

Export Pricing & Key parameters for Costing

1. Cost/Costing, Price/Pricing - difference for the exporter and buyer
2. Export Costing Method - Traditional Cost Plus method Vs Marginal Costing approach
3. Preparation of Cost Sheet; Key parameters for Costing
4. Understanding Incoterms - ICC, Paris
5. Consider the various costs with Incoterms and Passing on the Duty Draw Back, RoDTEP, Forward Premium & Interest equalization benefit to the buyer

EXIM International Trade/Business

- Economic Scenario in the world and India's International Trade position;
- Settlement of International Trade thru AD Banks in Foreign Currency/INR & Role of DGFT, ICEGATE, RBI's FEMA 1999 & FEDAI
- Incoterms 2020 - ICC, Paris
- Payment Terms - Advance Payment, DP at Sight, DA - Credit, Letter of Credit under UCP 600- ICC Paris
- Role of ECGC - Russia - Ukraine War, Sri-Lanka etc geo-political crisis
- Pre-Post shipment Finance – PC-INR and PCFC – a natural hedging
- CCIL India - Fx Retail – Its use and relevance
- How to take advantage of booking the exchange rate and forward contracts - Hedging of Forex Risk
- FEMA 1999 liberalizations for Advance Payment, Third Party Payments, Reduction in Invoice Value, EEFC, Payment of Commission & EPDMS – challenges
- **List of Comprehensively OFAC Sanctioned Countries** ; Cuba, Iran ; North Korea, Russia ; Syria.

Answer Following Questions

- What is the need & Importance for doing International Trade for Individuals, Firms & Govt?
- What are the Regulations for Settlement of International Trade thru Foreign Exchange?
- Why 85% of International Trade is settled in USD?
- Why & How RBI directs Banks to lend money to Exporters/MSME at concessional Rate of Interest
- What is the need & Importance of LC for Exporter & Importer?
- What is the impact of **Sanctions** like that on Russia etc?
- How do you cover **Credit/Geo-political risk like Russia-Ukraine war for Export business?** – **Role of ECGC??????????**
- How do you Hedge your Forex Risk or USD/INR level thru PCFC or PC-INR? Excess Liquidity driving the Forex Market Rates..
- What's the impact of Silicon Valley Corpn Bank/First Republic Bank and West Pec Bank/Western Alliance Bank failure/Signature Bank?

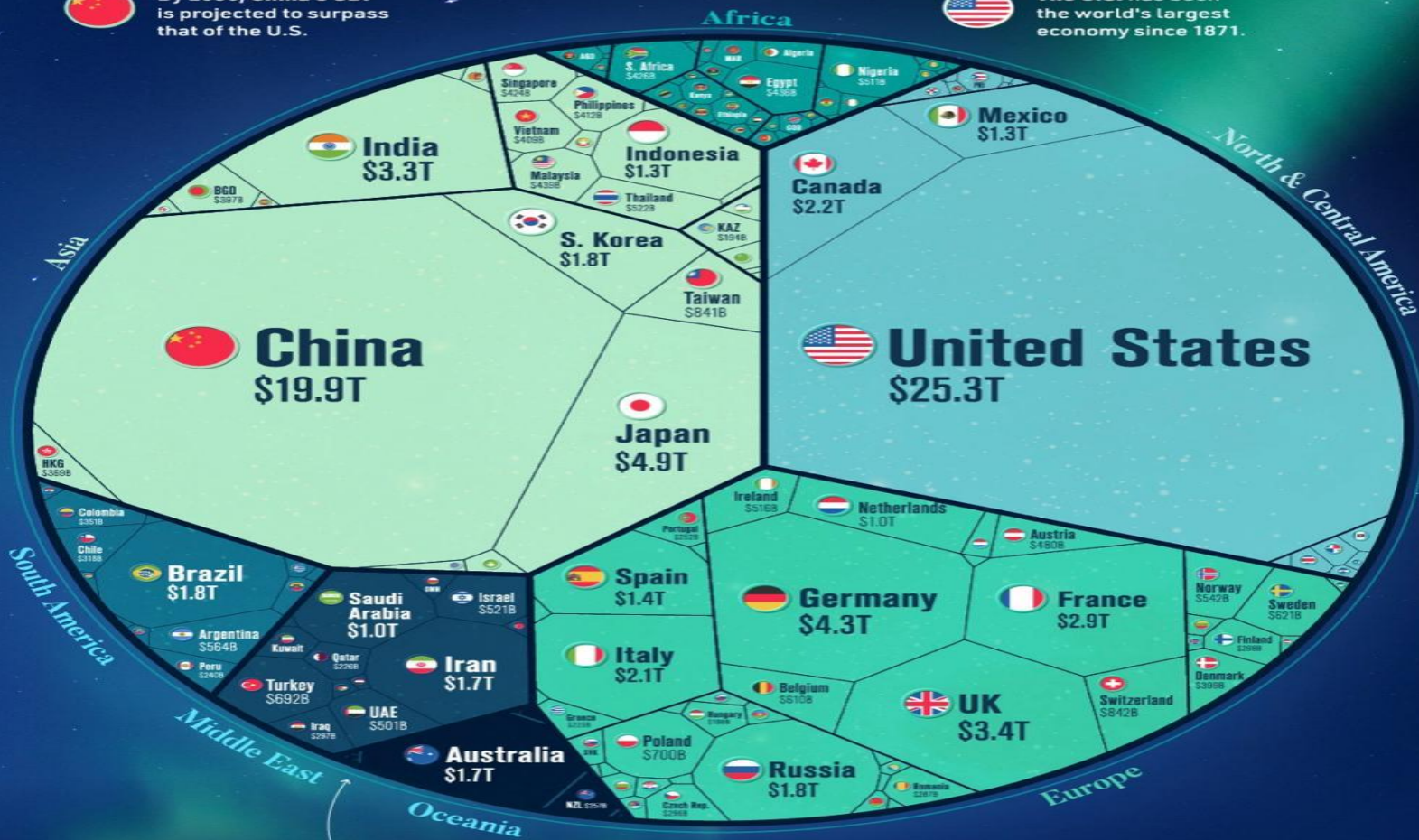
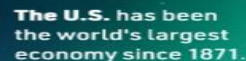
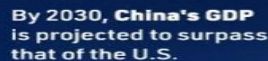
Global Economic Scenario

- Forex Reserves at USD 643.162 BN – External Debt USD 635.50 BN
- Good Forex Inflow/Outflows due to FII, ECB's etc
- April- March FY 2024 Trade Deficit USD 240 BN
- Govt's funding Trade deficit thru Capital inflows -ECB's/FII's/- FDI's - leveraging on capital market and thru \$ or Yen Carry Trade - How Long?
- INR ranges between 82.00 – 86.00
- Forward Premiums 6 months 1.50% and 1 year at 1.60%
- March Retail CPI 4.85% Core Inflation 3.40% WPI 0.60%, US March CPI 3.50%
- BSE Index around 75000+
- Major Central Banks Decreasing Interest Rate post COVID-19, QE 3/Europe Debt Mess, RBI to remains 'Unpredictable' in its Monetary Policy Reviews.
- Monetary Easing – *kho- kho* by Major Central Banks, Geo-political situation impacting the world markets. **SOFR**/LIBOR above 5.35% for 1 year.
- “Great Divorce” between China/Europe/Japan/US, Sub-Prime Crisis
- Russia-Ukraine conflict will pose upside risks to inflation but downside risks to growth/stagflation.
- India 10 Year **G-Sec Bench Mark @ 7.25%, Repo 6.50%, Rev. Repo 3.35%**
Standing Depo Facility 6.25%,CRR 4.50% SLR 18.00%, US 10 Year 4.60%, UK 4.53%, German 2.50% Japan 0.81% - **Q.E to Q.T impacting the markets** India

The \$100 Trillion World Economy

GLOBAL GDP 2022

Despite conflict and looming stagflation, the global economy will hit an impressive new milestone, reaching **\$104 trillion**, according to the latest IMF projections for end of year.



Many of the world's smallest economies are located in the Oceania region, such as **Tuvalu** with a GDP of \$66 million.

Ireland is expected to be the fastest growing economy in the Eurozone, with a 5.2% increase this year.

*2022 data was not available for a handful of countries, including Ukraine and Pakistan.
For full data notes and detailed version of this visualization, visit visualcapitalist.com/100-trillion-global-economy/

Source: IMF (April 2022)



Who holds the largest gold reserves across the world?

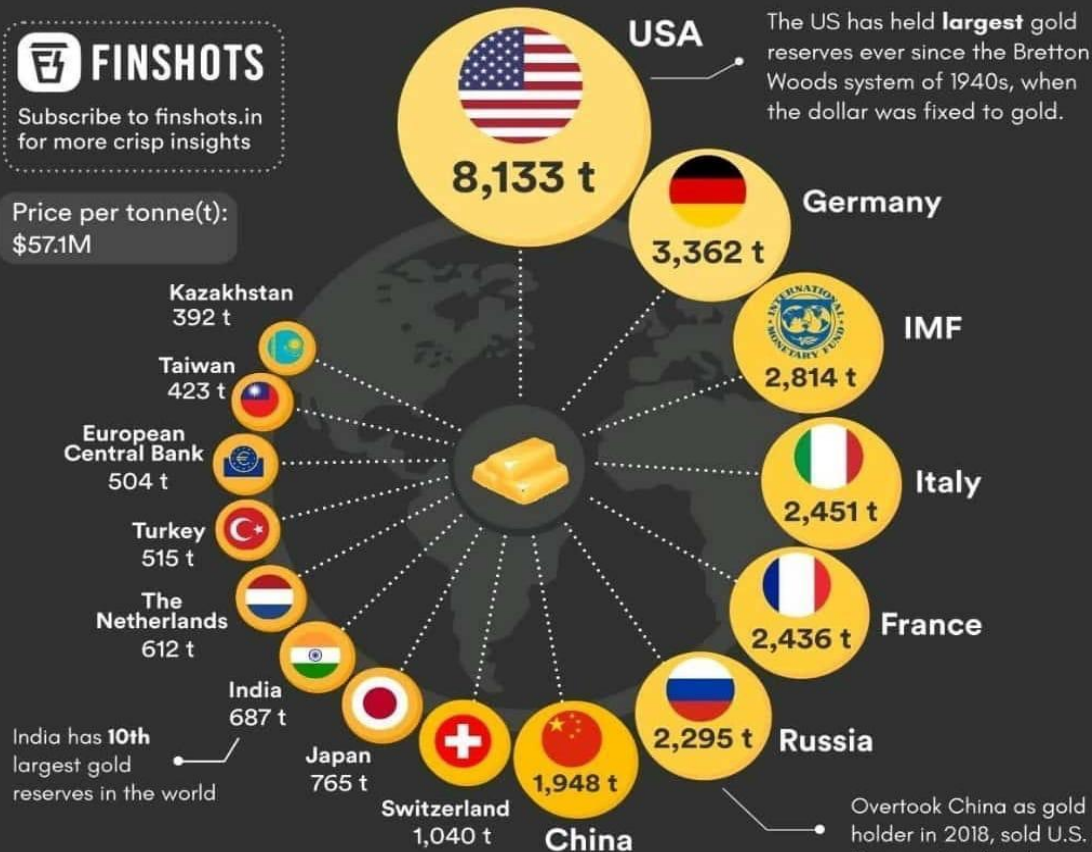
Amount of gold (in tonnes) held by central banks/treasuries



FINSHOTS

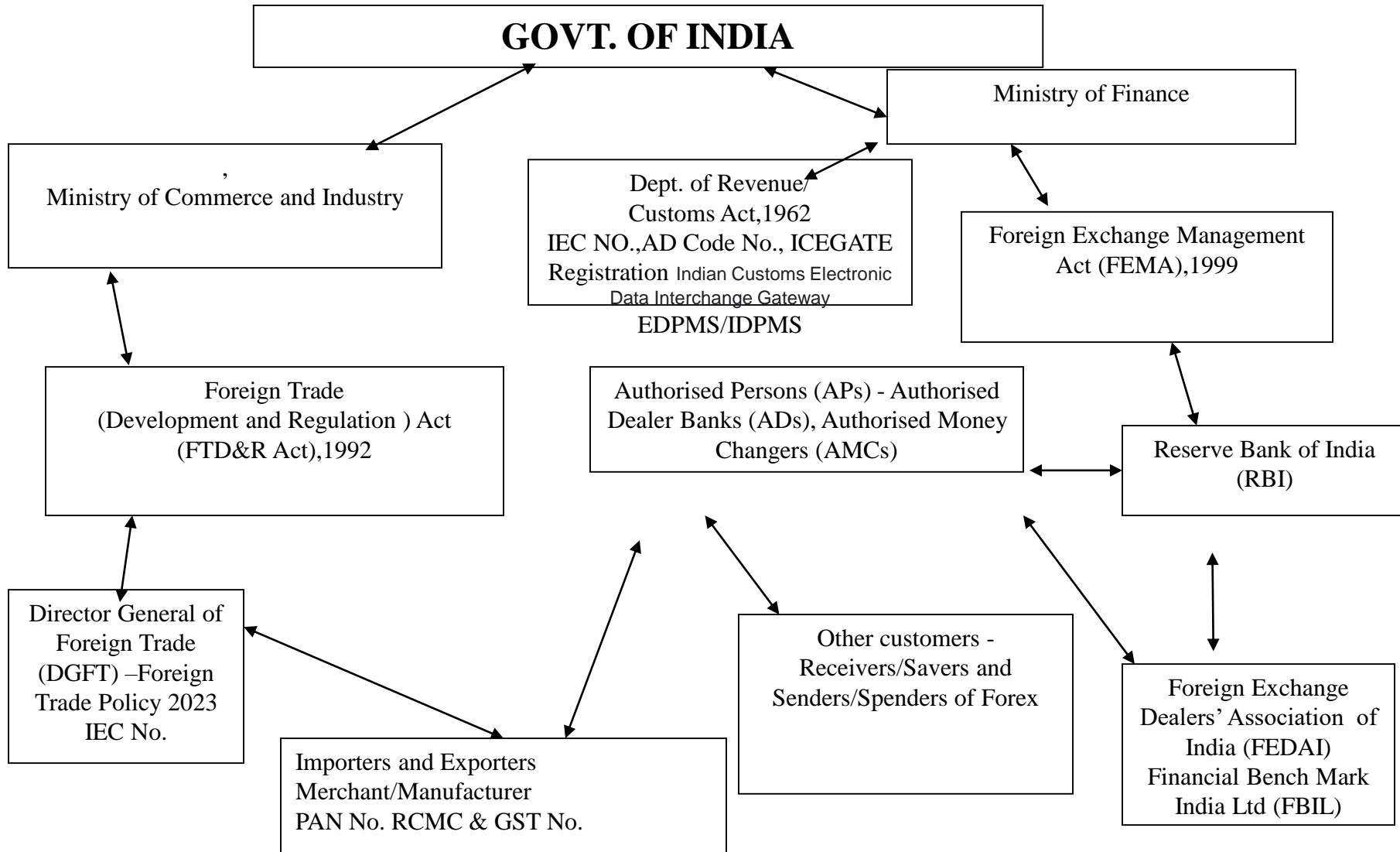
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Price per tonne(t):
\$57.1M



*according to data from 23 April '21
Source: Gold.org, April '21

Administration of Foreign Exchange in India



Regulatory Framework

- **Director General of Foreign Trade (DGFT) -FTP**
 - Stipulates regulations relating to physical movement of goods
 - Drafts EXIM (Foreign Trade) Policy under Min. of Commerce
 - Issues IEC to importers/exporters
- **Reserve Bank of India (RBI) – FEMA 1999**
 - Stipulates regulations relating to movement of funds (FEMA)
 - Stipulates credit norms for banks
- **Foreign Exchange Dealers Association of India (FEDAI)- FEDAI RULE BOOK**
 - Apex Forum of Banks authorised to deal in Forex issues & guidelines
 - Training of Bank personnel in the areas of Forex business
 - **Fixed Income Money Market & Derivatives Association of India (FIMMDA)**
 - To undertake developmental activities, such as, introduction of benchmark rates and new derivatives instruments, etc
 - To devise standardized best market practices
 - **FBIL – Fixing the Mibor linked Rates**
 - **ICC - PARIS – INCOTERMS - 2020, UCP 600 –(2007), URC 522, URDG 758**
 - **-CCILINDIA – FX RETAIL PLATFOM**

Websites of Regulators

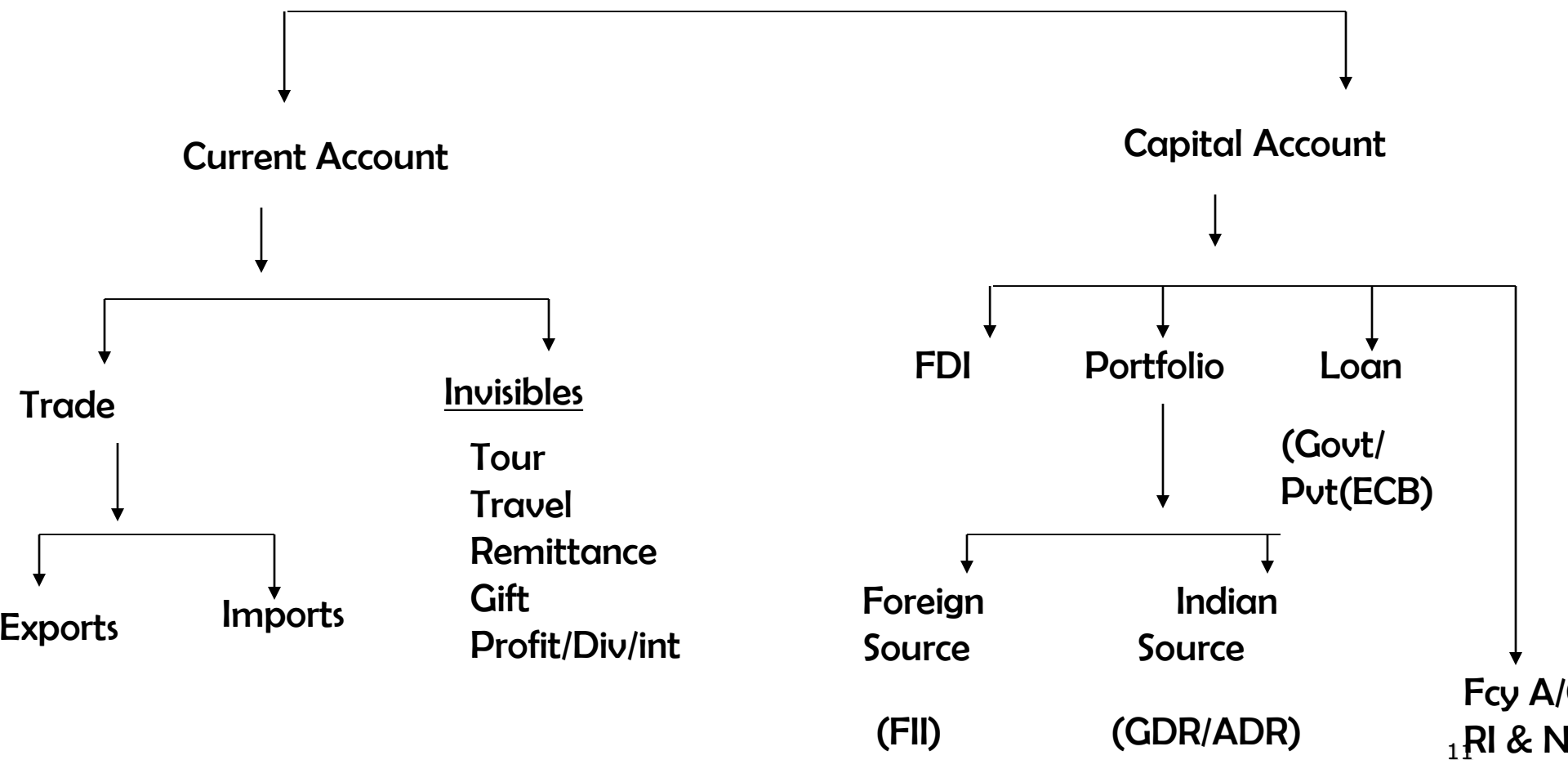
- www.fedai.org.in,
- www.rbi.org.in,
- www.ccilindia.com,
- www.dgft.org.in
- www.icegate.org.in
- www.icc.org
- www.ecgc.org
- <https://www.icegate.gov.in>
- <https://rbi.org.in/Scripts/FAQView.aspx?Id=151>

