Coaching Class on International Trade and Finance

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Foreign Exchange

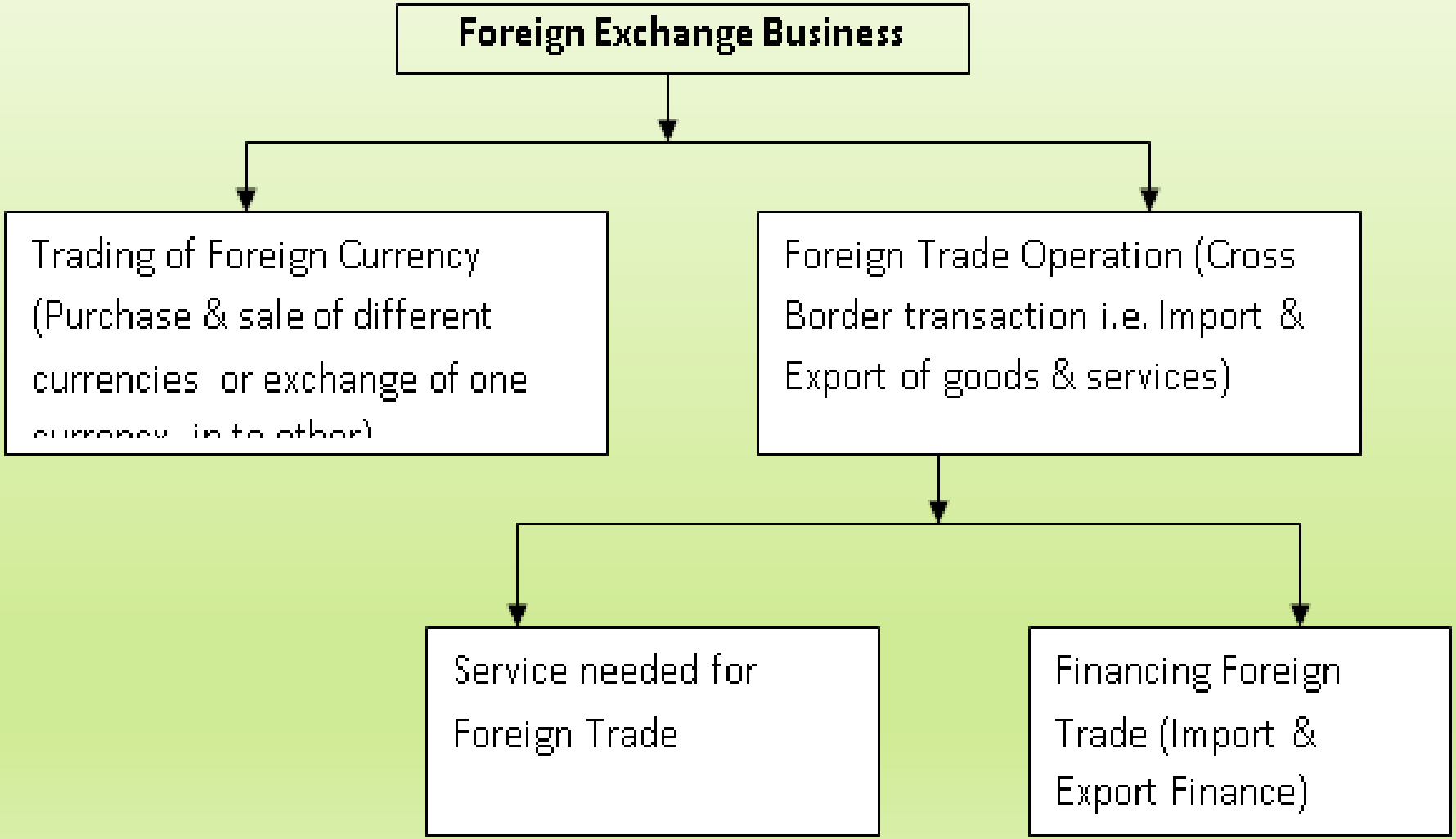
- **As per Foreign Exchange Regulation Act 1947 (Article 2d) Foreign Exchange means Foreign Currency i,e. Currencies other then Local Currency. It includes any instrument drawn, accepted, made or issued under clause (13) of Article 16 of the Bangladesh Bank Order, 1972, all deposits, credits and balances payable in any foreign currency and any draft, traveller's cheque, letter of credit and bill of exchange expressed or drawn in Bangladesh currency but payable in any foreign currency.**
- **So Foreign Exchange includes:**
  - I) **Cash Foreign Currency: (Like cash dollar, cash pound sterling, cash riyal etc.)**
  - II) **Instrument in Foreign Currency: (Like FDD, FTT, bill of exchange, promissory Note, L/C, LG etc.)**
  - III) **Deposit in Foreign Currency: (Like deposit in customers, Fc A/C, Bank's deposit in their Nostro A/C etc.)**
  - IV) **Credit in Foreign Currency: (Like loan/ investment made in FC to individual or Farm.)**

Foreign Exchange

Islamic Banking System:

The banking system aiming to achieve a well designed Islamic Financial system. Regarding use of money or exchange of currencies Islam has its clear cut instruction through some distinctive guidelines. Avoiding interest (Riba) restricting exploitation & speculation etc. is the major guidelines in this exchange process. So Islamic Banking system is doing banking business under Islamic guidelines.

