys Sw. Fcs. Under original contract	₹ 32.4000
Bank Sells under Cancellation	₹ 32.9475
Difference payable by customer	₹ 00.5475
Exchange difference of Sw. Fcs. 1,00,000 payable by customer	₹ 54,750

(Sw. Fcs. 1,00,000 x ₹ 0.5475)

Topic 9 EXTENSION

Question 31: SSEI CW Book Page No. 11

On 30th June 2009 when a forward contract matured for execution you are asked by an importer customer to extend the validity of the forward sale contract for US$ 10,000 for a further period of three months.

Contracted Rate US$1 = Rs.41.87

The US Dollar quoted on 30.6.2009

Spot	Rs. 40.4800/Rs. 40.4900
Premium July	0.1100/0.1300
Premium August	0.2300/0.2500
Premium September	0.3500/0.3750

Calculate the cost for your customer in respect of the extension of the forward contract. Rupee values to be rounded off to the nearest Rupee.

Margin 0.080% for Buying Rate
Margin 0.25% for Selling Rate

(Source: ICAI)

ANSWER:

This extension of forward Contract involves following steps

1. Cancel the contract at TT buying rate.
2. Rebook the contract for three months at the current rate of exchange.

Accordingly

Step 1: Cancel the contract at TT buying rate on 30.6.2009

	Rs.
Spot US$ 1	40.4800
Less: Margin 0.080%	0.0324
	40.4476

Hence TT buying rate Rs.40.45 (Rounded off)

US$ 10,000 @ Rs.40.45 Rs.4,04,500/-

US$ 10,000 @ Rs.41.87 Rs.4,18,700/-
Difference in favour of the bank Rs. 14,200/-.

Step 2: New contract to be booked at the appropriate forward rate.

Three months forward rate is as under:

US$ 1 Rs.	40.4900 Spot Selling
Add: September Premium	Rs. 0.3750
	Rs. 40.8650
Add: Margin (0.25%)	Rs. 0.1022
	Rs. 40.9672

Forward rate to be quoted to the customer is US$ 1 = Rs. 40.97

Thus cost to customer Rs. 14,200/-.