



INSTRUCTION CIRCULAR
NUMBER..... 046

SUBJECT	PAGE
EXCHANGE TRADING PROCEDURE	66
	DATE September 4, 1978
	QUERIES TO: Systems & Operations Division - CSO

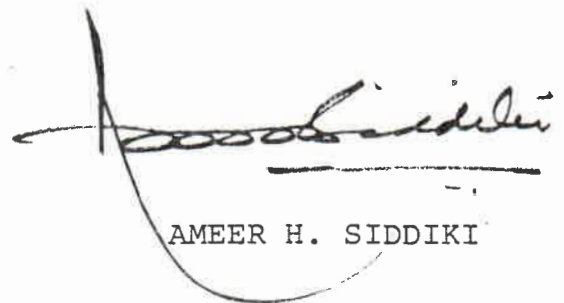
Revised procedure for exchange trading is enclosed. Branches authorised to maintain positions in foreign currencies are advised to follow these procedures meticulously. Members of the staff in branches not authorised to maintain position should, nevertheless, converse themselves with these procedures.

The accounting entries detailed in the procedures, are based on principles of 'dual-currency' accounting. Arrangements for introducing single-currency accounting are being made for branches equipped with 'on-line' terminal. Notes on this method of accounting will be circulated separately.

These procedures replace chapter IV of Manual on Foreign Exchange. Sections 10, 11 and 12 of Chapter VIII of Manual on Accounting Volume II have also been integrated into these procedures. These procedures will be incorporated in the revised edition of 'Manual of Foreign Exchange' which is under compilation.

Please do not hesitate to write to us in case any clarification is needed.


AKHTAR ANIS


AMEER H. SIDDIKI

EXCHANGE TRADING

- 1.01 Money and capital movements and international trade are the basis of foreign exchange dealings. Banks are the natural intermediaries between the demand for foreign funds generated by their customers and their supply in the money market.
- 1.02 This section lays down the procedure which govern the foreign exchange and money market operations such as the purchase, sale, placement and borrowing of foreign currencies. It also describes the procedure for setting the limits, obtaining approval, completing forms and accounting entries. Though a glossary of terms frequently used appear on page 46 knowledge of various terminology used in the money market is assumed.
- 1.03 Central Management Committee will set global limits for bank-wise and currency-wise exposures. These limits will be divided among the various regions by the International Division, Central Support Organisation. The need and such other factors as exchange control regulations, economic trends obtaining in various regions etc., will be considered by International Division while allocating exposure limits to different regions.

These limits will be expressed in terms of U.S. Dollars equivalent. The limits will indicate the level of overnight exposure of various foreign currencies. Even the 'day light' exposure should not be materially different from the amounts thus set.

These limits are the levels to which the spot and forward exchange contracts, both 'purchases' and 'sales' can remain outstanding overnight. International Division will also indicate specific limit for outstanding spot transactions and that of outstanding forward transactions.

Forward contracts should not be booked for periods exceeding one year. In very special cases, where any branch desires to book forward transactions for periods over a year, prior approval of the Regional General Manager should be obtained.

Central Management Committee will also set country risk limits for placing surplus funds. A bank-wise sub-division of these limits will be

made and communicated to all regions through Fund Management Division, Central Support Organisation, who will continuously monitor these limits and where necessary regional offices will be advised the alternative course for corrections.

International Division, Central Support Organisation, will maintain and communicate to all regions list of approved brokers. The list will be continually revised and recommendations received from various regions in this regard will be given due considerations. International Division in consultation with the Regional General Manager will also determine the rate at which brokerage will be paid.

1.04 It is desirable that in case of common home country currency, overall position is maintained by one main branch. However, considering the requirements of each region, Regional General Manager may authorise more than one branch in the region to keep positions in foreign currencies. Regional General Manager will, in this case, link the activities of a cluster of branches with each authorised branch, to form an identifiable pool.

1.05 The activities of the Exchange Trading Department are functionally distributed among the following sections:

- a) Chief Dealer
- b) Dealers
- c) Settlement & Book-keeping Section
- d) Reconciliation Section

a) CHIEF DEALER:

Chief Dealer in each region, where local regulations permit, will keep up to date record of the exposures made in the region. He will directly supervise all the dealers and the staff of the Settlement and Book-keeping Section.

He will keep himself abreast of the current exchange regulations and practices and interest rates obtainable in his area and the areas with which his region has considerable exchange dealings.

He will be responsible for observing the restrictions, if any, imposed by local statutory and banking authorities. He will advise the nature of such restrictions and any change thereto to the International Division through the Regional General Manager.

He will ensure that sufficient minimum working balances in all major currencies are maintained for meeting trade commitments.

He will ensure that, as a rule, foreign currency accounts maintained by branches in his region with the foreign correspondents are not overdrawn and at the same time surplus balances are not left uninvested.

He will recommend to the International Division, Central Support Organisation through the Regional General Manager, increase or reduction in the exposure limit for his region, considering the circumstances prevailing in his area of operation.

When appropriate, he will recommend to the International Division through the Regional General Manager, the names of such brokers whom he considers good for inclusion in the approved list.

He will keep the Regional General Manager posted with any unusual trend in the market, such as a major swing in the exchange rate or a change in base rate brought about by the Central Bank Authorities.

At the commencement of each day, exchange rates and interest rates from major foreign exchange markets in the world will be obtained.

The Chief Dealer will determine the exchange rates, current for the day, for major currencies and inform them to the branches in the region for their small transactions. All transactions up to amounts equivalent of US \$ 5,000- are considered small transactions. Norms for working out the exchange rates will be determined in consultation with the Regional General Manager. In case of any major fluctuation

in the exchange rate, a revised schedule of rates to be applied will be communicated to the branches by telex/cable/telephone.

The exposure in all currencies will be worked out from the Daily Exchange Position Working Sheet. This sheet will show currency-wise exposure. Proforma of the Daily Exchange Position Working Sheet appears on page 13.

Before commencing transactions for the day, confirmation for the balances shown in the Exchange Position Working Sheets should be obtained from Settlement & Book-keeping Section. These balances should be within the aggregate limits of exposure permitted - both currency-wise and bank-wise. Details of placements and borrowings maturing each day will also be received from the Settlement & Book-keeping Section.

b) DEALERS:

They will receive written requests for spot or future sale or purchase of currencies in Form 174. Branches will advise every transaction equivalent to US \$ 25,000 or above to the dealing room over the 'phone' or telex/cable followed by a written confirmation in form 174. Transactions involving sale and purchase of foreign currencies for smaller amounts will be aggregated and reported to the Dealing Room at the end of the day in form 174. Requests for placements and borrowing of funds from various branches in the region will be received in Form 175. Proformae of form 174 and 175 are given on pages 5 and 6.

MEMO TO EXCHANGE DEALING SECTION

FROM DEPARTMENT _____

BRANCH _____

We have entered into the following exchange transactions today

Purchase/Sale*

Currency _____ Amount _____

Tenor _____ Place Payable _____

Particulars _____

Date _____

Authorized Signature

*Delete whichever not applicable

FORM NO: 174

Specification :-

- 1) Size 21.0 cms X 14.0 cms
- 2) Colour: White

FOREIGN CURRENCY REQUISITION

TO: FOREIGN EXCHANGE DEPARTMENT

BRANCH _____

PLEASE ENTER PLACEMENT/ACCEPTANCE DEAL COVERING:

CURRENCY	AMOUNT	TERM		AT INTEREST RATE	
		FROM	TO	AT BEST INTEREST RATE	
AMOUNT TO BE CREDITED TO OUR ACCOUNT WITH				AMOUNT TO BE DEBITED TO OUR ACCOUNT WITH	
REPAYABLE BY DEBIT TO OUR ACCOUNT WITH				REPAYMENT TO BE CREDITED TO OUR ACCOUNT WITH	

BRANCH/DEPARTMENT:

DATE: _____

FROM: FOREIGN EXCHANGE DEPARTMENT

WE CONFIRM DEAL COMPLETED COVERING:

AUTHORISED SIGNATURE

CURRENCY AMOUNT	INTEREST RATE	VALUE DATE	EQUIVALENT AMOUNT
WITH BANK			

AUTHORISED SIGNATURE

FORM NO: 175

Specification :-

- 1) Size 24.0 cms. X 19.0 cms.
- 2) Colour: White

They will ensure that requests for repayment or renewal of placement or borrowing maturing on the day have been received from the concerned branches at least two working days in advance.

