

CA FINAL AFM

FOREX

(30/June/2025)

Time Allowed – 2 Hours

Maximum Marks – 60

1. The question paper comprises two parts, Part I and Part II.
2. Part I comprises Case Scenario based Multiple Choice Questions (MCQs)
3. Part II comprises questions which require descriptive type answers.
4. Working note should form part of the answer. Wherever necessary, suitable assumptions may be made by the candidates and disclosed by way of note. However, in answers to Questions in Division A, working notes are not required.

PART I – Case Scenario based MCQs (18 Marks)

Write the most appropriate answer to each of the following multiple choice questions by choosing one of the four options given. All questions are compulsory.

Case Scenario1

On 1 October 2023 Mr. X an exporter enters into a forward contract with a BNP Bank to sell US\$ 1,00,000 on 31 December 2023 at ₹ 85.40/\$. However, due to the request of the importer, Mr. X received the amount on 28 November 2023. Mr. X requested the bank to take delivery of the remittance on 30 November 2023 i.e., before due date. The inter-banking rates on 28 November 2023 was as follows:

Spot	₹ 85.22/85.27
One Month Premium	10/15

Note:

- (1) Consider 365 days in a year.
- (2) Prevailing Prime Lending Rate is 12%

Based on above case scenario, choose the most appropriate answer of the following:

- I.** The bank may accept the request of customer of delivery before due date of forward contract provided the customer is ready to bear the loss if any consisting of.....
- (a) Swap Difference
 - (b) Interest on Outlay of Fund
 - (c) Swap Difference Plus Interest on Outlay of Fund
 - (d) Fixed Charges Plus Swap Difference and Interest on Outlay of Fund
- II.** Swap Difference for US\$ 1,00,000 is.....
- (a) ₹ 5,000
 - (b) ₹ 20,000
 - (c) ₹ 18,000
 - (d) ₹ 8,000
- III.** Interest on outlay of funds shall be approximately.....
- (a) ₹ 92 payable by X
 - (b) ₹ 183 payable by X
 - (c) ₹ 183 payable by Bank
 - (d) ₹ 122 payable by Bank
- IV.** Net inflow to Mr. X is approximately.....
- (a) ₹ 85,42,183
 - (b) ₹ 85,20,000
 - (c) ₹ 85,19,817
 - (d) ₹ 85,40,000

(4 × 2 = 8 Marks)

Case Scenario2

An Indian exporting firm, Rohit and Bros. exported good worth of AUD 1 million to an importer in Sydney. Rohit and Bros. are worried about likely depreciation of AUD in near future as it is likely that the export sum will be received after 3 months. Today as such as there is no derivative contract is available in AUD to hedge itself from such depreciation.

The following data is given:

Spot rate		: ₹ 56.00/AUD
3 months interest rate	: India	: 12 per cent per annum
	: Australia	: 5 per cent per annum

From the information given above, choose the correct answer to the following questions:

- V.** hedging technique can be used Rohit and Bros. to hedge itself against the risk of depreciation of AUD.
- (a) Forward Contract
 (b) Future Contract
 (c) Option Contract
 (d) Money Market Hedge
- VI.** Suppose if Rohit and Bros. want to borrow some amount in AUD in such a manner that the receivable amount can be used to repay the amount borrowed along with interest. The amount to be borrowed by Rohit and Bros. shall be approximately.....
- (a) AUD 1 million
 (b) AUD 9,87,654
 (c) ₹ 5,53,08,624
 (d) ₹ 5,69,67,882
- VII.** Suppose if Rohit and Bros. borrows a designated amount in AUD for 3 months in such a manner that the receivable amount can be used to repay the amount borrowed along with interest and plan to invest same amount in Indian spot market. The same amount available for investment shall be approximately.....

- (a) AUD 1 million
- (b) AUD 9,87,654
- (c) ₹ 5,53,08,624
- (d) ₹ 5,69,67,882

VIII. Suppose if Rohit and Bros. borrows a designated amount for 3 months in AUD in such a manner that the receivable amount can be used to repay the amount borrowed along with interest. Further he plans to invest same amount in Indian spot market. The amount obtained after 3 months of investment shall be approximately.....

- (a) AUD 1 Million
- (b) AUD 9,87,654
- (c) ₹ 5,53,08,624
- (d) ₹ 5,69,67,883

IX. Suppose if Interest Rate Parity theory is held between INR and AUD, then forward rate between INR and AUD for 6 month should be.....

