

Option 1 Without Swapping (1 YEAR = 360 days)

Sub.:	Amt	Intt	Total	91 days rate	£
UK	£ 75000	$75000 \times 1\% \times \frac{91}{360}$ £ 189.58	£ 75189.58	—	75189.58
Amsterdam	€ 725000	$725000 \times 2\% \times \frac{91}{360}$ € 3665.28	€ 728665.28	£/€ 0.6895	502414.71
Zurich	CHF 998077	$998077 \times 0.5\%$ $\times \frac{91}{360}$ CHF 1261.46	CHF 999338.46	CHF/£ 2.3098	432651.51
Total Cash Balance					£ 1010255.80

Option 2 Swapping

£ available in UK company

£75000

Convert €725000 in £ at SR

$$\text{£/€ } 0.6858 \left(\frac{\text{€}725000}{1} \right) \quad \text{£}497205$$

Convert CHF 998077 in £ at SR

£427881.76

$$\text{CHF/£} = 2.3326 \left(\frac{\text{CHF}998077}{2.3326} \right)$$

Total £ Available for investment = £1000086.76

Invest £ @ 5.375% for 91 day

$$\text{IPI} \left(1000086.76 \times \frac{5.375}{100} \times \frac{91}{360} \right) \quad \text{£}13587.98$$

£1013674.74

Advantage from Swapping

Swapping £1013674.74

without

Swap £1010255.80

Advantage = £3418.94

QUESTION – 118

Suppose you are a treasurer of XYZ plc in the UK. XYZ have two overseas subsidiaries, one is based in Amsterdam and another in Switzerland. The surplus position of funds in hand is as follows which it does not need for the next three months but will be needed at the end of that period (91 days).

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Holding Company	£ 150,000
Swiss Subsidiary	CHF 1,996,154
Dutch Subsidiary	€ 1,450,000

Exchange Rate as on date are as follows:

Spot Rate (€) £0.6858 - 0.6869

91 day Pts 0.0037 0.0040

Spot Rate (£) CHF 2.3295 – 2.3326

91 day Pts 0.0242 0.0228

91-Day Interest rates on p.a. basis on the Deposits in Money Market are as follows:

Amount of Currency	£	€	CHF
0 – 200,000	1.00	0.25	Nil
200,001 – 1,000,000	2.00	1.50	0.25
1,000,001 – 2,000,000	4.00	2.00	0.50
Over 2,000,000	5.38	3.00	1.00

You have been approached by your banker wherein the above-mentioned surplus was lying, requesting you to swap the surplus lying with other two subsidiaries and place them in deposit with them.

Determine the minimum interest rate per annum (upto 3 decimal points) that should be offered by the bank to your organization so that your organization is ready to undertake such swap arrangement.

Note: Consider 360 days a year.

(RTP November - 2020)

(Page No. 169)

QUESTION – 170

The Treasury desk of a global bank incorporated in UK wants to invest GBP 200 Million on 1st January, 2019 for a period of 6 months and has the following options:

- (1) The equity trading desk in Japan wants to invest the entire GBP 200 million in high dividend yielding Japanese securities that would earn a dividend income of JPY 1,182 million. The dividends are declared and paid on 29th June. Post dividend, the securities are expected to quote at a 2% discount. The desk also plans to earn JPY 10 million on a stock borrow lending activity because of this investment. The securities are to be sold on June 29th with a T+1 settlement and the amount remitted back to the Treasury in London.

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(2) The fixed income desk of US proposed to invest the amount in 6 months G-Secs that provides a return of 5% p.a.

The exchange rates are as follows:

Currency Pair	1st January, 2019 (Spot)	30th Jun, 2019 (Forward)
GBP – JPY	148.0002	150.0000
GBP – USD	1.28000	1.30331

As a treasure, advise the bank on the best investment option. What would be your decision from a risk perspective? You may ignore taxation.

(Exam November – 2018)

(Page No. 170)

QUESTION - 119

2009

ICL, an Indian MNC is executing a plant in Sri Lanka. It has raised ₹ 400 billion. Half of the amount will be required after six months' time. ICL is looking an opportunity to invest this amount on 1st April, 2020 for a period of six months. It is considering two underlying proposals:

¥ 346.6076
₹ 220.76926
₹ 200 B

Japan
Initial Investment = ¥ 316 B

25 + 11.9276
+ 309.68

220.76926

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\$ 2.8 B
\$ 2.87 B

Market	Japan	US
Nature of Investment	Index Fund (JPY)	Treasury Bills (USD)
Dividend (in billions)	25	-
Income from stock lending (in billions)	11.9276	-
Discount on initial investment at the end	2%	-
Interest	-	5 per cent per annum
Exchange Rate (1 st April, 2020)	JPY/INR 1.58	USD/INR 0.014
Exchange Rate (30 th September, 2020)	JPY/INR 1.57	USD/INR 0.013

You, as an Investment Manager, is required to suggest the best course of option.