Case Studies – Discussion/Presentation

1. Herstat Bank Case study – 1974 Lead to Basel I in 1988
2. Japan Asset Price Bubble 1992
3. Ing Bearing Bank - Nick Leeson Case -1995 Lead - F/O, M/O & B/O
4. Bangladesh Bank USD 81 Mio Heist -2018
5. India 1991 BOP Crisis
6. Harshad Mehta Scam -1992 – Lead to F/O & B/O
7. 1997 South-East Asia Currency Crisis – Lead to Basel II in 2004
8. 2008 US Sub-Prime Crisis – Lead to Basel III in 2010
9. Impact of US-China Trade War – On going
10. Impact of COVID 19 on Foreign Currency Volatility
11. Settlement Mechanism at CCIL for Forex & Govt Securities
12. Impact of Zero/Negative Interest Rates & Q.E. on Forex Volatility & Equity/Debt Market
13. Trading in Futures/Option at NSE or BSE
14. Factors Impact the foreign Currency volatility – Forwards, Futures & Options
15. PNB –Neerav Modi & Mehul Chowksi case study -2020
16. US/Major Central Bank's increasing interest rates impacting the world. Silicon Valley Bank Collapse/Signature Bank /Credit Swiss – UBS merger etc – 2022
17. Russia-Ukraine, Israel/Hamas war impact on India

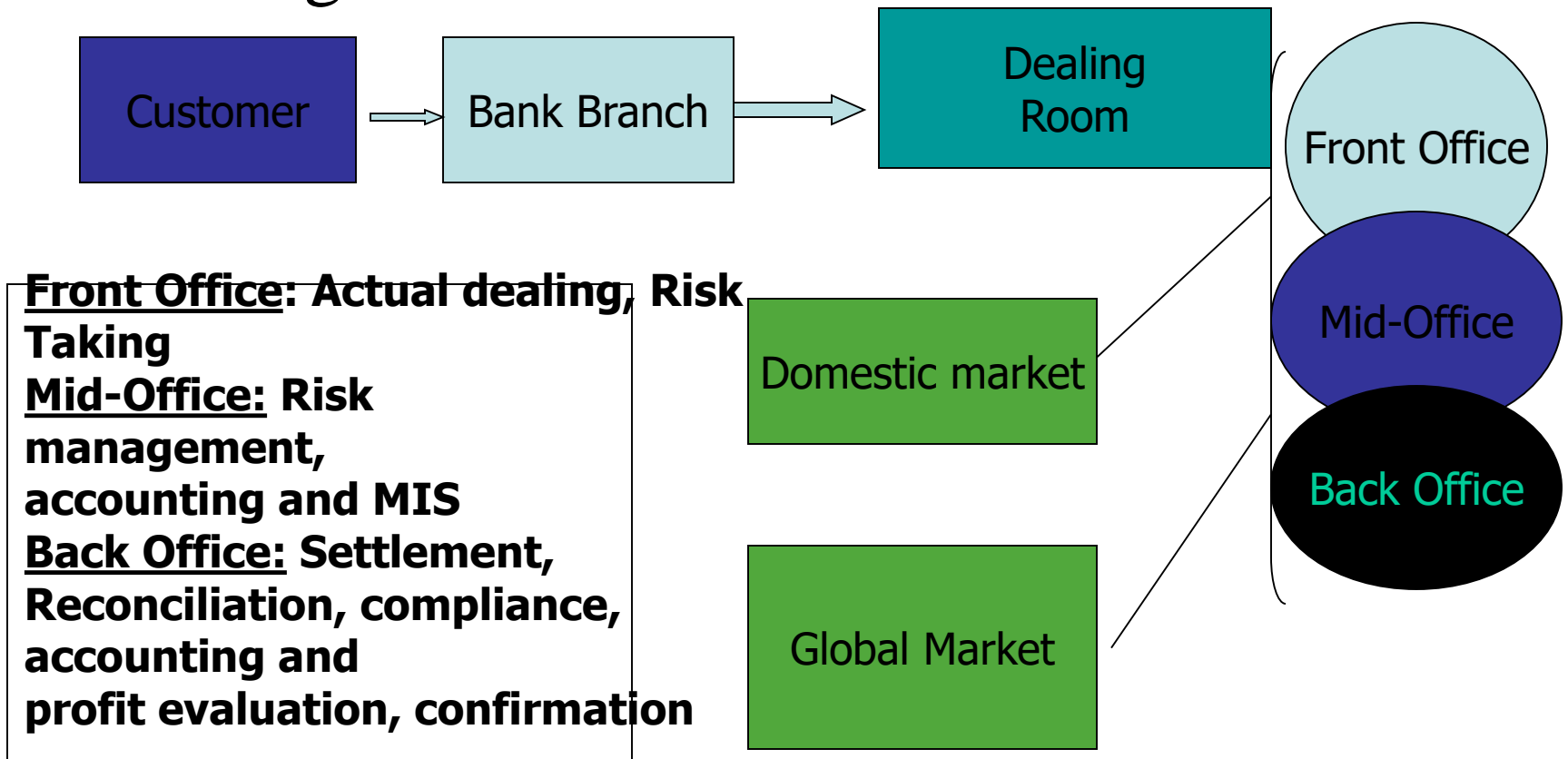


FOREIGN EXCHANGE TRANSACTIONS



Forex Dealing Room Operations

Dealing Process



Foreign Exchange Market in India



Tier-I

Regulator: Reserve Bank of India
Regulation: Foreign Exchange Management Act, 1999

Tier - II

Authorized Dealers, Money changers

Tier-III

Buyers and sellers: exporters, importers, individuals, Corporates, FIIs, Non-Residents, NRIs etc.

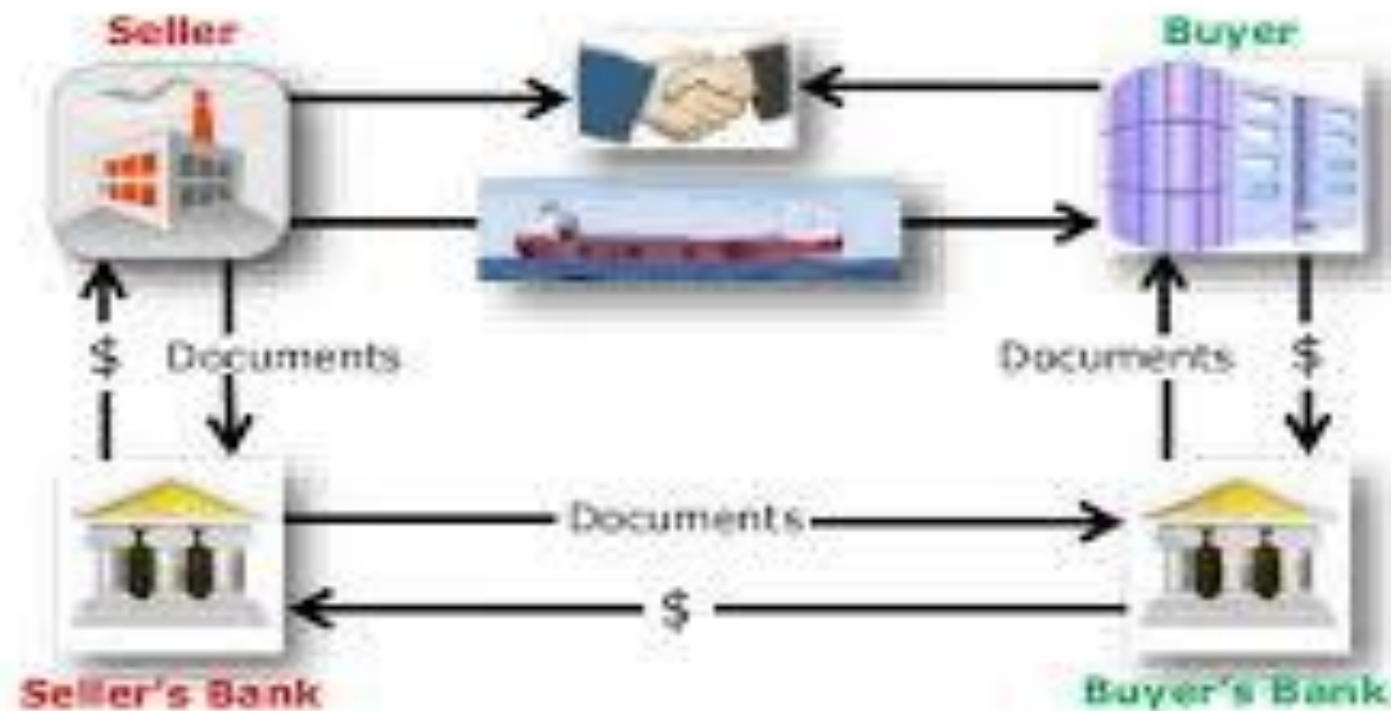
Need & Importance of FOREX & TREASURY

- International Trade & Trade Settlement in Foreign Exchange
- Globalization & Liberalization by countries
- Integration of Financial Markets with the development of new financial instruments, liberalization of regulations governing the financial markets and increased cross penetration of foreign ownership
- Covering Trade & Forex Risk with new instruments & Products
- Management of Funds/Liquidity

International Trade - CORRESPONDENT BANKS ACCOUNTS

- Permitted currencies for Payment (Trade/Investments)
- Collection, Purchase, Discounting or Negotiation of Export Documents or Import Documents
- **Nostro Accounts:** My account with the outside bank, OR Our foreign currency account with overseas banks
- **Vostro Accounts:** For the outside bank my account held with them, OR Overseas banks' INR account with us
- You open a saving account, it is like a Nostro account for you and Vostro account for the bank
- LORO: Their account (any currency) with another bank
- ACU Dollar/Euro/JPY Account – A flop arrangement - **Sri Lanka – Payment allowed in any Foreign Currency/Country**
- **Now Special Vostro Account in INR to accommodate trade with Sanctioned/OFAC countries or an Additional Arrangement for payment for sanctioned countries (Non- Repartiable INR)**
- Foreign Currency Accounts for Residents: **EEFC**, RFC account and RFC (Domestic) account

Documentary Collection



Global trade settlements in rupees



**Russian company
who imports from
India**

Export

**Indian
exporter**

**Gives
RUBLE**

**Receives in
INR**

Russian Bank
(Bank retains INR in
Vostro A/C)



**Vostro (In Indian
A/C Bank)**

**Pays in
RUBLE**

Pays in INR

**Russian crude
oil company**

Import

**Indian Refining
company**



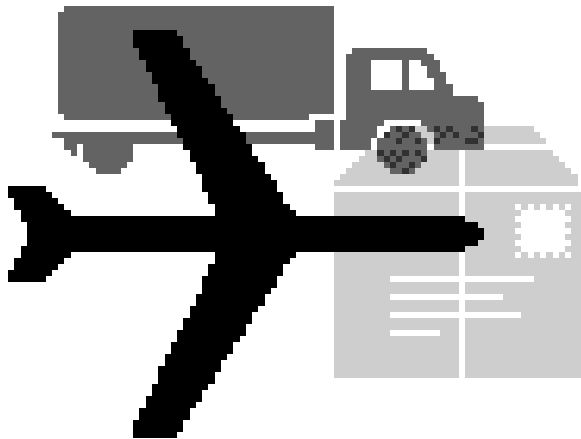
Costing & Pricing - Hedging

USDINR Monthly Average Rates : January 2011 - March 2024

Months	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
January	45.40	51.25	54.27	62.10	62.23	67.30	68.10	63.65	70.73	71.28	73.11	74.41	81.86	83.11
February	45.43	49.18	53.80	62.20	62.03	68.20	67.04	64.44	71.20	71.48	72.79	75.00	82.60	82.97
March	44.97	50.35	54.41	61.01	62.48	66.95	65.85	65.04	69.46	74.29	72.80	76.25	82.33	83.01
April	44.36	51.86	54.36	60.35	62.76	66.46	64.49	65.67	69.39	76.38	74.50	76.17	82.00	
May	44.92	54.48	55.04	59.32	63.78	66.92	64.43	67.55	69.80	75.67	73.22	77.32	82.35	
June	44.84	56.00	58.37	59.75	63.83	67.29	64.44	67.79	69.43	75.76	73.56	78.08	82.23	
July	44.41	55.42	59.74	60.06	63.64	67.18	64.45	68.72	68.76	75.05	74.53	79.60	82.15	
August	45.31	55.52	63.04	60.86	65.08	66.93	63.95	69.58	71.15	74.89	74.13	79.56	82.78	
September	47.67	54.52	63.74	60.87	66.20	66.74	64.46	72.25	71.35	73.35	73.59	80.25	83.06	
October	49.24	53.03	61.56	61.37	65.04	66.73	65.05	73.63	71.05	73.43	74.94	82.38	83.23	
November	50.88	54.78	62.59	61.72	66.14	67.62	64.85	71.76	71.48	74.27	74.50	81.77	83.30	
December	52.60	54.66	61.84	62.73	66.57	67.87	64.24	70.72	71.17	73.62	75.35	82.51	83.27	



Incoterms 2020



International Commercial Terms

INCOTERMS 2020

The **INCOTERMS** is a universally recognized set of definitions of international trade terms, such as FOB, CFR and CIF, developed by the International Chamber of Commerce (ICC) in Paris, France.

The Incoterms rules are a total of 11 terms published by the International Chamber of Commerce, which define costs, risks and obligations of buyers and sellers in international transactions

It defines the trade contract Responsibilities and Liabilities between buyer and seller. It is invaluable and a cost-saving tool.

Easy to Communicate with different Languages & Business Practices

The INCOTERMS was first published in 1936 -**INCOTERMS 1936** - and it is revised periodically to keep up with changes in the international trade needs.

The complete definition of each term is available from the current publication---**INCOTERMS 2020**

Exporter and Importer – A common set of rules

The exporter and the importer need not undergo a lengthy negotiation about the conditions of each transaction.

Once they have agreed on a commercial term like FOB, they can sell and buy at FOB without discussing who will be responsible for the freight, cargo insurance, and other costs and risks

The Incoterms provide the most often used international terms of trade and an official version of the Incoterms should be referenced in the text of the contract.

The goal is to alleviate or reduce confusion over interpretations of shipping terms by outlining who is obligated to take control of and/or insure goods at a particular point in the shipping process.

Furthermore, the terms outline the obligations for the clearance of the goods for export or import and packing requirements

Key Changes in Incoterms 2020

1. DAT Incoterm changed to DPU -DAT required Delivery at Terminal (unloaded), changed term to DPU (Delivery at Place Unloaded), to broadly cover **‘any place, whether covered or not’**.
2. Insurance points are clarified in CIF and CIP - Incoterms® 2020, CIP requires insurance complying with Institute Cargo Clause (A) whereas CIF requires insurance under Clause C. Why? Because Clause A covers a more comprehensive higher level of insurance (e.g. for the manufactured goods), whereas a lower level of cover from Clause C would probably apply to the commodities world.
3. Costs and cost structures are now clarified - all costs associated with a given Incoterms, allows users to see the full list of expected costs at a glance
4. Security in relation to transport is now clearly detailed
5. Provisions to allow for own transport rather than assuming 3rd party transport- Incoterms 2020 allows for own means of transport by the buyer in the FCA rules and by the seller in the D rules.
6. FOB and [Bills of Lading](#) :Free Carrier (FCA) - when goods are sold FCA for carriage by sea and buyer or seller (or either party's bank) requests a bill of lading with an on-board notation.
7. Presentation and design is much more user friendly

Incoterms 2010 vs. 2020

- | | |
|--------------------------------------|--------------------------------------|
| • EXW – Ex Works | • EXW – Ex Works |
| • FCA – Free Carrier | • FCA – Free Carrier |
| • FAS – Free Alongside Ship | • FAS – Free Alongside Ship |
| • FOB – Free On Board | • FOB – Free On Board |
| • CFR – Cost and Freight | • CFR – Cost and Freight |
| • CIF – Cost, Insurance & Freight | • CIF – Cost, Insurance & Freight |
| • CPT – Carriage Paid To | • CPT – Carriage Paid To |
| • CIP – Carriage & Insurance Paid To | • CIP – Carriage & Insurance Paid To |
| • DEQ – Delivered Ex Quay | • DPU – Delivered At Place Unloaded |
| • DES – Delivered Ex Ship | • DAP – Delivered At Place |
| • DAF – Delivered at Frontier | • DDP – Delivered Duty Paid |
| • DDU – Delivered Duty Unpaid | |
| • DDP – Delivered Duty Paid | |
- 

Marine Restricted

Omni-Modal

Incoterms-2020 – Costing & Pricing

INCOTE RMS 2020					
Costing & Pricing		Mobile - INR			
		Omni-Modal INR	Equivalent	Marine Restricted INR	
Ex-works		25000	FAS	25100	
FCA		25200	FOB	25200	
CPT		25500	CFR	25500	
CIP		25700	CIF	25700	
DPU		25800			
DAP		25800			
DDP		28000			
		1USD=73.50			
		28000/73.50 = \$380.95 per Piece			



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International Trade Finance in India- INCOTERMS –ICC PARIS

- Most commonly used Terms of Shipment are:
- FOB - SHIP
- All cost till the time goods are kept “ON BOARD” ship/air/rail/truck are borne by the exporter
- CFR:-
- FOB PLUS the freight for the Voyage
- CIF:-
- CFR PLUS the Insurance for the Voyage

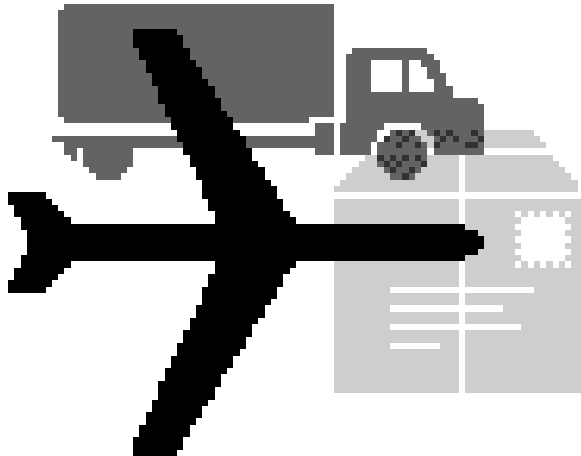
International Trade Finance in India- INCOTERMS –ICC PARIS

- Other Incoterms not much in use:
- Ex-Works or Ex-Factory
- FAS : Free Along-side Ship (loading/unloading expenses not included)
- DPU: Deliver at Place (named place Unloaded)
- DAP: Delivered at Place (named place of destination)
- DDP: Delivered Duty Paid
- ICC, Paris have now grouped these Incoterms as ‘C’, ‘D’ and ‘F’.
- **In India, Exporters prefer FOB and Importers prefer CIF.**



Omni-Modal

Incoterm 2020



INCOTERMS –ICC PARIS

Any mode of transport

- **EXW – Ex Works (named place of delivery)**The seller makes the goods available at its premises. The buyer is responsible for unloading. This term places the maximum obligation on the buyer and minimum obligations on the seller
- **FCA – Free Carrier (named place of delivery)**The seller hands over the goods, cleared for export, into the disposal of the first carrier (named by the buyer) at the named place. The buyer pays for carriage to the named point of delivery, and risk passes when the goods are handed over to the first carrier.
- **CPT – Carriage Paid To (named place of destination)**The seller pays for carriage. Risk transfers to buyer upon handing goods over to the first carrier at place of Import.

