

Foreign Exchange Policy Department
Bangladesh Bank
Head Office
Dhaka

Website: www.bb.org.bd

FE Circular No. 07

Date: 15 April, 2010

Head Offices/Principal Offices of
all Authorised Dealers in
Foreign Exchange in Bangladesh.

Dear Sirs,

CALCULATION OF DAILY EXCHANGE POSITION

It has been decided to amend the Annexure-A, Annexure-B and Annexure-C of **FE Circular No. 26**, dated 29-12-2009. Revised versions of **Annexure-A** and **Annexure-B** are attached hereto for needful action at ADs' end. Instructions for filling up the Annexures as amended are detailed in revised **Annexure-C** to this circular. The ADs shall submit daily exchange position as per the revised format with effect from May 02, 2010. However, submission of daily exchange position under the existing formats (as per **FE Circular No. 07**, dated 08-06-2005) will continue till 30-06-2010 and the existing formats shall stand replaced by the new formats from July 04, 2010.

Please acknowledge receipt and bring the contents of this circular to the notice of all concerned.

Yours faithfully,

(Mohd. Humayun Kabir)
Deputy General Manager
Phone: 9512607

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- **Authorised Dealers** shall maintain records of their exchange position in foreign currencies as at the close of business on each working day in the prescribed proforma **(See Annexure-A and Annexure-B)**. The currency wise daily exchange position statements should be submitted to Bangladesh Bank on the following working day.
- **Banks** shall maintain their overall exposures in foreign currencies (overall net exchange position) within the '**Open position limit**' at the end of the day. The open position limit is required to be approved by the Bangladesh Bank on the basis of total capital (sum of Tier-1, Tier-2 & Tier-3) and some other qualitative judgements.
- The proforma of exchange position has been drawn up to suit the different types of book keeping used in different banks. The main items which may cause some difficulties are explained below. In the event of any further difficulty being encountered, the Authorised Dealer should refer the matter to the Foreign Exchange Policy Department of Bangladesh Bank.

Guidelines for Calculation and Reporting of Foreign Exchange Exposure of Bank.

- **Foreign currency exposure** of bank is defined as the sum of all foreign currency denominated assets and liabilities. The exposure shall also include the net forward and other possible off-balance sheet items (as decided by Bangladesh Bank) in each currency. No foreign currency denominated asset or liability can be ignored, unless it has been explicitly agreed with the Bangladesh Bank.
- **Bank's overall foreign exchange exposure (i.e. overall net exchange position)** is to be measured in two successive steps: **first**, the measurement of the exposure in each single currency, and **second**, the measurement of overall foreign exchange exposure (i.e. overall net exchange position) by aggregating the sum of the net short positions or sum of the net long positions whichever is higher.

Calculation of Net Exchange Position in Each Currency

- Bank's net exchange position in each currency shall be calculated by summing (i) net position in balance sheet items and (ii) net position in off-balance sheet items.
- **Balance sheet** items include spot position only. **The net spot position** is the difference between foreign currency assets and the liabilities in the balance sheet. This should include all accrued income/expenses.

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- **Off-balance** sheet items include all foreign currency denominated assets and liabilities not included in the balance sheet. These transactions are recorded in the off-balance sheet section of the book of a bank.
- **Off-balance sheet** items include **forward position denominated** in foreign currency. **Net Forward Position** in a currency represents all amounts to be received less all amounts to be paid at a future value date under forward foreign exchange transactions including the far leg position of currency swap contracts.

Therefore, banks shall arrive at net foreign exchange position in each currency by adding (i) net spot position and (ii) net forward position.

- **Banks shall, thus, calculate the overall net exchange position in the following manner:**
 - (i) Calculate the net exchange position in each currency;
 - (ii) Convert the net positions in various currencies in equivalent USD [using the conversion rate determined by 'Forex Reserve and Treasury management Department (FRTMD) of Bangladesh Bank' or 'Bangladesh Foreign Exchange Dealers Association (BAFEDA)'];
 - (iii) Arrive at the sum of all the net long positions;
 - (iv) Arrive at the sum of all the net short positions;
 - (v) Arrive at the overall net foreign exchange position [higher of (iii) or (iv)]

The overall net foreign exchange position thus arrived must be kept within the limit approved by Bangladesh Bank.