Foreign Exchange



Foreign Trade Operations

This is cross border trading of goods & services. For conduction of trade transaction between two parties of separate territory the following barrier to be crossed or the issues to be resolved.

i) Seller needs guarantee that he will get payment from the buyer who is almost out of his reach.

ii) Payment is to be made by the buyer in foreign currency by converting currency of his own land.

iii) Time required for getting payment by the seller who may need immediate payment.

iv) For a buyer who needs to buy quantity goods as it can be imported frequently. That means he may need finance for the purpose of bulk quantity import.

To resolve the above issues banking system as well Islamic banking system provide special types of services for the first two (i & ii) and extend financial facilities for the rest two (iii & iv).

Exchange Rate, Spot & Forward Rate

An exchange rate is the value of one nation's currency versus the currency of another nation or economic zone. For example, how many U.S. dollars does it take to buy one euro? As of July 31, 2020, the exchange rate is 1.18, meaning it takes $1.18 to buy €1.

In commodities markets, the spot rate is the price for a product that will be traded immediately, or "on the spot." A forward rate is a contracted price for a transaction that will be completed at an agreed upon date in the future.

Foreign Exchange Risk Management

Foreign exchange risk refers to the losses that an international financial transaction may incur due to currency fluctuations. Also known as currency risk, Foreign Exchange risk and exchange-rate risk, it describes the possibility that an investment's value may decrease due to changes in the relative value of the involved currencies. Investors may experience jurisdiction risk in the form of foreign exchange risk. Foreign exchange risk arises when a company engages in financial transactions denominated in a currency other than the currency where that company is based.

A foreign exchange risk management strategy or program is a set of procedures that allows a company to achieve its goals in terms of managing currency risk.

Foreign exchange risk management is important for any organization that's doing international business. The values of major currencies constantly fluctuate against each other, creating income uncertainty for your business. Many businesses like to eliminate this uncertainty by locking in future exchange rates.

WTO

- The World Trade Organization (WTO) is an intergovernmental organization that regulates and facilitates international trade between nations. Governments use the organization to establish, revise, and enforce the rules that govern international trade. It officially commenced operations on 1 January 1995. The WTO is the world's largest international economic organization, with 164 member states representing over 96% of global trade and global GDP. The WTO facilitates trade in goods, services and intellectual property among participating countries by providing a framework for negotiating trade agreements, which usually aim to reduce or eliminate tariffs, quotas, and other restrictions; these agreements are signed by representatives of member governments and ratified by their legislatures. The WTO is headquartered in Geneva, Switzerland.

IMF

- International Monetary Fund (IMF), United Nations (UN) specialized agency, founded at the Bretton Woods Conference in 1944 to secure international monetary cooperation, to stabilize currency exchange rates, and to expand international liquidity (access to hard currencies). The first half of the 20th century was marked by two world wars that caused enormous physical and economic destruction in Europe and a Great Depression that wrought economic devastation in both Europe and the United States. The IMF is headed by a board of governors, each of whom represents one of the organization's approximately 180 member states. The governors, who are usually their countries' finance ministers or central bank directors, attend annual meetings on IMF issues. The fund's day-to-day operations are administered by an executive board, which consists of 24 executive directors who meet at least three times a week. Eight directors represent individual countries (China, France, Germany, Japan, Russia, Saudi Arabia, the United Kingdom, and the United States), and the other 16 represent the fund's remaining members, grouped by world regions. The managing director is usually a European and—by tradition—not an American. Since its creation, the IMF's principal activities have included stabilizing currency exchange rates, financing the short-term balance-of-payments deficits of member countries, and providing advice and technical assistance to borrowing countries.

World Bank Group

The World Bank Group (WBG) was established in 1944 to rebuild post-World War II Europe under the International Bank for Reconstruction and Development (IBRD).1 It is one of a variety of organizations seeking to shape the world economy. Today, the World Bank functions as an international organization that fights poverty by offering developmental assistance to middle-income and low-income countries. By giving loans and offering advice and training in both the private and public sectors, the World Bank aims to eliminate poverty by helping people help themselves. Under the World Bank Group (WBG), there are complementary institutions that aid in its goals to provide assistance

