

TREASURY AND FOREIGN EXCHANGE

T R SHASTRI

30TH DECEMBER 2023



COVERAGE


- Why should I study treasury and foreign exchange?
- Demystifying treasury
 - What is treasury [evolution, objectives, structure, relevance, participants, activities...]
- Applications
- Instruments available for
 - Raising debt
 - Deploying funds

COVERAGE

- Demystifying Foreign exchange
- What is Foreign exchange: exchanging → separate asset class, relevance in daily life to you & me, corporates, REs...
- Foreign exchange market – types of rates, dates of delivery, concept of forward margin [premium & discount], calculating forward premium
- FEMA, concepts of current and capital account transactions, imports, exports etc.
- Overview of: FC accounts, trade credit, ECB, ADR/GDR

CLASS GUIDELINES

- trshastri@gmail.com
- Mobiles **X**
- Why?
- Your expectations???
- My expectations
 - Interactive
 - *And See next slide/s*

 (683 kb)

Date : Dec 08, 2023

Monetary Policy Statement, 2023-24 Resolution of the Monetary Policy Committee (MPC) December 6 to 8, 2023

On the basis of an assessment of the current and evolving macroeconomic situation, the Monetary Policy Committee (MPC) at its meeting today (December 8, 2023) decided to:

- Keep the policy repo rate under the liquidity adjustment facility (LAF) unchanged at 6.50 per cent.

The standing deposit facility (SDF) rate remains unchanged at 6.25 per cent and the marginal standing facility (MSF) rate and the Bank Rate at 6.75 per cent.

- The MPC also decided to remain focused on withdrawal of accommodation to ensure that inflation progressively aligns to the target, while supporting growth.

These decisions are in consonance with the objective of achieving the medium-term target for consumer price index (CPI) inflation of 4 per cent within a band of +/- 2 per cent, while supporting growth.

Assessment and Outlook

2. Global growth is slowing at a divergent pace across economies. Inflation continues to ebb though it remains above target with underlying inflationary pressures staying relatively stubborn. Market sentiments have improved since the last MPC meeting – sovereign bond yields have declined, the US dollar has depreciated, and global equity markets have strengthened. Emerging market economies (EMEs) continue to face volatile capital flows.

3. Domestic economic activity is exhibiting resilience. Real gross domestic product (GDP) grew year-on-year (y-o-y) by 7.6 per cent in Q2:2023-24, underpinned by robust investment and government consumption, which cushioned the drag from net external demand. On the supply side, gross value added (GVA) rose by 7.4 per cent in Q2, driven by buoyant manufacturing and construction activities.

4. Continued strengthening of manufacturing activity, buoyancy in construction, and gradual recovery in the rural sector are expected to brighten the prospects of

THE NEXT MEETING DATES

31 December 2023

Meeting Schedule of the Monetary Policy Committee for 2023-2024

As per Section 45ZI of Reserve Bank of India Act, 1934, it has been decided that Monetary Policy Committee will meet during 2023-24 on the dates indicated below:

Dates of meetings of Monetary Policy Committee for 2023-24
April 3, 5 and 6, 2023
June 6-8, 2023
August 8-10, 2023
October 4-6, 2023
December 6-8, 2023
February 6-8, 2024

INR crash: FM says Rupee not weakening but US dollar strengthening

31 December 2023

Nirmala Sitharaman said Rupee has performed better than many other currencies

RBI does not have a fixed exchange rate for rupee; intervenes in market to curb excessive volatility: Das.

PTI | Mumbai | Updated: 30-09-2022 10:33 IST | Created: 30-09-2022 10:30 IST

Synopsis

Dollar shortages in India's banking system and weakness in the rupee are being attributed to dollar purchases by the Reserve Bank of India to stem inflows from foreign investments, analysts said. Despite almost \$11bn flowing into the country's foreign exchange reserves so far in May, the rupee has surrendered all gains this year in a bid to curb sharp appreciation and boost flagging exports. Analysts said investors are also watching a possible hike by the US Fed in June, which would add further pressure on the rupee.

Deutsche Bank Blames Client in \$565 Million FX Mis-Selling Suit

- German lender names more ex-bankers involved in transactions
- Bank denies allegations it mis-sold complex derivatives

EU market regulator withdraws recognition of 6 Indian clearing corporations

By Vidya Sreedhar, ETMarkets.com • Last Updated: May 02, 2023, 05:09 PM IST



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PR

India's Trade estimates -CY2023 (\$ billion)

Type	Trade	CY2022	CY2023	Growth CY2023 over CY2022	Share in % GDP in CY2023*
Merchandise*	Exports	453.3	429.4	-5.3	11.5
	Imports	720.2	669.6	-7.0	18.0
Services**	Exports	302.0	333.6	10.5	8.9
	Imports	176.4	176.2	-0.1	4.7
Overall Trade (Merchandise+ Services)	Exports	755.3	763.0	1.0	20.5
	Imports	896.6	845.8	-5.7	22.7
	Export + Import	1651.9	1608.8	-2.6	43.1
	Trade Balance	-141.3	-82.8	-41.4	-2.2