Written requests for placement or borrowing from branches should clearly specify the currency, amount, duration of such placement or borrowing and rate of interest, if need be.

They will verify that the requisitions received from branches bear the signatures of two authorised signatories.

They will effect sale and purchase of foreign currencies for trading requirements as per the requests received from branches or for arbitrage or swap, if approved, with other banks, financial institutions or through approved brokers. While entering a deal, over the telephone or telex, they will determine the value date, means and place of settlement.

The dealer entering into a deal will then prepare a Contract Memo, in duplicate, in form 176 shown on page 8.

They will arrange placement or borrowing of funds on behalf of branches with the approved banks/financial institutions. Limits set by the Central Management Committee for each bank/financial institutions will be adhered to.

Each placement or borrowing will be detailed on the relative Contract Memo.

1. Form No. 177 for 'Placements'
2. Form No. 178 for 'Borrowings'

While placing funds, consideration should be given to the country risks and the funds should be spread over different countries.

The dealers will cover the deals the same day and will not keep an overnight exposed position unless approved by the Regional General Manager.

--

DATE _____

DEAL NO. _____

PER _____

SOLD TO YOU	VALUE	RATE	BOUGHT FROM YOU

OUR INSTRUCTIONS

--

OUR INSTRUCTIONS

--

THEIR INSTRUCTIONS

--

THEIR INSTRUCTIONS

--

SOLD RATE £	STERLING EQUIVALENT	BOUGHT RATE	DAY BOOK	POSITION		CHECK'D
				OPEN	FORW'D	

FORM 176

Specification:-

- 1) Size : 18.0 cms. X 14.5 cms.
- 2) In duplicate.
- 3) Duplicate on NCR paper.
- 4) Colour : a) Original white
b) Duplicate yellow

Deal No. _____
 BANK _____

TELEPHONE/TELEX _____
P L A C E M E N T
 ON ACCOUNT OF _____
 BRANCH _____

PLACE: _____
 Date: _____

Currency	Amount	From	To	Rate	Interest Amount	Total

Remarks: _____

Paid By: _____
 Repaid To: _____

TTS	TTB	Vouchers Passed	Confirmation Sent

Paid To: _____
 Repaid By: _____

NEW | DIRECT
 RENEWAL | BROKER
 FORM NO: 177

Specification:-

- 1) Size : 20.5 cms. X 12.5 cms.
- 2) Colour : Yellow

Deal No. _____
 BANK _____

TELEPHONE/TELEX _____
A C C E P T A N C E
 ON ACCOUNT OF _____
 BRANCH _____

PLACE: _____
 Date: _____

Currency	Amount	From	To	Rate	Interest Amount	Total

Remarks: _____

Paid To: _____
 Repaid By: _____

TTS	TTB	Vouchers Passed	Confirmation Sent

Paid By: _____
 Repaid To: _____

NEW | DIRECT
 RENEWAL | BROKER
 FORM NO: 178

Specification:-

- 1) Size : 20.5 cms. X 12.5 cms.
- 2) Colour : Pink

The details of Contract Memo will be recorded in the Deal Register (Form 179) and on the Exchange Position Working Sheet (Form 181). Details of placements/borrowings will be recorded on Form 180. Each deal will be allotted a serial number.

They will then pass on the Original Contract Memo to Settlement and Book-keeping Section for further action.

At the end of each day, net balances for all currencies will be extracted on the Daily Exchange Position Working Sheet (Form No 181)

Due to some reasons, if a loss is incurred on one or more exchange deals and the net loss during any calendar month amounts to equivalent of US \$ 10,000, the dealer will refer the matter to the Regional General Manager and no further exchange deals will be entered into by him, unless permitted by the Regional General Manager.

c) SETTLEMENTS & BOOK-KEEPING SECTION

It will keep the books and records necessary for maintaining exchange positions in all the currencies.

After the completion of a deal, this section will receive the Contract Memo from the dealers.

It will verify the initials of the dealer on the Contract Memo and calculate and write the equivalent local currency on the memo. In case of placements and borrowings, amount of interest receivable/payable will be calculated and noted on the Contract Memo. It will also calculate and note brokerage amount. It will then record the transaction on Exchange Position Sheet maintained by them on form 182. All subsequent deals will be entered in this form. From time to time exposure in each currency will be worked out. This information will be exchanged with the Dealing Room frequently so as to take timely action for its correction, if need be. At the commencement

BRANCH _____

CURRENCY _____

DATE _____

DAILY EXCHANGE POSITION WORKING SHEET

S.N.	NARRATION	PURCHASE	SALE	OVERBOUGHT/OVERSOLD	REMARKS
	Opening Balance				
	Closing Balance				

TOTAL

181 (9.78) Specification:- 1) Size : 21.0 cms. X 29.7 cms.
2) Colour : White

FOREIGN EXCHANGE TRANSACTIONS

CONTROL SHEET

Currency _____

PURCHASES					SALES					
DATE	AMOUNT	SELLER	RATE	VALUE	DATE	AMOUNT	BUYER	RATE	VALUE	
		Specifications: Size: 23.0 cms x 30 cms Colour: Green.								
10:	182									

of each day, the balances shown in the Exchange Position Working Sheet maintained by the Dealing Room will be verified. The details of all Placements and Borrowings maturing on each day and on subsequent two days will also be advised to the Dealing Room.

It will prepare undermentioned manifold vouchers and confirmation from the details available on a Contract Memo received from the dealers. All local deals will be confirmed by this section over the phone.

It will note the date on the Contract Memo to signify having prepared the vouchers.

1. Form No. 183 for exchange deals
2. Form No. 184 for acceptances
3. Form No. 185 for placements

An independent person in the Section will verify the correctness of details on the vouchers. It will prepare and despatch necessary telexes/cables giving payment instructions. All telexes/cables for payment, will be issued under a test.

Advice or confirmation as appropriate, duly signed, will be despatched to the contract parties. As already said earlier, all local deals will be confirmed over the telephone and noted on the deal. Notations to indicate that the entries have been passed and the telex and confirmation have been sent will be made on the copy of Contract Memo.

'Register Copy' of the manifold vouchers in respect of futures will be retained in the maturity date order.

'File Copy' of the manifold vouchers in respect of all the deals and the relative Contract Memo will be retained separately according to the dates of deals awaiting confirmation of contract parties. Copies of telexes should also be attached to the 'File Copy'.

Each day it will pass the entries for Contracts maturing on the day, as explained in the following section. Entries for interest receivable/ payable will also be passed by this Section. It will also arrange to pay the brokerage if any. The rate of brokerage will be advised by the International Division through the Regional General Manager. On maturity date of the future deals, 'Register Copy' will be removed and remittances will be prepared. Register Copy will then be marked with the word 'PAID' and filed according to the maturity date order.

When confirmations from contract parties are received, this Section will:

- a) Verify the signature of the contract party on the confirmation.
- b) Match the details given in the confirmation with the 'File Copy' of the voucher.
- c) Attach confirmation to the 'File Copy'.
- d) File the confirmation and the 'File Copy' together with the relative Contract Memo, according to the serial number of the deal.

Periodically, the Section will review the position of confirmations for deals. Active follow-up will be made with the contract parties who have not sent their confirmation.

