

FOREX CLASS 13

HOME WORK SUPPORT

COVERAGE

Question			Answer			Lecture Time
Q. No	Page no.	Book	Q. No	Page no.	Book	
21	9	HW Q BOOK	21	12	HW ANS BOOK	00:00:29 - 00:26:05
22	10	HW Q BOOK	22	14	HW ANS BOOK	00:26:06 - 00:54:30

PART II: REGULATORY STUFF
Topic 11 AUTOMATIC CANCELLATION
Question 21: SSEI HW Book Page No. 9

On 10th July, an importer entered into a forward contract with bank for US \$ 50,000 due on 10th September at an exchange rate of ₹ 66.8400. The bank covered its position in the interbank market at ₹ 66.6800.

How the bank would react if the customer requests on 20th September:

- i. to cancel the contract?
- ii. to execute the contract?
- iii. to extend the contract with due date to fall on 10th November?

The exchange rates for US\$ in the interbank market were as below:

		10 th September	20 th September
Spot	US\$1 =	66.1500/1700	65.9600/9900
Spot/September		66.2800/3200	66.1200/1800
Spot/October		66.4100/4300	66.2500/3300
Spot/November		66.5600/6100	66.4000/4900

Exchange margin was 0.1% on buying and selling.

Interest on outlay of funds was 12% p.a.

You are required to show the calculations to:

- i. cancel the Contract,
- ii. execute the Contract, and
- iii. extend the Contract as above.

(Source: ICAI)

ANSWER: HW ANS BOOK PAGE 12

In each of the case first the FEADI Rule of Automatic Cancellation shall be applied and customer shall pay the charges consisted of following:

- a. Exchange Difference
- b. Swap Loss
- c. Interest on Outlay Funds

a. Exchange Difference

1. Cancellation Rate:

The forward sale contract shall be cancelled at Spot TT Purchase for \$ prevailing on the date of cancellation as follows:

\$/ ₹ Market Buying Rate	₹ 65.9600
Less: Exchange Margin @ 0.10%	₹ 0.0660
	₹ 65.8940

Rounded off to ₹ 65.8950

2. Amount payable on \$ 50,000

Bank sells \$50,000 @ ₹ 66.8400	₹ 33,42,000
Bank buys \$50,000 @ ₹ 65.8950	₹ 32,94,750
Amount payable by customer	₹ 47,250

b. Swap Loss

On 10th September the bank does a swap sale of \$ at market buying rate of ₹ 66.1500 and forward purchase for September at market selling rate of ₹ 66.3200.

Bank buys at	₹ 66.3200
Bank sells at	₹ 66.1500
Amount payable by customer	₹ 0.1700

Swap Loss for \$ 50,000 in ₹ = ₹ 8,500

c. Interest on Outlay of Funds

On 10th September, the bank receives delivery under cover contract at ₹ 66.6800 and sell spot at ₹ 66.1500.

Bank buys at	₹ 66.6800
Bank sells at	₹ 66.1500
Amount payable by customer	₹ 0.5300

Outlay for \$ 50,000 in ₹ 26,500

Interest on ₹ 26,500 @ 12% for 10 days ₹ 87

d. Total Cost

Cancellation Charges	₹ 47,250.00
Swap Loss	₹ 8,500.00
Interest	₹ 87.00
	₹ 55,837.00

e. New Contract Rate

The contract will be extended at current rate

\$/ ₹ Market forward selling Rate for November	₹ 66.4900
Add: Exchange Margin @ 0.10%	₹ 0.0665
	₹ 66.5565

Rounded off to ₹ 66.5575

i. Charges for Cancellation of Contract = ₹ 55,838.00 or ₹ 55,837.00**ii. Charges for Execution of Contract**

Charges for Cancellation of Contract	₹ 55,837.00
Spot Selling US\$ 50,000 on 20 th September at ₹ 65.9900 + 0.0660 (Exchange Margin) = ₹ 66.0560 rounded to ₹ 66.0550	₹ 33,02,750.00
	₹ 33,58,587.00

iii. Charges for Extension of Contract

Charges for Cancellation of Contract	55837
New Forward Rate	₹ 66.5575

PART II: REGULATORY STUFF

Topic 11 AUTOMATIC CANCELLATION

Question 22: SSEI HW Book Page No. 10

Y has to remit USD \$1,00,000 for his son's education on 4th April 2018. Accordingly, he has booked a forward contract with his bank on 4th January @ 63.8775. The Bank has covered its position in the market @ ₹ 63.7575.

The exchange rates for USD \$ in the interbank market on 4th April and 14th April were:

	4 th April ₹	14 th April ₹
Spot USD 1=	63.2775/63.2975	63.1575/63.1975
Spot/April	63.3975/63.4275	63.2775/63.3275
May	63.5275/63.5675	63.4075/63.7650
June	63.7775/63.8250	63.6575/63.7275
July	64.0700/64.1325	63.9575/64.0675

Exchange margin of 0.10 percent and interest outlay of funds @ 12 percent are applicable. The remitter, due to rescheduling of the semester, has requested on 14th April 2018 for extension of contract with due date on 14th June 2018.

Rates must be rounded to 4 decimal place in multiples of 0.0025.

Calculate:

- i. Cancellation Rate;
- ii. Amount Payable on \$ 100,000;
- iii. Swap loss;
- iv. Interest on outlay of funds, if any;
- v. New Contract Rate; and
- vi. Total Cost

(Source: ICAI)

ANSWER: HW ANS BOOK PAGE 14

i. Cancellation Rate:

The forward sale contract shall be cancelled at Spot TT Purchase for \$ prevailing on the date of cancellation as follows:

\$/ ₹ Market Buying Rate	₹ 63.1575
Less: Exchange Margin @ 0.10%	₹ 0.0632
	₹ 63.0943

Rounded off to

₹ 63.0950

ii. Amount payable on \$ 1,00,000

Bank sells \$1,00,000 @ ₹ 63.8775	₹ 63,87,750
Bank buys \$1,00,000 @ ₹ 63.0950	₹ 63,09,500
Amount payable by customer	₹ 78,250

iii. Swap Loss

On 4th April, the bank does a swap sale of \$ at market buying rate of ₹ 63.2775 and forward purchase for April at market selling rate of ₹ 63.4275.

Bank buys at	₹ 63.4275
Bank sells at	₹ 63.2775
Amount payable by customer	₹ 0.1500

Swap Loss for \$ 1,00,000 in ₹ = ₹ 15,000

iv. Interest on Outlay of Funds

On 4th April, the bank receives delivery under cover contract at ₹ 63.7575 and sell spot at ₹ 63.2775.

Bank buys at	₹ 63.7575
Bank sells at	₹ 63.2775
Amount payable by customer	₹ 0.4800

Outlay for \$ 1,00,000 in ₹ 48,000

Interest on ₹ 48,000 @ 12% for 10 days ₹ 158

v. New Contract Rate

The contract will be extended at current rate

\$/ ₹ Market forward selling Rate for June	₹ 63.7275
Add: Exchange Margin @ 0.10%	₹ 0.0637
	₹ 63.7912

Rounded off to

₹ 63.7900

vi. Total Cost

Cancellation Charges	₹ 78,250.00
Swap Loss	₹ 15,000.00
Interest	₹ 158.00
	₹ 93,408.00