

FOREX CLASS 14

HOME WORK SUPPORT

COVERAGE

Question			Answer			Lecture Time
Q. No	Page no.	Book	Q. No	Page no.	Book	
23	10	HW Q BOOK	23	15	HW ANS BOOK	00:00:31 TO 00:13:57
24	11	HW Q BOOK	24	16	HW ANS BOOK	00:13:58 TO 00:18:28
Extra Q	58	HW ANS BOOK	Extra Q	59	HW ANS BOOK	00:18:29 TO 00:23:34

PART II: REGULATORY STUFF

Topic 12 NOSTRO ACCOUNT

Question 23: SSEI HW Book Page No. 10

Your banker who is also a dealer in foreign exchange have the following position in Swiss Francs on 31st October, 2009:

	Swiss Francs
Balance in the Nostro A/c Credit	1,00,000
Opening Position Overbought	50,000
Purchased a bill on Zurich	80,000
Sold forward TT	60,000
Forward purchase contract cancelled	30,000
Remitted by TT	75,000
Draft on Zurich cancelled	30,000

Advise the steps should be taken, if bank is required to maintain a credit Balance of Swiss Francs 30,000 in the Nostro A/c and keep as overbought position on Swiss Francs 10,000?

(Source: ICAI)

ANSWER: HW ANS BOOK PAGE 15

Exchange Position:

Particulars	Purchase Sw. Fcs.	Sale Sw. Fcs.
Opening Balance Overbought	50,000	
Bill on Zurich	80,000	
Forward Sales – TT		60,000
Cancellation of Forward Contract		30,000
TT Sales		75,000
Draft on Zurich cancelled	30,000	—
	1,60,000	1,65,000
Closing Balance Oversold	5,000	—
	1,65,000	1,65,000

Cash Position (Nostro A/c)

	Credit	Debit
Opening balance credit	1,00,000	—
TT sales	—	75,000
	1,00,000	75,000
Closing balance (credit)	—	25,000
	1,00,000	1,00,000

The Bank has to buy spot TT Sw. Fcs. 5,000 to increase the balance in Nostro account to Sw. Fcs. 30,000.

This would bring down the oversold position on Sw. Fcs. as Nil.

Since the bank requires an overbought position of Sw. Fcs. 10,000, it has to buy forward Sw. Fcs. 10,000.

PART II: REGULATORY STUFF

Topic 12 NOSTRO ACCOUNT

Question 24: SSEI HW Book Page No. 11

Suppose you are a dealer of ABC Bank and on 20.10.2014 you found that balance in your Nostro account with XYZ Bank in London is £65,000 and you had overbought £35,000. During the day following transaction have taken place:

	£
DD purchased	12,500
Purchased a Bill on London	40,000
Sold forward TT	30,000
Forward purchase contract cancelled	15,000
Remitted by TT	37,500
Draft on London cancelled	15,000

What steps would you take, if you are required to maintain a credit Balance of £7,500 in the Nostro A/c and keep as overbought position on £7,500?

(Source: ICAI)

ANSWER: **HW ANS BOOK PAGE 16**

Exchange Position:

Particulars	Purchase £	Sale £
Opening Balance Overbought	35,000	—
DD Purchased	12,500	—
Purchased a Bill on London	40,000	—
Sold forward TT	—	30,000
Forward purchase contract cancelled	—	15,000
TT Remittance		37,500
Draft on London cancelled	15,000	—
	1,02,500	82,500
Closing Balance Overbought	—	20,000
	1,02,500	1,02,500

Cash Position (Nostro A/c)

	Credit £	Debit £
Opening balance credit	65,000	—
TT Remittance	—	37,500
	65,000	37,500

Closing balance (credit)	—	27,500
	65,000	65,000

To maintain Cash Balance in Nostro Account at £7500 you have to sell £20000 in Spot which will bring Overbought exchange position to Nil. Since bank require Overbought position of £7500 it has to buy the same in forward market.

PART VII: AMBIGUOUS

EXTRA QUESTION

Question: HW ANS BOOK PAGE 58

Alpha Ltd a London based construction company won a project to construct railway bridge in remote parts of India. It requires an initial investment of 800 crore rupees and they will receive a payment of 1200 crore rupees a year later. The company is worried about exposure due to exchange rate volatility.

You are required to:

- a. Construct a swap that will help Alpha Ltd to reduce the exchange rate risk.
- b. Assuming that a swap is available at spot rate which is 1GBP = 100 INR in one year, then should the company opt for this option or should it just do nothing. The spot rate after one year is expected to be 1GBP = INR 108. Further you may also assume that the Alpha can also take a GBP loan at 6% p.a.

(Source: FOD)

ANSWER: HW ANS BOOK PAGE 59

i. The following swap arrangement can be entered by Alpha Ltd

- a. Swap a GBP loan today at an agreed rate with any party to obtain Indian Rupees (INR) to make initial investment.
- b. After one year swap back the Indian Rupees with GBP at the agreed rate. In such case the company is exposed only on the profit earned from the project.

ii. With the swap

	Year 0 (Crore GBP)	Year 1 (Crore GBP)
Buy 800 crore at spot rate of 1GBP = INR 100	(8.00)	----
Swap 800 crore back at agreed rate of INR 100	----	8.00
Sell INR 400 crore at 1GBP= 108 INR	----	3.70
Interest on GBP loan @6% for one year	----	(0.48)
	(8.00)	11.22

Net result is a net receipt of GBP 3.22 crores

Without the swap

	Year 0 (Crore GBP)	Year 1 (Crore GBP)
Buy 800 crore at spot rate of 1GBP= 100INR	(8.00)	----
Sell 1200 crore at 1GBP=108 INR	----	11.11
Interest on GBP loan @6% for one year	----	(0.48)
	(8.00)	10.63

Net result is a net receipt of GBP 2.63 CRORE

Decision: Since the net receipt is higher in swap option the company should opt for the same.