(Exam November - 2020)

(Page No. 172)

Question – 04 (b)

Hopeful Ltd., an Indian MNC is executing a plant in Nepal. It has raised ₹ 400 Billion. Half of the amount will be required after six months time. Hopeful Ltd. is looking for an opportunity to invest this amount for a period of six months. It is considering following two options:

Market	UK	Europe
Nature of Investment	Index Fund (GBP)	Treasury Bills (Euro)
Dividend (GBP in Billions)	0.1369	-
Income from stock lending (GBP in Billions)	0.0007	-
Discount on the investment value at the end	2%	-
Interest	-	7.8 percent per annum
Exchange Rate (Spot)	GBP/INR 0.0099	EUR/INR 0.011
Exchange Rate (6 month Forward)	GBP/INR 0.0100	EUR/ INR 0.011

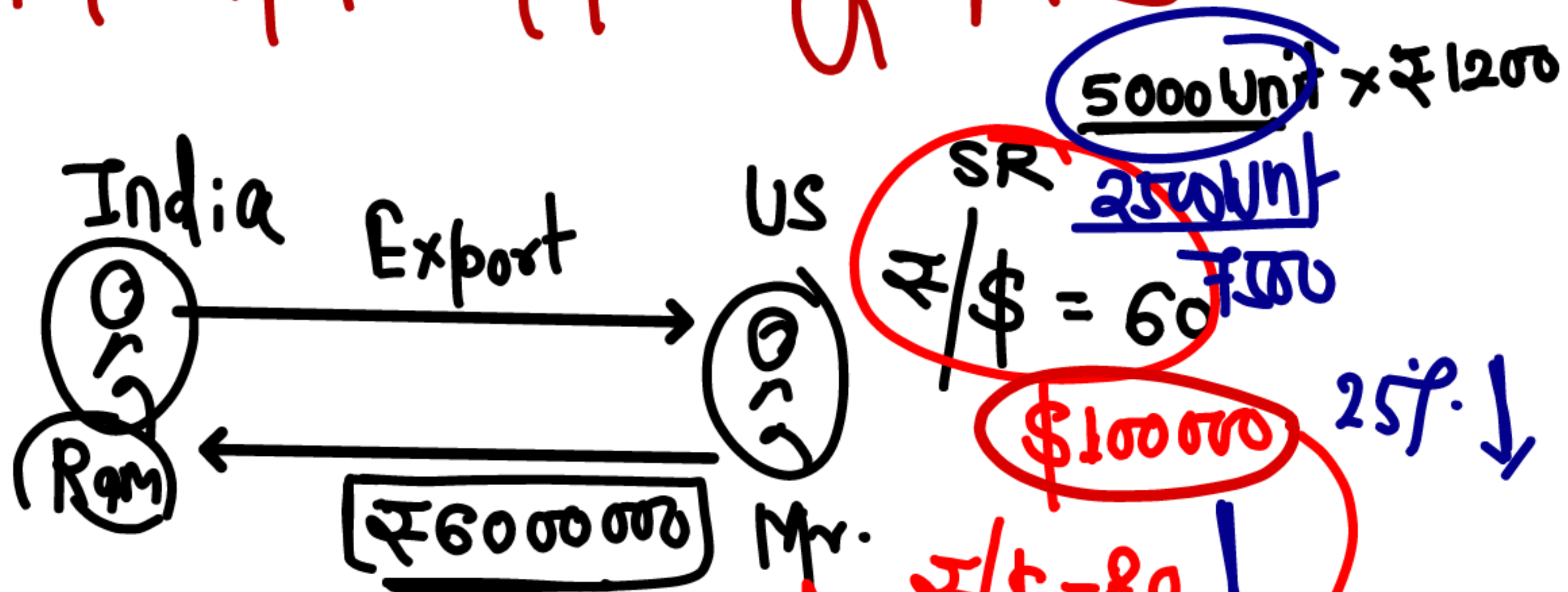
As an investment manager advise the best option to invest.