Estimated using *GDP-US\$3.73 trillion, *DCI&S Data and * RBI Data

HEALTHY NUMBERS

- Current account balance in Q2FY24 recorded a lower deficit of \$8.3 billion against \$30.9 billion in Q2FY23
- Net FDI witnessed an outflow of \$0.3 billion against \$6.2 billion
- FPI recorded net inflow of \$4.9 billion, lower than \$6.5 billion during Q2FY23
- External commercial borrowings to India recorded net outflow of \$1.8 billion against \$0.5 billion



Rupee flat despite good inflows

Akhil Nallamuthu

 bl. research bureau
Chennai

The rupee remained flat against the dollar over the past week as it ended at 83.19 versus previous Tuesday's close of 83.18. The Indian currency remained flat despite strong foreign inflows and a marginal dip in the dollar.

WEEKLY RUPEE

India's GDP is significantly influenced by international trade, with exports and imports combined accounting for over 43.1 per cent of the GDP in 2023. Remarkably, exports account for 20.5 per cent, indicating that one-fifth of the Indian economy is globally competitive and Indian exporters have outperformed global competitors to secure export orders. Can trade, the tail, wag the dog of the Indian economy?



In the coming week, it is likely to remain within 83-83.50 price range

range, the next leg of trend will stay uncertain. If the rupee gains from the current level and gets past the barrier at 83, it can advance to 82.65. Above this level, it can appreciate to 82.50 quickly.

On the other hand, if the local currency slips below the support at 83.50, it can witness a quick fall to 84, a potential support. Subsequent support is at 84.25.

OUTLOOK

The dollar index (DXY), by

TREASURY

- What is treasury?
- Treasurer: Cash manager and bank relationship → Principal risk manager → Now Strategic business partner & partner in strategic decision-making
- Drivers: bank deregulation, competition in the capital markets, bewildering options among financial instruments & partners, impact of technology in delivery of treasury services

TREASURY MANAGEMENT

- What is TM? What is being ‘managed’?
- Objectives: The set of policies, strategies and transactions that an entity adopts and implements
 - to raise finance at acceptable cost and risk,
 - to manage its cash resources, and
 - to reduce interest rate, foreign exchange and commodity price risks, as well as in the conduct of its relationships with its financial stakeholders (mainly banks).

Thus both on assets & liabilities side!!!
- A financial discipline involving economics, finance, psychology, technology, engineering skills...
- Managing new challenges
 - Technology – algo trading, fintech entities, blockchain/other DLTs...
 - Asset classes – CBDCs, crypto assets, NFTs ...
 - Evolving risks

WHERE THERE CAN BE A TREASURY?

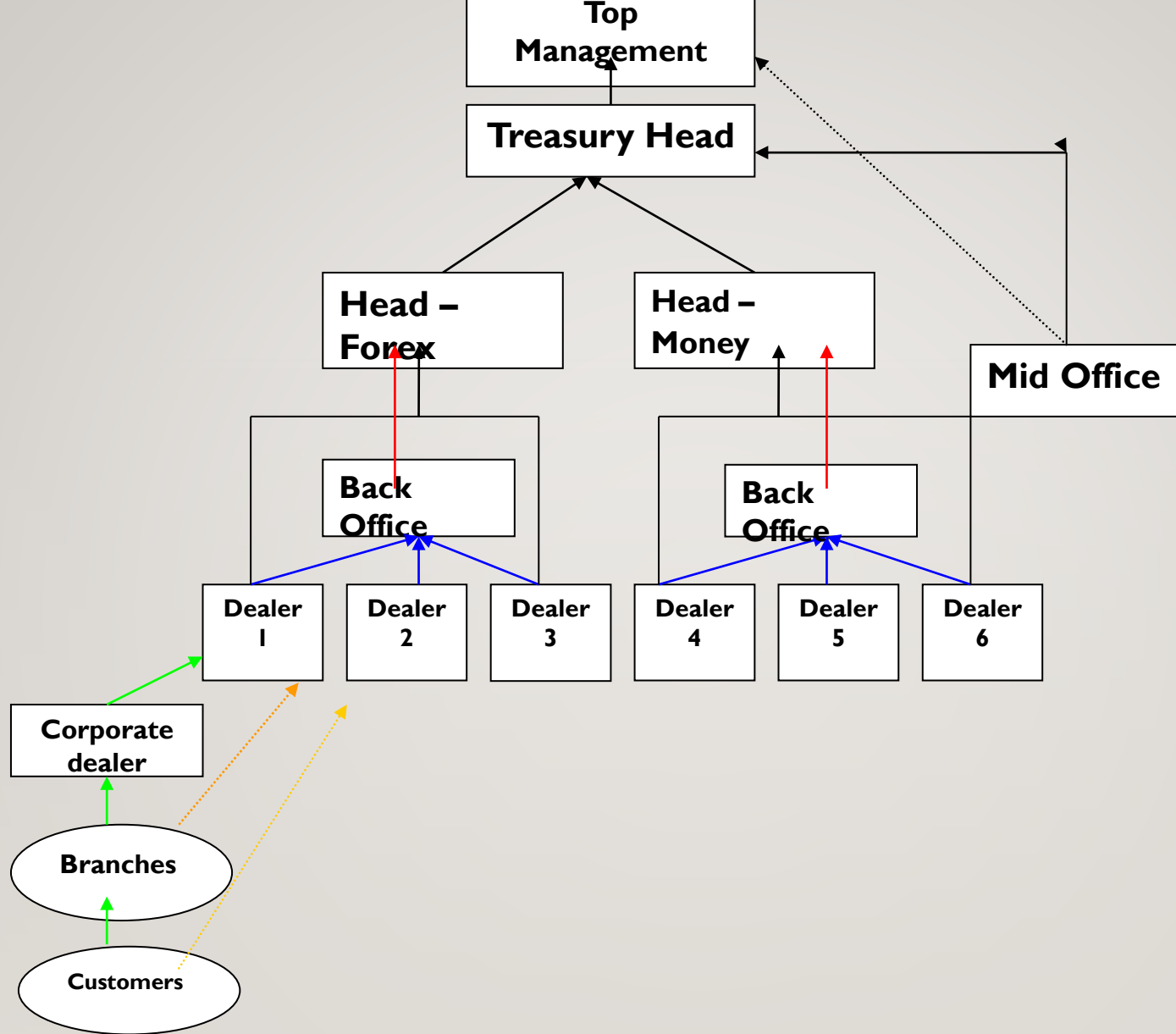
- Government
- Bank
- Corporate
- MF
- Insurance company
- Pension funds
- NBFC
- Specific types of NBFC
- HNI
- I & You?