INCOTERMS –ICC PARIS

Any mode of transport

- **CIP – Carriage and Insurance Paid to** (named place of destination) The containerized transport/multimodal equivalent of CIF. Seller pays for carriage & insurance to the named destination point, risk passes when the goods are handed over to the first carrier.
- **DPU – Delivered at Place Unloaded** (named place Unloaded) Seller pays for carriage to the terminal, except for costs related to import clearance, and assumes all risks up to the point that the goods are unloaded at the terminal.
- **DAP – Delivered at Place** (named place of destination) Seller pays for carriage to the named place, except for costs related to import clearance, and assumes all risks prior to the point that the goods are ready for unloading by the buyer.
- **DDP – Delivered Duty Paid** (named place of destination) Seller is responsible for delivering the goods to the named place in the country of the buyer, and pays all costs in bringing the goods to the destination including import duties and taxes. The buyer is responsible for unloading.

Water Transport Only Incoterms - 2020



INCOTERMS –ICC PARIS

Sea and inland waterway transport

- **FAS – Free Alongside Ship** (named port of shipment) The seller must place the goods alongside the ship at the named port. The seller must clear the goods for export. Suitable only for maritime transport but **NOT** for multimodal sea transport in [containers](#) . This term is typically used for heavy-lift or bulk cargo.
- **FOB – [Free on Board](#)** (named port of shipment) The seller must load the goods on board the vessel nominated by the buyer. Cost and risk are divided when the goods are actually on board of the vessel. The seller must clear the goods for export. The term is applicable for maritime and inland waterway transport only but **NOT** for multimodal sea transport in containers. The buyer must instruct the seller the details of the vessel and the port where the goods are to be loaded.

INCOTERMS –ICC PARIS

Sea and inland waterway transport

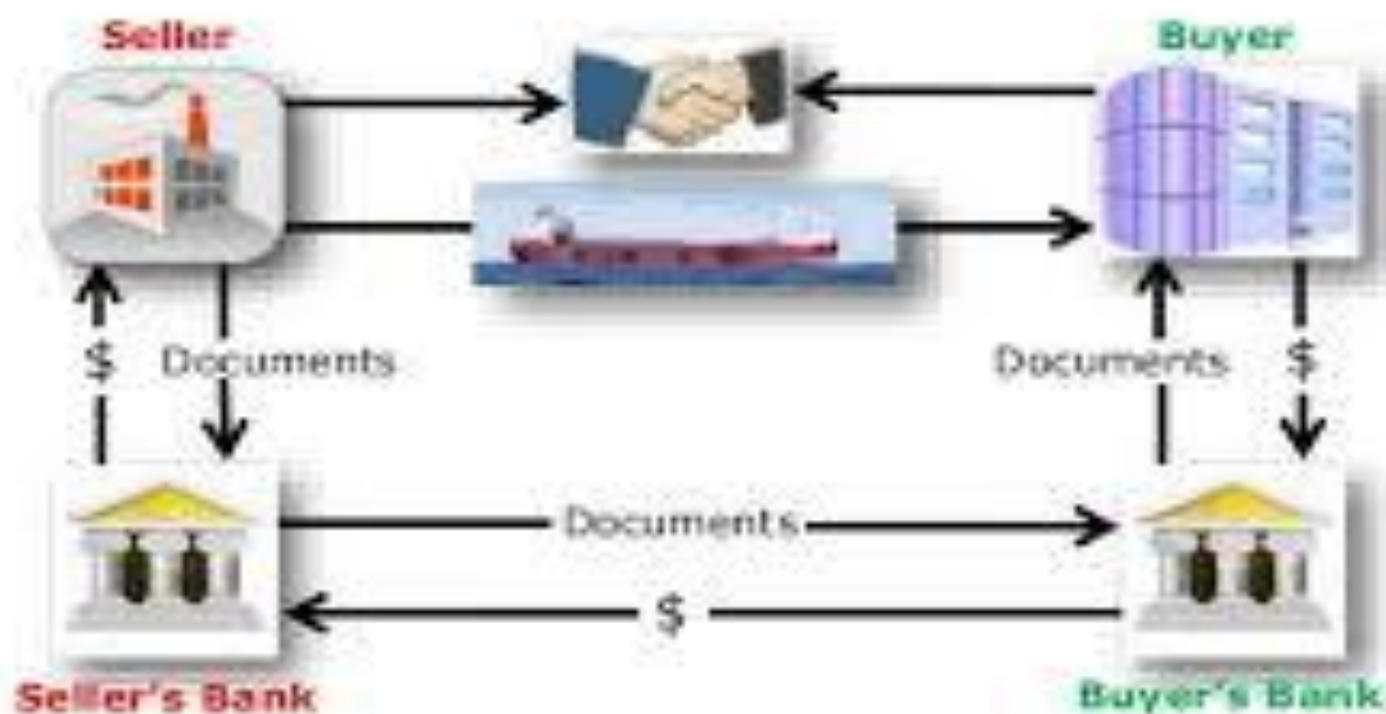
- **CFR – Cost and Freight** (named port of destination) Seller must pay the costs and freight to bring the goods to the port of destination. However, risk is transferred to the buyer once the goods are loaded on the vessel. Insurance for the goods is **NOT** included. This term is formerly known as CNF (C&F). Maritime transport only.
- **CIF – Cost, Insurance and Freight** (named port of destination) Exactly the same as CFR except that the seller must in addition procure and pay for the insurance. Maritime transport only.

What Incoterms Don't Cover?

- **Insurance Responsibilities** all Incoterms except the C terms (CIP & CIF), do not assign responsibility for arranging insurance.
- **Do not cover Title of goods -property rights**
- Possible force majeure situations
- Breach of contract.
- Financial Revenue Recognition
- Specification of Goods
- Custom duties and taxes
- Any Restriction Embargo Sanctions

What is an Exposure?

Documentary Collection



Major Sources of Currency Exposure

- **Transaction Exposure** on Buyer/Seller – Credit, Capital, Capacity, Character and Conditions of business
- Exchange Rate Risk –Price/Volatility Risk –Translation/- Transaction Risk
- Operation Risk, Settlement Risk – Counterparty - HERSTATT RISK (Time Zone difference)
- Interest Rate Risk –Inflation, Economic conditions/exposure
- **Economic/Operating Risk** -Country Risk – Political Risk, War or War like situation, Internal Disturbance & Govt. Policy –
- Systemic Risk
- **Translation exposure** – Used by MNC's for calculating multi-currency mark to market exposure on a particular day/date for B/sheet purposes

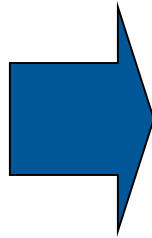
How to cover Exposure?

- **Understanding Incoterms 2020**
- **Non-LC Business thru Trade Credit Insurance** - ECGC –
Commercial/Political Risk – **Protracted** default; MBEP or SBEP – case to case
- **LC**
- Why Exporter needs a LC?
- What Importer gets by opening a LC?
- Factoring and Forfaiting
- Exchange Risk thru Forwards, Futures & Options

How To Mitigate Risks

Risk

- Transport – related risks (damage, loss, theft)
- Credit risk or non-payment risk
- Quality of goods risk
- Exchange rate risk
- Legal risk
- Country risk / Political risk
- Fraud risk
- The risk of misunderstanding



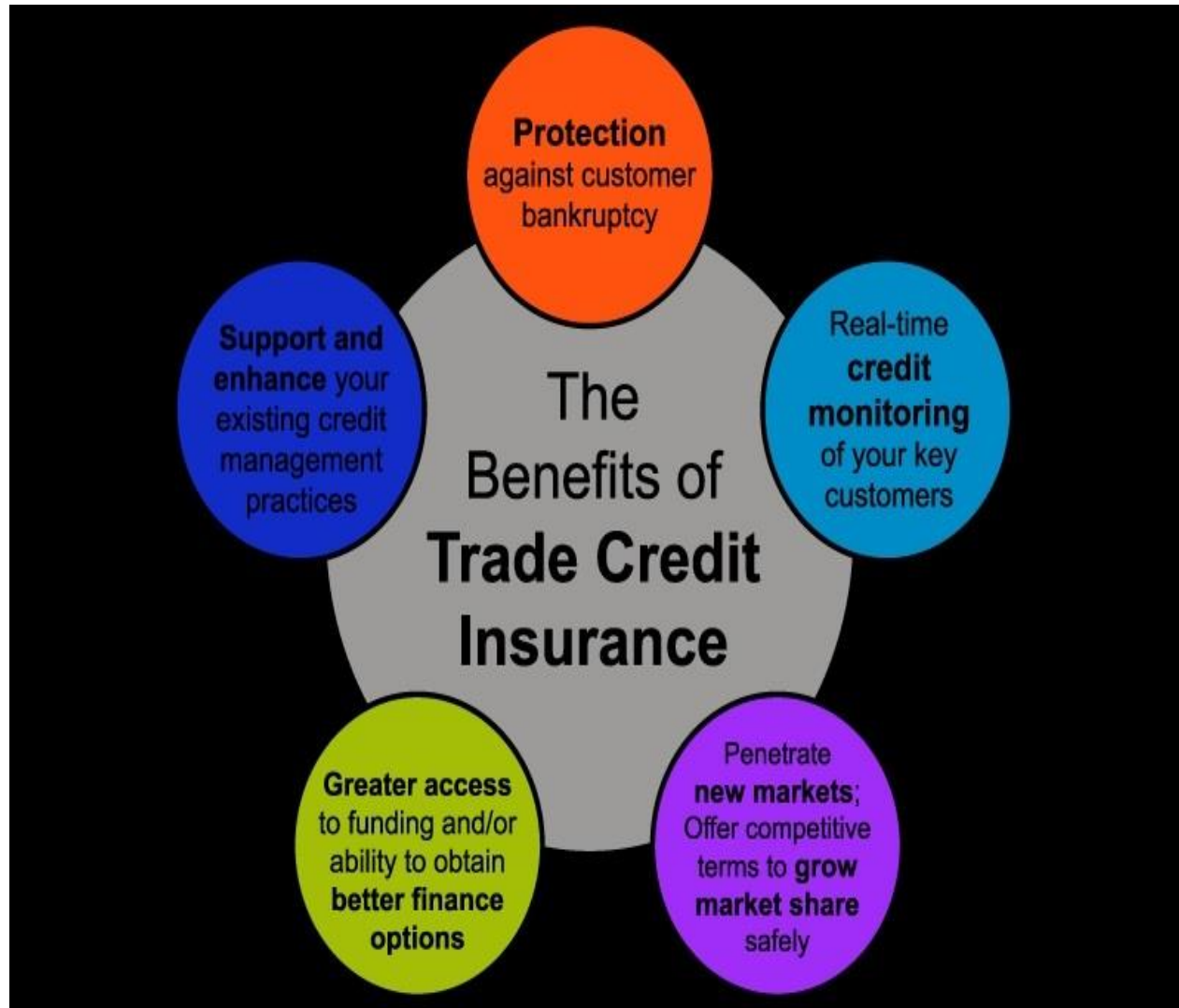
Risk Mitigation

- Ensuring insurance coverage/ carrier's liability
- Ensuring credit-worthiness of party: Financial standing, quality of goods being sold
- Proper document scrutiny
- Forward cover
- Procedures verified by legal experts
- Taking ECGC cover
- Substantial credit and compliance scrutiny (D & B Report)
- Well-drafted contracts

Settlement & Settlement Risks

- Key function of Treasury
 - **Big risk is settlement risk (Herstatt Risk)**
 - Cross-currency settlement risk that arises where the working hours of inter-bank fund transfer systems do not overlap due to time zone differences. In this situation, failure by one counterparty to settle its side of the deal starts a chain reaction of cross-defaults. It is named after a small German bank (Bankhaus Herstatt) which failed in June 1974 during the period it was supposed to settle a contract after having received the payment from the counterparty. That failure caused a string of cascading defaults in a rapid sequence, totaling a loss of \$620 million to the international banking sector
- ING Bearing Bank – Nick Lisson Case Study**

Trade Credit Insurance



Benefits of Trade Credit Insurance

- Bad debt protection & Administrative Freedom
- Credit insurance is a tool to increase incremental sales
- Expand sales to new, unknown or higher-risk customers.
- No need to require Letters of Credit.
- Analysis and review of your portfolio of buyers by a third party insurer
- ECGC and HDFC ERGO General Insurance Company. TATA AIG Insurance. ICICI Lombard. SBI General Insurance
- **Covers:**
 - **Commercial Risk** -Non payment by the buyer - protracted default
 - Insolvency of the buyer
 - **Political Risk** -Military or civil war, revolution, riot or insurrection
 - General moratorium on payment by the government of buyer's country
 - Cancellation of import license
 - Government decision preventing performance
 - Political events, economic difficulties, legislative or administrative measures preventing payment
 - Non payment by government buyer

Export Credit Guarantee Corporation of India Ltd. (ECGC)

- It was set up for the promotion of exports in the year 1957 to protect the exporters from any financial loss.
- ***Primary goal of ECGC :***
To support & strengthen the export promotion by
 1. Providing cover against **Commercial Risk and Political Risk**
 2. **Offering guarantee covers to banks and financial institutions for Pre-shipment Finance & to Exporters at Post-shipment stage**
 3. **ECGC covers 80% of the Invoice Value**

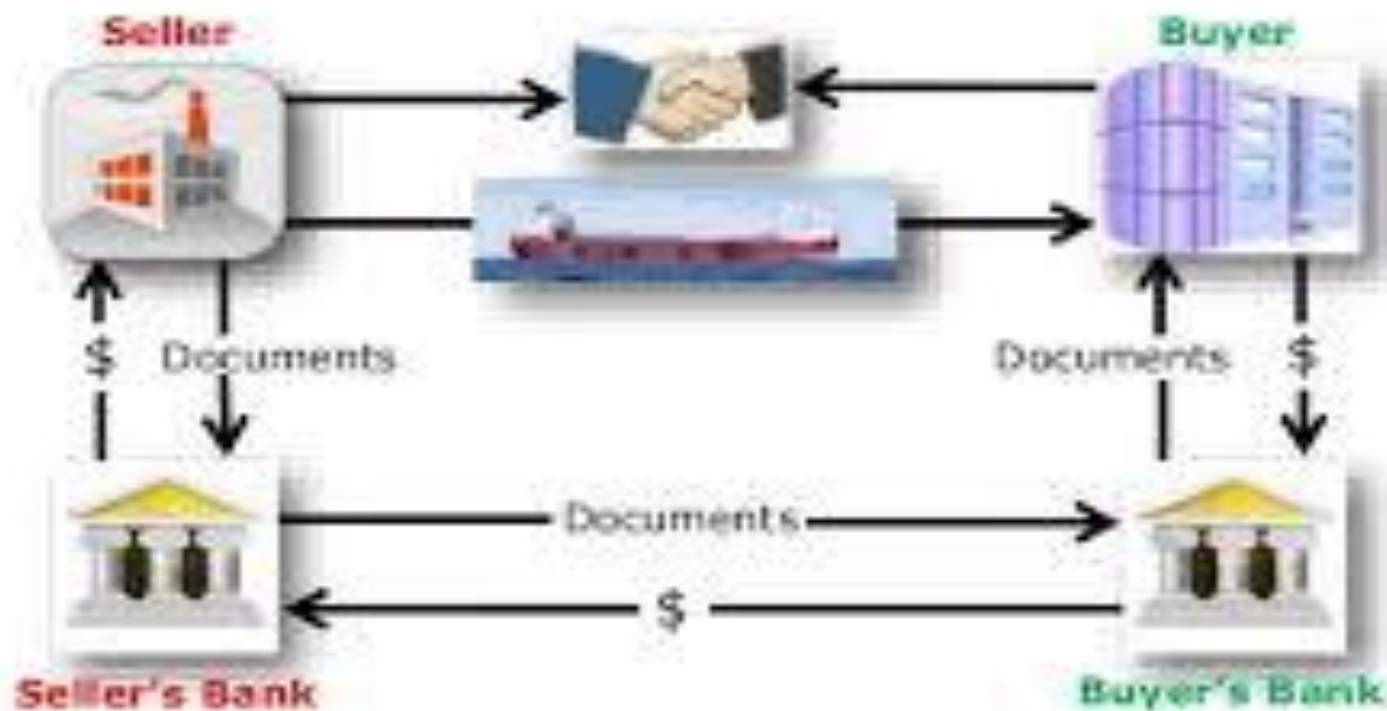
Export Credit Guarantee Corporation of India Ltd. (ECGC)

- ECGC issues various types of guarantees to banks, financing exporters, which protect banks in case of loss from their advances to exporters.
- Guarantees to Banks & Exporter:
 - At pre-shipment stage to Lender Bank against the default of exporter
 - At post-shipment stage to Exporter against the default by buyer and buyer's country
- ECGC is a backbone of Indian Project Exports.

ECGC

- ECGC provides cover to various types of risks thru its **SBEP, MBEP & Shipment Comprehensive Risk Policy, taken by exporters against the buyer** namely,
 - Risk of not receiving payment from foreign buyers, Trading on short term credit, of not receiving payments in respect of deferred payment exports, and
 - In respect of services rendered and construction projects undertaken abroad.
 - **Whole Turnover Packing Credit – Taken by Bank against the Exporters default**

Documentary Collection



Payment - What determines the choice?

