EXAMPLE – 82

(i) Amount credited in NOSTRO A/C = $ 1,00,000

(ii) Spot sell $ 20,000 or remitted by TT

(ii) forward sell $20000

(iii) Forward selling contract cancelled $ 10,000

(iv) Spot buy $ 8,000 or T.T. purchased $ 8,000

(v) Forward buy $ 2,000

(vi) Bills purchased $ 7,000

(vii) Draft issued $ 3,000 DD

(viii) Draft cancelled $ 3,000

(Page No. 21)

prepare
(i) cash position
(ii) Exchange position

Cash position (Nostro A/c)

	Cr.	Dr.
Amt credit	$100000	–
spot Sell	–	$20000
spot Buy	$8000	–
	108000	$20000
Closing Balance	–	88000

88000 Cr.

Exchange position

	Long	short
Buy $	$100000	–
Spot Sell	–	$20000
forward Sell	–	$20000
forward Contract Cancel	$10000	–
Spot Buy	$8000	–
forward Buy	$2000	–
Bill purchased	$7000	–
DD Issued	–	$3000
Draft cancelled	$3000	–
	$130000	43000
Overbought position	–	87000

We want to maintain $90000 in Nostro A/c & overbought position $20000

Spot Buy

In order to maintain \$90000 in Nostro A/c we should buy spot \$2000. Due to this bought
Transaction overposition will be \$89000

To Maintain overbought position \$20000 we should forward sell \$69000

	Cash position	Exchange position
1. Remitted by TT	Dr.	Short
2. forward sell	—	Short
3. TT purchased	cr.	Long
4. Draft cancelled	—	Long
5. Bill purchased	—	Long
6. forward purchase contract cancelled	—	Short

QUESTION – 102

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?

(Study Material &n MTP March - 2022)

(Page No. 147)

Cash

Cr. Dr

100000 –

– 75000

Spot Buy 5000

25000 Cr

position

Long short

50000 –

80000 –

– 60000

30000

75000

30000

160000 165000

H.W

C.W(copy)

Oversold position 5000 5000

forward Buy $10000

H.W.

HW COPY

QUESTION – 103

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 ?

(Exam November – 2018)

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H.W

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QUESTION – 104

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 £ 15,000 in the Nostro A/c and keep as overbought position on £ 7,500?

(Study Material)

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QUESTION – 105

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.

(Study Material & PM)

(Page No. 151)