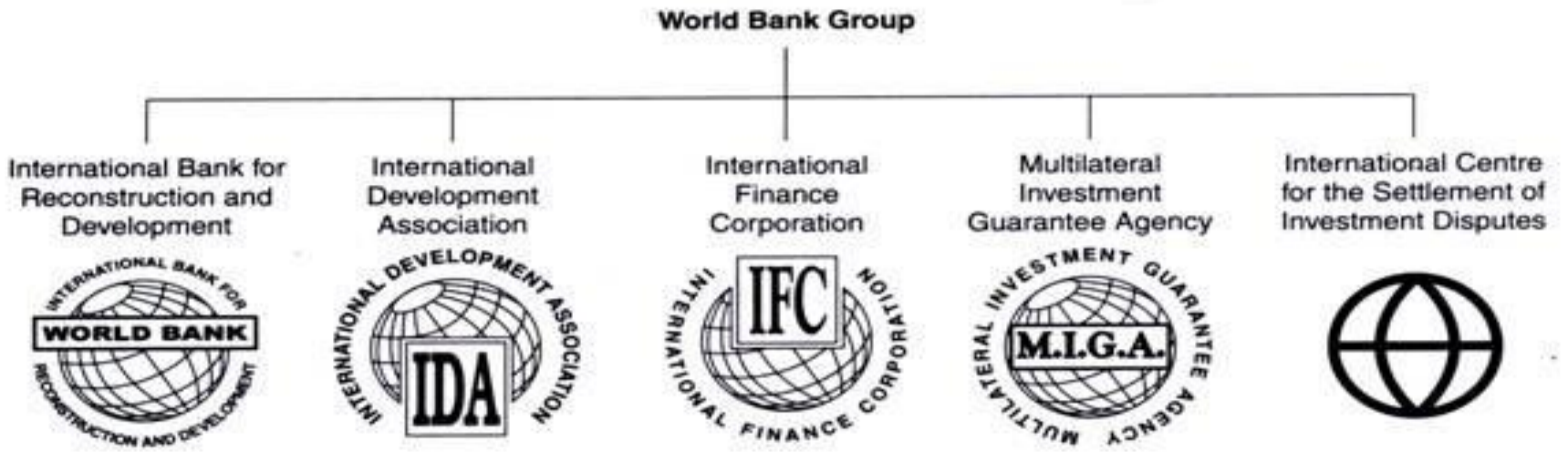


Fig. 4.1 The World Bank Group

FER Act-1947

- (1) This Act may be called the Foreign Exchange Regulation Act,1947.
- (2) It extends to the whole of Bangladesh, and applies to -
- (a) all citizens of Bangladesh;
- (b) all persons resident in Bangladesh; and
- (c) all persons in the service of the People's Republic of Bangladesh wherever they may be.]

- (3) It shall come into force on such date as the Government may, by notification in the official Gazette, appoint in this behalf.
- (4) [Omitted by section 2 of the Foreign Exchange Regulation (Amendment) Act, 1952 (Act No. I of 1952).]

FER Act-1947

Foreign Exchange Regulation (FER) Act, 1947 (Act No. VII of 1947) enacted on 11th March, 1947 in the then British India provides the legal basis for regulating certain payments, dealings in foreign exchange and securities and the import and export of currency and bullion. This Act was first adapted in Pakistan and then in Bangladesh.

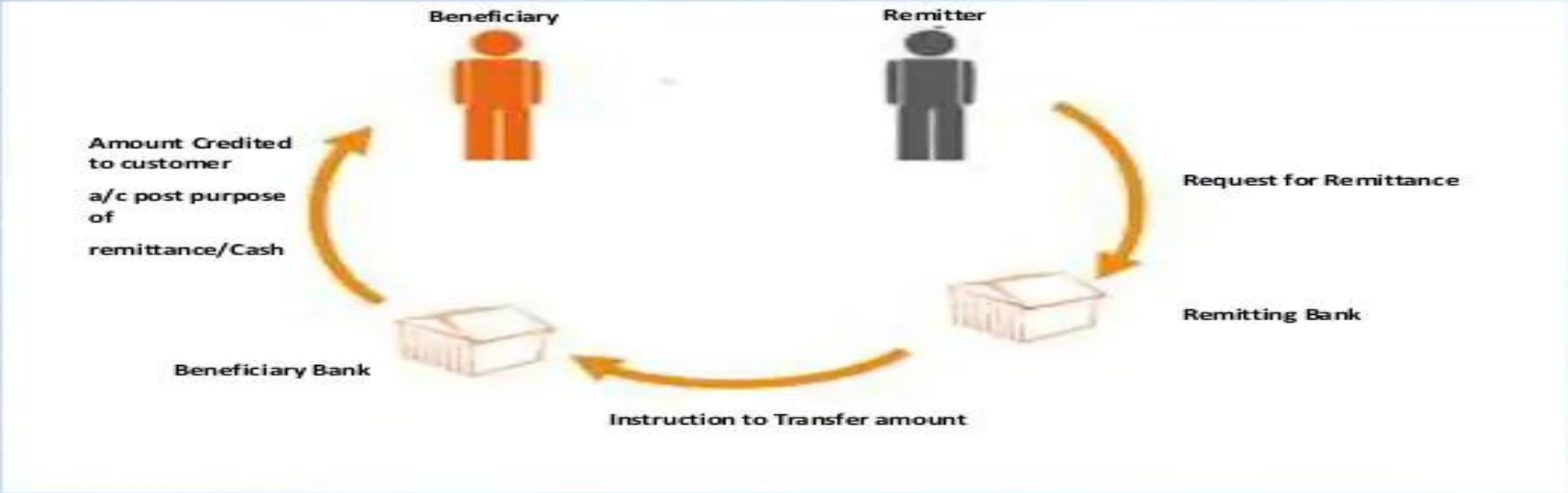
Authorised Dealers (ADs) in foreign exchange are required to bring the foreign exchange regulations to the notice of their customers in their day-to-day dealings and to ensure compliance with the regulations by such customers. The ADs should report to the Bangladesh Bank any attempt, direct or indirect, of evasion of the provisions of the Act, or any rules, orders or directions issued thereunder.

