If gain to customer then amounts can't be paid to customer

(iii) Swap Loss

On 10th June bank sell spot to other Bank & buy forward from other Bank

Particular	Amount
Sell Spot (-) Buy Forward Swap Loss (-) Contract Size	₹ 63.8000 ₹ 63.9500 ₹ 0.15 ₹ 2,00,000
Swap Loss	₹ 30,000

Note: अगर Swap Gain होता तो Ram को Transfer नहीं करते।

(iv) Interest on Outlay of Fund

On 10th June bank buy ($ 2,00,000 at Cover Rate hence Cash Outflows & sell at $ 2,00,000 at SR)

Particular	Amount
Cash Outflow ($ 2,00,000 × 64.2800) Cash Inflow ($ 2,00,000 × 63.8000) Net Cash Outflow Interest on Net Cash Outlay (₹ 96,000 12% × (3/360))	₹ 1,28,56,000 ₹ 1,27,60,000 ₹ 96,000 ₹ 96

Note: अगर Net Cash Inflow होता तो उस पर Interest Ram को Transfer नहीं किया जाता।

(v) New Contract Rate (Available on 13/6)

Particular	Amount
Selling Rate of Bank (+) Margin Customer Rate	₹ 64.2500 0.10% ₹ 64.3142
Round off	₹ 64.3150

(vi) Total Cost

Particular	Amount
Cancellation Charges	₹ 1,56,500

(+) Swap Loss (+) interest on Outlay of Fund	₹ 30,000 96
	₹ 1,86,596

Question – 58

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 13th 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:

	10th September	13th 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.

Solution:

(i) Cancellation Rate

Particular	Amount

Buying Rate of Bank (-) Margin	₹ 65.9600 ₹ 0.10%
Rounded Off	₹ 65.8930

(ii) Cancellation Charge

Particular	Amount
Selling Rate of Bank (-) Buying rate of Bank	₹ 66.8400 ₹ 65.8950
Gain to Bank (x) Contract Size	0.945 $ 50,000
Cancelation Charges	₹ 47250

(iii) Swap Loss

On 10th Sep Bank Sold $ 50,000 at SR & Buy $ 50,000 at Forward Rate means Sell- Buy Means

Particular	Amount
Selling Rate (SR) Buying Rate Swap Loss (×) Contract Size	₹ 66.1500 ₹ 66.3200 ₹ 0.17 ₹ 50,000
Swap Loss	₹ 8,500

(iv) Interest on Outlay of Fund

On 10th Sep

Particular	Amount
Cash Outflow (Buy$ at Cover Rate) ($ 50,000 × 66.68) Cash Inflow (Sell $ at SR) ($ 50,000 × ₹ 66.1500) Net Cash Outlay Interest on Outlay of fund (₹ 26,50,012% × 3/360)	₹ 33,34,000 ₹ 33,07,500 ₹ 26,500 ₹ 26

(v) New FR

Particular	Amount
Selling Rate (Nov) (+) Margin	₹ 66.4900 0.1 %
	₹ 66.5565
Rounded Off	₹ 66.5565

(I) Cancel the Contract

Particular	Amount
Total Amount Payable by Customer Cancelation Charges (+) Swap Loss (+) Interest on Outlay of Fund	₹ 47,250 ₹ 8,500 ₹ 26

(II) Execute the Contract

Particular	Amount
Total Amount of Cancelation (+) Buy $ 50,000 at SR on 13th Sep (65.9900 + 0.1%) 66.0560 ($ 50,000 × 66.0560)	₹ 55,776 ₹ 33,02,750
	₹ 3,35,826

(III) Extension

Particular	Amount
Total Amount of Cancellation Book New Contract for 13th Nov	₹ 55,776 ₹ 66.55 75

Question – 59

An import customer booked a forward contract with the bank on 10th April for USD 20,000 due on 10th June at ₹ 49.4000. The bank covered its position in the market at ₹ 49.2800.

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

	10th June	20th June
Spot	USD 1 = ₹ 48.8000/8200	48.6800/7200
Spot/ June	48.9200/9500	48.8000/8500
Spot/July	49.0500/0900	48.9300/9900
Spot/August	49.3000/3500	49.1800/2500
Spot/September	49.6000/6600	49.4800/5600
Exchange margin is 0.10%		
Interest on outlay of funds 12%		

Calculate how the bank will react, if the customer requires on 20th June:

(i) To cancel the contract.

(a) Exchange difference,

(b) Swap loss,

(c) Interest on outlay of funds and

(d) Cancellation charges

(ii) To Execute the contract.

(iii) To Extend the contract with due date to fall on 10th August.

(Exam November – 2023)

Solution:

(i) Cancellation of Contract

(a) Exchange Difference

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

$/ ₹ Market Buying Rate	₹ 48.6800
Less: Exchange Margin @ 0.10%	₹ 0.0487
	₹ 48.6313

Rounded off to ₹ 48.6325

Exchange Difference Payable

Bank sells $ 20,000 @ ₹ 49.4000	₹ 9,88,000
Bank buys $ 20,000 @ ₹ 48.6325	₹ 9,72,650
Amount payable by customer	₹ 15,350

(b) Swap Loss

On 10th June the bank does a swap sale of $ at market buying rate of ₹ 48.8000 and forward purchase for June at market selling rate of ₹ 48.9500.

Bank buys at	₹ 48.9500
Bank sells at	₹ 48.8000

Amount payable by customer	₹ 0.1500

Swap Loss for $ 20,000 is = ₹ 3,000

(c) Interest on Outlay of Funds On 10th June, the bank receives delivery under cover contract at ₹ 49.2800 and sell spot at ₹ 48.8000.