It will prepare Daily Exchange Position on form 172 and will send it to the Regional General Manager. A copy of Daily Exchange Position for each Friday (or Thursday, where Friday is a weekly holiday) will be sent to the International Division, Central Support Organisation. Form 172 is shown on page 18. It will revalue the exchange position on the last day of each month and book the resultant loss or profit. The revaluation procedure appears in the following pages.

d) RECONCILIATION SECTION

It will receive statements of accounts from our correspondent Banks and match the balances shown therein with the balances appearing in relative accounts of our books.

It will jot down unmatched entries in 'Reconciliation Statement' (Form 186). This form is shown on page 19 .

Debit and Credit entries originated by us will be listed on Page 1 of the statement. Debit and Credit entries originated by the correspondents will be listed on the page 2 of the statement.

It will reconcile the balances. Unmatched entries will be followed as under:

- i) For all entries originated by the correspondent bank, send letters seeking details of such entries, calling for duplicate advices. On receipt of details, concerned department will be contacted for responding the entry.
- ii) Where the account with the correspondent bank is operated upon by more than one branch in the area, instances will appear wherein entries in this account have been originated at the behest of a branch other than the main branch and the concerned branch has not provided the cover of the transactions originated by it. Reconciliation Section will send letter to the concerned branch calling upon them to rectify the situation.
- iii) For all entries originated by us remind banks/parties concerned wherever necessary, to respond the entries. The only exception will be where it is our credit against issuance of a DD. Obviously this entry will remain outstanding until the DD is presented for payment.
- iv) No entry should remain outstanding for more than 30 days.



BANK OF CREDIT AND COMMERCE INTERNATIONAL S.A.

100 LEADENHALL STREET, LONDON EC3A 3AD
 Telephone: 01 283 8566 (20 lines)
 Telex: 886500 & 8811573 Cable: Bancrecom

MAIL TO

DATE _____

PER _____

DEAL No. _____

Dear Sirs,

We confirm having accepted from you on deposit on behalf of our

Branch

PRINCIPAL	RATE OF INTEREST	INTEREST AMOUNT	TOTAL
VALUE DATE	No OF DAYS	MATURITY DATE	

TO BE PAID TO

TO BE PAID BY

BY

TO

000183

.....
 AUTHORISED SIGNATURE

AUTHORISED SIGNATURE

Specification:- (1) Size 17.6 x 20.8 Cms. (2) Colour: White

CREDIT

A/C No.

DUE TO BANKS BRANCHES/AFF D/D T/D

DATE _____

PER _____

DEAL No. _____

PRINCIPAL	RATE OF INTEREST	[REDACTED]	
VALUE DATE	No OF DAYS	MATURITY DATE	



Specification:- (1) Size 17.6 x 20.8 Cms. (2) Colour: Blue

CREDIT ADVICE

2a

DATE

PER

DEAL No.

PRINCIPAL	RATE OF INTEREST		
VALUE DATE	No OF DAYS	MATURITY DATE	



Specification:- (1) Size 17.6 x 20.8 Cms. (2) Colour: Blue

DEBIT

3

BANK

DATE

PER

DEAL No.

PRINCIPAL		
VALUE DATE		

DEBIT



Specification:- (1) Size 17.6 x 20.8 Cms. (2) Colour: Pink

FILE COPY
PLACING

4

CUSTOMER

[]

DATE

PER

DEAL No.

PRINCIPAL	RATE OF INTEREST	INTEREST AMOUNT	TOTAL
VALUE DATE	No OF DAYS		MATURITY DATE

TO BE PAID TO

[]

TO BE PAID BY

[]

L

J

L

J

BY

[]

TO

[]

L

J

L

J

Specification:- (1) Size 17.6 x 20.8 Cms. (2) Colour. Yellow

FILE COPY
PLACING

5

CUSTOMER

[]

DATE

PER

DEAL No.

L

J

PRINCIPAL	RATE OF INTEREST	INTEREST AMOUNT	TOTAL
VALUE DATE	No OF DAYS		MATURITY DATE

TO BE PAID TO

[]

TO BE PAID BY

[]

L

J

L

J

BY

[]

TO

[]

L

J

L

J

Specification:- (1) Size 17.6 x 20.8 Cms. (2) Colour: Yellow

MAIL TO



**BANK OF CREDIT AND COMMERCE
INTERNATIONAL S.A.**

100 LEADENHALL STREET, LONDON EC3A 3AD
Telephone: 01 283 8566 (20 lines)
Telex: 886500 & 8811573 Cable: Bancrecom

6

DATE _____

PER _____

DEAL No. _____

Dear Sirs, We confirm repayment of your deposit with us on behalf of our Branch/Affiliate

PRINCIPAL	RATE OF INTEREST	INTEREST AMOUNT	TOTAL
VALUE DATE	No OF DAYS	MATURITY DATE	

TO BE PAID BY



TO



AUTHORISED SIGNATURE

AUTHORISED SIGNATURE

Specification:- (1) Size 17.6 x 20.8 Cms. (2) Colour. White

CREDIT

7



DATE _____

PER _____

DEAL No. _____

	AMOUNT
	VALUE DATE

CREDIT



Specification:- (1) Size 17.6 x 20.8 Cms. (2) Colour: Blue

DEBIT

DUE TO BANKS BRANCHES/AFFILIATE D/D T/D

DATE

PER

DEAL No.

PRINCIPAL				VALUE DATE



Specification:- (1) Size 17.6 x 20.8 Cms. (2) Colour. Pink

DEBIT ADVICE

DATE

PER

DEA No.

				VALUE DATE



Specification:- (1) Size 17.6, x 20.8 Cms. (2) Colour: Pink

DEBIT

Expenditure A/C	Expenditure Payable
Int. Paid to Banks	Int. Paid to Banks
Inter Branch Interest	Inter Branch Interest

DATE

PER

DEAL No.

	RATE OF INTEREST	INTEREST AMOUNT	
	No OF DAYS		VALUE DATE



Specification:- (1) Size 17.6 x 20.8 Cms. (2) Colour. Pink

MAIL TO



**BANK OF CREDIT AND COMMERCE
INTERNATIONAL S.A.**

100 LEADENHALL STREET, LONDON EC3A 3AD
Telephone: 01 283 8566 (20 lines)
Telex: 886500 & 8811573 Cable: BANCRECOW

DATE

PER

DEAL No.

Dear Sirs,

We confirm having placed with you on deposit on behalf of our

Branch

PRINCIPAL	RATE OF INTEREST	INTEREST AMOUNT	TOTAL
VALUE DATE	No OF DAYS		MATURITY DATE

TO BE PAID BY

TO BE PAID TO

TO

BY

000184

.....
AUTHORISED SIGNATURE

.....
AUTHORISED SIGNATURE

Specification:- (1) Size 17.6 x 21.2 Cms. (2) Colour. White

DEBIT

DUE FROM BANKS D/D T/D

DATE

PER

DEAL No.

PRINCIPAL	RATE OF INTEREST	[REDACTED]	
VALUE DATE	No OF DAYS	MATURITY DATE	



Specification:- (1) Size 17.6 x 21.2 Cms. Colour: Pink


DEBIT ADVICE

2a

DATE _____

PER _____

DEAL No. _____

PRINCIPAL	RATE OF INTEREST		
VALUE DATE	No OF DAYS	MATURITY DATE	



Specification:- (1) Size 17.6 x 21.2 Cms. (2) Colour. Pink

CREDIT

3



DATE _____

PER _____

DEAL No. _____

PRINCIPAL		
VALUE DATE		

CREDIT



Specification:- (1) Size 17.6 x 21.2 Cms. Colour: Blue

FILE COPY
PLACING

CUSTOMER

┌

└

┌

└

DATE

PER

DEAL No.