- Buyer – Seller relationship
- Buyer's creditworthiness
- Competition
- Uniqueness of the product (custom made?)
- Country conditions (political, economic)
- Cash flow considerations
- Transaction costs

International Payment Methods

- There are 4 types of payment methods available in international trade. These payment types are:
 - Cash-in-advance,
 - Open account,
 - Documentary collections,
 - Documentary credits (letters of credit) and

Advance Payments

- Buyer makes payment before the goods are shipped
- Seller is well known entity in international trade
- Seller has more bargaining power vis-a-vis the buyer
- Buyer's creditworthiness is doubtful
- Monopolistic trend in specific commodity trading

Open Account

- Payment in arrears – Payment after the receipt of goods and in tranches (as per the sale agreement)
- Buyer agrees with seller to pay with the flow of shipment of goods
- Used in regular business relationship between two parties
- High degree of trust is required between buyer and seller
- Shipment in bulk to economize the cost
- Not used extensively in India

Bills for Collection (Doc. Collection)- Payment terms

- Greater involvement of banks
- Documents moved through banking channel
- Seller submit documents to his bank as agent for collection.
Payment is not guaranteed by the bank
- Documents are presented to buyer through correspondent bank
- Documents are released after
 - Payment from buyer (Delivery against Payment:D/P-Sight, COD) or
 - Acceptance from buyer (Delivery against Acceptance :D/A –Usance/Credit/Term/Deferred)
- **Subject to URC 522 of ICC - Paris**

Documentary Credit (Letter of Credit)

- Assurance of payment by the bank
- Most convenient method of payment in international trade
- Provides complete financial security to the seller
- Bank assumes payment obligation on behalf of buyer to seller
- “LC is a payment mechanism whereby a Bank acting at the request of the customer, undertakes to pay a third party by a given date on presentation of credit compliance documents”
- Subject to UCP 600 (2007 Revision) of ICC, Paris

Methods of payments in International Trade

Particulars	Details
Advance Payment	<ul style="list-style-type: none">✓ Importer sends money first to the exporter✓ Goods are exported post receipt of the payment✓ Beneficial to the exporter✓ Importer has no assurance of receiving the goods
Open Account	<ul style="list-style-type: none">✓ Payment at agreed intervals✓ Established Relationship between Importer and Exporter✓ Beneficial for the importer✓ Exporter has neither goods nor the money

Methods of payments in International Trade

Particulars	Details
Documentary Collections – DP/DA Under URC 522	<ul style="list-style-type: none">✓ Documents are routed through a bank✓ Documents are not released to the importer until payment has been affected/acceptance received✓ Provides formal means to collect unpaid obligation✓ Country Risk are not hedged for the exporter
Letter of Credit Under UCP 600	<ul style="list-style-type: none">✓ Undertaking from a bank to make the payment provided credit compliant documents are presented✓ Secured method of payment✓ Beneficial for both exporter & Importer

Methods of Payments- Comparison



Most Insecure



Most Secure

Open Account
Collection – DA
Collection – DP
Documentary Credit
Confirmed DC
Prepayment

Most Secure



Most Insecure

International Trade Finance in India- RISKS ASSOCIATED WITH TERMS OF PAYMENTS

- **ADVANCE PAYMENT** : Currency Fluctuations, need to be exported within one year
- **DP**: The buyer may not come forward to take up the documents
- **DA**: The buyer takes the documents but does not pay on due date
- To cover these risks the Exporters prefers LC, where a payment is guaranteed by a bank
- **Importers prefer LC in order to maintain delivery schedule by the Exporter**

WHY HAVE A LETTER OF CREDIT?



SOLVES ISSUES OF MUTUAL MISTRUST BY USING
BANKS AS ARBITERS

NEGOTIATE L/C TERMS BEFORE
ENTERING A CONTRACT

International Trade Finance in India-

TERMS OF PAYMENT-LC

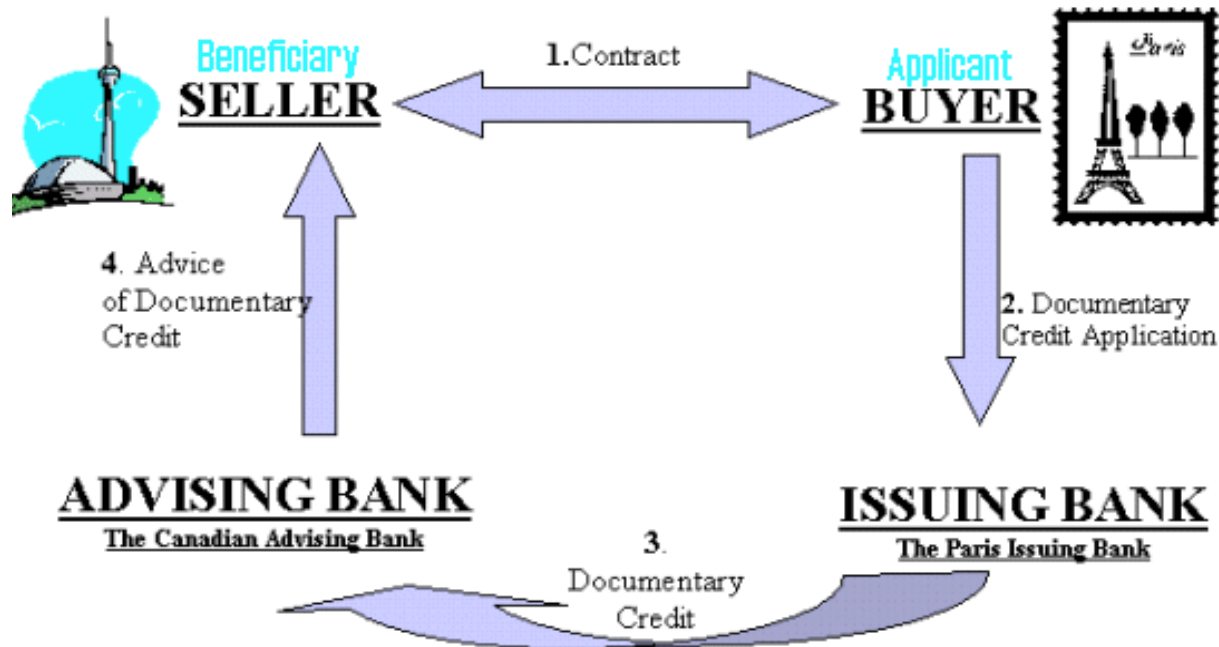
LC is a sort of Guarantee issued by a Bank, on behalf of the Buyer (applicant) favouring the supplier (Beneficiary), undertakes to pay by authorizing another bank (Negotiating Bank) to pay on complying with the Terms & Conditions mentioned therein.

- LC is also known as Documentary Credit as Banks deals in Documents and not in goods
- Each LC should mention that ***UCP LATEST VERSION*** OR “This LC is subject to UCPDC publication no. 600, (2007 Revision) ICC guidelines” to be operative

How does a letter of credit operate?

The Documentary Credit Cycle

Letter of Credit



Role of the banks

- **Issuing bank**
- • The issuing bank is buyer's bank
- • In buyer's own country
- • The seller will be wary of receiving a credit from a bank in a different country
- **Advising bank**
- • The advising bank advises the credit
- • Also known as the "correspondent" bank
- • Can be a nominated bank and/or a confirming bank
- **Nominated bank**
- • Normally the advising bank
- • Nominated by issuing bank to be bank where the seller presents documents
- • and obtains payment
- **Confirming bank**
- • Nominated bank may be authorised to pay in accordance with the terms of the credit
- • BUT it will only be liable to the seller if it adds its own undertaking to the credit (= a confirmed letter of credit)
- • Nominated bank becomes a confirming bank

International Trade Finance in India- TYPES OF DOCUMENTARY CREDITS/LC'S

- **IRREVOCABLE:** Which can not be cancelled or amended without the consent of beneficiary
- **Irrv. CONFIRMED:** Which has been confirmed by advising, another bank in the same country or another country
- **Irrv. TRANSFERABLE:** Which is transferred by the Advising Bank at the request of Beneficiary to third party
- **Irrv. Back to Back:** Wherein another Lc is established by beneficiary on security of main LC

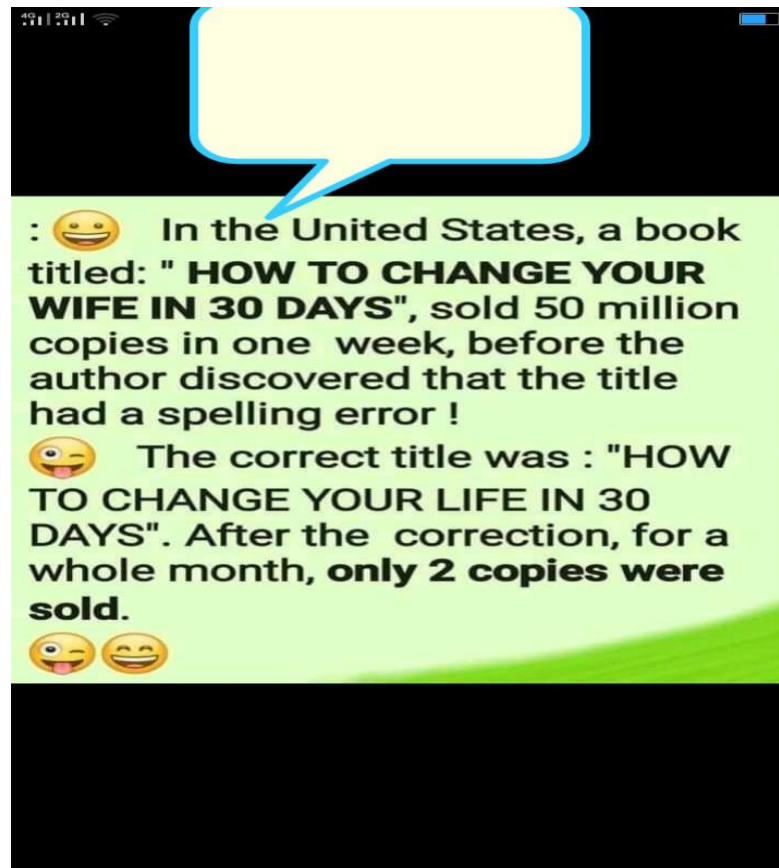
International Trade Finance in India- TYPES OF DOCUMENTARY CREDITS/LC'S

- **Irrv. Revolving:** Wherein the credit available gets re-instated after utilization of the amount, Can be Cumulative or Non-Cumulative
- **Irrv.Standby:** Used for transactions in US in place of Guarantee for payment of Loan/lease etc
- **Irr. Red Clause:** Wherein the payment is made in advance through an LC mechanism by the buyer's bank against the Indemnity & undertaking by the Beneficiary to export the goods
- **Irr. Restricted:** Wherein the Lc is restricted for negotiation to a particular bank
- **Irrv. Deferred Payment:** Wherein the payments are made in Installments and deferred over one year

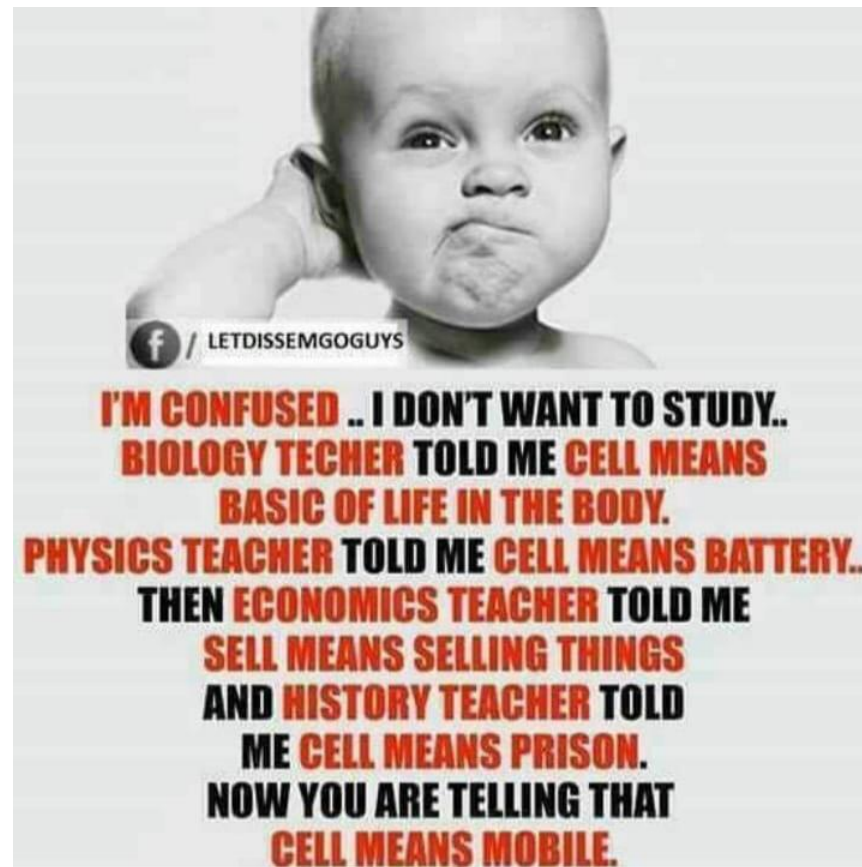
CHECKLIST ON RECEIPT OF LC

- Name & Address of the Applicant & Beneficiary & Amount/Currency
- Should be in English language only
- Description of goods should be as per LC
- Terms of Shipment/Payment/Reimbursement
- Mode of Transport, Part/Trans-shipment
- Restricted or confirmed, charges thereon
- Inspection & other Terms & Conditions matches with that of the Performa Invoice or Contract
- Shipment/ Expiry date and Negotiation Period
- **Conclusion**
- Complex area
- Understanding of why a letter of credit is used
- Better understanding of how a letter of credit operates in practice with reference to the individual parties, their respective roles and the multiple contracts in operation
- Brief view of fundamental concepts relevant to letters of credit and the role and status of UCP 600

Example of Discrepancy in LC



Example of Translation



English example

“BRIDE GIVING AND RECEIVING IS AN OFFENCE”

Complaints about Demand For Bride May Be Made
in Person or Over Phone To The Following Address:

THE DIRECTOR
Vigilance and Anti-Corruption
No. 293, M.K.N Road, Alandur, Chennai - 600 016.
Website: www.dvac.tn.gov.in
2231 0989 / 2232 1090 / 2232 1085
2232 2142 - Fax No. 044-2232 1005.



Documentation & Payment

- Open a Bank Account with an AD Bank
- Registration with the relevant Export Promotion Council/FIEO, Export Credit Guarantee Corporation, PAN/GST Registration
- Obtaining IEC – DGFT
- Registration with Customs – AD Code No. and IEC No. thru ICEGATE (Indian Customs Electronic Gateway)
- What are the FEMA 1999 Regulations for Settlement of International Trade in India ([Currency](#), Time limit, Third Party/Advance Payment & Payment of Commission)?
- What are the Incoterms/Payment Methods used in International Trade?
- Concept of “Exposure” on Buyer, Country, Currency & Settlement in International Trade? How to cover the Exposure to ensure payment comes in time?
- Shipment of Goods – Appointment of CHA or thru ICEGATE;
- Custom Clearance;
- Preparation of Documents (Avoid shipment of goods in the name of Bank (unless permitted under LC);
- Presentation of Documents, Direct or Thru Bank.
- Information for Currency, Amount, Description of goods, shipment details, Insurance, Incoterms and Payment Terms, buyer/seller, country of destination etc should be same in all the documents presented

Documentation before Shipment

- **Precaution before Shipment (or terms in agreement in PI or PO):**
- Ensuring Proper Incoterms 2020 – which defines/divides the Duties & Responsibilities between Seller and Buyer (Ensure Marine insurance for FOB, CFR, FCA & CPT terms by buyer before shipment);
- Ensuring Acceptable Payment Terms;
- Ensuring Receipt of LC (if payment term is LC) & Checking each terms of LC with PI/PO before shipment;
- **Ensuring ability to comply** all terms and conditions of LC and it matches with the PI or PO before making shipment;
- Ensuring **Credit Insurance** on Buyer & Buyer's Country thru ECGC etc
- **Use of Fx Retail platform of CCILINDIA.**
- If need be avail Working Capital Finance before shipment at MCLR or External Bench Mark Interest Rates under Scheme for Export Finance.
- If MSME/Merchant Exporter – Ensure 3%/2% sub-vention accordingly
- Ensure Bank's Fixing MCLR or other External Benchmark Rates & Exchange Margin, as part of Fund Based Working Capital Limits;

Documentation after Shipment

- **Precaution after Shipment:**
- Ensuring presentation of documents as per PI/PO on Collection or on Negotiation basis (compliant documents) under a LC;
- Avoid dispatching documents directly to buyer without Advance Payment;
- Ensure LC from buyers or Invoice Factoring thru International Factor;
- Prefer Forfaiting without Recourse in case expecting risk of non-payment;
- In case of dispute with the Buyer for quality etc, try solving amicably by offering discount or settling quality claim by appropriate credit note (if payment already received);
- If Payment is not made by the LC issuing bank due to discrepancies in the documents, than try convincing the buyer for accepting discrepancies & solving the issue amicably.
- If no discrepancy, than insisting payment under UCP thru your bankers or Lawyers with IBA, FEDAI or ICC, Paris ;

How to ENSURE payment from buyers – In case of dispute

- If the documents are sent on collection basis under URC 522 or under LC - UCP 600 of ICC, Paris:
- Take the help of Friend, Relative, Business Associates in the Buyer's Company/Country
- Ensure safety of goods by storing or trying selling goods to alternate buyer or re-import (if unable to sell the same) with the help of Bank or Transport Company;
- Make a Legal case with the help of Bank/Lawyer;
- Take extension of time permission from the Bank or RBI or concern Ministry, as the case may be.
- Mentioning clause relating to OFAC countries at the time of opening LC

Check list for preparation & submission of Export documents to Bank for collection without LC - **Documentary Collection –URC 522**

- Types of Collection
- Clean Collection - Handling of Financial documents alone
- Documentary Collection - Handling of Commercial Documents with/without financial document
- **Delivery/Release Terms: -**
- **D/P – Documents against Payment**
- The Collecting bank hands over the shipping documents only when the importer has paid the bill. Exporter keeps control of goods importer pays.
- **D/A – Documents against Acceptance**
- Exporter allows credit terms to importer, period of this credit is called Term or Usance.
- Importer needs to accept the bill i.e. to honour the bill at a later period as defined in Usance and get back the documents to clear the goods.
- **Usance D/P**
- Exporter allows time to importer to make payment, this period is called Term or Usance.
- But Importer has to make payment, only then he can get shipping documents from collecting bank and clear the goods. Normally this is used when exporter allows importer to defer payment until arrival of the vessel.