Bank buys at	₹ 49.2800
Bank sells at	₹ 48.8000
Amount payable by customer	₹ 0.4800

Outlay for $ 20,000 is ₹ 9,600

Interest on ₹ 9,600 @ 12% for 10 days ₹ 31.56 or ₹ 32.00

(d) Cancellation Charges

Particulars	Amount (₹)
Exchange Difference	15,350
Swap Loss	3,000
Interest on Outlay of Funds	32.00
Cancellation Charges payable by Customer	18,382

OR,

Particulars	Amount (₹)
Exchange Difference	15,350
Swap Loss	3,000
Interest on Outlay of Funds	31.56
Cancellation Charges payable by Customer	18,381.56

(ii) Execution of Contract

Cancellation charges of ₹ 18,382 or ₹ 18,381.56 as computed above will be recovered. The contract will be executed at the spot TT selling rate calculated as follows:

Dollar/₹ interbank spot selling rate	₹ 48.7200
Add: exchange margin at 0.10%	+ 0.0487
	₹ 48.7687

(iii) Extension of Contract

Cancellation charges of ₹ 18,382 or ₹ 18,381.56 as computed above will be recovered.

The contract will be extended at the current rate.

Dollar/₹ market forward selling rate for August	₹ 49.2500
Add: exchange margin at 0.10%	+ 0.0492
	₹ 49.2992

The exchange rate applied for the extended contract is ₹ 49.3000 or ₹ 49.2992.

(8) FOREIGN CURRENCY A/C

Question – 60

You as 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

What steps would you take, if you are 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?

(SM TYK – 51 & MTP March – 2022)

Solution:

Cash Position

	Cr.	Dr.
Opening balance credit	1,00,000	---
TT sales	---	75,000
	1,00,000	75,000
Closing balance (credit)	---	25,000

Exchange Position

	Long	Short
Opening balance over brought	50,000	---
Purchased bill	80,000	---
Forward sales	---	60,000
Forward purchase contract cancelled	---	30,000
TT sales	---	75,000
Draft cancelled	30,000	---
	1,60,000	1,65,000
Oversold position	5,000	---

The bank has to buy spot Swiss Francs 5,000 to increase the balance in NOSTRO A/c Swiss Francs 3,000 this would being down the oversold position as nil.

Since bank requires overbought position of Swiss Francs 10,000 it has to buy forward Swiss Francs 10,000.

Question – 61

ABN-Amro Bank, Amsterdam, wants to purchase ₹ 15 million against US$ for funding their NOSTRO account with Canara Bank, New Delhi. Assuming the inter-bank, rates of US$ is ₹ 51.3625/3700, what would be the rate Canara Bank would quote to ABN-Amro Bank? Further, if the deal is struck, what would be the equivalent US$ amount.

(SM TYK – 02)

Solution:

$ Required to buy ₹ 15,000,000

$$= \frac{₹\ 15,000,000}{51.3625}$$

= $ 2,92,042

Question – 62

XYZ Bank, Amsterdam, wants to purchase ₹ 25 million against £ for funding their NOSTRO account and they have credited LORO account with Bank of London, London.

Calculate the amount of £'s credited. Ongoing inter-bank rates are per $, ₹ 61.3625/3700 & per £, $ 1.5260/70.

(SM TYK – 03)

Solution:

₹/$ = 61.3625

$/£ = 1.5260

₹/£ = 61.3625 × 1.5260

= 93.3692

Amount of £ to be credited

$$= \frac{₹\ 2,50,00,000}{93.3692} = £\ 2,66,982$$

(9) CURRENCY OF BORROWING

Question – 63

Sun Ltd. is planning to import equipment from Japan at a cost of 3,400 lakh yen. The company may avail loans at 18 percent per annum with quarterly rests with which it can import the equipment. The company has also an offer from Osaka branch of an India based bank extending credit of 180 days at 2 percent per annum against opening of an irrecoverable letter of credit.

Additional information:

Present exchange rate	₹ 100 = 340 yen
180 day's forward rate	₹ 100 = 345 yen

Commission charges for letter of credit at 2 percent per 12 months.

Advice the company whether the offer from the foreign branch should be accepted.

(SM TYK – 42 & Exam January – 2021)

Solution:

Option 1: Loan from Indian Bank

Payable = ¥ 3,400 lacs

Buy ¥ 3,400 lacs at SR ¥/₹ = 3.40

$\frac{¥\ 3,400}{3.40}$ = ₹ 1,000 lacs

Borrow ₹ 1,000 lacs at 18%. p.a. for 6 months

Cash outflows = 1,000 $(1.045)^2$ = ₹ 1,092.03 lacs

Option 2: Loan from Japan

Loan amount = ¥ 3400 lacs

Borrow ¥ 3,400 lacs at 2 % p.a. for 180 days

Cash outflows (¥ 3,400 lacs × 1.01) = ¥ 3,434 lacs

Buy ¥ 3,434 lacs at 180 day FR ¥/₹ = 3.45

$\frac{¥\ 3,434}{3.45}$ = ₹ 995.36

Commission [Payment आज होता है।]

Loan amount = $\frac{¥\ 3,400}{3.40}$ = ₹ 1,000 lacs

Commission = 1,000 lacs × 1% = ₹ 10 lacs

Commission after 6 month = 10 $(1.045)^2$

= ₹ 10.92 lacs

Total cash outflows = ₹ 995.36 + 10.92

= 1,006.28 lacs

Loan from Japan is better due to lower cash outflows.

Question – 64

An Indian company obtains the following quotes (₹/$)

Spot: 35.90/36.10

3 Months forward rate: 36.00/36.25