PRINCIPAL	RATE OF INTEREST	INTEREST AMOUNT	TOTAL
VALUE DATE		No OF DAYS	MATURITY DATE

TO BE PAID BY

┌

TO BE PAID TO

┌

┌

TO

┌

┌

BY

┌

┌

┌

Specification:- (1) Size 17.6 x 21.2 Cms. (2) Colour. Yellow

FILE COPY
PLACING

CUSTOMER

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└

DATE

PER

DEAL No.

PRINCIPAL	RATE OF INTEREST	INTEREST AMOUNT	TOTAL
VALUE DATE		No OF DAYS	MATURITY DATE

TO BE PAID BY

┌

TO BE PAID TO

┌

┌

TO

┌

┌

BY

┌

┌

┌

Specification:- (1) Size 17.6 x 21.2 Cms. (2) Colour: Yellow

MAIL TO

[Empty box for recipient address]



BANK OF CREDIT AND COMMERCE 1
INTERNATIONAL S.A.
100 LEADENHALL STREET, LONDON EC3A 3AD
Telephone: 01 283 8566 (20 lines)
Telex: 886500 & 8811573 Cable: BANCRECOM

Dear Sirs,

We confirm the undermentioned transaction with yourselves:—

For Payment By

For Payment To

SOLD TO YOU	VALUE DATE	BOUGHT FROM YOU	RATE

TO

BY

Per Phone / Telex / Broker

LONDON _____ 19

000185

Our Ref. _____

Authorized Signature

Authorized Signature

Specification:— (1) Size 16.6 x 21.2 Cms. (2) Colour. White

MAIL TO

[Empty box for recipient address]

OFFICE COPY

2

Dear Sirs,

We confirm the undermentioned transaction with yourselves:—

For Payment By

For Payment To

SOLD TO YOU	VALUE DATE	BOUGHT FROM YOU	RATE

TO

BY

Per Phone / Telex / Broker

LONDON _____ 19

Our Ref. _____

Authorized Signature

Authorized Signature

Specification:— (1) Size 16.6 x 21.2 Cms (2) Colour: Yellow



**BANK OF CREDIT AND COMMERCE
INTERNATIONAL S.A.**
100 LEADENHALL STREET, LONDON EC3A 3AD
Telephone: 01 283 8566 (20 lines)
Telex: 886500 & 8811573 Cable: BANCRECOM

6

MAIL TO

DATE

PER

DEAL No.

Dear Sirs, We confirm repayment of our deposit with you on behalf of our Branch

PRINCIPAL	RATE OF INTEREST	INTEREST AMOUNT	TOTAL
VALUE DATE		No OF DAYS	
			MATURITY DATE

TO BE PAID TO



BY



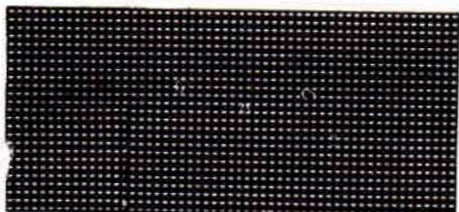
AUTHORISED SIGNATURE

AUTHORISED SIGNATURE

Specification:- (1) Size 17.6 x 21.2 Cms. (2) Colour. White

DEBIT

7



DATE

PER

DEAL No.

	AMOUNT
	VALUE DATE

DEBIT



Specification:- (1) Size 17.6 x 21.2 Cms. Colour: White

CREDIT

INCOME A/C
INTEREST RECD.
FROM BANKS

OTHER ASSETS
INCOME RECEIVABLE
INT. RECD. ON
PLACEMENT WITH BANKS

9

DATE _____

PER _____

DEAL No. _____

	RATE OF INTEREST	INTEREST AMOUNT	
	No OF DAYS		VALUE DATE



Specification:- (1) Size 17.6 x 21.2 Cms. (2) Colour. *BLUE*

CREDIT ADVICE

10



DATE _____

PER _____

DEAL No. _____

PRINCIPAL	
VALUE DATE	

CREDIT



Specification:- (1) Size 17.6 x 21.2 Cms. Colour: *BLUE*

MAIL TO

[Empty box for recipient address]

OFFICE COPY

3

Dear Sirs,

We confirm the undermentioned transaction with yourselves:-

For Payment By

For Payment To

SOLD TO YOU	VALUE DATE	BOUGHT FROM YOU

RATE

TO

BY

Per Phone / Telex / Broker

LONDON _____ 19

Our Ref. _____

Authorized Signature / Authorized Signature

Specification:- (1) Size 16.6 x 21.2 Cms. (2) Colour. Yellow

CREDIT VOUCHER

4

CREDIT



AMOUNT	VALUE DATE



RATE

FOR PAYMENT TO



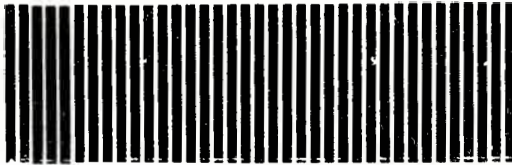
Specification:- (1) Size 16.6 x 21.2 Cms. (2) Colour: White

Authorized Signature / Authorized Signature

DEBIT VOUCHER

5

DEBIT



VALUE DATE	AMOUNT

RATE

RECEIVE FROM



AUTHORISED SIGNATURE

AUTHORISED SIGNATURE

Specification

16.6 x 21.2 Cms. (2) Colour. White

2.00 ACCOUNTING PROCEDURE FOR THE SETTLEMENT & BOOK-KEEPING
SECTION OF THE DESIGNATED BRANCH

2.01 Placements in all currencies other than local currency of
the designated branch

a) (i) When a placement made by any branch has been accepted in the books of the designated branch the latter will request the concerned branch to remit the funds to the account maintained by the designated branch with correspondents bank and pass the following entries:-

DEBIT : Due from Bank A/C - Correspondent bank
 CREDIT: Due to Branch (branch providing fund)

(ii) At the concerned branch:-

DEBIT : Due from Branch A/C - Designated Branch to whom funds are provided
 CREDIT: Due from Bank A/C - correspondent bank

b) (i) When funds are not taken into the position of the designated branch and placement is made on behalf of the concerned branch, the designated branch will pass the following entries:-

DEBIT : Due from Bank (say Bank of America for the funds received from the concerned branch)
 CREDIT: Due from Bank (Bank of America for the remittance effected to the Bank accepting the placements)

The designated branch may arrange for remittance direct to the Bank with whom placement has been made. In this event, no entry will be passed by them.

(ii) At the concerned branch

DEBIT : Due from Bank (A/C of the bank with whom designated branch arranged placement)
 CREDIT: Due from Bank (A/C of the correspondent Bank from whom the funds are provided).

The designated branch will pass the similar entry for all such placements made on its own behalf.

MATURITIES

On maturity the original entries are reversed for the principal amount.

- a) (i) In the case of funds absorbed in the 'position', the designated branch will pay the interest accrued on the placements by passing the following entries:-

DEBIT : Sundry Creditors - Expenditure Payable - Interest on Deposits from Branches (For the amount of interest accrued and provided from the date of deposit to the last day of the preceding month)

DEBIT : Profit and Loss Account (Expenditure) Interest paid on Deposits from Branches (For the balance amount of interest).

CREDIT : Due from Bank (A/C corresponding Bank, who will be instructed to remit the funds to the credit of account of concerned branch)

- (ii) The concerned branch will pass the following entries:-

DEBIT : Due from Bank A/C - correspondent bank which will receive the repayment proceeds from the designated branch (with the principal plus accrued interest received)

CREDIT : Other Assets Account - Suspense Account - Income Receivable - Interest received from Branch (with the amount for which provision was made from the date of deposit to the last day of the preceding month)

CREDIT : Income Account "Interest Received from Branch (with the balance amount of interest)

CREDIT : Due from Branch - D/D or T/D - name of Branch (with the principal amount)

The designated branch will pass similar entries on maturity of its won placement except that it will credit 'Due from Bank A/C'.

ii) Where placements of the branches have not been taken into position, arrangement for remittance of amount of interest alongwith the principal amount to the correspondent bank with whom the concerned branch maintains the account, is made. The original entry if passed when the funds were received will be reversed.

b) (i) Funds in the local currency of the designated branch, received from foreign branches outside the country will be taken into 'position' of the designated branch. Similarly, all local currency surplus funds of local branches are taken in the 'position' of designated branch and placed in the market on its own name. The following entries are passed:-

DEBIT : Cash/Clearing or Main Office A/C - Concerned Branch

CREDIT : Due to Branches - D/D or T/D name of branch concerned

Where the local currency funds are placed outside, the following entries will passed:-

DEBIT : Due from Banks - D/D or T/D - name of the bank with whom the local currency funds are placed.