FUNCTIONS OF TREASURY

- Liquidity related [cash forecasting, gaps, concentration, centre-wise, currency-wise, working capital limits, receivables & payables...]
- Capex related [investments, borrowings, M & A, fund raising...]
- Risk management [long term vs short term, choice of currency, ALM, market risk, IT systems ...]
- External relations [CRAs, banks & FIs, other stakeholders, regulatory reporting...]
- How different from finance [dept] function?

TREASURY STRUCTURE

- Front, mid and back offices and the roles



TREASURY STRUCTURE...

- Functional separation
 - What does that mean and why?
- What that means to you as auditor? How do you verify?
- Concepts of domestic, international and integrated treasury – implications

A DAY IN THE LIFE OF A TRADER

<https://www.bing.com/videos/search?q=a+day+in+the+life+of+a+trader+bnp+paribas&FORM=HDRSC4>



OPPORTUNITIES IN TREASURY

- Various profiles based on age, academic, experience, aptitude...
- Front, mid, back office, consultant, auditor, customer-facing treasury, marketing ...
- Audit: concurrent audit, system audit, revenue audit, security audit...
- In regulated entities [RE] – banks, NBFCs, AMCs, Ins companies...
- Corporates...
- Finance + treasury + forex + SISA certification !!!

TREASURY: CONTROL OVER THE DAILY ACTIVITY

- Systems control
- Policy document
- Delegation with accountability – limits & measuring efficiency
- Reporting requirements – internal [MIS] and to RBI
- Procedural control
- RBI's guidelines on internal control
- FEDAI/FIMMDA guidelines
- Code of conduct [FEDAI & FIMMDA]

Banks' Financial risks

31 December 2023

Broad categories	Credit risk	Market risk	Operational risk
Examples	Counterparty default	Interest rate risk	Staff dishonesty
	Country default [called country risk]	Exchange rate risk	System failure
	Sovereign risk	Equity price risk	Reputational risk
Why this risk?	Deliberately undertaken to earn	Have no control	Encountered unwittingly
How to measure?	Credit rating, standard models particularly for retail loans	Value at Risk and other mathematical models	No model available
How to monitor?	Post disbursement structured monitoring	Continuous M2M	Concurrent audit & other common sense tools
How to mitigate?	Credit enhancement	Scientific modelling	AI is likely to play an important role
Instances	NPAs	Genuine losses in Banks' treasury transactions; LTCM failure with loss over USD 4.6 b.	PNB fraud of around ₹14500 crores; USD 81m lost by Bangladesh Bank

MONEY MARKET AND INSTRUMENTS

- What is money market?
- = liquidity trading place; where short term funds traded
- What is short term? = 1 day to 1 year
- Short term instruments:
 - e.g. Call money, notice money, repos, term money, treasury bills, commercial bills, certificate of deposits, commercial papers, inter-bank participation certificates etc.
- Participants: Banks, PDs, NBFCs, MFs, Insurance companies, corporates, HNIs....
- Why short term funds market?
- Banks & short term funds
- Role & interest of RBI and Government

WHAT IS A BOND?

- Debt instrument for a defined duration at a variable or fixed interest rate. Issued by companies, municipalities, State & Central government.
- Issued by private entities : CPs, CDs
- Issued by Government : Treasury bills, G Secs

Broad summary

31 December 2023

	Market Segment	Tenor	Participants
1	Call money	Next working day	Banks & PDs
2	Notice money	14 days	Those having CA with RBI
3	Term money	>14 days < 3 m	..."...