The ADs must maintain adequate and proper records of all foreign exchange transactions and furnish such particulars in the prescribed returns for submission to the Bangladesh Bank. They should continue to preserve the records for a reasonable period for ready reference as also for inspection, if necessary, by Bangladesh Bank's officials.

Remittance

Remittance

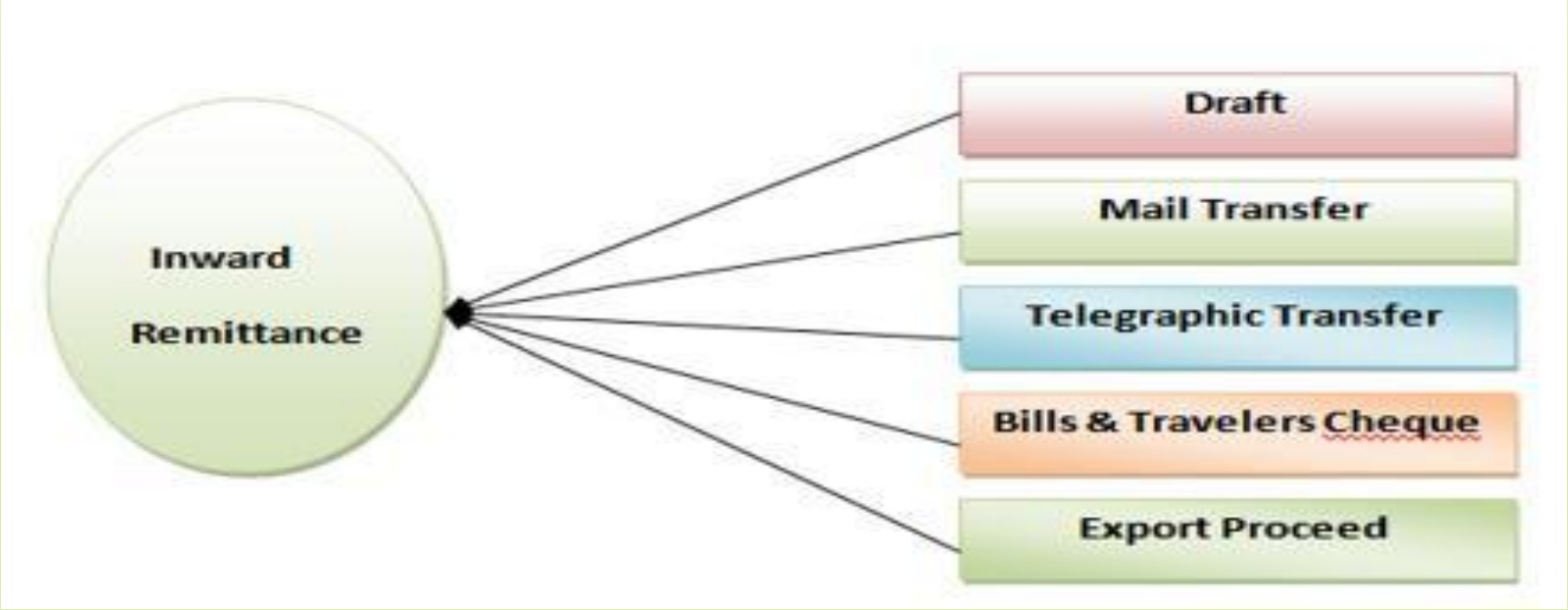
A **remittance** is a transfer of money by a foreign worker to an individual in his or her home country.



Inward Remittance

Inward remittance refers to the transfer of money from migrant workers to family or friends in their home country. However, this common understanding is only a partial reflection of the statistical meaning of international remittances.

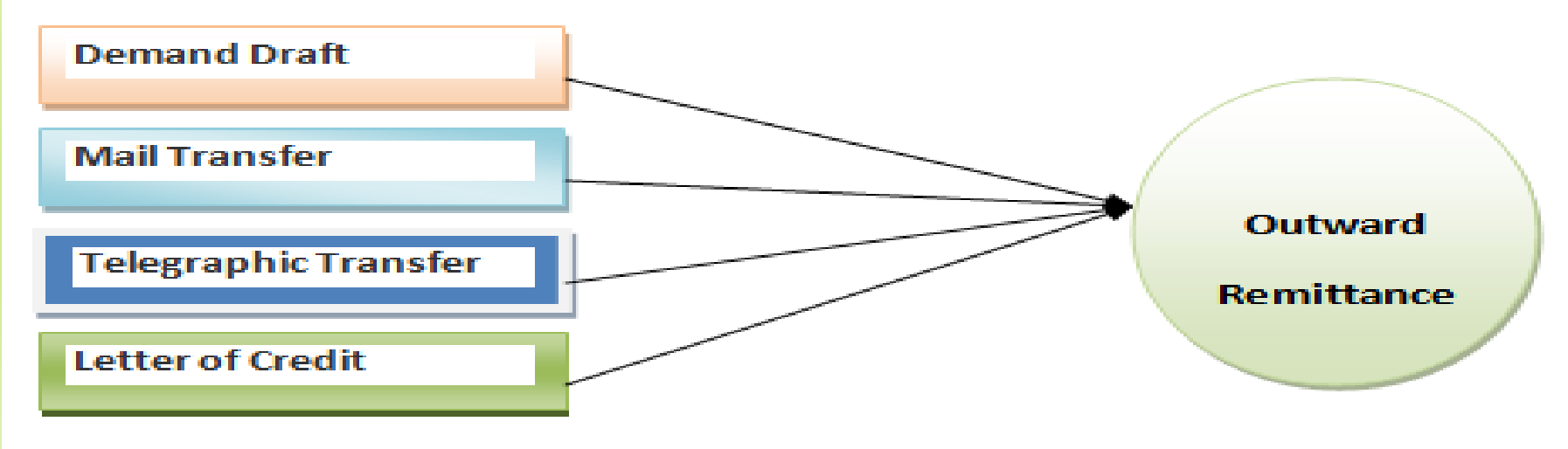
Inward Remittances" includes not only remittance by T.T., M.T., Drafts etc., but also purchases of bills, purchases of drafts under Travellers' Letters of Credit and purchases of Travellers' Cheques.