(Exam May – 2023)

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Transaction Exposure

& Economic Exposure [Operating Exposure]



price Elasticity of demand = 2

QUESTION - 122

M/s Omega Electronics Ltd. exports air conditioners to Germany by importing all the components from Singapore. The company is exporting 2,400 units at a price of Euro 500 per unit. The cost of imported components is S\$ 800 per unit. The fixed cost and other variables cost per unit are ₹ 1,000 and ₹ 1,500 respectively. The cash flows in Foreign currencies are due in six months. The current exchange rates are as follows:

₹/Euro 51.50/55

₹/S\$ 27.20/25

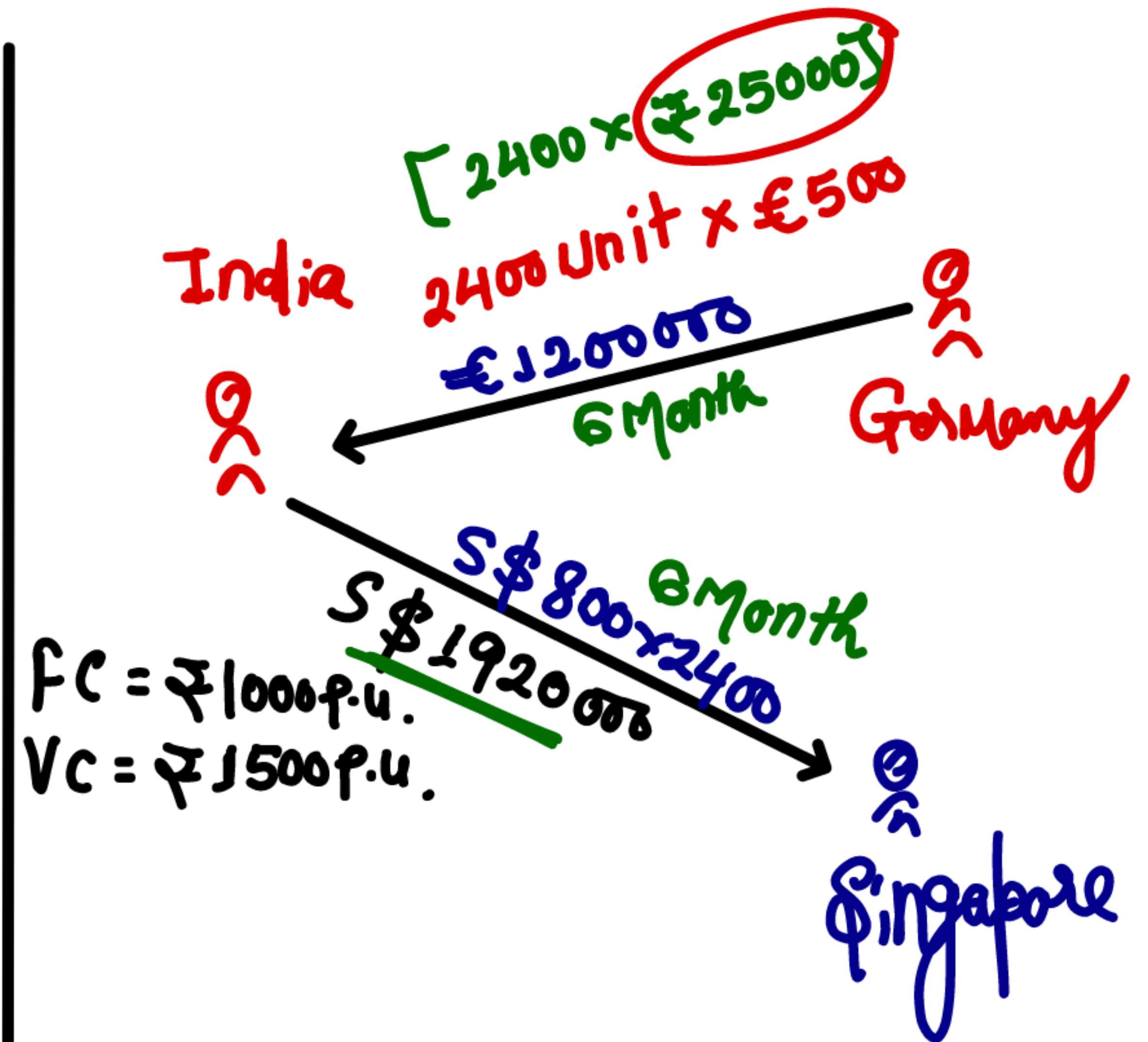
After six months the exchange rates turn out as follows:

₹/Euro 52.00/05

₹/S\$ 27.70/75

(A) You are required to calculate loss/gain due to transaction exposure.

(B) Based on the following additional information calculate the loss/gain due to transaction and



Calculation of profit on 2417 units at 6 months rate

	Sales :	$2417 \times ₹ 25000 = ₹ 60425000$
(-)	Import cost :	$2417 \times \$ 800 \times 27.75 = ₹ 53657400$
(-)	FC	= ₹ 2400000
(-)	VC (2417 × 1500)	= ₹ 3625500
	profit	<u>₹ 742100</u>

Loss due to operating exposure

$$1872000 - 742100 = \underline{₹ 1129900}$$