CREDIT : Sundry Creditors - Pay Order Issued OR
Account of the local correspondent bank, where the Bank is not a member of the local clearing house.

ii) On maturity these entries are reversed. Interest accrued on placements made outside is absorbed and interest at appropriate rate is paid to the branches placing the funds. Principles of accrual accounting system are also applied in this case.

3.00 FORWARD (FUTURE) SALE/PURCHASE OF FOREIGN CURRENCIES3.01 ACCOUNTING ENTRIES

- (i) Forward Sales and Purchases are recorded on the day of transaction under the Contra Head "Foreign Exchange - Futures" by passing the following entries in local currency.

DEBIT : CUSTOMER'S LIABILITY - FEX FUTURES
(SELLER'S OR PURCHASERS)

OR

CREDIT : BANKER'S LIABILITY - FEX FUTURES
(SELLER'S OR PURCHASERS)

- (ii) On maturity date, the transactions, will be taken into the position at the contracted price. Contra liability entry booked as above will be reversed.

EXAMPLE:

Say, the Currency Board, UAE's rates for one month are as follows

Sterling	<u>Buying</u>	<u>Selling</u>
	Dh. 8.45	Dh. 8.50

Abu Dhabi branch finds that it will need £ 1M one month hence and therefore decides to purchase this amount from the Currency Board.

On the date on which the deal is made the following Contra Liability entries will be passed:-

DEBIT : CUSTOMER'S LIABILITY - FEX FUTURES - PURCHASES.

CREDIT : BANKER'S LIABILITY - FEX FUTURES PURCHASES -
£1,000,000 @ Dh. 8.50 Dh. 8,500,000

Note/Narration for Vouchers:-

Single currency "Contra Vouchers" will be passed with the narration.

"Amount purchased from Currency Board - 1 month forward,
due _____

On Maturity date of the contract, the following vouchers will be passed:

- a) DEBIT : BANKERS LIABILITY - FEX FUTURES - PURCHASES
 CREDIT : CUSTOMER'S LIABILITY - FEX FUTURES - PURCHASES
 £1,000,000 @ Dh. 8/50 = Dh. 8.500.000/-
- b) DEBIT : DUE FROM BRANCHES A/C - BCCI LONDON Stg: A/C
 £1,000,000 @ Dh. 8.50=Dh. 8,500,000/-
- CREDIT : CURRENCY BOARD - Dh. 8,500,000/-

Notes/Narration for Vouchers-

- a) Reversal of entry dated _____ amount purchased from Currency Board now taken up.
- b) Amount purchased from Currency Board under Forward Contract No. _____.

3.02 MAINTENANCE OF ACCOUNTS

The Contra Liability accounts pertaining to Forward Sales and Purchases will be maintained by the Foreign Exchange Department on dual currency Ledgers - Foreign Currency and its equivalent in Local Currency. For every concluded contract a separate account will be opened and these accounts will be arranged "Currency-wise" in order of maturity of the contracts.

The "Due To/Due From" accounts will also be maintained in this Department.

3.03 PREPARATION OF SUPPLEMENTARIES

At the close of business each day all vouchers passed by the Department for Contra Liability Accounts - FEX FUTURES will be collected, and single currency supplementaries will be prepared for these Accounts. These will be checked and signed by the Officer-in-Charge, and forwarded, together with the remaining vouchers, to Accounts Department.

3.04 BALANCING

The "Contra Liability - FEX" Accounts will be balanced at the end of every month. The Local Currency balances will be jotted in the balance book, "Sellers" and "Purchasers" separately, and the aggregate total for each account will be tallied with the figures supplied by Accounts Department.

4.00 REVALUATION OF FOREIGN CURRENCY BALANCES4.01 INTRODUCTION

As mentioned earlier, various assets and liabilities are maintained in the respective subsidiary ledgers either in the foreign currency with its local currency equivalent or in local currency.

Local currency equivalent of any foreign currency transactions are arrived at the rate of exchange prevalent on the day of the transaction. This rate fluctuates from time to time, thus changing the true value of balance of foreign currency. In order, that our books may reflect the true value, foreign currency balances are revalued on the last working day of every month.

4.02 PREPARATION OF LISTS OF FOREIGN CURRENCY BALANCES

On the date of revaluation, Accounts Department will supply to the Foreign Department consolidated lists of foreign currency balances of each of Assets and Liability accounts in the forms 187A and 187B, which appear below:-

List of balances in Foreign Currency Accounts as on.....

Name of Currency.....

Spot Buying/Selling Rate.....as on date of revaluation.

ASSETS - (PURCHASES)

S.No.	Name of the General Ledger Account.	Foreign Currency Balance as per Subsidiary.	(Book Value) Local Currency Balance as per Subsidiary.	Spot Value by Applying the spot Rate of the day.	Difference between Book Value & Spot Value. If the spot value is more the diff. should be indicate by + sign, & if it is less by - sign.	Initials.
	Specification:- 1) Actual size : 21.0 cms. X 29.7 cms. 2) Colour : White					
TOTAL:-						

List of balances in Foreign Currency Accounts as on.....

Name of Currency.....

Spot Buying/Selling Rate.....as on date of revaluation.

LIABILITIES - (SALES).

S.No.	Name of the General Ledger Account.	Foreign Currency Balance as per Subsidiary.	(Book Value) Local Currency Balance as per Subsidiary.	Spot Value by Applying the spot Rate of the day.	Difference between Book Value and Spot Value. If the spot value is more the diff. should be indicate by + sign & if it is less by - sign.	Initials.
	Specification:- 1) Size : 21.0cms. X 29.7 cms. 2) Colour: White					
TOTAL:-						

Total Purchases		
Spot	Rs	
Forward	Rs	Total, _____
Total Sales		
Spot	Rs	
Forward	Rs	Total, _____
Over bought/Over sold		
Net Position.		_____

FORM NO: 187B

Column Numbers 1 to 4 will be completed by the Accounts Department. Outstanding balances of forward purchases/sale of foreign currencies should also be added to the spot position in the above lists.

Swap transactions which are composite of spot and forward contracts should not be included. Treatment given for revaluation of swap transactions have been explained later in this Section.

Contra liabilities and assets, however, will also not be included in the above.

Total balances on the assets side would reflect net purchases and the total balances on the liability side would reflect net sales of that particular foreign currency.

On receipt of these lists, Foreign Exchange Department will complete column numbers 5,6 & 7 as under:-

Total of differences for purchases and sales - both spot and forward balances - will be noted at the foot of List of

- Col. 2: This column indicates whether the position is over-bought (long) or over-sold (short).
- Col. 3: In this column the spot rates of Central Bank/Market is given. The spot buying rate is taken where the bank's position is over-bought and the spot selling rate will be taken where the bank's position is over-sold.
- Col. 4: In this column the true 'value of the position' at the spot rate is given (i.e. Column 1 X column 3)
- Col. 5: Here the book value of the over-bought or over-sold position is given.
- Col. 6: In this column the difference between the book value and the value as per spot rate is inserted (i.e. Net of Column 4 & 5)

4.03 ADJUSTMENT OF OUTSTANDING FORWARD CONTRACTS

The book value of forward contract does not fluctuate with the daily change in the exchange rate. On maturity date, the contracted value will be received by the Bank. Under accrual accounting system, it is necessary to determine current value of outstanding forward contract as on the date of revaluation.