Outward Remittance

An outward remittance is **the transfer of funds from own country to a foreign country**. It is a safe and quick way of sending money abroad. You can use outward remittance to cover tuition fee, living expenses, pay for medical treatments abroad, buy assets, and more.

The outward remittances procedure is governed by lots of regulations. If you like to do the outward remittance, you should ensure that you are dealing with the genuine people and firms because you cannot trust any individual or a financial firm for sending your money. You need to select a bank that has international footprint and good reputation for making your job almost effortless.



GUIDELINES FOR FOREIGN EXCHANGE TRANSACTIONS

1. ISSUANCE OF LC AUTHORIZATION FORM AND ITS VALIDITY FOR REMITTANCE (CHAPTER-7 PAGE-26 & 27)

- The Ads are authorized to issue LCAFs in conformity with the IPO allowing import into Bangladesh
- Issued in 5 Set one must mark "For Exchange Monitoring Purpose"
- No Blank LCAF should be issued by the AD signed by the importer in front of authorized official in the LCAF
- In no case AD will accept LCAF from client if required, come through bank.

- **Validity:**

❖ One year subsequent to the month of issuance. (Issue: 15.01.2009 Validity: 31.01.2010)

❖ For capital machineries & spares – 18 Months

❖ No remittance against expired LCAF without revalidation

❖ Remittance is allowed without revalidation against FC Fund of Bangladeshi National working abroad.

GUIDELINES FOR FOREIGN EXCHANGE TRANSACTIONS

2. LC ON DEFERRED PAYMENT BASIS (CHAPTER-7 PAGE-37)

- **Allowed in the following case (subject to IPO)**

  - **Import of Capital Machinery upto 360 days usance**
  - **Raw Material for own industrial use upto 180 days**
  - **Import of coastal vessel, oil tanker and ocean going vessel including for scrapping 360 days**
  - **Agriculture equipment and chemical fertilizer 180 Days**
  - **Import of Life saving drugs (Certified as such by Drug Administration/Authority) 90 Days**

    - **Price must be internationally competitive & interest if any should not be higher than LIBOR for the period or rate in the currency country.**
    - **Against suppliers credit by industrial enterprise may be for longer period as per approval of BOI (General or Special)**

GUIDELINES FOR FOREIGN EXCHANGE TRANSACTIONS

3. CERTIFICATION OF EXP FORM BY ADs (CHAPTER-8 PAGE-45)

- **Before lodging EXP with custom / postal authority, exporter should get copies of EXP certified by AD.**
- **On submission AD will see that each set of the form is duly filled in**
- **Enter into register as per format (Appendix 5/20)**
- **Put Number:**

AD Code	Serial	Year
(4)	(5)	(2)

GUIDELINES FOR FOREIGN EXCHANGE TRANSACTIONS

3. CERTIFICATION OF EXP FORM BY ADs (CHAPTER-8 PAGE-45)

4. ISSUANCE OF SHARE IN FAVOR OF NON- RESIDENT (CHAPTER-9 PAGE-58)

5. REMITTANCE OF ROYALTY AND TECHNICAL FEES FROM BANGLADESH (CHAPTER-10 PAGE-80)

6. RELEASE OF FOREIGN EXCHANGE FOR STUDY ABROAD (CHAPTER-11 PAGE-96,97)

GUIDELINES FOR FOREIGN EXCHANGE TRANSACTIONS

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6. RELEASE OF FOREIGN FOR STUDY ABROAD (CHAPTER-11 PAGE96,9EXCHANGE7)

7. RELEASE OF FOREIGN EXCHANGE FOR TRAVEL ABROAD & ENDORSEMENT OF PASSPORT AND TICKET

   (CHAPTER-12 PAGE-100,101)

8. RESIDENT FOREIGN CURRENCY ACCOUNT (RFCD) (CHAPTER-13 PAGE-121)

9. ENTITLEMENT OF INTERNATIONAL DEBIT/CREDIT CARD (CHAPTER-19 PAGE-157)

GUIDELINES FOR FOREIGN EXCHANGE TRANSACTIONS

10. ADVANCE REMITTANCE AGAINST IMPORT (CHAPTER-7 PAGE-34&35)

11. DISPOSAL OF IMP FORMS (CHAPTER-7 PAGE-36)

12. EXPORT PROCEEDS REALIZATION CERTIFICATE AGAINST DIRECT and DEEMED EXPORT. (PRC) (CHAPTER-8, PAGE-55)

13. FC ACCOUNT OF NON-RESIDENT BANGLADESHIES (CHAPTER-13, PAGE-115)

International Financial Market

The International Financial Market is the place where financial wealth is traded between individuals (and between countries). It can be seen as a wide set of rules and institutions where assets are traded between agents in surplus and agents in deficit and where institutions lay down the rules.