#	Instrument	Issued by	Can be invested by	Remarks
1	Commercial Paper [CP]	Corporates, primary dealers (PDs) and all-India financial institutions (FIs)	Individuals, banks, other Indian corporates, unincorporated bodies, NRIs & FIIs	7d to 1y; in lieu of WC
2	Certificate of Deposit [CD]	Banks & FIs	Individuals, corporations, companies (including banks and PDs), trusts, funds, associations, NRIs [on non-repatriable basis]	Banks: 7d to 1y; FI: 1 to 3 y, in lieu of FDs, usance PN, negotiable
3	Treasury Bill	Central Government	All	91, 182 & 364 D, ZCB
4	G-Sec	State & Central Govt	All	1 to 30 y. Standard: 10Y

QUESTIONS

31 December 2023

The interest rate on CP has to be necessarily _____ than that on _____

The interest rate on CD has to be necessarily _____ than that on _____





RESERVE BANK OF INDIA
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NEW

beta

Tenor-wise
Indicative Yields ▾

Invest in Government Securities

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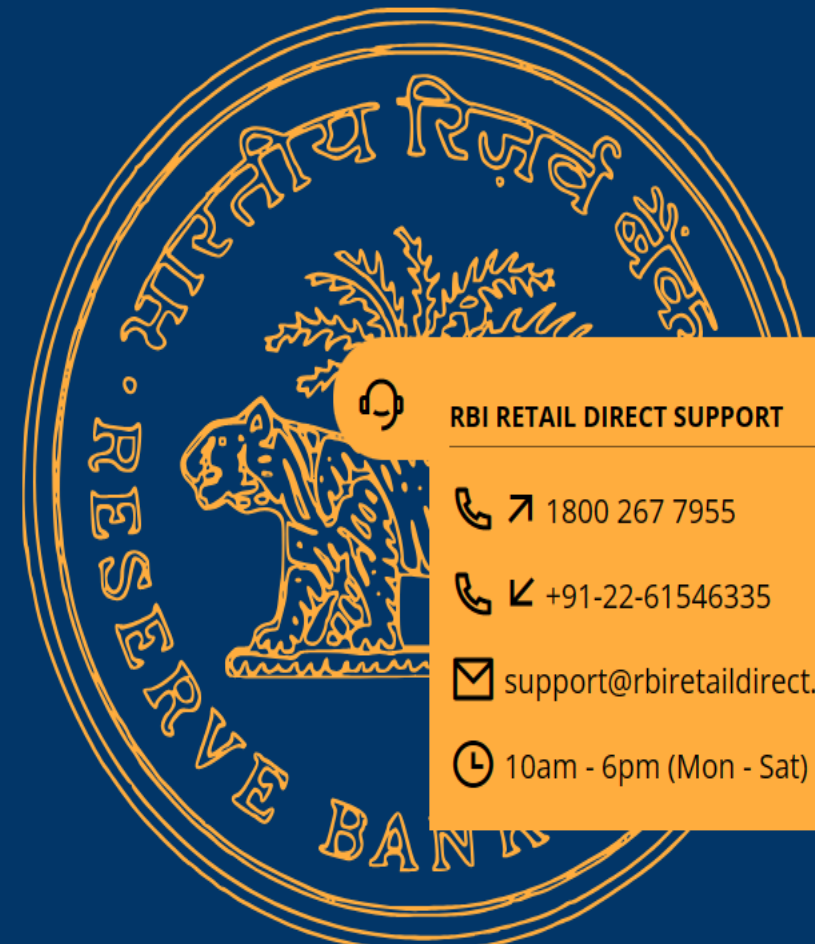
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[10am - 6pm \(Mon - Sat\)](#)

SOME TERMS A TREASURER SHOULD BE FAMILIAR

- Yield curve
- SGL account
- SLR & CRR
- Liquidity and solvency
- Market liquidity
- OMO by RBI
- Intervention and sterilized intervention
- CCIL, netting by novation
<https://www.ccilindia.com/>
- Primary dealers [and satellite dealers]
- LAF = Repo and reverse repo, triparty repo [overnight & term]
- MSF
- Policy interest rates

SOME TERMS A TREASURER SHOULD BE FAMILIAR...

Policy Rates		^
Policy Repo Rate	: 6.50%	
Standing Deposit Facility Rate	: 6.25%	
Marginal Standing Facility Rate	: 6.75%	
Bank Rate	: 6.75%	
Fixed Reverse Repo Rate	: 3.35%	

Repo rate: Effectively banks borrowing giving securities

Standing Deposit facility rate: Banks depositing with RBI, overnight presently

MSF: Similar to repo borrowing at higher cost, overnight, limited extent

Bank rate: RBI lending to banks at this rate

Fixed Reverse Repo Rate: Opp of Repo

Date : Dec 27, 2023

Money Market Operations as on December 26, 2023

(Amount in ₹ crore, Rate in Per cent)