Check list for preparation & submission of Export documents to Bank for negotiation **under LC – Documentary Credit – UCP 600**

- Purpose of Letter of credit (“LC”) is to give payment security to the beneficiary subject to documents presented under the LC complying with the requirements of the LC.
- To check if documents are compliant, banks examine the required documents based on:
 - The terms and conditions of the documentary credit.
 - The applicable rules of UCP 600.
 - The applicable content of ISBP 745.(International Standard Banking Practice - ISBP 745 is the most up to date, comprehensive guide to handling and examining trade documents under documentary credits)

Check list for preparation & submission of Export documents to Bank for negotiation under LC – Documentary Credit – UCP 600

- All documents called for in LC are submitted.
- All documents are submitted in the requisite number of copies.
- Documents are issued and signed by the persons specified/required to issue those documents.
- Documents, where necessary and stipulated, are dated. If they are dated, the dates should be consistent with the terms of LC.
- Documents, where necessary and stipulated, are manually signed.
- Material alterations/additions on documents are duly authenticated.
- The requisite and stipulated documents are originals or marked as originals and appear to be signed.
- All documents, on their face appear to be in compliance with the terms and conditions of the credit.
- Shipment is effected within the time stipulated. If it is an installment credit whether the requisite quantity is shipped within the stipulated time schedule and is as per the terms of the LC.
- Any partial shipment is effected? If so whether it was permissible under LC. If yes, ensure that the partial shipment effected is as per the terms of the LC.

Check list for preparation & submission of Export documents to Bank for negotiation under LC – Documentary Credit – UCP 600

- Documents are presented at the place of expiry stipulated in the LC.
- Documents are presented within the expiry date (validity) of the credit. If documents are presented to the nominated bank on an extended validity date in terms of provisions of Article 29(a) of UCP 600, the nominated bank should confirm on its covering schedule that the presentation at their counters was made within the time limits extended in accordance with Article 29(a) of UCP 600.
- If Documents are discrepant, the exporter should ask their bank to send SWIFT message for approval before dispatch of documents, otherwise, the documents will go on collection and the exporter will not be protected for payment under LC.

Whilst there may be regional differences, the most common discrepancies appear to be:

- Conflict of data
- Missing documents
- Late presentation
- Late shipment
- LC expired
- Unauthenticated alterations
- Missing endorsements
- Goods description not as per LC
- Port of loading or discharge incorrect
- Insurance document dated later than date of shipment
- On board notations missing or incomplete

There are a number of simple tasks that can reduce discrepancy rates

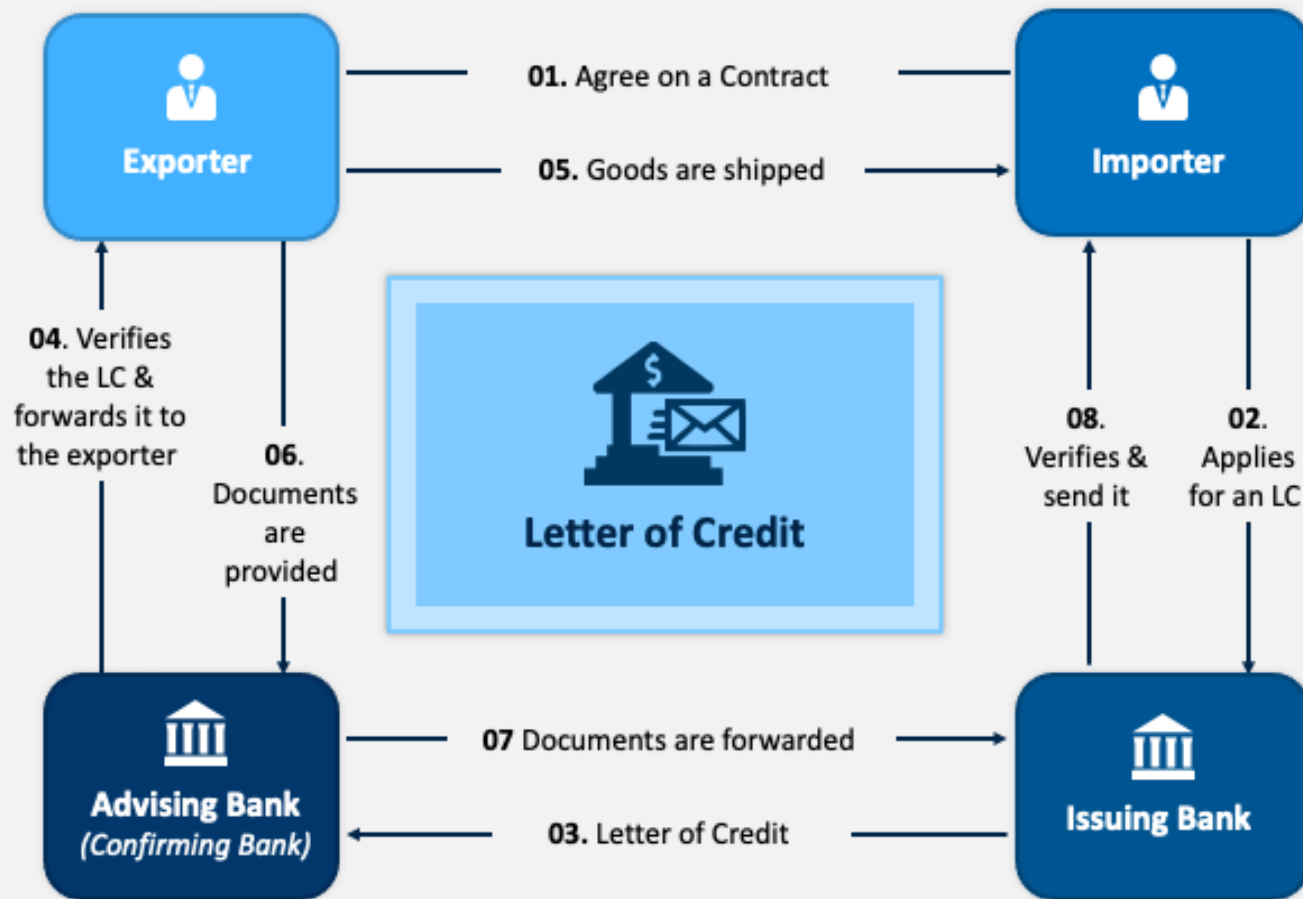
- Improved drafting of LC's by issuing banks.
- Thorough review of LC's by advising / confirming banks to understand any risks and implications.
- Beneficiaries (sellers) to clearly understand the implications of providing certain documents and ensure they can meet timeframes and deadlines.
- Close and constant communication between beneficiary (seller) and logistics / document providers.
- Liaison between all parties in case of unforeseen problems: beneficiary (seller) / applicant (buyer) / banks.
- Address problems prior to presentation of documents.
- Avoid ... to the maximum possible ... credits that exclude specific articles / sub-articles of UCP.

What is a ‘complying presentation’ and what documents are typically required to be presented?

- A complying presentation means a presentation that is in accordance with the terms and conditions of the credit, the applicable provisions of these rules and international standard banking practice.[ref]UCP 600 Article 2[/ref]
- As stated in ISBP 745[ref]Preliminary considerations (iv)[/ref], the applicant and beneficiary should carefully consider the documents required for presentation, by whom they are to be issued, their data content and the time frame in which they are to be presented. Only documents that are necessary (e.g. for customs clearance purposes) should be required by the credit. If feasible, it is recommended that documentary requirements be limited to an invoice and transport document.

LETTER OF CREDIT

Letter of Credit Process Flow Chart



ISBP 745 - What is ISBP 745?

- The International Standard Banking Practice (ISBP) is a publication of the International Chamber of Commerce (ICC). It offers crucial guidance on the documents presented against letters of credit. Take note that ISBP does not change UCP 600 rules when it comes to letters of credit. However, it is a valuable guide to Uniform Customs and Practice (UCP).
- International Standard Banking Practice - ISBP 745 is the most up to date, comprehensive guide to handling and examining trade documents under documentary credits.
- ISBP 745 details how to apply banking practices under UCP600 to various trade documents (invoices, transport documents, bills of lading, certificates of origin...)

ISBP 745 Questions & Answers

- **What is the purpose of a documentary credit?**
- The aim of a documentary credit (also known as a letter of credit) is to reduce and, to the furthest extent possible, eliminate risk. Accordingly:
- Parties to a credit must fully understand all elements, including the terms and conditions of a credit.
- It is absolutely essential to fully appreciate UCP 600.
- A working knowledge of ISBP 745[ref] ‘International Standard Banking Practice’ ICC Publication no. 745[/ref] will help avoid most problems.
- Practitioners should keep up-to-date with market developments, which can be as simple as maintaining discussions with your peers.

ISBP 745 Questions & Answers

- What is UCP 600?
- Documentary credits are governed by an international code of practice drawn up by the International Chamber of Commerce, known as Uniform Customs and Practice for Documentary Credits (UCP). These rules were originally introduced to alleviate the disparity between national and regional rules on documentary credit practice.
- First published in 1933, and revised on five occasions since, the latest version is known as UCP 600. This comprises 39 Articles, which establish the requirements necessary to regulate documentary credit operations.
- **What is the difference between a Documentary Credit and a Letter of Credit**

ISBP 745 Questions & Answers

- **Who are the parties involved in a documentary credit?**
- **What are the common discrepancies found in documentary credits?**
- It is estimated that anything between 65% and 75% of presentations, upon which the documentary credit depends, are refused on first presentation, due to documents failing to meet the terms and conditions of the credit.
- Whether or not a bank refuses documents is based upon the content of the documents themselves, and their conformity to the terms and conditions of the credit, the applicable provisions of UCP and international standard banking practice. At the end of the day, the decision to accept or reject is often down to an individual document examiner in assessing compliance or otherwise, based on his or her individual knowledge, experience and judgement.

Bank Guarantees

- A bank guarantee is when a lending institution promises to cover a loss if a borrower defaults on a loan.
- Parties to a loan choose direct guarantees for international and cross-border transactions.
- The guarantee provides additional risk to the lender, so loans with such a guarantee will come with greater costs or interest rates.
- Any company can apply to their bank to issue a Bank Guarantee on their behalf. The bank will look for 100% security before issuing a Guarantee and this can take the form of cash or assets. If the client is credit worthy the guarantee can be issued on margin. The usual application forms will have to be filled out
- It's a non-fund limit and get converted into Fund Based limit on invocation of the Guarantee by the Beneficiary
- I suggest to use Standby LC in place of Bank Guarantee.
- The URDG758 (**Uniform Rules for Demand Guarantees**) are a set of contractual rules that apply to demand guarantees and counter-guarantees

Types of Guarantees

1. **Financial** or Payment Guarantees or now a days Stand By LC (preferred): To pay if applicant does not pay when amount is due;
2. **Performance** Guarantee:
 - A. **Bid-Bond or Tender Guarantee** – generally upto 1 to 2% of the contract at the time of bidding
 - B. **Advance Payment Guarantee** – While claiming advance from the beneficiary after winning the Contract/Bid
 - C. **Performance Guarantee** – Generally 5 to 10% of the contract after winning the bid
 - D. **Retention Money Guarantee** – for release of money held by beneficiary after completing the contract for warranty etc
 - E. **Facility Guarantee** – for Offshore subsidiary for getting limits
 - F. **Maintenance Guarantee** – After completing the contract
 - G. **Counter Guarantee** – For issuing another guarantee

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Market Today

Triparty Repo (TREPS)

Market Watch

Market by Interest Rate

FX-CLEAR

Market Watch

CROMS

Market Watch

F-TRAC

Market Watch

MANAGED PLATFORMS

RBI NDS - OM

RBI NDS - CALL

FDL Debt (C. Sec.) MRR Utilization Status

Market Rates

Indian Overnight Rates

NDS-CALL

CROMS

TREPS

NDS-OM

FX-Clear

Market	Open	High	Low	LTR	Volume (Crs.)	WAR	Prev. Day WAR	Prev. Day Vol (Crs.)
CALL	5.30	5.35	4.60	5.25	6440.30	5.27	5.12	12271.14
TREP	5.12	5.14	5.10	5.13	268307.70	5.12	5.11	403736.70
REPO	5.15	5.27	0.01	5.25	106389.72	5.16	5.17	114130.09
Money Market					381137.72	5.13	5.12	530137.93

"Volumes and Rates pertain to total market activity including Reported deals in Call and Repo."

FX-Retail :The new version of **FX-Retail Platform** with facility to book Option Period Forward Contracts is available with effect from 28th March 2022. [Click here](#)

Whats New

Statistics

NEW Consultation Paper on Members Collateral Contribution

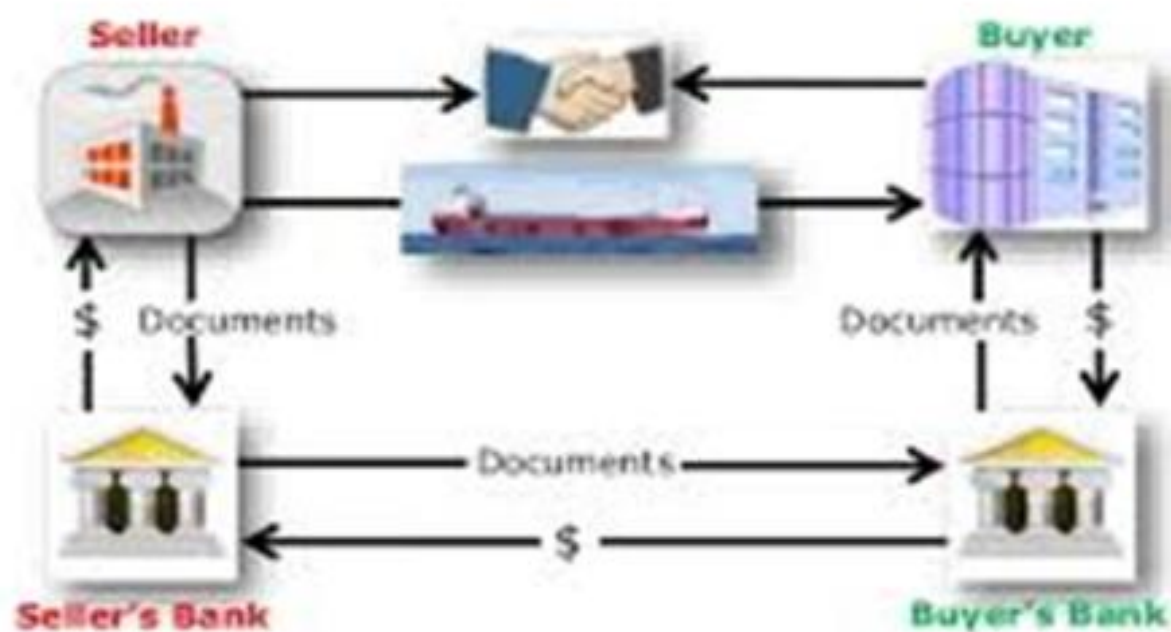
Trade Finance

- What are the sources of Finance for Exporters on receipt of Confirm Order or a Letter of Credit to execute the order??

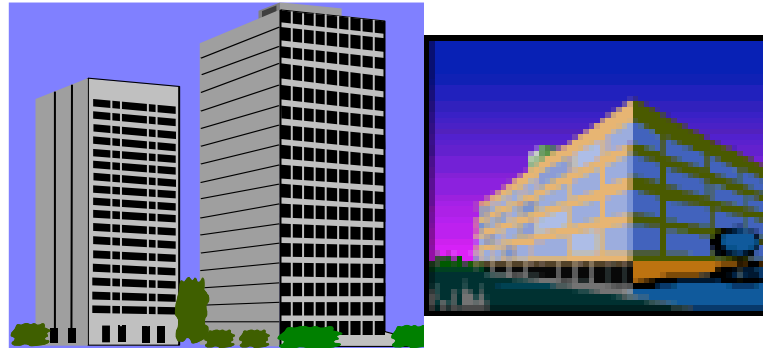
What are the sources of Finance for Exporters/Importers

- **LC or Confirm Order:**
- **Exporters -**
 - Own Funds
 - Advance from Buyer
 - Credit from Suppliers
 - Finance from Bank's/Financial Institutions at Pre-Post Shipment Stage. Available for Imports of goods for export purpose
- **Importers -**
 - Buyer's Credit - FCDL/FCTL
 - Supplier's Credit

Documentary Collection

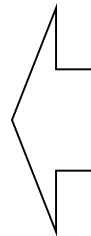


Intl.Trade Finance Products: Finance



For the seller:

- Providing finance
 - to arrange for goods
 - to provide credit to buyer



Bank's products

- Negotiation / Purchase of Bills (Post-shipment)
- Packing Credit(pre-shipment)
- Term Loans



For the buyer:

- Providing finance in respect of the sale

- However, Term loans are not considered to be a trade finance product.
- In addition we offer a product called forward contract to safeguard against

Role of a Bank in Trade

- Banks deal in documents related to trade, not goods
- Bank's role in facilitating trade is categorized as
 - Financer
 - Agent
- The Bank as a Financer
 - Fund Based Financing
 - Non – Fund Based Financing
- The Bank as an Agent
 - Handling of the documents on behalf of other bank, importer or exporter
 - Routing the fund to other bank e.g. Remittances
 - No undertaking of any financing activity
 - Import/Collection Documents
 - Remittances

Fund Based Financing: Term Loans & Working Capital loans which take care of the pre-shipment & post-shipment finance

Non Fund Based Financing: By means of Letter of Credit & Bank guarantees

Buyer's Bank

- Bank's Business Interests are:
 - Providing Non-fund Finance
 - Providing Fee Based Services (For Document Collection & Presentation)

- The Buyer's Bank can assist in:
 - Providing payment assurance to seller on behalf of the buyer
 - Providing finance in respect of the sale
 - Effecting payment to the seller on behalf of the buyer
 - Handling documents covering the sale
 - Risk Mitigation

Seller's Bank

- Bank's Business Interests are:
 - Providing Finance
 - Providing Fee Based Services (For Document Collection & Presentation)

- The Seller's Bank can assist in:
 - Assuring payment as a third party
 - Providing finance
 - For Pre-shipment / Post-shipment
 - To provide credit to buyer
 - Handling documents for regulatory requirements
 - Obtaining payment for seller from Buyer's Bank

International Trade Finance in India-

EXPORT/IMPORT FINANCE SCHEME

- Common Scheme for all types of Exporters in all the Banks in India
- Scheme guided by RBI in its Monetary Policy
- Money given at Concessional Rate of Interest at Pre-shipment & Post Shipment stage to meet Short-Term Working Capital.
- Repayment of Loan/credit from Overseas only
- Banks are partly Refinanced by RBI & this ranks for Priority Sector Finance of Banks
- Interest Rate Equalization (sub-vention) provided @3%p.a. for MSME exporters - merchant exporters allowed interest equalisation at the rate of 2% on credit for export of products
- <https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11453&Mode=0>

Export credit – Pre-shipment

- Refers to credit availed by exporters prior to shipment for use in the manufacturing and shipment readying process.
- Also known as Packing Credit (PC).
- Can be availed in Rupee or in Foreign Currency (FCY).
- Can be availed by Merchant Exporters and Manufacturer Exporters.
- Disbursed against specific order or on running account basis, as per credit approved policies of the funding bank

To be used for

- Procurement of raw material – local or imported.
- Storage of raw material or finished goods in warehouse prior to shipment.
- Charges related to transportation, marine freight, export documentation, etc.