- A financial market is the mechanism that facilitates the transfer of funds from lenders (surplus units) to borrowers (deficit units).
- The institutions & instruments are integral part of financial market.
- When funds flow across national boundaries and the transfer is between parties residing in different countries, there comes into existence the international financial markets

International financial market

Meaning

- **The international financial market is the worldwide marketplace in which buyers and sellers trade financial assets, such as stocks, bonds, currencies, commodities and derivatives, across national borders.**

Sources of international funds

- The flow of funds from providers to seekers of international funds takes place through different institutions or agencies and through different financial instruments.
- The institutions or agencies that serve as the sources of international funds are;

1. Multilateral development banks or agencies
2. Government / governmental agencies
3. International banks
4. Securities market

Segments of international financial markets

International financial market facilitates the transfer of funds globally. The funds so transferred may be ownership funds or debt funds. The funds may be transferred for different maturity periods such as short term, medium term or long term. Segments of International Financial Markets;

1. Foreign Exchange Market
2. International Bond Market
3. International Equity Market
4. International Money Market
5. International Credit Market

Financial instruments

Financial instruments are cheques, bonds, stocks, securities, futures, and options contracts. There are typically three types of financial instruments: cash instruments, derivative instruments, and foreign exchange instruments.

- Cash Instruments.
- Derivative Instruments.
- Debt-Based Financial Instruments.
- Equity-Based Financial Instruments.

Financial Market Instruments Categorization

This slide classifies various market instruments for the user insights

Bond Market
Deals with Debt Securities i.e. Bond

Foreign Exchange
Deals with Foreign Currencies Exchange Rate

Derivatives Market
Deals with Debt Hybrid Securities

FINANCIAL MARKET INSTRUMENTS

Equity Market
Deals with Shares or Stocks Securities

Debentures
Debt Instrument for Investment

Other Market
Tresury Bills Fixed Deposites Money Market

Types of Financial Instruments We Trade in

FINANCIAL INSTRUMENTS DIVISIONS

This slide shows financial market divisions for user general insights

Primary

- Deposits of Cash
- Bonds, Loans, Borrowings
- Add Text Here

Derivatives

- Forwards/ Futures
- Swaps
- Financial Options
- Add Text Here

Combinations

- Convertible Debt
- Exchangeable Debt
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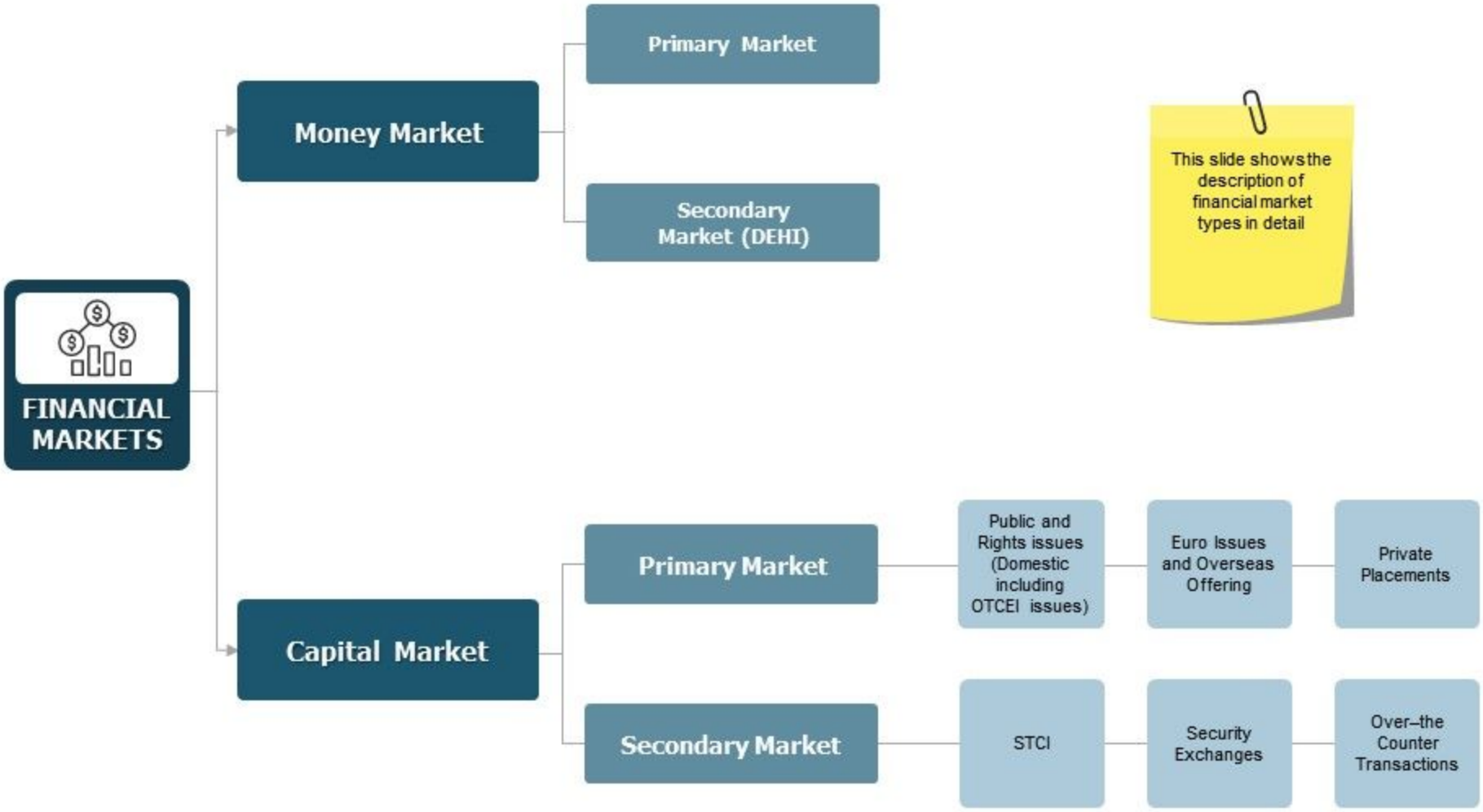
Detailed Financial Instruments Markets Template