MONEY MARKETS@

	Volume (One Leg)	Weighted Average Rate	Range
A. Overnight Segment (I+II+III+IV)	508,619.64	6.79	0.01-7.95
I. Call Money	11,130.66	6.81	5.50-6.91
II. Triparty Repo	371,073.95	6.79	6.00-6.82
III. Market Repo	125,838.03	6.81	0.01-6.99
IV. Repo in Corporate Bond	577.00	7.12	7.00-7.95
B. Term Segment			
I. Notice Money**	413.80	7.03	6.20-7.25
II. Term Money@@	398.00	-	6.75-7.25
III. Triparty Repo	2,280.00	7.09	6.75-7.40
IV. Market Repo	0.00	-	-
V. Repo in Corporate Bond	0.00	-	-

RBI OPERATIONS@

	Auction Date	Tenor (Days)	Maturity Date	Amount	Current Rate / Cut off Rate
C. Liquidity Adjustment Facility (LAF), Marginal Standing Facility (MSF) & Standing Deposit Facility (SDF)					
I. Today's Operations					
1. Fixed Rate					
2. Variable Rate&					
(I) Main Operation					
(a) Repo					
(b) Reverse Repo					

BASICS OF FOREIGN EXCHANGE

- What is foreign exchange?
- Medium of exchange, store for value, asset that appreciates ... → a separate asset class!!!
- What is being exchanged?
- FC, FC denominated assets, what is exchanging?
- Concept of 'position' [OB, OS, square]
- Application of exchange rate/s
- Situations in daily life when this is relevant
- Audit situations in forex

TYPES OF EXCHANGE RATES

- Buying and selling rates [whose perspective?]
- Cash, Tom, Spot and forward rates
- Outright forwards and swaps
- Direct and indirect rates
- Transaction-wise rates e.g. TT, Bill, TC, cash/currency
- Cross rates
- Clarity on: Who quotes, market maker, interbank rates, two way quotes, spread, fine rates
 - What is two way quote?
- Card rates

CARD RATES FOR TRANSACTIONS BELOW Rs. 10 LACS

CURRENCY		TT BUY	TT SELL	BILL BUY	BILL SELL	FOREX TRAVEL CARD BUY	FOREX TRAVEL CARD SELL	CN BUY	CN SELL
UNITED STATES DOLLAR	USD/INR	82.46	83.96	82.39	84.13	82.39	84.13	81.45	84.40
UAE DIRHAM	AED/INR	22.01	23.33	21.99	23.38	21.99	23.38	21.40	23.70
AUSTRALIAN DOLLAR	AUD/INR	55.74	58.02	55.69	58.14	55.69	58.14	53.65	60.35
BANGLADESHI TAKA	BDT/INR	0.00	0.00	0.00	0.00	0.00	0.00	0.60	0.79
BAHRAINI DINAR	BHD/INR	213.40	229.45	213.22	229.91	0.00	0.00	207.55	232.90
CANADIAN DOLLAR	CAD/INR	62.14	63.99	62.08	64.12	62.08	64.12	59.20	66.55
SWISS FRANC	CHF/INR	95.72	99.20	95.64	99.41	0.00	0.00	91.15	103.15
CHINESE YUAN	CNY/INR	0.00	0.00	11.44	11.85	0.00	0.00	0.00	0.00
DANISH KRONER	DKK/INR	12.16	12.47	12.15	12.50	0.00	0.00	11.60	12.95
EURO	EUR/INR	90.36	93.27	90.29	93.46	90.29	93.46	89.00	93.80
GREAT BRITAIN POUND	GBP/INR	104.30	107.47	104.21	107.69	104.21	107.69	102.75	108.55
HONG KONG DOLLAR	HKD/INR	10.52	10.78	10.51	10.80	0.00	0.00	10.00	11.20
JAPANESE YEN	JPY/INR	57.55	59.22	57.50	59.34	57.50	59.34	54.80	61.60

Note: 1 JAPANESE YEN (JPY) ,THAI BAHT (THB) & KOREAN WON (KRW) are quoted in terms of 100 fc units.

2 Above card rates are for foreign currency conversion to INR

3 Card rates mentioned above are indicative and are subject to change based on market volatility. The final rates applicable will be the card rates prevailing at the time of debit/credit to customer account.

4 The rates of Korean Won (KRW) and Turkish Lira(TRY) are for publication purpose only

SPOT & FORWARD RATES FOR:

31 December 2023

-
- TT selling: outward remittance transactions
 - TT buying: inward remittance transactions
 - Bill buying: export bills
 - Bill selling: import bills
 - TC buying & selling
 - Currency buying and selling

Source: State Bank Of India, Chennai

*TT - Telegraphic Transfer

FACTORS AFFECTING EXCHANGE RATES

Who fixes exchange rates?