- Net Exchange Position shall be worked out on the basis of opening balance and other transactions of the day concerned as per the local books of the Authorised Dealer. All assets take the form of debit balances and all liabilities the form of credit balances. Therefore, if an Authorised Dealer holds a credit balance with its correspondent/OBU book, its local book will show a debit balance, as the AD is holding an asset. Similarly, an overdrawn position with overseas correspondent/OBU book will be shown as a credit balance in local book. No under valuation shall take place; assets are to be marked to market in adherence to the 'Guidelines for Core Risks Management'. Balance sheet and off-balance sheet exposures are to be reported separately but added together to arrive at overall exposures in individual currency. The nostro balances as per local book and nostro balances as per book of the overseas correspondents/OBU should be completely reconciled. The banks shall take utmost measures for complete reconciliation as suggested in the 'Core Risk Guidelines on Foreign Exchange'.
- **Submission of Daily Exchange Position Statement**

Banks are required to submit two daily statements:

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- i. statement stating the opening exchange position and transactions during the reporting day (**Annexure -A**), that is, opening stock and flow data respectively
 - ii. the position at the close of the day (**Annexure-B**), i.e., the opening position for the next day.
- Transfer between different foreign currency accounts does not affect in day transaction. For instance, the transfer of the balance in an NFCD account after maturity to an approved foreign currency account does not constitute buy or sale on the part of the bank on the day transaction.

Description of some items of the formats [Annexure A, Annexure B]

Clarification of the Contents of the Columns

Item in Column	Clarification
1	Balance sheet items in USD only
2	Balance sheet items in EURO only
3	Balance sheet items in JPY only
4	Balances sheet items in GBP only
5	Summation of balance sheet items in all other currencies converted in equivalent USD
6	Off-balance sheet items in USD only
7	Off-balance sheet items in EURO only
8	Off-balance sheet items in JPY only
9	Off-balance sheet items in GBP only
10	Summation of off-balance sheet items in all other currencies converted in equivalent USD
11	Total of Long Positions (among different currencies as indicated in Row 1.D and Row 8, as the case may be) in equivalent US Dollar.
12	Total of Short Positions (among different currencies as indicated in Row 1.D and Row 8, as the case may be) in equivalent US Dollar
13	Overall net foreign exchange position i.e. higher of 11 or 12 above with + (plus) sign in case of long position and with – (minus) sign in case of short position as the case may be.

Clarification of Items of the Rows :

1. A.id: Outward bills purchased

Banks have different methods of entries for outward bills purchased. If a bank inputs the value of any outward bill purchased immediately into their currency account, then such transaction need not be reported under this head. On the other hand, some banks debit their bills purchased to a temporary suspense account and transfer to their currency account when the bill is realized. When the exchange position is prepared before realization of the bill(s), the total outstanding purchased export bill should be reported under this head. After realization of bills, such transactions are to be reported in local book and the respective head will be adjusted accordingly. The amount of bills sent for collection shall not to be reported under this head.

1. A.ie: Others

Opening balance of any foreign asset not covered in 1.A. (ia through id) will have to be reported under this head. Besides, amount of **unsettled spot purchase transactions** (spot

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purchase transactions not yet settled/not yet booked for) against firm deal/contract shall have to be reported under this head. The particulars of such balances, if reported, should be mentioned in foot note. After settlement, such transactions are to be booked for in local book and the respective head will be adjusted accordingly.

1. A.iib5: FDDs, MTs and TTs payable :

Banks issue FDDs, MTs and TTs on correspondents to pay foreign currency or equivalent to the beneficiaries by debiting their nostro accounts. If a bank inputs the value of such instruments/transfers immediately into their currency account, then such transactions need not be reported under this head. If the Authorised Dealer does not enter into his currency position the amount of draft or transfer until it is actually paid, the amount need to be reported under this head. After settlement, such transactions are to be reported in local book and the respective head will be adjusted accordingly.

1. A.iib6: Others:

Balances on account of customer account other than FC, NFCD, RFCD, ERQ etc. (out of exchange position) and not covered by any head as mentioned above will have to be reported under this head. The particulars of such balances, if reported, should be mentioned in footnote.

1. A.iic: Back to back letters of credit-fund awaiting for remittance:

Under back-to-back import system, import bills are usually paid from export earnings. Bank receives export proceeds and retains these to settle import bills accordingly on maturity. Balance in these accounts (e.g. back to back margin account) should be reported under this head. After payment is made on maturity, such transactions are to be reported in local book and the respective head will be adjusted accordingly.