Islamic Financial Instrument

Islamic products such as trade Murabaha (a sale with deferred payment) are widely used to finance purchase of goods and raw materials. Islamic solutions for medium and long-term financing are becoming more mainstream in the industry, in the form of financing and sukuk (Islamic bonds).

Financing instruments in Islamic finance consist of equity-like and debt-like instruments. Fixed claim instruments include Murabaha, Ijarah, Salam, and Istisna. Sukuk is an asset-backed trust certificate (bond) representing ownership of an asset or its usufruct (earnings) based on the principle of shariah.

April-2020

Question No. 7C. A customer wants to remit EURO 5000 through FTT for his son studying abroad. From the following information calculate what the rate for per EURO against BDT and how much amount you will charge form the customer?

i) Rate available : EURO/USD : 1.118-1.1190
USD/BDT : 84.9000-84.9500

ii) FTT Charge : @ 0.20%
iii) Fixed Administrative Cost : Tk.0.15 (Per EURO)
iv) Profit Margin : 0.12
v) Rebate to be allowed for the customer 0.25% for a period of 14 days (360 days in a year)

Solution: Applicable rate of =
i) 1 EURO = Tk.(1.1190 X 84.95)= Tk.94.974
ii) FTT Charge = Tk.(94.974 X.20%) = Tk.0.1899
iii) Fixed Administrative cost =Tk. 0.15
iv) Profit Margin = Tk.(94.974 X0.12%)= Tk.0.1140

v) Rebate $= \text{Tk} \dfrac{0.25 \times 14 \times 94.974}{100 \times 360}$

Tk. 0.009233

So, purchase Rate will be = 94.974 + 0.1899+0.15+0.140-0.009233
=Tk.95.4187

Total value will be = 5000X95.4187
= Tk.4,77,093.33

October – 2019

Question No. - 07; C: A Customer intends to sell an export documents for USD 10,000 at sight basis. Calculate applicable rate for purchasing the above documents under Bai-as-sarf and total value to be paid the customer under the data:

i.	Spot Rate USD/BDT	: 83.80-84.80
ii.	Transit period	: 21 days (1 Year 360 days)
iii.	Collection Charge	: 0.20 %
iv.	Bank's Profit	: @ 6 %P.A
v.	Postage Charge	: Tk.0.15 Per USD
vi.	Foreign correspondent Charge	: Tk.0.10 per USD

Solution: Maxim: Buy low Sell high

We are to buy the Export bill for $ 10,000 at sight basis. So, the applicable rate will be:

1 dollar = Tk. 83.80

Collection charge = 83.80 X 0.20%

= 0.1676

Banks Profit = Tk. $\frac{83.80 \text{ X } 6 \text{ X } 21}{360 \text{ X } 100}$

= Tk. 0.2933

Postage charge = Tk. 0.15

Foreign Correspondent charge = Tk.0.10

So, the buy rate will be = 83.80 – (0.1676+0.2933+0.15+0.10)

= Tk. 83.80-0.7109

= Tk. 83.0891

Total value of the Bill will be =Tk. (10,000 x83.0891)

= Tk. 8,30,891.