- (a) ₹ 51.54/AUD
- (b) ₹ 57.91/AUD
- (c) ₹ 52.50/AUD
- (d) ₹ 59.73/AUD

(5 × 2 = 10 Marks)

PART II – Descriptive Questions (42 Marks)

Question No. 1 is compulsory.

Attempt any 2 questions out of the remaining 3 questions.

Question – 01

- (a) Telereal Trillium, a UK Company is in the process of negotiating an order amounting €5.5 million with a large German retailer on 6 month's credit. If successful, this will be first time for Telereal Trillium has exported goods into the highly competitive German Market. The Telereal Trillium is considering following 3 alternatives for managing the transaction risk before the order is finalized.

FOREIGN EXCHANGE EXPOSURE & RISK MANAGEMENT

- (i) Mr. Grand, the Marketing head has suggested that in order to remove transaction risk completely Telereal Trillium should invoice the German firm in Sterling using the current €/£ average spot rate to calculate the invoice amount.
- (ii) Mr. John, CE is doubtful about Mr. Grand's proposal and suggested an alternative of invoicing the German firm in € and using a forward exchange contract to hedge the transaction risk.
- (iii) Ms. Royce, CFO is agreed with the proposal of Mr. John to invoice the German first in €, but she is of opinion that Telereal Trillium should use sufficient 6 month sterling future contracts (to the nearest whole number) to hedge the transaction risk.

Following data is available

Spot Rate	€ 1.1980 - €1.1990/£
6 months forward points	0.60 – 0.55 Euro Cents.
6 month future contract is currently trading at	€ 1.1943/£
6 month future contract size is	£70,500
After 6 month Spot rate and future rate	€ 1.1873/£

You are required to

- (a) Advise the alternative you consider to be most appropriate.
- (b) Interpret the proposal of Mr. Grand from non-financial point of view.

Note: Calculate (to the nearest £) the £ receipt.

(8 Marks)

- (b) Mercy is a Forex Dealer with XYZ Bank. She notices following information relating to Canadian Dollar (CAD) and German Deutschmark (DEM):

Exchange rate –	CAD 0.775 per DEM (Spot)
	CAD 0.780 per DEM (3 months)
Interest rates –	DEM 7% p.a.
	CAD 9% p.a.

FOREIGN EXCHANGE EXPOSURE & RISK MANAGEMENT

- (i) Assuming that there is no transaction cost determine does the Interest Rate Parity holds in above quotations.
- (ii) If yes, then explain the steps that would be required to make an arbitrage profit if Mercy is authorized to work with CAD 1 Million for the same purpose. Also determine the profit that would be made in CAD.

Note: Ignore the decimal points in the amounts.

(6 Marks)

Question – 02

- (a) ATONEX Ltd., an Indian company that exports precision equipment, has a foreign receivable of EUR 25 million due in 6 months from a client in Italy. Simultaneously, the company has an upcoming payable of EUR 10 million in 6 months for importing specialized machinery from Germany.

The company is evaluating three hedging strategies to manage its net transaction exposure:

Forward Contracts: Forward rates of ₹ 97/EUR for both the receivable and payable.

Money Market Hedge :

Currency	Borrow (%) P.A.	Deposit % P.A.
EUR	3.5 %	3.5 %
INR	9.0 %	7.0 %

Currency Option Hedge: Purchase a EUR call option with a strike price of ₹ 98/EUR for the receivable (6 months) with a premium of ₹ 2 per EUR.

Purchase a EUR put option with a strike price of ₹ 95/EUR for the payable (6 months) with a premium of ₹ 1.5 per EUR.

Current Spot Rate (EUR / INR) : ₹ 95 / EUR. Expected Spot Rate after 6 months (EUR / INR) : ₹ 99 / EUR.

Required :

- (i) Analyze the forward contract hedge strategy for both the receivable and payable.

FOREIGN EXCHANGE EXPOSURE & RISK MANAGEMENT

- (ii) Analyze and infer the money market hedge strategy for both the receivable and payable.
- (iii) Assess the outcomes using a currency option hedge.
- (iv) Synthesize the results from all three hedging strategies and propose a well-justified recommendation for the best strategy to minimize the net transaction exposure.

(8 Marks)

(b) XYZ Ltd. has imported goods to the extent of US\$ 8 Million. The payment terms are as under:

- (a) 1% discount if full amount is paid immediately; or
- (b) 60 days interest free credit. However, in case of a further delay up to 30 days, interest at the rate of 8% p.a. will be charged for additional days after 60 days. M/s XYZ Ltd. has ₹ 25 Lakh available and for remaining it has an offer from bank for a loan up to 90 days @ 9.0% p.a.