H.W

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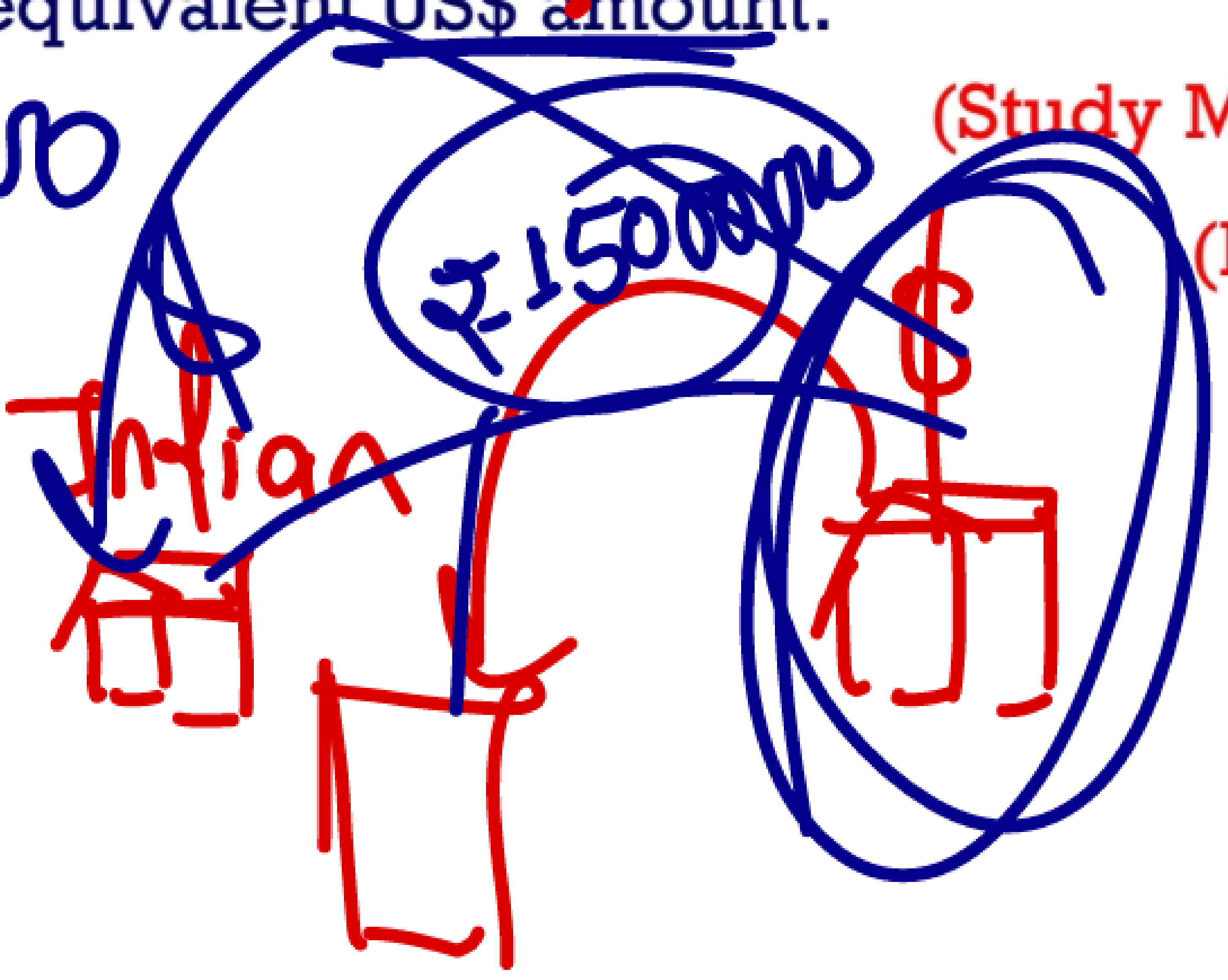
₹/$ 51.3625/51.3700

$$\frac{₹\,15000000}{51.3625} = 292041.86$$



QUESTION – 106

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.

(Study Material & PM)

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₹/\$ 61.3625

\$/£ 1.5260

₹/£ = 61.3625 × 1.5260

= 93.6392

₹/\$ 61.3625/61.3700

\$/£ 1.5260/1.5270

$$\frac{₹\,25000000}{93.6392} = £\,266982$$

QUESTION – 107

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.

(Study Material, PM & Exam January – 2021)