1. A.iid: Others

Opening balance of foreign liabilities not covered in 1.A (iia through iic) will be reported under this head. Besides, amount of **unsettled spot sales transactions** against firm deal/contract shall be reported under this head. The particulars of such balances, if reported, should be mentioned in foot note. After settlement, such transactions are to be booked for in local book and the respective head will be adjusted accordingly.

1. A.iii: Net position of assets/liabilities:

Difference between the total of items under A.i and total of items under A.ii will be reported under this head.

1. B: Forward against contract

Banks offer forward booking to other banks and customers as well. Currency-wise net outstanding amount of forward derived from purchase or sale from/to banks and customers against firm contract shall be reported under this head.

1. C: Contingent liability

Outstanding amount of contingent liabilities (Letters of credit, guarantees, acceptances, others) at the beginning of the day is to be reported. However, the amount under this head will not be considered for calculation of net exchange position.

2. Spot/Cash Transactions of the day

Spot transaction is single outright transaction involving the exchange of two currencies at a rate agreed on the date of the contract for value or delivery (cash settlement) within two business days. Cash transaction is the transaction involving the exchange of two currencies at a rate agreed where settlement takes place immediately (usually in the same day). These are to be reported under this head. To mention, cash settlement of forward transactions, settlement of near leg and far leg spot transaction of swap contracts (buy/sell as the case may be) shall be reported under this head (Please see below) .

3. Forward transactions of the day

- Forward transactions involve the exchange of two currencies at a rate agreed on the date of the contract for value or delivery (cash settlement) at some future date (more than two business days).
- Swap Transaction is a combination of a spot and a forward transaction and involves a simultaneous purchase and sale of two currencies against each other.
- Forward transactions (alongwith those derived from swap transactions i.e. far legs of swap transactions) of the day under report with banks and customers are to be reported under the above head. However, sales, purchases and settlement of such transactions are to be reported under different heads as stated in the format.

• Settlement of Swap Transactions

Transactions derived from swap contracts are to be reported simultaneously under sl. no. 2 (Spot transactions) and 3(Forward Transactions) of the exchange position statement. The near leg spot transaction of the currency is to be reported under sl. no. 2 while far leg of the swap contract is to be reported in sl. no. 3.A1 of the exchange position statement under the head of forward transactions (purchase or sale as the case may be). On maturity, the far leg transaction is to be reported under spot (buy/sell) as reversal of the previous one and to neutralise the forward book position, the settled transaction amount shall be shown as forward purchase/forward sale settlement under the respective head in sl. no. 3.A2

4. Issuance and settlement of contingent liabilities during the day

Issuance and settlement of contingent liabilities during the day (which shall be excluded for calculation of foreign exchange exposures) like letters of credit and letters of guarantee, are to be reported under this head.

5. Total spot position of the day

It is the sum of the opening spot position at the beginning (A.iii) and the spot transactions during the day as well (2.D).

6. Total forward position of the day: It is the sum of the opening forward position of the day (1.B) with net forward transactions of the day (3.A1) less net settlement of outstanding forward transactions during the day (3.A2).

7. Total currency-wise net exchange position of the day

Net Exchange position in a currency is the sum of spot position (Row 5) and forward position (Row 6) in the respective currency.

8. Total of the Net Long Positions (Column 11) and Total of the Net Short Positions (Column 12) in equivalent US Dollar

The sum of the net exchange positions of the currencies as indicated in Row 7, having long position shall be reported at Row 8 and Column 11 of the matrix. On the other hand, the sum of the net exchange positions of the currencies as indicated in Row 7, having short position shall be reported at Row 8 and Column 12 of the matrix with ‘ - ’ (minus) sign.

9. Overall Net Exchange Position in equivalent US Dollar

The overall net exchange position of the bank will be the ‘total of the net long positions’ or the ‘total of the net short positions’ (as indicated in Row 8) whichever is higher. Overall net exchange position thus arrived in equivalent US Dollar shall be reported at Row 9 and Column 13 of the matrix.

10. Overall Net Exchange Position in equivalent BDT

Overall net exchange position in equivalent BDT will be reported at the Row 10 and Column 13 of the matrix.

11. Conversion Rate (Equivalent Taka)

The conversion rates ADs to convert various currencies (USD, EURO, JPY GBP etc. applied by the ADs) are to be reported here (equivalent BDT per respective foreign currency.) To convert currencies, ADs are advised to use weighted average rate of USD/BDT as declared by FRTMD of Bangladesh Bank or BAFEDA.