Out of the value of current position worked out in the Exchange Profit Working Sheet explained on the last page, necessary adjustment for the unexpired period of forward contracts is required to be made.

Foreign Exchange Department will prepare Exchange Adjustment Working Sheet in form 189. Please see page 33.

BANK OF CREDIT AND COMMERCE INTERNATIONAL

FUTURE CONTRACT REVALUATION SHEET.

EXCHANGE ADJUSTMENT WORKING SHEET.

Branch: _____ Spot Rate.
M/Ending _____ BUY/SELL.
...../.....

Adjustment of O/S Future Contracts in _____ (Currency):

Future Contracts	Interim Net O/Bought or O/Sold Position.	FORWARD RATES.		Difference Between Spot & Future Rate:	Amount of Adjustment.	
		Period.	Rate.			
1. Month.		30 Days.				
2. Months.		60 Days.				
3. Months.		90 Days.				
4. Months.		120 Days.				
5. Months.		150 Days.				
6. Months.		180 Days.				
7. Months.		210 Days.				
8. Months.		240 Days.				
9. Months.		270 Days.				
10 Months.		300 Days.				
11 Months.		330 Days.				
12 Months.		360 Days.				
Total of Swap Contracts not included above:		FORM NO: 189		Total Net)		
NET FUTURE CONTRACT POSITION.				Adjustment.....		

A separate sheet is used for each currency.

The statement has five columns and is filled-up as follows:-

Col. 1: This column is pre-printed and indicates the time period spread in which the future contracts will have to be categorized according to their dates of maturity.

Col. 2: In this column the net "overbought" or "oversold" position for each time period is separately listed. The column should indicate both the amounts and whether the position is overbought or oversold. A (+) sign is used for over-bought and a (-) sign is used for oversold.

Forward Swap Contracts are not included in this analysis. The amount of Swap Contracts are only added to the total at the bottom of this column to give the grand total of "net future contracts outstanding".

Col.3a) This column is pre-printed and indicates the number of days for which the forward rates are being taken e.g. 30 days, 60 days, 90 days.

- b) The forward buying or selling rates of the Central Bank/Market are inserted in this column. Where the position is overbought, the buying rate is shown and where the position is over-sold the selling rate is taken.

Col.4: The difference between the spot rate and the forward rate is inserted in this column. The spot buying and selling rates of the day are shown on the right hand top corner of this statement. If the forward rate is higher than the spot rate, it is said to be at a Premium. Alternatively, where forward rate is less than the spot rate, it is at discount. A (+) sign is used where the rate is at a Premium and a (-) sign is used where the rate is at a Discount.

Col.5: This column shows the amount of adjustment to be made for each time category, and is worked out by multiplying col.2 with col.4. The Algebraic Formula of:

$$\begin{array}{ll} + (x) + = + & + (x) - = - \\ - (x) - = + & - (x) + = - \end{array}$$

is applied, to work out the amount of adjustment whether (+) or (-). The total of Col.5 gives the total amount of adjustment to be made for the unexpired portion of outstanding forward contracts. This is inserted in Col.7 of the Exchange Profit Working Sheet to arrive at the 'adjusted profit' in that sheet.

After having worked out the adjustment necessary for the unexpired period of outstanding future contracts, the columns 7 and 8 of Exchange Profit Working Sheet are then completed as under:

Col.7: Net amount of adjustment worked out on Exchange Adjustment Working Sheet to compensate for the unexpired period of future contracts is noted.

Col.8: Adjusted profit to date (i.e. net of column number 6 and 7).

4.04 ACCOUNTING ENTRIESSPOT POSITION REVALUATION ENTRIES

From the lists of Assets and Liabilities the following accounting entries are passed:-

Assets Side

1. For each (+) difference amount reflected in column 6 against a General Ledger Account:-
 DEBIT : RESPECTIVE GENERAL LEDGER HEAD
 and for (-) difference amount
 CREDIT: CONCERNED GENERAL LEDGER HEAD
2. If the total of differences at the bottom of the column works out in a (+) sign,
 CREDIT: INCOME ACCOUNT-PROFIT ON EXCHANGE TRADING
 for this amount, but if it works out in a (-) sign
 DEBIT: INCOME ACCOUNT-PROFIT ON EXCHANGE TRADING

Liability side

1. For each (+) amount reflected in Column 6 against a General Ledger Account:-
 CREDIT: RESPECTIVE GENERAL LEDGER
 and for (-) difference amount
 DEBIT : CONCERNED GENERAL LEDGER HEAD
2. If the total of differences at the bottom of the column works out in a (+) sign,
 DEBIT: INCOME ACCOUNT-PROFIT ON EXCHANGE TRADING
 for that amount but if it works out in a (-) sign,
 CREDIT: INCOME ACCOUNT-PROFIT ON EXCHANGE TRADING

These vouchers would be prepared on Single Currency Debit and Credit Vouchers and will carry the following narration.

- a) General Ledger Account Vouchers" _____ Currencies Revalued at _____ rate as per list of Foreign Currency Account"
- b) Income Vouchers "Income on Revaluation _____ Currencies as per list of Foreign Currency Account"
- c) Expenditure Vouchers "Loss on Foreign Currencies as per list of Foreign Currencies Account".

4.05 FORWARD CONTRACT POSITION REVALUATION ENTRIES

The amount of differences on the spot transactions for which vouchers have been passed as explained in Section 4.04 above, will be deducted from the amount of adjusted profit worked out in column number 8 of the Exchange Profit Working Sheet. The difference represents the proportionate profit or loss on revaluation of outstanding forward contracts. These amounts are then booked as under:-

A) DEBIT : OTHER ASSETS - SUSPENSE ACCOUNT - FEX
CREDIT : INCOME ACCOUNT - PROFIT ON EXCHANGE TRADING

Narration for Vouchers.

"Credit differences or profit for forward
Exchange Contracts for the month of _____"

B) DEBIT : INCOME ACCOUNT - PROFIT ON EXCHANGE TRADING
CREDIT : SUNDRY CREDITOR ACCOUNTS - DIFFERENCE ON FORWARD
EXCHANGE CONTRACTS

Narration for Vouchers.

"Differences/Loss on Forward Exchange Contracts for
the month of _____"

In subsequent month, the above entries are reversed for the entire amount BEFORE passing fresh entries for the subsequent month.

4.06 SWAP TRANSACTIONS

Treatment for revaluing swap transactions is explained in Section 5 of Accounting Manual Volume II.

5.00 SWAP TRANSACTIONS

Money market activities very often give rise to swap transactions. If the transactions involve switching into another currency, and if this switch is to be covered then a swap transaction is entered into. Swap is the combination of a spot purchase of a currency with its simultaneous forward sale (or vice versa).

Short term surplus funds in one currency are often converted in another currency for investments. Two main reasons for converting one currency into another, are higher return on investment in another currency and lack of investment opportunities in the first currency. For example, the higher rate of return on investment in U.S. Treasury bills will attract funds from other areas, say from the U.K. where return on comparable instruments is low. This would prompt the holders of £ sterling to sell their balances and purchase U.S. \$ for investment in U.S. Treasury bills. Purchase of dollars will simultaneously be offset by their sale three months forward, normal tenure of treasury bills being 3 months.

In the second case, absence of real money market in some countries, may force the banks in those countries to seek opportunities into short-term money markets abroad.

The banks would sell their local currency funds to purchase currency of investment and simultaneously sell forward the foreign currency for the day of maturity of investments.

Profit/loss of each Swap Transaction can be computed immediately at the time the transaction is effected. The profit (or loss) on a Swap Transaction would consist of:

- a) The difference between the rate of interest payable on the Local Currency Deposit and the rate of interest receivable on Foreign Currency Deposit.