- Supply and demand
- Intervention [RBI, large banks' trading, large corporates like oil companies, large FDI, ADR ...]
- Economic factors [interest rate differentials – inflation diff, BOP, Trade...]
- Geo-political factors
- News and rumours

FOREX MARKETS - INTERBANK MARKET AND RETAIL MARKETS

-
- Wholesale, No fixed place, most participants in Mumbai
 - Direct through Reuters screens, voice, forex brokers...
 - Cash, tom, spot, forward
 - Spot – by default
 - When is cash, tom, spot or forward transaction appropriate
 - OTC and exchange driven
 - Regulators: In India – RBI, SEBI, IRDAI... Globally ...?
 - BIS
 - SRO

FORWARD QUOTATIONS IN WHOLESALE MARKET

- What is a forward rate?
- Forward premium and discount
- The forward quotations for a currency quoted with spot rate and the forward margin [to be loaded].
- Quotes generally for standard period say 1 month; Broken period margin
- Calculating forward margin in percentage – example
- Global markets – integrated

EVOLUTION OF INDIAN FOREX MARKET

- From linkage to Sterling & silver to USD and gold
- Various committees [Rangarajan, Sodhani, ...] impacting the forex market
- RBI fixing exchange rates to dual exchange rate to fully market forces
- RBI controls volatility and does not fix exchange rate. What does this mean?
- FERA to FEMA in 2000
- Introduction to derivatives [e. g. Futures in 2008]

CHRONOLOGY OF THE INDIAN EXCHANGE RATE POLICY MEASURES

31 December 2023

Year	The events	Remarks
1947	Par Value system of exchange rate. Effectively a fixed rate against USD also.	External value was fixed in terms of gold with the pound sterling as the intervention currency [4.15 grains of fine gold].
18.9.1949	Sterling devalued	Rupee parity not changed i.e. effective devaluation of rupee
6.6.1966	Rupee devalued	Now 1.83 grains of fine gold. No change in exchange rate till 1971.
1971	Rupee was linked to the sterling in December 1971 but effectively remained stable against dollar also	Breakdown of the Bretton-Woods system and floatation of major currencies.
September 1975	Rupee was pegged to a basket of currencies	To ensure stability of the Rupee. Currency selection and weight assignment not publicly announced by RBI.
1978	RBI allowed domestic banks to undertake intra-day trading in foreign exchange	Increased depth of the market
1st & 3rd July 1991	Two devaluations	To stabilize the foreign exchange market & part of reforms process.
March 1992	Dual exchange rate system viz.: LERMS *	A transitional system to a market determined exchange rate.
March 1993	Market determined exchange rate regime introduced	The managed floating system continues

* Liberalized Exchange Rate Management System

FERA TO FEMA

1. Foreign Exchange Regulations Act 1947
2. Foreign Exchange Regulations Act 1973
3. Foreign Exchange Regulations (amendment) Act 1993
4. Foreign Exchange Management Act 1999

Number of	Foreign Exchange Act of			
	1947	1973	1993	2000
Sections	51	81	74	49
Clauses dealing with penalty	29	42	41	27

FEMA 1999

- Effective from 1st June 2000
- A process rather than an event
- Concept of convertibility
- Civil & not criminal
- No presumption of culpable mental state
- Lists what is not permitted Vs earlier lists of what is permitted
- Law to "Control", replaced by law to "Manage"
- FERA is known as negative law whereas FEMA promises to be positive Law.
- No change in fundamental role of ADs

LIBERALIZATION OF EXCHANGE CONTROL

- Concepts of current and capital account transactions
- Current and capital account convertibility
- INR is convertible on ???
- Impact on BoP – [increased trade], capital & revenue flows ...
- Role of banks in forex markets [ADs, types, market maker ...]

FACTORS IMPACTING FOREX MARKET

- Economic fundamentals like:
 - GDP size and growth rate
 - Forex reserves
 - Stability, inflation, interest rates, taxation issues etc
- Political factors
 - Political stability, openness, international relations...
 - Sentiments, geopolitical factors...
- Flow related
 - International trade, domestic consumption pattern, imports and exports of goods, services...
 - Movement of goods, services, capital, persons...

BANK DEPOSIT ACCOUNTS

31 December 2023

Currency↓	Resident	Non Resident
Rupee	Usual SB, CA, FD etc	•NRO & NRE •SNRR & Vostro
FC	•In India: RFC, RFC(D), EEFC, Escrow, DDA, Indian agents of shipping/airlines companies, project offices of foreign companies in India etc. •Accounts abroad [incl nostro accounts] by permitted entities	FCNR(B)

BANK BORROWAL ACCOUNTS

31 December 2023

Currency↓	Resident	Non Resident
Rupee	Usual CC, OD etc	No
FC	<ul style="list-style-type: none">•In India: FCNR(B) loan, PCFC, FBD, other FC loans•Accounts abroad: ECB, Trade credits	No

EXPORTS

- Export declaration: A simplified EDF to declare all types of export of goods from Non-EDI ports [instead of earlier GR/PP] and through EDI ports with shipping bill
- Period of realization/repatriation = 9 months extn by banks upto 6 months at a time
- Write Off: self, AD & RBI [generally 5%, 10% and beyond] *of the total export proceeds realized during the previous calendar year and will be cumulatively available in a year; **CA certificate**
- FC accounts, agency commission, offices abroad, NTP, crystallisation, EDPMS...