Period of credit and settlement

- Can be disbursed for a maximum period of 360 days, and within the export cycle as determined by the bank.
- To be settled by way of.
 - ✓ Proceeds of export documents submitted for discounting.
 - ✓ Export proceeds received for bills against which no financing has been availed.
 - ✓ Debit to the EEFC/INR account to the extent exports have actually taken place.

Other details

- Pricing on export credit in INR to be above MCLR of the bank.
- Interest for loan in foreign currency has been deregulated, and is as per the discretion of the bank.
- Interest subvention for rupee export credit permits funding to be done below MCLR.
- Maximum amount of funding to be determined based on order value, margin to be contributed by the exporter, nature of the commodity, etc.

Pre-shipment Finance - Exporter

- **PC- INR - @MCLR – All Exporters;**
- PC-INR – MSME Exporter @ MCLR – 3% Sub-Venture;
- PC-INR – Merchant Exporter @ MCLR -2% Sub-Venture;
- **Facility of Hedging thru Forward Contract for RPC**
- **PCFC – LIBOR/SOFR + Mark-up** (it amounts to Hedging) – All Exporters upto 1 year
- PCFC: No Facility of Booking Forward but PCFC can be availed against Forward Contract booked earlier:

Post-Shipment Finance

- Refers to credit extended to exporters after shipment for meeting working capital requirement.
- Can be provided to all categories of exporters.
- Disbursed against export documents for short, medium or long term.
- In case pre-shipment availed against specific order, proceeds of post-shipment finance will be utilized to settle the existing credit.

Types of Post-shipment Finance

- Export bills negotiated under LC
- Purchase/Discount of export bills
- Advance against bills sent on collection
- Advance against duty drawback
- Advance against undrawn balances
- Advance against deferred payments/retention money (for long-term export contracts)

Post-Shipment- Export Finance

- By Liquidation of Pre-shipment (PC) Finance Must (if taken);
- On Collection basis Bills – (U Can take Finance at any time)
- **Bills Purchase – DP –Sight Bill** – upto Normal Transit Period - NTP (5 to 25 Days) (By selling Foreign Currency or Just continuation of INR Finance taken at Pre-shipment stage);
- **Bills Discounted – DA Bills** (upto the Tenor of the bill/Due date of the Bill or 270 Days from the Date of Shipment – whichever is lower);
- **Bills Negotiated – DP/DA Bills** – under a LC (subject to NTP/Due date/Tenor of the Bill – Max 270 days from the Date of shipment
- **Factoring** – With or Without Recourse
- **Forfaiting** – Without Recourse upto 10 years (even PC at one bank & Forfaiting with another bank). Best suited for all.

Borrowing USD under PCFC / PSFC VS (B) Borrowing Rupee funds under RPC/EPC / FBP

PCFC Vs RPC Calculator					
			3month	6month	12month
PCFC Interest rate	SOFR	A	0.4079%	0.6481%	0.99%
	Spread	B	1.00%	1.00%	1.00%
	PCFC Costing	C = A+B	1.41%	1.65%	1.99%
RPC Interest rate	Interest rate	D	7.00%	7.00%	7.00%
	Interest Rate Subvention	E	3.00%	3.00%	3.00%
	Net Interest Rate	F= D-E	4.00%	4.00%	4.00%
	Forward Premium Annualized	G	4.67%	4.28%	4.13%
	RPC Costing	H= F-G	-0.67%	-0.28%	-0.13%
Remark		C < > H	Go with RPC	Go with RPC	Go with RPC

International Trade Finance in India- EXPORT/IMPORT FINANCE SCHEME


- PRE-SHIPMENT CREDIT: (RUPEES/FC)
- Upto 180 Days : Base Rate+ or MCLR+
- Beyond 180 to 270 days: Base Rate + MCLR+
- PCFC upto 180 days: Not exceeding LIBOR plus 2.00% -3%pa
- PCFC 181 to 360 days: Upto Bank
- *To be based on Bank's MCLR Rate effective
- MSME Exporters: Eligible for 3% subvention
- Merchant Exporters: Eligible for 2% subvention

International Trade Finance in India-

EXPORT/IMPORT FINANCE SCHEME

- POST SHIPMENT CREDIT (RUPEES/FC)
- On DP Bills upto NTP(Max 25 days) : Base Rate + or MCLR+
- On Usance Bills:
 - upto 90 days : Base Rate+ or MCLR+
 - Beyond 90 to 6 months: Base/MCLR + MSME/Merchant Exporters: 3% /2% Sub-vention
- Bills Reds. Scheme : Not exceeding LIBOR plus 2.00% -3% pa
- **IMPORTERS** are not given any concessional Finance, however they take benefit through Buyer's/Supplier's Credit from overseas Banks/Institutions
- Bank's offering FCDL/FCTL to importers for working capital or Term Loan
- *To be based on Base Rate of the Bank effective from July 01, 2010

NOTIFICATIONS

 (204 kb)

Interest Equalization Scheme on Pre and Post Shipment Rupee Export Credit - Extension

RBI/2021-22/65
DOR.CRE(DIR).REC.28/04.02.001/2021-22

July 1, 2021

All Scheduled Commercial Banks (excluding RRBs),
Small Finance Banks, Primary (Urban) Cooperative Banks
and EXIM Bank

Dear Sir / Madam,

Interest Equalization Scheme on Pre and Post Shipment Rupee Export Credit - Extension

Please refer to the instructions issued vide [circular DOR.CRE.REC.06/04.02.001/2021-22 dated April 12, 2021](#).

2. Government of India has approved the extension of Interest Equalization Scheme for Pre and Post Shipment Rupee Export Credit, with the same scope and coverage, for a further period of three months, i.e., up to September 30, 2021. The extension takes effect from July 01, 2021 and ends on September 30, 2021 covering a period of three months.

3. Consequently, the extant operational instructions issued by the Reserve Bank under the captioned Scheme shall continue to remain in force up to September 30, 2021.

Yours faithfully

(Manoranjan Mishra)
Chief General Manager

- 2021
- 2020
- 2019
- 2018
- 2017
- 2016
- 2015
- 2014
- 2013
- 2012
- Archives



भारतीय रिज़र्व बैंक
Reserve Bank of India
India's Central Bank

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NOTIFICATIONS

(158 kb)

Interest Equalisation Scheme on Pre and Post Shipment Rupee Export Credit

RBI/2018-19/107

DBR.Dir.BC.No.22/04.02.001/2018-19

All Scheduled Commercial Banks (excluding RRBs)

Small Finance Banks and

Primary (Urban) Cooperative Banks

Dear Sir / Madam,

Interest Equalisation Scheme on Pre and Post Shipment Rupee Export Credit

Please refer to the operational instructions for the captioned scheme contained in RBI circular on Interest Equalisation Scheme on Pre and Post Shipment Rupee Export Credit issued vide [DBR.Dir.BC.No.62/04.02.001/2015-16](#) dated December 4, 2015; [DCBR.CO.SCB.Cir.No.1/13.05.000/2015-16](#) dated December 1, 2015 and [DBR.Dir.BC.No.09/04.02.001/2018-19](#) dated November 29, 2018.

2. In this regard, it has been decided by the Government of India to include merchant exporters also, w.e.f. January 2, 2019, under the Interest Equalisation Scheme for Pre and Post Shipment Rupee Export Credit and allow them interest equalisation at the rate of 3% on credit availed covered under 416 tariff lines identified under the Scheme.

Yours faithfully,

(Dr. S. K. Kar)

Chief General Manager

Factoring & Forfaiting

- Factoring of import / export bills
- AD banks have been permitted to factor the export receivables on a non-recourse basis, on Net basis thru an arrangement with Import Factor & reporting in EDPMS
- Forfaiting
- Banks have been permitted to undertake forfaiting, for financing of export receivables. Remittance of commitment fee / service charges, etc., payable by the exporter as approved by the EXIM Bank / AD Category – I banks concerned may be done through an AD bank. Such remittances may be made in advance in one lump sum or at monthly intervals as approved by the authority concerned.

International Trade Finance in India-

INTERNATIONAL FACTORING

- Factoring is purchase of EXPORT receivable (with or without recourse) on an ongoing basis.
- The management, collection & administration is taken over by the factor for exports on open accounts terms
- Finance is made available upto 90% of the invoice value
- Offered by SBI Factors, Canfactors & HSBC Factors, MODIFY, DRIP Capital etc

International Trade Finance in India-

INTERNATIONAL FORFAITING

- Forfaiting is purchase of medium to long-term export receivables backed by a LC or banker's acceptance from the buyers bank at a discount on a without recourse basis
- Exim Bank and Authorized Dealers offers this product to exporters for a minimum amount of USD 50,000/-
- RBI allows banks to pay forfaiting charges in advance

International Trade Finance in India-

FACTORING : FORFAITING

- Suited for on going open a/c sales **not** backed by LC or accepted Bills of Exchange
- Provide short-term credit upto 180 days
- Single transactions backed by LC or a Bank Guarantee
- For long-term credit upto 10 yeas, though available for Short term too

International Trade Finance in India-

FACTORING : FORFAITING

- Requires regular arrangement for all the sales
- Separate charges for Financing, collection, Admn, credit protection, providing information and can be with or without recourse
- Deals concluded transaction wise
- Single discount charges for Guaranteeing Bank, Country risk, credit period involved and currency of debt & addl. Charge of commitment fee

Some more basic questions

- Why aren't FX rates all equal to one?
- Why do FX rates change over time?
- Why don't all FX rates change in the same direction?
- What drives forward rates – the rates at which you can trade currencies at some future date?

GLOBAL FX MARKET – CURRENCIES

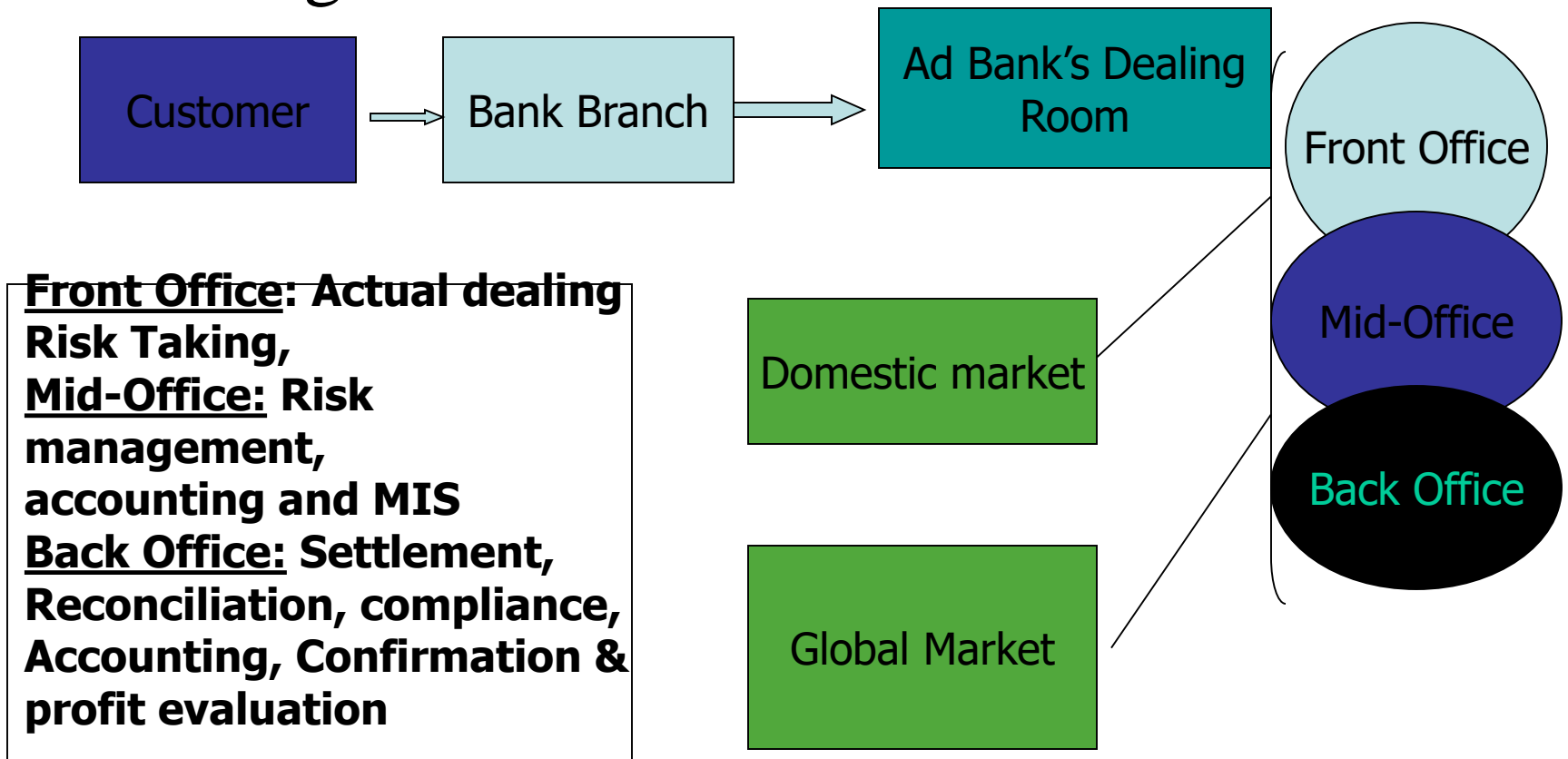
MOST TRADED CURRENCIES

RANK	CURRENCY (NICKNAMES)	CODE (SYMBOL)	% daily turnover (April 2016)
1	United States dollar (Greenback)	USD (\$)	87.0%
2	Euro (Single)	EUR (€)	33.4%
3	Japanese Yen (Jappy)	JPY (¥)	23.0%
4	Pound Sterling (Cable)	GBP (£)	11.8%
5	Australian Dollar (Aussie)	AUD (\$)	8.6%
6	Swiss Franc (Swissy)	CHF (Fr)	5.2%
7	Canadian Dollar (Loonie)	CAD (\$)	4.6%
8	Mexican Peso	MXN	2.5%
20	Indian Rupee	INR (Rs)	1.0%
Others			22.9%
Total % (100% for buyer and 100% for seller)			200%

Source : BIS

Forex Dealing Room Operations

Dealing Process



Foreign Exchange Market in India

Tier-I

Regulator: Reserve Bank of India
Regulation: Foreign Exchange Management Act, 1999

Tier - II

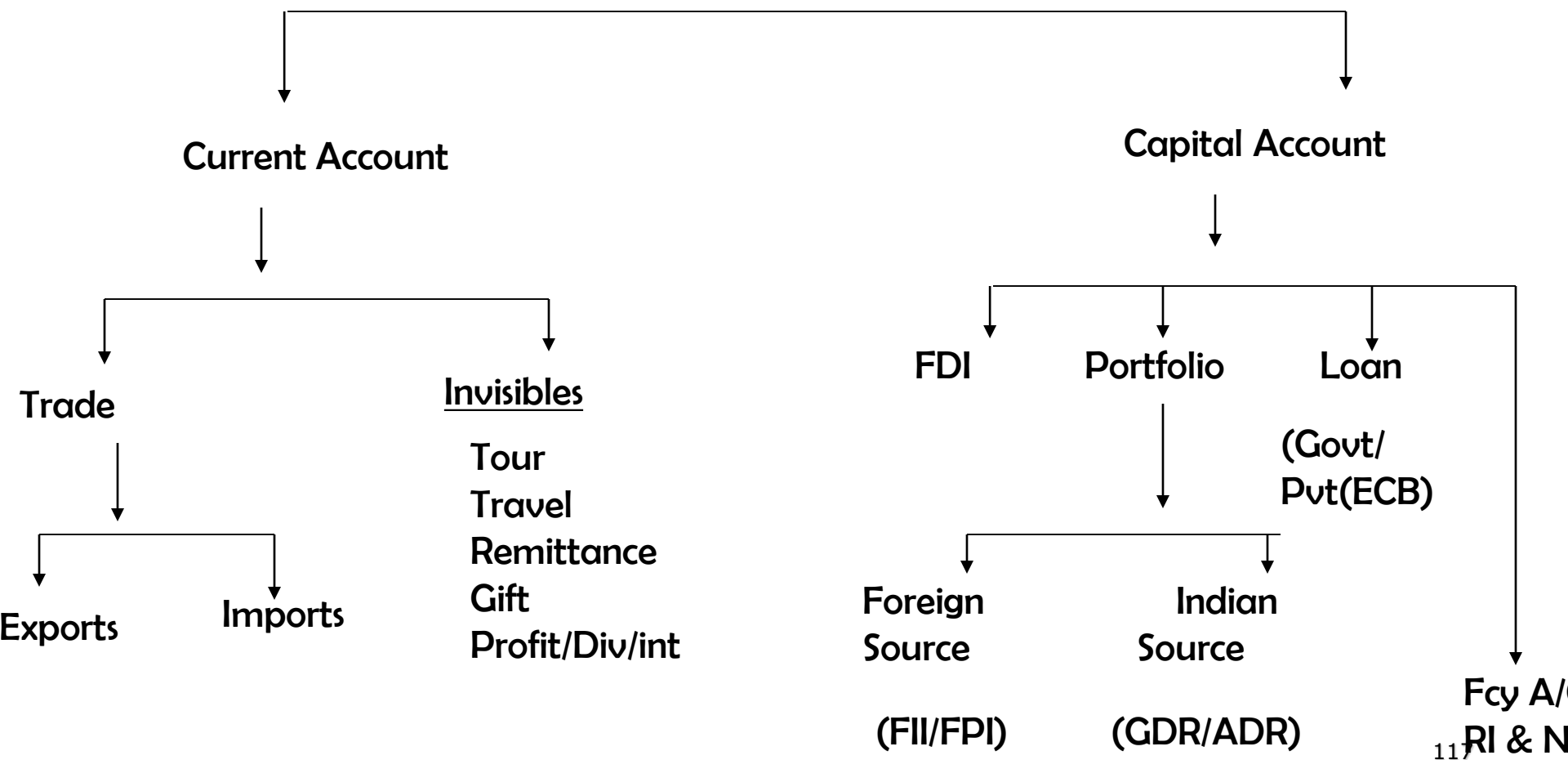
Authorized Dealers, Money changers

Tier-III

Buyers and sellers: exporters, importers, individuals,
Corporates, FIIs, Non-Residents, NRIs etc.



