

# FOREX CLASS 13

## 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.
35	Classic	CW Q BOOK	13
36	Classic	CW Q BOOK	14

## PART II: REGULATORY STUFF

## Topic 11 AUTOMATIC CANCELLATION

## Question 35: SSEI CW Book Page No.13

An importer booked a forward contract with his bank on 10th April for USD 2,00,000 due on 10th June @ ₹ 64.4000. The bank covered its position in the market at ₹ 64.2800.

The exchange rates for dollar in the interbank market on 10th June and 20th June were:

	10th June	20th June
Spot USD 1	₹ 63.8000/8200	₹ 63.6800/7200
Spot/June	₹ 63.9200/9500	₹ 63.8000/8500
July	₹ 64.0500/0900	₹ 63.9300/9900
August	₹ 64.3000/3500	₹ 64.1800/2500
September	₹ 64.6000/6600	₹ 64.4800/5600

Exchange Margin 0.10% and interest on outlay of funds @ 12%. The importer requested on 20th June for extension of contract with due date on 10th August.

Rates rounded to 4 decimal in multiples of 0.0025.

On 10th June, Bank Swaps by selling spot and buying one month forward.

Calculate:

- Cancellation rate
- Amount payable on \$ 2,00,000
- Swap loss
- Interest on outlay of funds, if any
- New contract rate
- Total Cost

(Source: ICAI)

## ANSWER:

## 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	₹ 63.6800
Less: Exchange Margin @ 0.10%	₹ 0.0636
	₹ 63.6163

Rounded off to ₹ 63.6175

**ii. Amount payable on \$ 2,00,000**

Bank sells \$2,00,000 @ ₹ 64.4000	₹ 1,28,80,000
Bank buys \$2,00,000 @ ₹ 63.6163	₹ 1,27,23,260
Amount payable by customer	₹ 1,56,740

**iii. Swap Loss**

On 10th June the bank does a swap sale of \$ at market buying rate of ₹ 63.8300 and forward purchase for June at market selling rate of ₹ 63.9500.

Bank buys at	₹ 63.9500
Bank sells at	₹ 63.8000
Amount payable by customer	₹ 0.1500

Swap Loss for \$ 2,00,000 in ₹ = ₹ 30,000

**iv. Interest on Outlay of Funds**

On 10th April, the bank receives delivery under cover contract at ₹ 64.2800 and sell spot at ₹ 63.8000.

Bank buys at	₹ 64.2800
Bank sells at	₹ 63.8000
Amount payable by customer	₹ 0.4800

Outlay for \$ 2,00,000 in ₹ 96,000

Interest on ₹ 96,000 @ 12% for 10 days ₹ 320

**v. New Contract Rate**

The contract will be extended at current rate

\$/₹ Market forward selling Rate for August	₹ 64.2500
Add: Exchange Margin @ 0.10%	₹ 0.0643
	₹ 64.3143

Rounded off to ₹ 64.3150

**vi. Total Cost**

Cancellation Charges	₹ 1,56,740.00
Swap Loss	₹ 30,000.00
Interest	₹ 320.00
	₹ 1,87,060.00

**Question 36: SSEI CW Book Page No.14**

Z has to remit USD \$1,00,000 for her daughter's education on 4th April 2021. Accordingly, she has booked a forward contract with his bank on 4th January 2021 @ ₹ 73.8775. The Bank has covered its position in the market @ ₹ 73.7575.

The exchange rates for USD \$ in the interbank market on 4th, 7th and 14th April 2021 were:

	4th April ₹	7th April ₹	14th April ₹
Spot USD 1	73.2775/73.2975	73.1575/73.1975	73.1375/73.1775
Spot/March	73.3975/73.4275	73.2775/73.3275	73.2575/73.3075
April	73.5275/73.5675	73.4075/73.4650	73.3875/73.4475
May	73.7775/73.8250	73.6575/73.7275	73.6375/73.7050
June	74.0700/74.1325	73.9575/74.0675	73.9500/74.0525

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 2021 for extension of contract with due date on 14th June 2021.

Calculate:

- Cancellation Rate;
- Amount Payable on \$ 100,000;
- Swap loss;
- Interest on outlay of funds, if any;
- New Contract Rate; and
- Total Cost

Note: Rates must be rounded to 4 decimal places in multiples of 0.0025 and assume 365 days in a year.

(Source: ICAI)

**ANSWER:****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	₹ 73.1575
Less: Exchange Margin @ 0.10%	₹ 0.0732
	₹ 73.0843
Rounded off to	₹ 73.0850

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

Bank sells \$1,00,000 @ ₹ 73.8775	₹ 73,87,750
Bank buys \$1,00,000 @ ₹ 73.0850	₹ 73,08,500
Amount payable by customer	₹ 79,250

**iii. Swap Loss**

On 4th April, the bank does a swap sale of \$ at market buying rate of ₹ 73.4275 and forward purchase for April at market selling rate of ₹ 73.2775.

Bank buys at	₹ 73.4275
Bank sells at	₹ 73.2775
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 ₹ 73.7575 and sell spot at ₹ 73.2775.

Bank buys at	₹ 73.7575
Bank sells at	₹ 73.2775
Amount payable by customer	₹ 0.4800

Outlay for \$ 1,00,000 in ₹ 48,000

Interest on ₹ 48,000 @ 12% for 3 days ₹ 47

**v. New Contract Rate**

The contract will be extended at current rate

\$/₹ Market forward selling Rate for June	₹ 74.0525
Add: Exchange Margin @ 0.10%	₹ 0.0741
	₹ 74.1266
Rounded off to	₹ 74.1275

**vi. Total Cost**

Cancellation Charges	₹ 79,250.00
Swap Loss	₹ 15,000.00
Interest	₹ 47.00
	₹ 94,297.00