IMPORTS

- Evidence of imports
- Advance remittance
- Crystallisation

Trade credits by resident importers: Buyers' Credit and Suppliers' Credit

- Period upto 3 years for cap goods and lower of one year/operating cycle for others
- All in cost ARR + 3% [2.5% if INR denominated, 3.5% for existing – with conditions]
- Hedging as per internal board approved policy
- Bank guarantee, creation of security... allowed

EXTERNAL COMMERCIAL BORROWINGS [ECB]

- Approval route [RBI's approval] or Automatic route [concerned Bank]
- Trade credit beyond 3 years
- **Minimum average** maturity 3 years and for specific cases one to ten years depending on purpose
- FC or INR denominated
- All in cost ceiling : $ARR^* + 5\%$ [existing 5.5% also possible]
- Hedging [both principal and coupon] generally mandatory
- No guarantee by banks. Corporate/Director's guarantees, creation of charge on security permitted subject to conditions

FDI & FPI

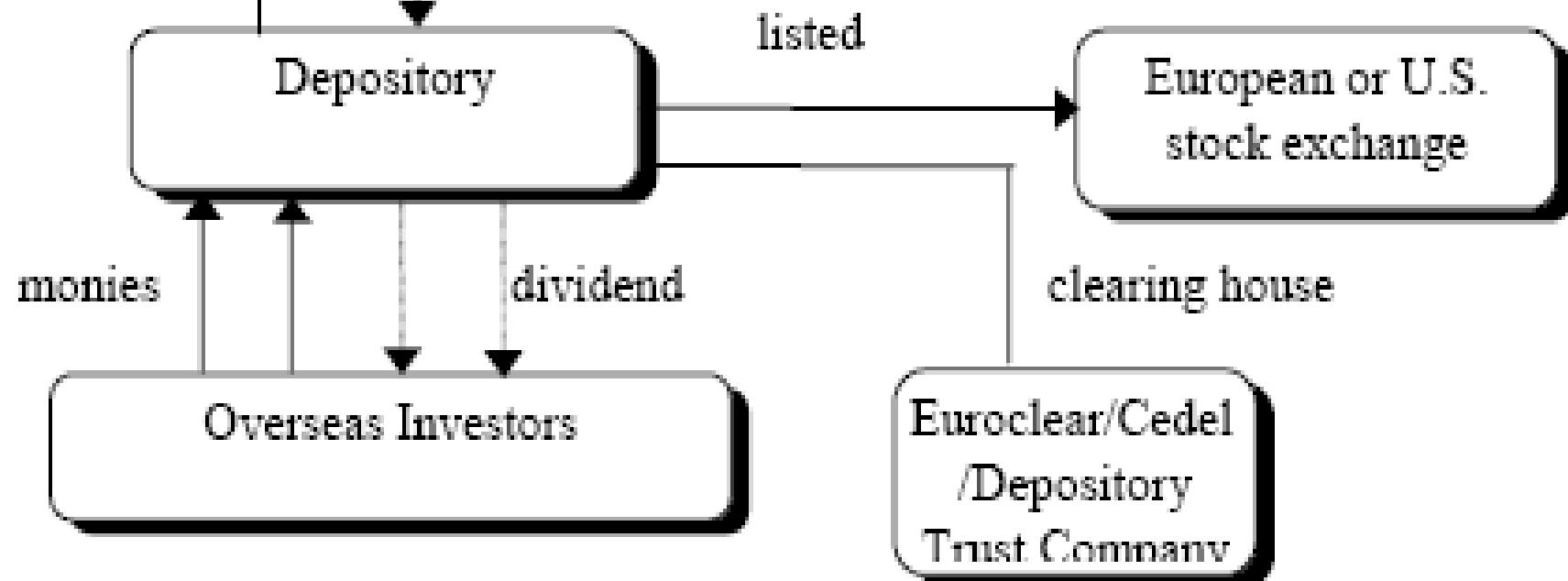
- FDI = Equity investment by non-resident in an unlisted Indian company; or in 10% or more of the post issue paid-up equity capital on a fully diluted basis of a listed Indian company
- FPI = Non-resident equity investment of < 10% of the post issue paid-up share capital on a fully diluted basis of a listed Indian company
- Automatic Route = Does not require the prior approval from the Central Government
- Government Route = Requires prior Government approval
- Concept of sectoral & statutory caps

ADR/GDR: STRUCTURE

India:



Overseas:



DERIVATIVES

- OTC derivatives or Exchange-traded derivatives
- Futures/Forwards, which are contracts to buy or sell an asset at a specified future date.
- Options, which are contracts that give the buyer the right (but not the obligation) to buy or sell an asset at a specified future date.
- Swaps, where the two parties agree to exchange cash flows.
- ISDA agreement

FORWARDS

- Most popular, time tested instrument
- OTC, non standardised [both amount & tenure]
- Delivery by settlement
- Rigid
- Exchange control permissions:
 - Other than underlying currency also, upto any amount & any tenor, based on anticipated exposure, non trade transactions also