- b) The difference in Spot Buying rate and Forward Selling rate of the Foreign Currency involved.

Since the "net result" arising out of SWAP Transaction is a composite effect of the interest differential on deposit and investments PLUS the Exchange Rate differential, the two sources of income and expenditure must be accounted for over the period of contract. Interest Receivable and Interest Payable under Swap Contracts are booked each month over the full period of Swap Transaction. The exchange differential (Discount or Premium) is also accounted for and booked over the contract period each month by debiting or crediting Expenditure Account - Discount Paid to Banks.

5.01 ACCOUNTING ENTRIES

When a Swap deal is made, the Spot purchase or sale must be reported immediately in the books. The second part of the Transaction - a forward sale or purchase - will initially be recorded under Contra Liability Account FEX Future (Seller or Purchaser) and will be booked on maturity date of the contract.

The following examples in relation to UAE region will help illustrate the operation:-

EXAMPLE NO: 1 - SWAP ON DISCOUNT BASIS

Say, on 7th January, 1978, Abu Dhabi Main Branch purchased £3,000,000 @ 9.59 and simultaneously sold that amount forward six months @ Dh. 9.35.

(A) The following entries shall be passed on the 7th January, 1978.

FOR SPOT PURCHASE OF £3,000,000

	<u>Foreign Currency</u>	<u>Local Currency</u>
1) DEBIT : DUE FROM BRANCHES ACCOUNT - BCCI LONDON	£3,000,000	Dh.28,770,000/-
CREDIT: CURRENCY BOARD	-	Dh.28,770,000/-

Narration for Vouchers

- a) Dual Currency Debit Voucher shall be prepared with the narration:
"Stg. £3,000,000/- purchased at the rate of 9.59".
- b) Single Currency Credit Voucher shall be prepared with the narration that "£3 million purchased at the spot rate 9.59".

FOR FORWARD SALE OF £3,000,000/-

2) DEBIT : CUSTOMERS LIABILITY - FEX - FUTURES
- SELLERS.....Dh.28,050,000/-
(£3 million @ 9.35)

CREDIT: BANKERS LIABILITY - FEX - FUTURES
- SELLERSDh.28,050,000/-

Narration for Vouchers.

Contra Liability Voucher shall be prepared with the narration : £3,000,000 sold 6 months forward @ 9.35.

- B) The total loss in this case on account of Exchange differential is Dh. 720,000/- (Dh.28,770,000 - minus Dh.28,050,000 -). On pro rata basis it works out to Dh.120,000/- per month. Beginning from the end of January 1978 therefore, loss of Dh.120,000/- will be accrued in the books by passing the following entries:-

DEBIT : EXPENDITURE ACCOUNT DISCOUNT
PAID TO BANKSDh.120,000/-

CREDIT: SUNDRY CREDITORS A/C RESERVE FOR
EXCHANGE DIFFERENCE PAYABLE ON SWAP
.....Dh.120,000/-

Narration for Vouchers.

Single Currency Vouchers shall be prepared with the narration that Swap Transaction Discount for the month of _____ booked.

- C) On maturity of the contract, for sale of £3,000,000/- i.e. on 7th July, 1978 following entries will be passed:

	<u>Foreign Currency</u>	<u>Local Currency</u>
DEBIT : CURRENCY BOARD	-	Dh.28.050,000/-
CREDIT: DUE FROM BRANCHES BCCI LONDON (@ 9.35)	£3,000,000	Dh.28,050,000/-

Narration for Vouchers

- a) Single Currency Debit Voucher shall be prepared with the narration that "Delivery of £3,000,000/- on account of settlement of Forward Contract No. _____ dated _____"
- b) Double Currency Credit Voucher shall be prepared with the narration that "Delivery of £3,000,000/- against Forward Sale Contract No. _____ dated _____"
- 2) The Contra Liability for the forward transaction booked in 7.1.78 will be reversed:

DEBIT : BANKERS LIABILITY FEX - FUTURES SELLERS.....	Dh.28,050,000
CREDIT: CUSTOMERS LIABILITY FEX - FUTURES SELLERS.....	Dh.28,050,000

Narration for Vouchers

Contra Liability Voucher shall be prepared with the narration that Reversal of Contra Liability Entry dated _____ Contract No. _____ matured on _____.

- 3) DEBIT : SUNDRY CREDITORS ACCOUNT RESERVE
FOR EXCHANGE DIFFERENCE PAYABLE ON
SWAP TRANSACTIONS.....Dh.720,000
- CREDIT: DUE FROM BRANCHES BCCI LONDON.....Dh.720,000

Narration for Vouchers .

Single Currency Vouchers shall be released with the narration that "Balance in Dh. _____ lying in BCCI London A/C on account of Contract No. _____ dated _____"

EXAMPLE NO. 2 - SWAP ON PREMIUM BASIS

The following deal was entered into by Abu Dhabi Main Branch:

- i) Purchased £3,000,000 @ 9.60 equivalent Dh.28,800,000
- ii) Sold £3,000,000 - Six months forward @ 9.62 equivalent Dh.28,860,000

(A) The following entries are to be passed at the time of the transaction:-

	<u>Foreign Currency</u>	<u>Local Currency</u>
<u>FOR SPOT PURCHASE OF £3,000,000</u>		
1) DEBIT : DUE FROM BRANCHES		
ACCOUNTS BCCI	£3,000,000	Dh.28,800,000
LONDON (@9.60)		
CREDIT: CURRENCY BOARD	-	Dh.28,800,000

Narration for Vouchers.

- 1) Double Currency Debit Voucher shall be prepared with the narration: "£3 million purchased at the Spot rate 9.60"
- 2) Single Currency Credit Voucher shall be prepared with the narration: "£3 million purchased at the rate of 9.60"

FOR FORWARD SALE OF £3,000,000

- 2) DEBIT : CUSTOMERS LIABILITY FEX -FUTURES
- SELLERSDh.28,860,000
- (£3,000,000 - @ 9.62)
- CREDIT: BANKER'S LIABILITY FEX -FUTURES
- SELLERSDh.28,860,000

Narration for Vouchers

Contra Liability Voucher shall be prepared with the narration that "\$3 million Sold - 6 months forward @ 9.62"

- (B) The total premium in this case on account of Exchange differential is Dh. 60,000/-. On Pro Rata basis it works out to Dh.10,000/- per month. This amount will be accrued in the books each month by passing the following entries:-

	<u>Local Currency</u>
DEBIT: OTHER ASSETS - SUSPENSE A/C RESERVE FOR EXCHANGE DIFFERENCE PAYABLE ON SWAP	Dh.10,000/-
CREDIT: EXPENDITURE ACCOUNT DISCOUNT PAID TO BANKS	Dh.10,000/-

Narration for Vouchers.

Single currency vouchers shall be prepared with the narration that "Swap Transaction Premium for the month of _____ booked".

- (C) On maturity of the contract for purchase of £3,000,000 the following entries shall be passed:-

	<u>Foreign Currency</u>	<u>Local Currency</u>
1) DEBIT : CURRENCY BOARD	-	Dh.28,860,000
CREDIT: DUE FROM BRANCHES BCCI LONDON (@ 9.62)	£3,000,000	Dh.28,860,000

Narration for Vouchers.

- a) Single Currency Debit Voucher shall be prepared with the narration that Delivery of £3,000,000 on account of settlement of Forward Contract No. _____
- b) Double Currency Credit Voucher shall be prepared with the narration that Delivery of £3,000,000 against forward sale Contract No. _____ dated _____

The Contra Liability for the forward transaction booked earlier will be reversed:-

2) DEBIT : BANKERS LIABILITY		
FEX - FUTURES - SELLERS	-	Dh.28,860,000
CREDIT: CUSTOMERS LIABILITY FEX-FUTURES -		
SELLERS	-	Dh.28,860,000

Narration for Vouchers.