FOREIGN EXCHANGE TRANSACTIONS



Market participants

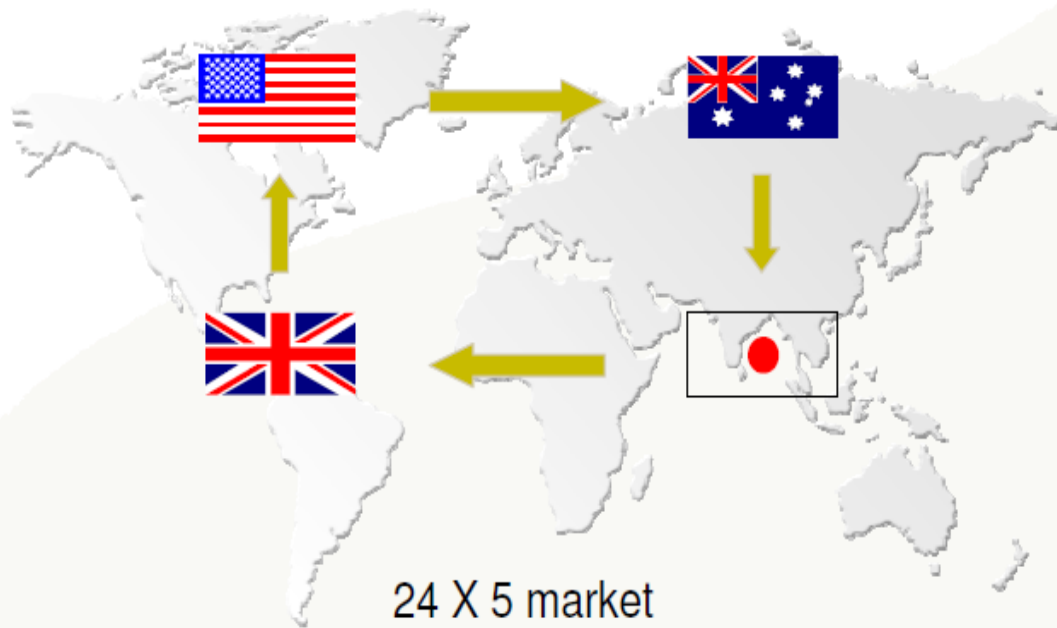
- Customers those who buy and sell forex for their trade requirements, hedging & trading -Merchant Market
- Commercial banks are those authorized to deal in forex - Interbank Market
 - Market Maker
 - Market Taker
- Operations - Cover operations & Trading
- Central banks – control volatile and undue movements of their currency
- Exchange brokers who act as intermediary between banks for doing the deals
- Hedge/Pension/Mutual Funds & Insurance Co's – Invest and speculate on the forex movements

FX market – characteristics

- Over-The-Counter Market, no FX Exchange
- The market for foreign exchange is a continuous inter-bank market (24 hours) in 4 different time zones – NZ to NYK to NZ
- Trading begins in New Zealand, followed by Australia, Asia, the Middle East, Europe, and America
- **Forex Market follows the sun around the earth**
- Average daily turnover USD 6.70 Trillion per day
- India Forex Market 9 AM to 5 PM Turnover USD 60 Billion – Merchant 18 Billion, Inter-Bank 42 Billion
- Foreign Exchange Market can be described as : Wholesale (Inter-Bank) and Retail Market
- Network of banks, corporations, individuals, forex traders, Arbitrators , brokers & Money Changers
- <https://rbi.org.in/Scripts/NotificationUser.aspx?Id=11597&Mode=0>
- **Rollout of the foreign exchange trading platform for retail participants – FX-Retail** <https://www.ccilindia.com>

Foreign exchange – continuous market

The market for foreign exchange is a continuous inter-bank market (24 hours)



24 hour Market

London

Zurich

Frankfurt

Bahrain

New York

Mumbai

Los Angeles

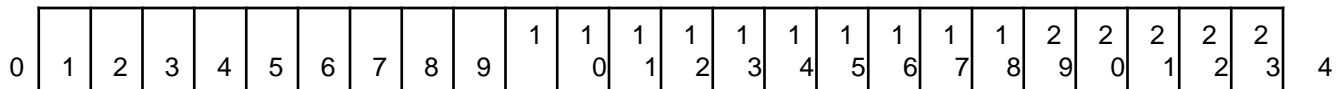
Singapore

HongKong

Tokyo

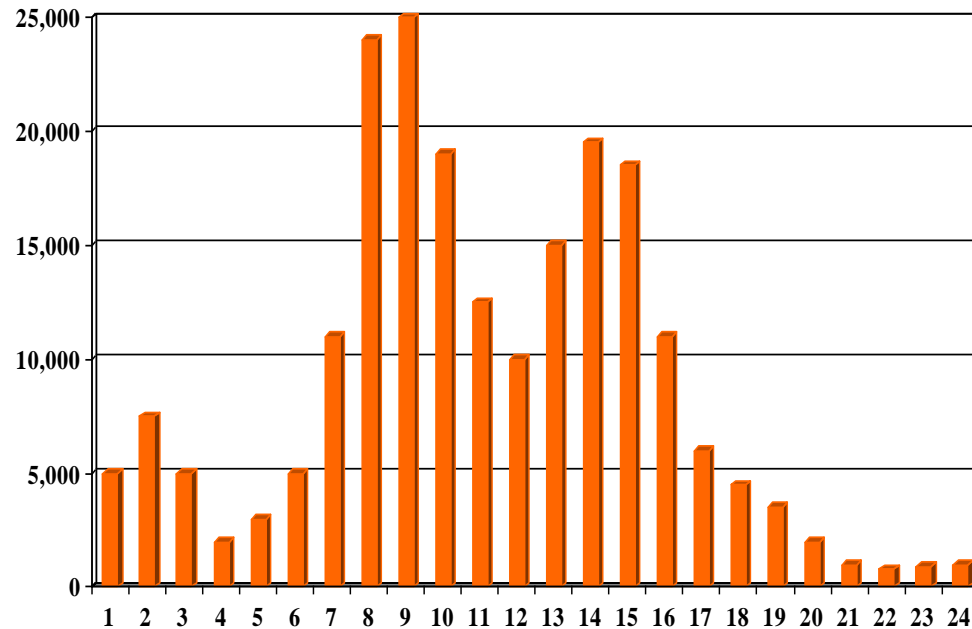
Sydney

Sydney



Around-the-clock FX trading

Average Electronic Conversions Per Hour



Greenwich Mean Time

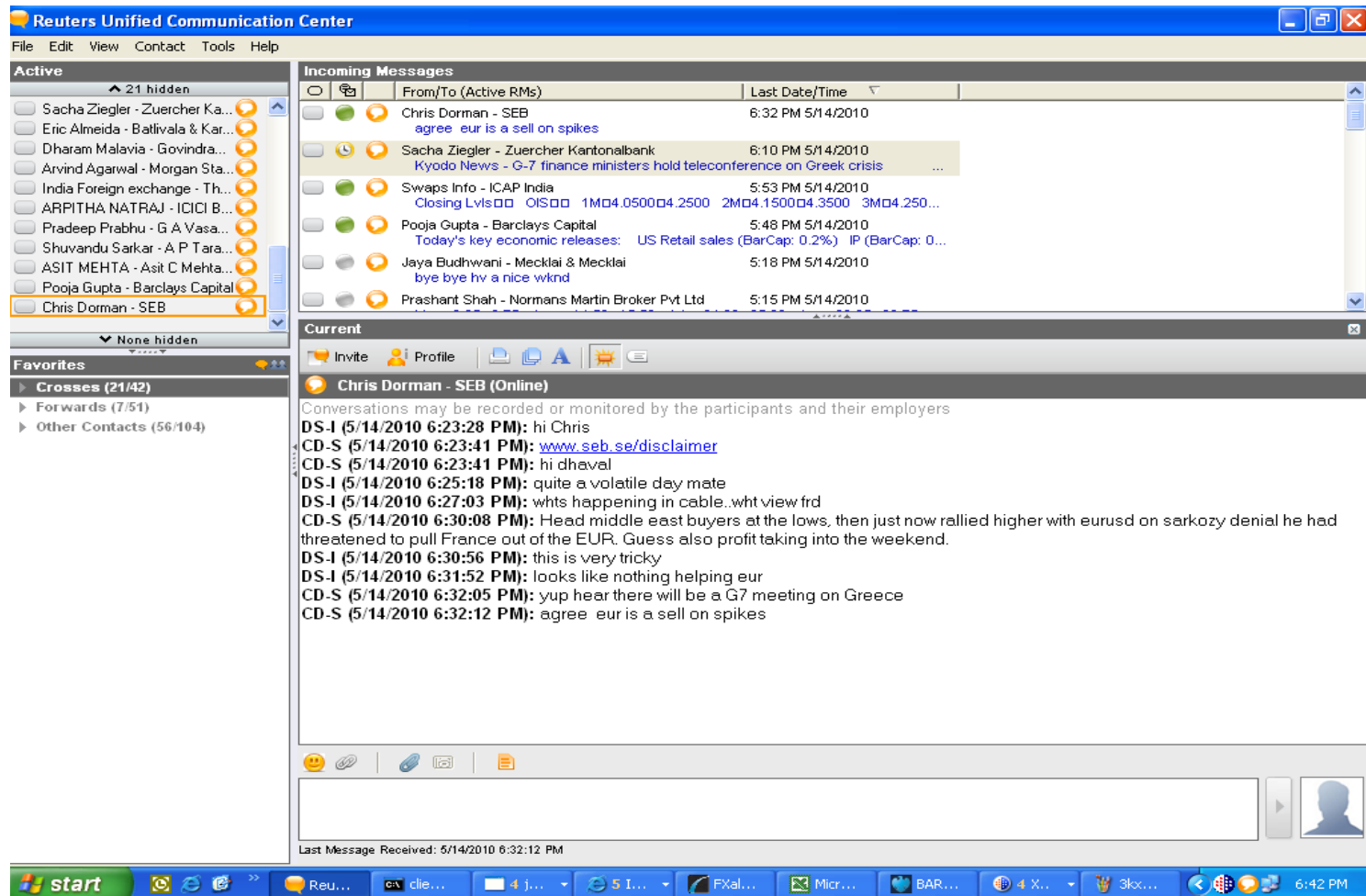
↑ ↑ ↑ ↑ ↑ ↑ ↑ ↑ ↑

10 AM Lunch Europe Asia America London Afternoon 6 pm Tokyo
In Tokyo In Tokyo opening closing open closing in America In NY opens

Treasury – set up

- Clear Demarcation for different trading desks.
- Restricted entry for authorized persons only.
- Front Office – Dealing, Manage Exchange Position (facilitator), Proprietary Trading.
- Thomson Reuters/Bloomberg screens, Reuters 3000 Dealing screen, Direct Dealing Systems, Broker lines, Telephone and Hotlines with Voice Recording system, PCs with internet, Printer and Fax.
- Back Office – Settlements, SWIFT.
- Mid Office – MIS, Risk monitoring & Compliances, IT Support.

Messenger



Trading systems

The screenshot displays the FXall trading platform interface. On the left, a vertical sidebar contains navigation icons for 'Talk to FXall', 'QuickTrade', 'Portfolio OMS', 'Indicative Quotes', 'Trade History', 'Setup', and 'Execution Enabled'. The main area is divided into two primary sections: a left-hand market overview and a right-hand trade execution window.

Market Overview (Left):

- EUR.USD** 13:09:27: Sell EUR 1.2491, Buy EUR 1.2492
- GBP.USD** 13:09:29: Sell GBP 1.4610, Buy GBP 1.4613
- USD.JPY** 13:09:25: Sell USD 92.54, Buy USD 92.55
- USD.CHF** 13:09:28: Sell USD 1.1219, Buy USD 1.1221
- EUR.GBP** 13:09:27: Sell EUR 0.85490, Buy EUR 0.85513
- AUD.USD** 13:09:18: Sell AUD 0.8920, Buy AUD 0.8922

Trade Execution Window (Right):

The window is titled 'Requirements EUR.USD'. It shows the 'Pair' as EUR.USD, 'Account' as ICICI Bank Ltd, and 'Request' as Two Way RFQ. The 'Type' is set to Spot/Outright. The trade details include a currency selector (EUR/USD), a value of 1,000,000.00, a term of SPOT, and a date of 18-May-2010 (0 Days - Tue).

Below the trade details, there is a table for 'Sell EUR' and 'Buy EUR' rates, with a '115' indicator in the center. The table lists various providers and their respective rates:

Provider	Sell EUR	Buy EUR
BNPP	1.2529	1.2530
BOA	1.2529	1.2530
CITI	1.2529	1.2530
RBS	1.2529	1.2530
SG	1.2529	1.2530

A 'Re-Start' button is located at the bottom right of the trade execution window.

Bottom Panel:

The bottom panel includes tabs for 'Deal Log', 'Audit', 'Error Log', and 'Chat'. Below these tabs is a table with columns: Status, Type, Pair, Value Date, Account, B/S, Ccy, Amount, Rate, Pts, All-in, Provider, and FXall Order ID. The table is currently empty.

The Windows taskbar at the bottom shows the 'start' button, several open applications (Route..., client..., java, In..., FXall..., Micro..., BARX..., XT...), and the system clock indicating 6:39 PM.

INR Cross Rates 1 13

	Bid	Ask	Net. Chng	High
CHF INR=	68.615	68.658	+0.1760	68.646
HKD INR=	7.7893	7.7909	+0.0041	7.7913
EUR INR=	83.575	83.601	+0.1800	83.608
CAD INR=	54.8846	54.9186	+0.0676	54.9078
AUD INR=	56.554	56.593	-0.0130	56.687
GBP INR=	101.651	101.680	+0.2540	101.697
JPY INR=	0.5919	0.5921	+0.0015	0.5926
SGD INR=	48.293	48.305	+0.0280	48.346

Major Spots 1 13

	Bid	Ask	Net Chng	Open
INR=D4	60.3825	60.4125	+0.0200	60.300
INR=IN	60.3950	60.4050	+0.0250	60.290
EUR=	1.3837	1.3841	+0.0023	1.3815
CAD=	1.0998	1.1005	-0.0010	1.1009
AUD=	0.9362	0.9366	-0.0008	0.9369
GBP=	1.6830	1.6834	+0.0034	1.6794
JPY=	102.02	102.04	-0.20	102.22
SGD=	1.2502	1.2510	-0.0004	1.2502

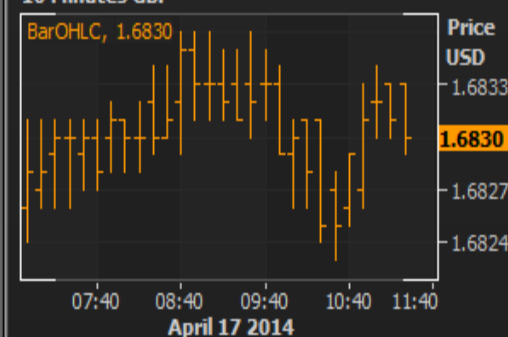
MCX INR Futures 1 13

	Mth	Last/Cls	Net Chg	Volume	Open.
/MCIR APR4		60.4800	-0.008	69275	2460
/MCIR MAY4		60.8400	-0.018	4173	678
/MCIR APR4		60.4800	-0.008	69275	2460
/MCIR MAY4		60.8400	-0.018	4173	678
/MCIR JUN4		61.2000	-0.023	62	183
/MCIR JUL4		61.5425	+0.043	1	91
/MCIR AUG4		61.8000			
/MCIR SEP4		62.2700			
/MCIR OCT4		62.9825			

Rolling & Month End Forwards 1 13

	Tenor	▲ Bid	Ask	Mat. Date
CS	6.00	7.00		
SW	9.00	11.00		29APR1
APR	10.25	11.75		30APR1
1M	41.25	43.00		22MAY1
2M	85.75	87.75		23JUN1
JUN	95.50	97.50		30JUN1
3M	126.25	128.25		22JUL1
JUL	139.00	141.00		31JUL1
4M	169.75	171.75		22AUG1
AUG	178.00	180.00		28AUG1
5M	211.25	213.25		22SEP1
SEP	222.00	224.00		30SEP1
6M	251.75	253.75		22OCT1
OCT	264.00	266.00		31OCT1
7M	296.25	298.25		24NOV1
NOV	301.50	303.50		28NOV1
8M	333.25	335.25		22DEC1
DEC	345.00	347.00		31DEC1
9M	374.00	376.00		22JAN1
JAN	384.50	386.50		30JAN1
10M	415.75	417.75		23FEB1

10 Minutes GBP=



INR Contributors 1 13

Bid	Ask	Contributor	Time	Net.
60.3950	60.4050	SOUTH IN BK	11:11	+0.03
60.3950	60.4050	SOUTH IN BK	11:11	
60.3950	60.4050	FIRSTSTRAND B	11:11	
60.3950	60.4050	PATTERSON8	11:11	
60.4000	60.4100	V THAKKER	11:10	
60.4000	60.4100	MECKLAI	11:10	
60.4000	60.4100	SYNDICATE B	11:09	
60.4000	60.4100	SC DUTTA	11:08	
60.4000	60.4100	UCO BANK	11:07	
60.4000	60.4100	DENA BANK	11:07	
60.3900	60.4000	SBTC	11:06	
60.3800	60.4000	CANARA	11:06	
60.4000	60.4100	ST BK HYD	11:04	
60.4150	60.4200	ST BK INDIA	11:03	
60.4000	60.4100	PUNJAB NB	11:02	
60.4025	60.4125	ANZ BANK	11:02	
60.3900	60.4000	KARUR VYSY	11:00	

NSE INR Futures 1 13

	Mth	▲ Last/▼	Net Chg	Volume	Open. In
/NIF APR4		60.4825	-0.008	148219	44882
/NIF MAY4		60.8375	-0.010	6292	14874
/NIF JUN4		61.1975	-0.003	390	3869
/NIF JUL4		61.5600	+0.005	1405	2131
/NIF AUG4		61.9000	-0.010	79	1508
/NIF SEP4		62.2500	-0.015	60	1426
/NIF OCT4		62.6500			
/NIF NOV4		62.9050	-0.095	1	234
/NIF DEC4		63.3175			