FUTURES

-
- Concept of central counterparty, considered as risk free, standard amount and delivery [=settlement] dates, margin requirement, valuation [M2M], Closure by: equal and opposite contract, delivery [rare], cancellation cost
 - Allowed in USD - INR, EUR-INR, JPY-INR, GBP-INR and EUR-USD, GBP-USD and USD-JPY
 - Size 1000 FC unit, except for JPY-INR contract where JPY 100,000.
 - Max maturity 12 months [but first month popular]
 - Recognized stock exchanges with authorization by RBI, both RBI [e.g. prudential guidelines] and SEBI [e.g. surveillance] oversight applicable

OPTIONS

- Right but not obligation – sounds very interesting.
Right?
- Call & put options
- American or European style options [reg date of delivery]

USAGE

- Forward contracts: Importers, exporters, remittance related...
- Futures: For small value transactions, this could be very useful, for individual speculators...
- Options: On orders may or may not be received, project exports at bidding stage...

[HTTPS://RBI.ORG.IN/](https://rbi.org.in/) AND FOR FURTHER READING! 31 December 2023

References

- **Theory & Practice of Forex & Treasury Management – Modules by ICAI**
- Couple of books & resources mentioned at p 343
- Financial newspapers
- ‘Rakshitra’ - <http://www.ccilindia.com/>
- **Technical Guide on Internal Audit of Treasury Function in Banks [2010 publication] available at <https://kb.icai.org/pdfs/PDFFile5b28e64b72e013.58261450.pdf> Check for subsequent publication**

Useful Links

- [http://www.treasury-management.com/ Research/](http://www.treasury-management.com/Research/)
- www.gtnews.com
- <http://www.actm.org/>
 - ACTM is a non-profit professional body formed mainly to develop the study and practice of treasury management. (California, USA based)
[Association of Chartered Treasury Managers]
- <http://www.treasurers.org/>
 - Association of corporate treasurers (ACT) is a UK based centre of excellence for professionals in treasury, corporate finance, risk and cash management
 - Treasurer is its monthly magazine

REFERENCES FOR FURTHER READING

- Call/Notice Money Market, Commercial Paper, Certificates of Deposit and Non-Convertible Debentures (original maturity up to one year) available at https://rbi.org.in/Scripts/BS_ViewMasDirections.aspx?id=10495
- Government Securities Market in India – A Primer at <https://www.rbi.org.in/Scripts/FAQView.aspx?Id=79>
- Call, Notice and Term Money Markets (Updated as on June 08, 2023) at https://www.rbi.org.in/Scripts/BS_ViewMasDirections.aspx?id=12061
- <https://www.rbi.org.in/scripts/NotificationUser.aspx?Id=6394&Mode=0>

Q

Q 0: IN WHICH DIRECTION, DOES SUN RISE?

a. East

b. West

c. North

d. South

Sample

I MONEY MANAGEMENT MEANS

- a. Managing bank balances
- b. Liquidity management
- c. Control over the cash on hand
- d. Keeping the company's finance always liquid

2 CAPTURING THE DEALS IN THE SYSTEM IS PART OF THE ROLE OF

- a. Front office
- b. Back office
- c. Mid office
- d. Head - treasury

3 WHO ISSUES TREASURY BILLS?

- a. Reserve Bank of India
- b. Government of India
- c. State Governments
- d. Treasury

4 INR IS FULLY CONVERTIBLE ON _____
ACCOUNT.

- a. Capital
- b. Current
- c. Both on current and capital
- d. Neither current nor capital

5 CERTAIN INSTITUTIONS CAN MAINTAIN AN SGL ACCOUNT WITH RBI.WHAT IS SGL?

- a. Specified Govt Loan account
- b. Secured General Loan account
- c. Secured General Ledger
- d. Securities General Ledger

6 WHICH OF THE FOLLOWING IS HIGHEST ANY GIVEN DAY?

- a. Repo rate
- b. Reverse Repo rate
- c. MSF
- d. SDF

7 A CORPORATE HAS DRAWN USD 2 BILLION TODAY UNDER ECB. WHAT IS ITS IMPACT, IF ANY, ON OUR COUNTRY'S FOREIGN EXCHANGE RESERVES TODAY?

- a. Increase
- b. Decrease
- c. No effect
- d. Can't say

8 IN THE FOLLOWING SENTENCE RELATING TO REPO & REVERSE REPO RATE APPLICABILITY, WHICH OPTION CORRECTLY FILLS THE BLANK SPACES?

 rate is the discount rate at which borrow/s from .

- a. Repo, banks, RBI
- b. Reverse repo, banks, RBI
- c. Repo, RBI, banks
- d. Reverse repo, banks, other banks

9 A CUSTOMER LOOKS AT THE BANK'S FOREX RATES AND SAYS YOUR RATE IS TOO HIGH. IS HE AN IMPORTER OR EXPORTER?

- a. Exporter
- b. Importer
- c. Can't say
- d. Can be either

10 If 8% Government security is quoted at Rs 120, the current yield on the security is

31 December 2023

- a. 12%
- b. 9.6%
- c. 6.7%
- d. 8%

Answers →

1b	2a	3b	4b	5d	6c	7a	8a	9b	10c
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All the best wishes!