Contra Liability Voucher shall be prepared with the narration that reversal of contra liability entry dated _____ Contra No. _____ matured on _____.

3) DEBIT: DUE FROM BRANCHES BCCI		
LONDON		Dh.60,000/-
CREDIT: OTHER ASSETS -SUSPENSE A/C		
RESERVE FOR EXCHANGE DIFFERENCE		
PAYABLE ON SWAP TRANSACTION		Dh.60,000/-

Narration for Vouchers.

- 1) Single Currency Voucher shall be prepared with the narration that Balance in Dh. _____ lying in BCCI London A/C on account of Contract No. _____ dated _____.

It will be observed in the above examples that exchange differential on Swap Transaction is booked on pro-rata basis each month over the period of the contract. The procedure for recording the exchange differential for a Swap Transaction entered during the month and arriving at total figures for Discount and Premium each month is explained in the next sub section.

5.02 EXCHANGE DIFFERENTIAL ON SWAP TRANSACTION

For calculating the total exchange differential on swap deals each month. "Lists of Swap Deal/Computation of Monthly Profit/Loss" in form 190 will be prepared. As and when a deal is finalised, it should be entered into the form.

LIST OF SWAP DEALS/COMPUTATION OF MONTHLY EXCHANGE PROFIT/LOSS.

S. No.	Contract No.	Date of Contract.	Date of Maturity.	Amount.	Spot Rate.	Forward Rate.	Diff: in Rate.	Total Premium/Discount.	Period of Swap.				
1	2	3	4	5	6	7	8	9	10				

Form No. 190

Specification:- Size: 21.0 cms. X 29.7 cms.
Colour : White

The procedure for preparing this form is as under:-

Column 1 - Serial Number

Column 2 - Serial Number of spot contract should be given

Column 3 - Date of Contracts

Column 4 - Date of maturity of the contracts

Column 5 - Amount: The foreign currency amount of the principal.

Column 6 - Spot Rate - Exchange rate for the spot contract

Column 7 - Forward Rate - Exchange rate for the forward contract

Column 8 - Difference in Rate - (Column 7 minus Column 6)

Column 9 - Total Premium/Discount - Amount in Column 8 will be multiplied with the amount in Column 5. If the net result of column 8 is minus(-), the total in Column 9 will be a discount (or vice versa)

Column 10- Period of Swap: This column is sub divided into the number of months covered by the contract. Pro Rata amount of premium or discount for each subsequent month will be noted in these columns.

At the end of month, all discount amounts appearing in the column for that month will be added separately and a minus(-) sign will be prefixed to the total. All premium amount will similarly be added and a plus(+) sign prefixed to the total. The following entries will then be passed-

a) For the Discount Amount

DEBIT : EXPENDITURE ACCOUNT - DISCOUNT PAID TO
BANKS.....

CREDIT: SUNDRY CREDITORS ACCOUNT - RESERVE FOR
EXCHANGE DIFFERENCE PAYABLE FOR SWAP
TRANSACTION.....

Narration for Vouchers.

Single Currency Voucher shall be used with the narration that "Discount on Exchange Difference Receivable on Swap Transaction as per Swap Deal Exchange Profit & Loss Computation Lists".

b) For the Premium Amount

DEBIT : OTHER ASSETS - SUSPENSE ACCOUNT RESERVE FOR
EXCHANGE DIFFERENCE RECEIVABLE ON SWAP
TRANSACTION

CREDIT: EXPENDITURE ACCOUNT - DISCOUNT PAID TO BANKS

Narration for Vouchers.

Single Currency Vouchers shall be used with the narration that "Premium as exchange difference receivable on swap transaction as per Swap Deal Exchange Profit & Loss Computation Lists".

5.03

MAINTENANCE OF ACCOUNTS

As already explained, swap transactions are excluded from the month end revaluation exercise. SEPARATE Ledger should therefore be maintained for forward contracts relating to Swap to avoid their mixing up with the forward contracts unrelated to them.

GLOSSARY

appreciation - an increase in value of a currency vis a vis other currencies

arbitrage - the process of buying the money of one country in the foreign exchange market and selling it in another, thereby taking advantage of discrepancies in the market

bid rate - rate for purchasing foreign exchange; buying rate is given first in foreign exchange quotation

broken dates - contract maturing on an uneven date

covering - entering into a forward exchange transaction to safeguard against the exchange risk associated with future receipts or payments in connection with a self-liquidating commercial or financial transaction

cross rates - the rate between the quotations of foreign currencies in relation to each other in the market of a third country

depreciation - a weakening of the value of a currency vis a vis other currencies

devaluation - a formal "official" decrease in the exchange rate done unilaterally by a country

direct rate - a method of quotation of foreign exchange rates quoting a unit of the foreign currency in terms of the equivalent home currency.

discount - lower; a future rate lower than the present spot rate

double-barreled quotation - the simultaneous quotation of both a buying and a selling rate for a given currency

exchange rate - the price of a currency in terms of another; a mathematical ratio of the value of one currency vis a vis another

exchange rate arbitrage - arbitrage to take advantage of exchange rate discrepancies in different exchange markets

- flat - a future rate that is equal to the spot rate; there is no spread or the number of points separating them is zero
- foreign exchange - the means of exchanging the money of one country for the money of another
- foreign exchange market - the vehicle whereby the exchange of different national currencies takes place
- forward - in the future
- forward market - a market for foreign exchange for delivery at a future date at a rate established in the present
- forward option contract - a forward contract for delivery of money at some future date which is not precisely stated; delivery date of foreign exchange is optional within stated period of time
- forward outright - the forward or future rate quoted directly in terms of anticipated future US monetary value of a unit of foreign currency
- future .- designates exchange contracts negotiated for delivery at a future date
- hedging - entering into a forward exchange transaction to safeguard against an indefinite or indirect exchange risk arising from assets or liabilities whose value is subject to change with exchange rate fluctuations; forward contracts not associated with a self-liquidating transactions
- indirect rate - method of stating the rate of exchange giving the foreign currency equivalent of a unit of home currency
- interest parity theory - under stable conditions the spread (premium or discount) between spot and forward rates of two currencies equals the difference in interest rates for similar money market instruments in the two countries
- interest rate arbitrage - the movement of funds from the money market of one country to the money market of another country for the purpose of making a profit on interest rate differentials in different countries

lags - delays in the payments process from a strong to a weak currency in anticipation of a fall in its rate of exchange or devaluation.

leads - speeding up of payments from a weak into a strong currency in anticipation of a rise in its rate of exchange or revaluation.

offer rate - rate for selling foreign exchange; the selling rate is given second in a foreign exchange rate quotation

par value - the official rate of exchange or international value in terms of other currencies which a government is either obliged by agreement to maintain or which it tries to maintain for its currency; a single fixed rate of exchange, stated in terms of gold or dollars, around which the market is permitted to fluctuate

point - a point is the last digit to the right in a foreign exchange quotation; it is generally equivalent to \$.0001 but this does not apply to several currencies (Belgian franc, Italian lire, Japanese yen) where a point is equal to \$.000001

premium - higher; a future rate higher than the present spot rate

revaluation - a formal "official" increase in the exchange rate done unilaterally by a country

rollover - type of swap arrangement used by banks involving the exchange of two currencies from one day to the next; an overnight swap

space arbitrage - arbitrage to take advantage of exchange rate discrepancies in geographically separated exchange markets

speculation - entering into an investment or foreign exchange contract with the hope of gaining from market fluctuations; the assumption of a risk in expectation of a profit

spot - foreign exchange transaction requiring delivery of the exchange or consummation of the transaction in two working days

spread - 1) the difference between the buying and selling rate;
2) the difference between spot and forward rates for a given
currency

swap - an operation combining sales or purchase of spot foreign
currency against a future sale or purchase in the opposite
direction of the same currency

swap cost - the difference between buying spot and selling forward
or vice versa

value date - date on which a transaction is effected or settled by
delivery and payment