April-2019

Question 7.C: Determine the rate for remitting GBP 5000 through FTT for study purpose as per following date & how much total amount so far paid:

i) Rates available GBP/USD : 1.3880-1.3885
USD/BDT: 82.9000-83.6000

ii) FTT charges @ 0.25%

iii) Fixed overhead cost @ Tk.0.20 per GBP

iv) Profit margin for the bank @ 0.20%

v) Rate to be allowed to the customer; @ 0.30% for a period of 21 days

(360 days in a year)

Solution: Maximum: Buy low sell high

Here, we are to sell GBP 5000 to the client

Given,

GBP/USD : 1.3880-1.3885

USD/BDT : 82.90-83.60

Through Applicable rate will be

i) 1 GBP = Tk.(1.3885X83.60) = Tk.116.0786

ii) FTT charge = 116.078 X0.25% = Tk.0.2902

iii) Fixed over head cost @ Tk.0.20

iv) Profit Margin = Tk.(116.0786X20%) = Tk.0.2321

v) Rebate per GBP Tk. $\frac{0.30 \text{ X } 21 \text{ X } 116.0786}{100\text{X}360}$

=Tk. 0.0203

So, Applicable will be= (116.0786 +0.2902+.2321 -0.0203)= Tk.116.5806

The client have to paid in total = Tk.(5000X116.5806)= **Tk.5,82,903/-**

Question: At what rate would you purchase a draft for Euro 1000 from Mr. Martin of Germany and the total value you would pay if you require a profit margin @ 0.825% postage 0.3510 per Euro and cheque margin 0.1250% assuming the rate as under

Spot Dollar Tk 68.3000-69.4500

Spot Euro in Germany $ 1.3316-1.3320.

Solution: Rate to be taken as - **€1 =** Tk.(68.3000 X 1.3316)

= Tk. 90.9483

Profit per Euro = Tk. 90.9483 X 0.825 %

= Tk. 0.7503

Postage charge per Euro = Tk. 0.3510

Cheque Margin per Euro = Tk. (90.9483 X 0.1250 %)

Tk. 0.1137

Hence the purchase rate would be = 90.9483 – 0.7503 – 0.3510 – 0.1137

= 90.9483 – (0.7503 + 0.3510 + 0.1137)

= 89.7332

Total Amount = Tk. (89.7332 X 1000)

= **Tk. 89733.20**

Question No. - 02: Calculate ¥/Tk. And €/Tk. rates from following information:

$/Tk.: 69.20 – 70.30 (Dhaka)
€/$: 1.30 – 1.40 (Paris)
$/¥ : 120.30 – 120.80 (Tokyo)

Solution: $$¥

	Buying	-	Selling
Given: $/Tk. :	69.20	-	70.30
$/¥ :	120.30	-	120.80

From the given rate we can write:

$$¥/Tk. = \frac{69.20}{120.30} \text{ — } \frac{70.30}{120.80}$$

$$\therefore ¥/Tk. = 0.5752 – 0.5820$$

Again, $/Tk. : 69.20 – 70.30 (Dhaka)

€/$: 1.30 – 1.40 (Paris)

From given information or rate we can write:

$$\therefore €/Tk. = 1.30 \text{ X } 69.20 – 1.40 \text{ X } 70.30$$

$$= 89.96 – 98.42$$

Question No. - 08; C: A client of you intends to remit €1500 to his son studying in Germany by TT.

Calculate: ***1. The exchange rate to be applied***

2. Total amount of Taka to be paid by the client, when following conditions hold:

US$1 = TK. 69.4020 – 69.9030 (Dhaka)

€1 = $1.3925 – 1.4210 ((Frankfurt)

Profit margin of the bank is 0.25%; bank 's overhead cost in TK. 0.50 per Euro and allowable rebate to the client is @2% per annum a period of 20 days (360 days in a year).

Solution: Maxim : Buy low and sell high. Here, we are to sell the € 1,500.00 to the client.

Given, US $ 1 = Tk. 69.4020 – 69.9030

€ 1 = $1.3925 – 1.4210

The applicable rate will be - € 1 = Tk. (69.9030 x 1.4210)

= Tk. 99.3322

Profit margin = Tk. (99.3322 X 0.25 %)

= Tk. 0.2483

Bank's overhead cost per EURO = Tk. 0.50

$$\text{Rebate} = \text{Tk. } \frac{2 \text{ X } 20 \text{ X } 99.3322}{360 \text{ X } 100}$$

= Tk. 0.1104

Now, the exchange rate to be applied is - € 1 = Tk. (99.3322 + 0.2483 + 0.50 – 0.1104)

= Tk. 99.9701

II. Total Amount is = Tk. (1500 X 99.9701)

= Tk. 149,955.00

Question No. - 07; B: You are to buy an Export Bill for US$ 30,000.00 at sight basis under Bai as Sar mode. Calculate the buying rate and total value of the bill to be paid to your customer on the basis of following information:

1. ***Spot Rate USD/ BDT : 74.70 – 75.60***
2. ***Transit Period:21 days***
3. ***Collection Charge:0.25%***
4. ***Postage & Correspondence Charge: @ Tk.0.15 Per USD***
5. ***Bank's Profit Margin:@7% p.a.***
6. ***1 Year=360 days.;***

Solution: Maxim: Applicable rate: $ 1 = Tk. 74.70

Collection charge: = Tk. 74.70 X 0.25 %

= Tk. 0.1868

Postage & Correspondence charge = Tk. 0.15 Per $

$$\text{Profit} = \text{Tk. } \frac{74.70 \text{ X } 21 \text{ X } 7}{}$$

= Tk. 0.3050

The buy rate will be = Tk. (74.70 – CC – PC - Profit)

= Tk. 74.0582

So, $ 1 = Tk. 74.0582


Thank You