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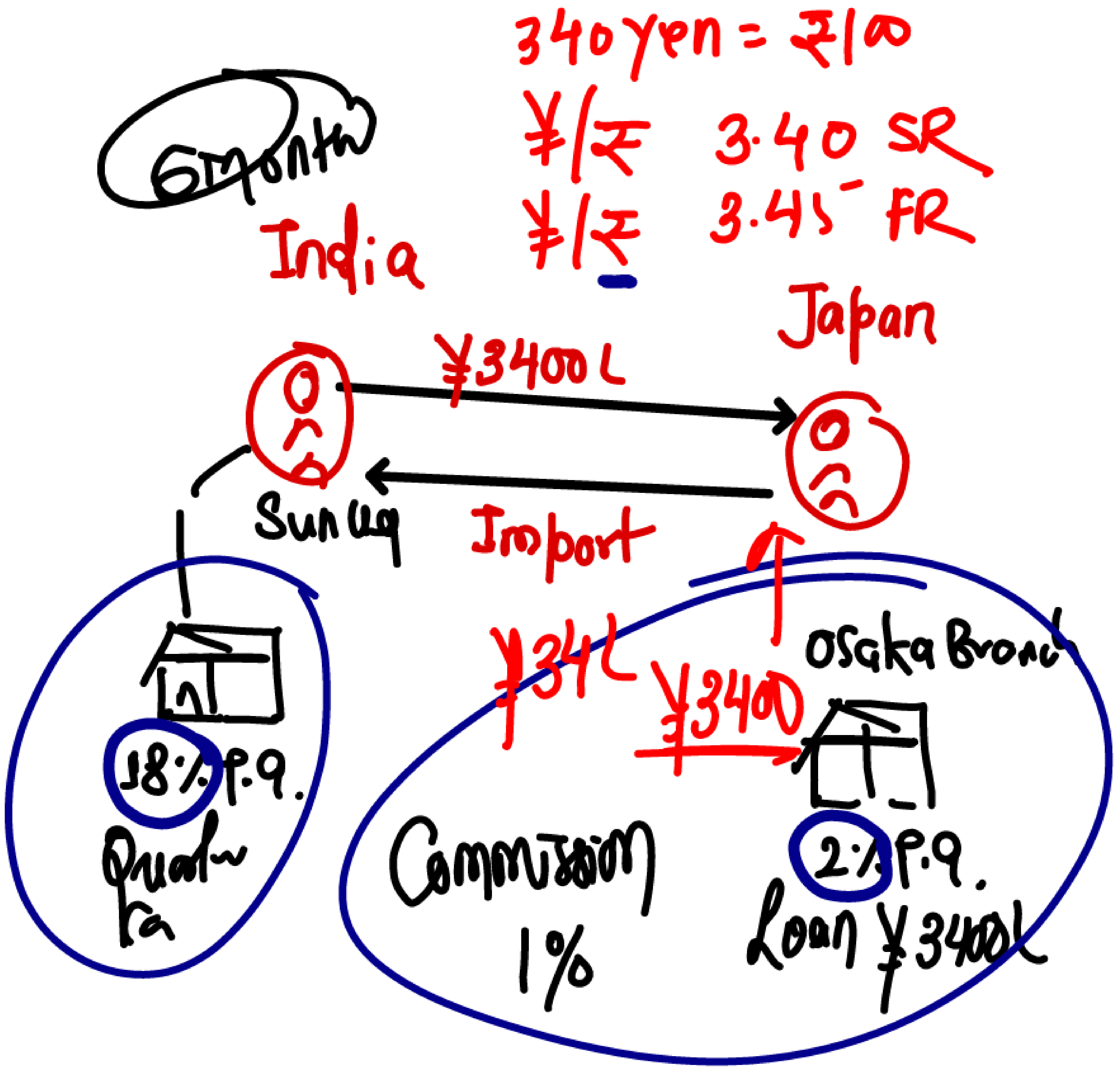

Option 1 Loan from Indian Bank

- Rupees required to buy ¥3400 lac at SR

  ¥/₹ 3.40 $\frac{¥3400 \text{ lac}}{3.40}$ = ₹1000 L

- Borrow ₹1000 L @ 18% p.a. for 6 months

  Cash Outflows = $1000(1.045)^2$ = ₹1092.025 Lacs.

Option 2 Loan from Japan

- Borrow ¥3400 Lacs @ 2% p.a. for 6 Months
- Cash outflow in ¥ after 6 months

  ¥3400 Lacs (1.01) = ¥3434 Lacs

- Buy ¥3434 Lacs at 180 days FR

  ¥/₹ = 3.45 $\frac{¥3434}{3.45}$ = $\boxed{₹995.36 \text{ Lacs}}$

Commission

[Commission, आप Calculate करोगे Loan Amt पर]

¥3400L × 1% = ¥34 Lacs

[SR पर convert होगा)

¥/₹ 3.40 = $\frac{¥34}{3.40}$ = ₹10 L

Commission with Int

$10(1.045)^2$ = $\boxed{10.92}$

Cash outflows = 995.36 + 10.92

= 1006.28 L

Loan from Japan is Better due to Lower C.O.

QUESTION – 108

M/s. Daksh Ltd is planning to import multipurpose machine from USA at a cost of $15000. The company can avail loans at 19% Interest per annum with quarterly rests with which it can import the machine.

However, there is an offer from New York branch of an Indian based bank extending credit of 180 days at 2% per annum against opening of an irrevocable letter of credit.

Other Information:

Spot rate US$ 1 = ₹ 75

180 days forward rate US $ 1 = ₹ 77

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

(i) Justify why the offer from the foreign branch should be accepted?

(ii) Based on the present market condition company is not interested to take the risk of currency fluctuations and wanted to hedge with an additional expenses of ₹ 30,000, if so, what is your advise to the company?

Assume 360 days in the year.

(Exam May-2022)

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