The quotes for foreign exchange are as follows:

Spot Rate INR/ US\$ (buying)	₹ 66.98
60 days Forward Rate INR/ US\$ (buying)	₹ 67.16
90 days Forward Rate INR/ US\$ (buying)	₹ 68.03

Advise which one of the following options would be better for XYZ Ltd.

- (i) Pay immediately after utilizing cash available and for balance amount take 90 days loan from bank.
- (ii) Pay the supplier on 60th day and avail bank's loan (after utilizing cash) for 30 days.
- (iii) Avail supplier offer of 90 days credit and utilize cash available.

Further presume that the cash available with XYZ Ltd. will fetch a return of 4% p.a. in India till it is utilized.

Assume year has 360 days. Ignore Taxation.

Compute your working upto four decimals and cash flows in Crore.

(6 Marks)

Question – 03

- (a) KGF Bank's Sydney branch has surplus funds of USD \$ 7,00,000 for a period of 2 months. Cost of funds to the bank is 6% p.a. They propose to invest these funds in Sydney, New York or Tokyo and obtain the best yield, without any exchange risk to the bank. The Following rates of interest are available at the three centers for investment of domestic funds there for a period of 2 Months.

Sydney	7.5% p.a.
New York	8% p.a.
Tokyo	4% p.a.

The market rates in Australia for US Dollars and Yen are as under:

Sydney on New York:

Spot	0.7100/0.7300
1 Months	10/20
2 Months	25/30

Sydney on Tokyo:

Spot	79.0900/79.2000
1 Months	40/30
2 Months	55/50

At which centre, will the investment be made & what will be the net gain to the bank on the invested funds?

(8 Marks)

- (b) A dealer in foreign exchange has the following position in Swiss Francs on 31st January, 2018 ;

(Swiss Francs)

Balance in the Nostro A/c Credit	1,00,000
Opening Position Overbought	50,000
Purchased a bill on Zurich	70,000
Sold forward TT	49,000
Forward purchase contract cancelled	41,000
Remitted by TT	75,000

Draft on Zurich cancelled

40,000

Examine what steps would the dealer take, if he 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 ?

(6 Marks)

Question – 04

- (a) On 1st February 2020, XYZ Ltd. a laptop manufacturer imported a particular type of Memory Chips from SKH Semiconductor of South Korea. The payment is due in one month from the date of Invoice, amounting to 1190 Million South Korean Won (SKW). Following Spot Exchange Rates (1st February) are quoted in two different markets:

USD/ INR 75.00/ 75.50 in Mumbai

USD/ SKW 1190.00/ 1190.75 in New York

Since hedging of Foreign Exchange Risk was part of company's strategic policy and no contract for hedging in SKW was available at any in-shore market, it approached an off-shore Non Deliverable Forward (NDF) Market for hedging the same risk.

In NDF Market a dealer quoted one-month USD/ SKW at 1190.00/1190.50 for notional amount of USD 100,000 to be settled at reference rate declared by Bank of Korea.

After 1 month (1st March 2020) the dealer agreed for SKW 1185/ USD as rate for settlement and on the same day the Spot Rates in the above markets were as follows:

USD/ INR 75.50/ 75.75 in Mumbai

USD/ SKW 1188.00/ 1188.50 in New York

Analyze the position of company under each of the following cases, comparing with Spot Position of 1st February:

- (i) Do Nothing.
- (ii) Opting for NDF Contract. Note: Both Rs./ SKW Rate and final payment (to be computed in Rs. Lakh) to be rounded off upto 4 decimal points.

(8 Marks)

FOREIGN EXCHANGE EXPOSURE & RISK MANAGEMENT

(b) AMK Ltd. an Indian based company has subsidiaries in U.S. and U.K.

Forecasts of surplus funds for the next 30 days from two subsidiaries are as below:

U.S. \$12.5 million

U.K. £ 6 million

Following exchange rate information is obtained:

	\$/₹	£/₹
Spot	0.0215	0.0149
30 days forward	0.0217	0.0150

Annual borrowing/deposit rates (Simple) are available.

₹ 6.4%/6.2%

\$ 1.6%/1.5%

£ 3.9%/3.7%

The Indian operation is forecasting a cash deficit of ₹500 million.

It is assumed that interest rates are based on a year of 360 days.

- (i) Calculate the cash balance at the end of 30 days period in ₹ for each company under each of the following scenarios ignoring transaction costs and taxes:
- Each company invests/finances its own cash balances/deficits in local currency independently.
 - Cash balances are pooled immediately in India and the net balances are invested/borrowed for the 30 days period.
- (ii) Which method do you think is preferable from the parent company's point of view?

(6 Marks)