INR NDF 1 13

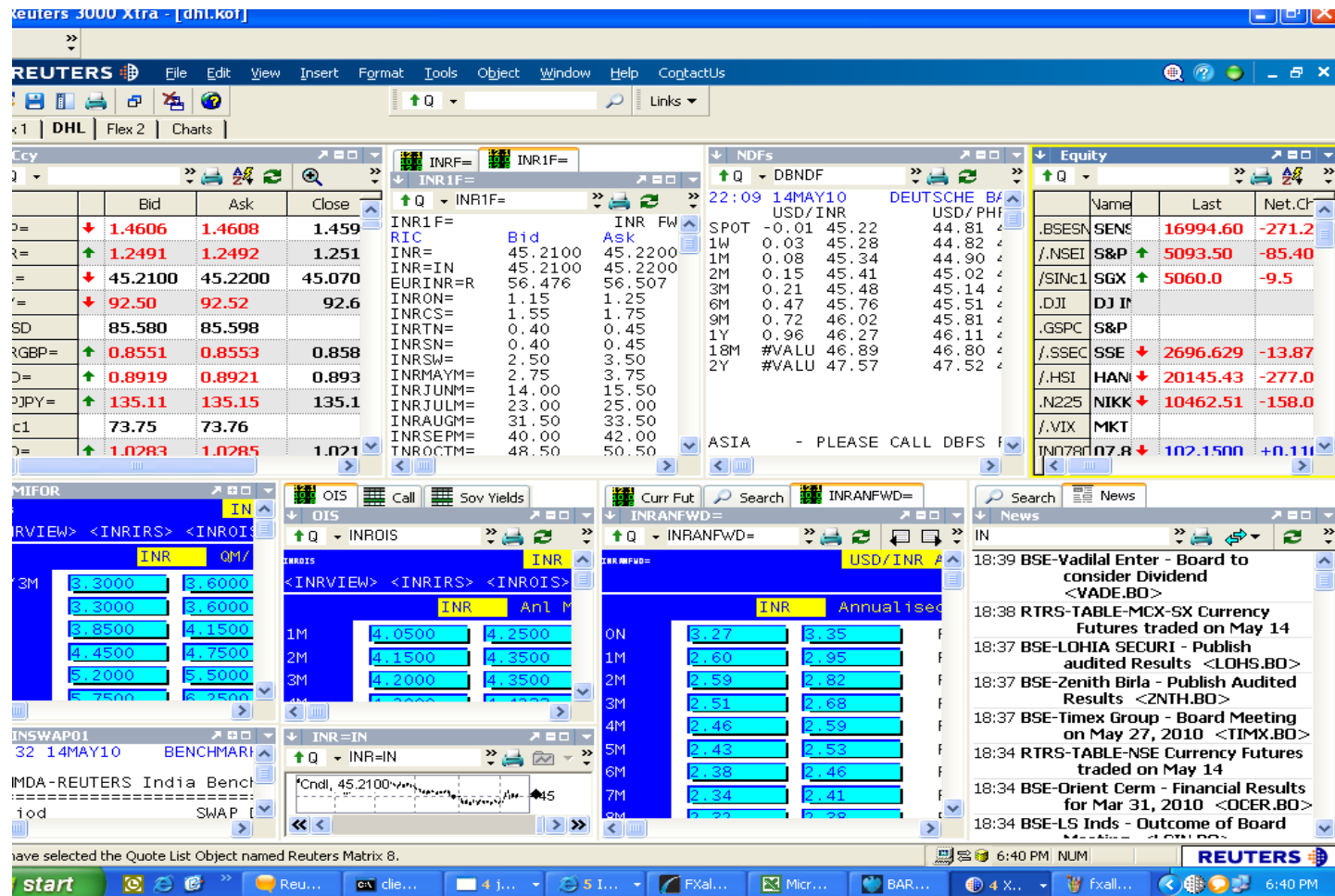
	Bid	Ask	Net Chg	Time
SW	60.4850	60.5150	+0.11	11:11
1M	60.7850	60.8150	+0.11	11:11
2M	61.1700	61.2200	+0.09	11:11
3M	61.5400	61.5900	+0.09	11:11
6M	62.7000	62.8500	+0.08	11:07
9M	63.8450	63.9250	+0.10	11:11
1Y	64.8700	65.0700	+0.01	11:01

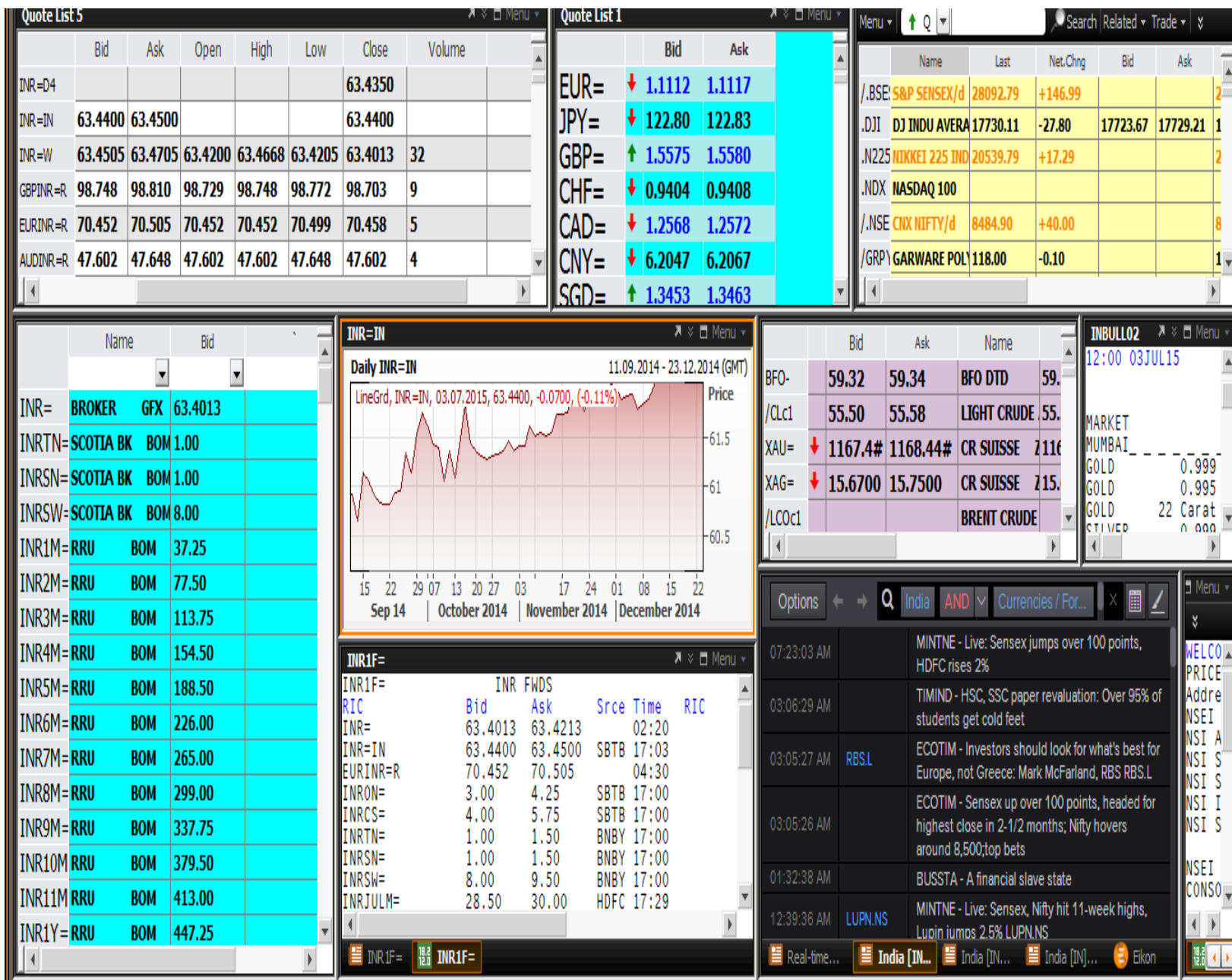
Indian FX or RBI News

17-Apr-2014

11:09:20	RTRS - TABLE-India cbank says 4-day repo bids at 37.28 bln rupees
11:00:46	RTRS - INDIA CBANK SAYS ACCEPTS ALL 14 BIDS FOR 37.28 BLN RUPEES AT 4-DAY REPO AUCTION
10:45:32	RTRS - India cbank may sell 2022 bonds at 9.1860 pct in biggest-ever debt sale
10:43:19	RTRS - TABLE-Indian banks did not borrow from MSF window on April 16 - RBI

News services





BFO-

Bid

Ask

Name

BFO DTD

59.

/Clc1

55.50

55.58

LIGHT CRUDE

55.

XAU=

1167.4#

1168.44#

CR SUISSE

2116

XAG=

15.6700

15.7500

CR SUISSE

215.

/LCOc1

BRENT CRUDE

INBULL02

12:00 03JUL15

MARKET

MUMBAI

GOLD

0.999

GOLD

0.995

GOLD

22 Carat

0.999

Options

India

AND

Currencies / For...

07:23:03 AM

MINTNE - Live: Sensex jumps over 100 points, HDFC rises 2%

03:06:29 AM

TIMIND - HSC, SSC paper revaluation: Over 95% of students get cold feet

03:05:27 AM

RBSL

ECOTIM - Investors should look for what's best for Europe, not Greece: Mark McFarland, RBS RBS.L

03:05:26 AM

ECOTIM - Sensex up over 100 points, headed for highest close in 2-1/2 months; Nifty hovers around 8,500; top bets

01:32:38 AM

BUSSTA - A financial slave state

12:39:36 AM

LUPN.NS

MINTNE - Live: Sensex, Nifty hit 11-week highs, Lupin jumps 2.5% LUPN.NS

Real-time...

India [INL...

India [IN...

India [IN]...

Elkon

FOREX	EQUITY	STOCK	FOREX 1	FOREX 2	CCIL/NDF	CP/CD/FX	10 year	Economic data	Flex 1
INR1F=									
INR1F=									
INR FWDS									
RIC		Bid	Ask		Srce	Time		RIC	
INR=		63.4013	63.4213			02:20			
INR=IN		63.4400	63.4500	SBTB		17:03			
EURINR=R		70.452	70.505			04:30			
INRON=		3.00	4.25	SBTB		17:00			
INRCS=		4.00	5.75	SBTB		17:00			
INRTN=		1.00	1.50	BNBY		17:00			
INRSN=		1.00	1.50	BNBY		17:00			
INRSW=		8.00	9.50	BNBY		17:00			
INRJULM=		28.50	30.00	HDFC		17:29			
INRAUGM=		67.50	69.50	HDFC		17:29			
INRSEPM=		105.00	107.00	HDFC		17:29			
INROCTM=		142.50	144.50	HDFC		17:29			
INRNOVM=		180.00	182.00	HDFC		17:29			
INRDECM=		217.50	219.50	HDFC		17:29			
INRJANM=		253.00	255.00	HDFC		17:29			
INRFEBM=		290.50	292.50	HDFC		17:29			
INRMARM=		328.00	330.00	HDFC		17:29			
INRAPRM=		368.00	370.00	HDFC		17:29			

		Bid	Ask
EUR=	↓	1.1112	1.1117
JPY=	↓	122.80	122.83
GBP=	↑	1.5575	1.5580
CHF=	↓	0.9404	0.9408
CAD=	↓	1.2568	1.2572
CNY=	↓	6.2047	6.2067
SGD=	↑	1.3453	1.3463
AUD=	↑	0.7508	0.7513
LKR=	↓	133.50	133.80
THB=	↑	33.76	33.78
KRW=	↓	1121.60	1123.60
HKD=	↓	7.7525	7.7534
MYR=	↑	3.7770	3.7800
SEK=	↓	8.4514	8.4544
AFN=	↑	60.25	61.00
SAR=	↓	3.7501	3.7506
IRR=	↑	29400.#	
IDR=	↑	13318	13322
AED=	↑	3.6728	3.6731
ZAR=	↓	12.3155	12.3255
RUB=	↑	55.9355	55.9445
IDR=	↑	13318	13322
KWD=	↑	0.30250	0.30270

LIBOR		ICE LIBOR				LINKED		DISPLAYS							
USD		02JUL15		GBP		02JUL15		CHF		02JUL15		JPY		02JUL15	
IBA		LON		IBA		LON		IBA		LON		IBA		LON	
0N	0.12500	0N	0.48250	SN	-0.78100	SN	0.03000								
SW	0.14800	SW	0.48863	SW	-0.81800	SW	0.03286								
2W		2W		2W		2W									
1M	0.18815	1M	0.50931	1M	-0.82700	1M	0.06643								
2M	0.23420	2M	0.54125	2M	-0.80500	2M	0.08714								
3M	0.28350	3M	0.57813	3M	-0.78900	3M	0.10071								
4M		4M		4M		4M									
5M		5M		5M		5M									
6M	0.45470	6M	0.73625	6M	-0.73200	6M	0.13943								
7M		7M		7M		7M									
8M		8M		8M		8M									
9M		9M		9M		9M									
10M		10M		10M		10M									
11M		11M		11M		11M									
1Y	0.78710	1Y	1.04869	1Y	-0.64200	1Y	0.24257								
EUR		02JUL15		AUD		03JUN13		CAD		03JUN13		EUR		02DEC13	
IBA		LON		BBA		LON		BBA		LON		BBA		LON	
0N	-0.18000	SN		0N		0N						0N			
SW	-0.14857	SW		SW		SW						SW			
2W		2W		2W		2W						2W			
1M	-0.08071	1M		1M		1M						1M			

Factors that affect currency movements

- Fundamental Analysis

Strength of economy, political factors, monetary factors etc. (macroeconomic aspects), GDP, Industrial Production, Unemployment, Inflation, BOP

- Technical Analysis

Study of past price and activity history in order to predict future price movements

Primary tools are charts

Data Releases ; Non farm payrolls, CPI / PPI, Retail Sales

- Jobless Claims, Inflation Data, Trade deficit/surplus

What Variables affects Exchange rates?

- Country's balance of payment situation : Inflows – Outflows -**surplus leads to stronger currency.**
- Crude Oil Price
- Rate of Inflation
- Rate of Interest –**currency with higher interest will appreciate in the short term.**
- Economic condition of the country and economic policies of the Government - – **High/Low growth rate**
- **Fiscal / Monetary Policy- deficit financing leads to depreciation of currency**
- Political scenario and degree of uncertainty in the political situation –**Political stability leads to stable rates**
- Direct intervention of Central bank to smooth out unduly large short term fluctuations
- Market Sentiment: perception of traders

Technical Reasons

- Government Control can lead to unrealistic value.
- Free flow of Capital from lower interest rate to higher interest rates.

Speculation – higher the speculation higher the volatility in rates

Developments abroad–Eurozone Debt/ COVID-19 Crisis/US stimulus/-
Geopolitical situation in Russia, Ukraine, Sri Lanka, ISRAEL, Syria, Afghanistan
& Soon in India too, **QE to QT**

- Comments from FM/RBI Governor/Rating Agencies
- **Demand and Supply of Forex at any given point of time**

DOMESTIC FACTORS AFFECTING INR

Market Forces behind exchange Rates

Interest Rate

Higher returns
relative to other
countries

Increase in
foreign inflows

Strengthens

**Domestic
Inflation
Rate**

Erodes
purchasing
power

Reduce currency
demand

Weakens

**Capital
Inflows**

Debt & equity

Currency
demand
increases

Strengthens

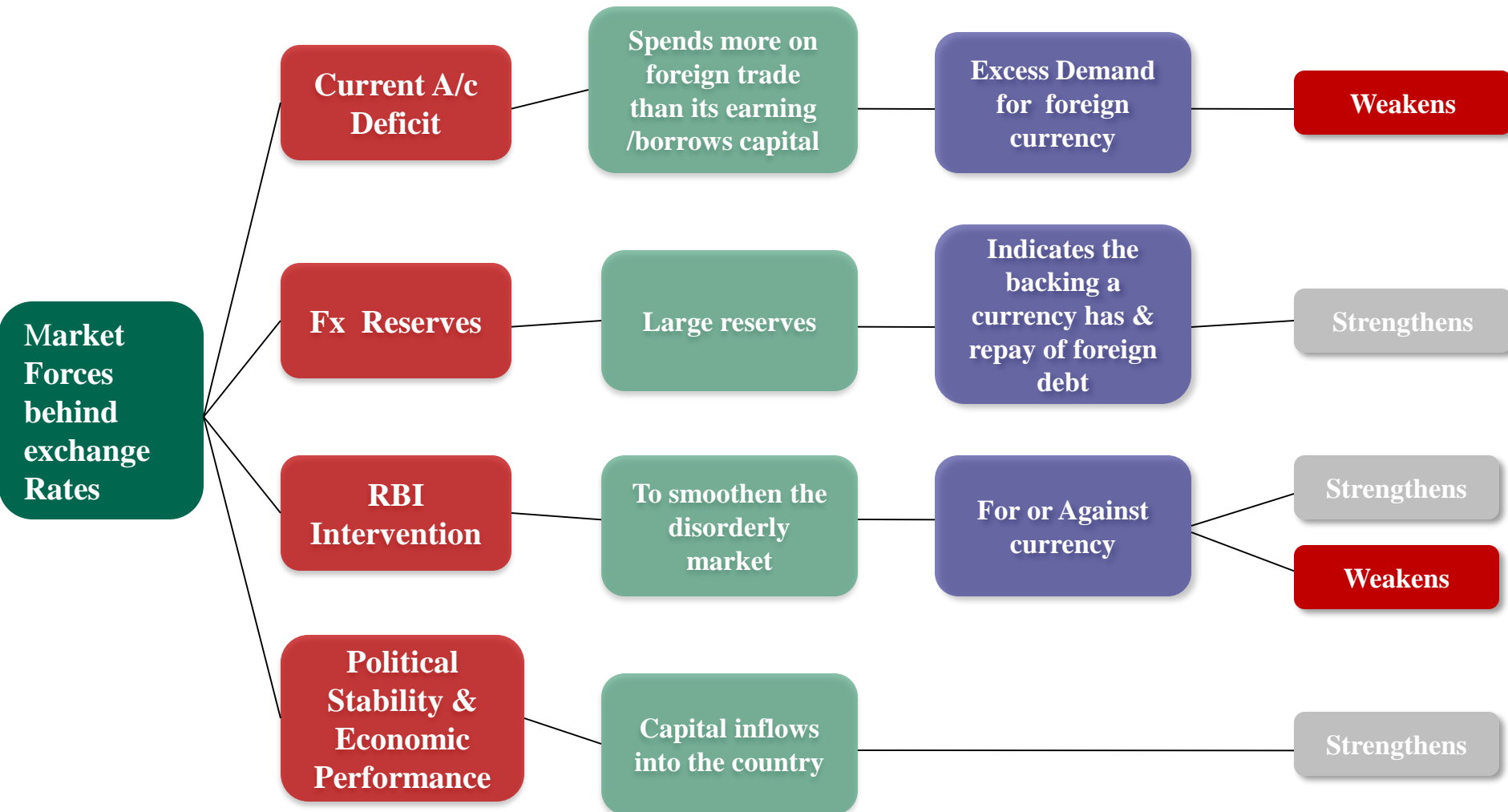
**Trade
Deficits**

Excess demand
for foreign
currency

Weakens

DOMESTIC FACTORS AFFECTING INR

Cont....



GLOBAL FACTORS AFFECTING INR

Market
Forces
behind
exchange
Rates

**Crude Oil
Prices**

Imports around
70% of the oil

High oil price
inflates oil
import bill &
step up the \$
demand

Weakens

**USD's Global
Valuation**

USD strength
across the globe

Consider the
“Lag effect”

Weakens

**Geopolitical/
COVID-19
uncertainties**

Flight toward
dollar

Considered “Safe
Haven”

Weakens

**Credit
Conditions**

Credit crisis
Demand falls
Global slowdown

Impact domestic
economy. Growth,
exports &
employment
affected

Weakens

Convertibility-Definition

- The ease with which a country's currency can be converted into gold or another currency. Convertibility is extremely important for international commerce. When a currency is inconvertible, it poses a risk and barrier to trade with foreigners who have no need for the domestic currency.
- The quality of being exchangeable (especially the ability to convert a currency into gold or other currencies without restriction).
- Government restrictions can often result in a currency with a low convertibility. For example, a government with low reserves of hard foreign currency often restricts currency convertibility because the government would not be in a position to intervene in the foreign exchange market (i.e. revalue, devalue) to support their own currency if and when necessary.

Flexible and Fixed Exchange Rates

- Flexible exchange rates – Rates determined by the forces of supply and demand without government intervention
- Fixed exchange rates – Rates pegged within a narrow range of values by central banks' ongoing purchases and sales of currencies- Examples China, Hong Kong, UAE, Saudi Arabia (about 20 such countries) etc.
- The Current System: Managed/Dirty Float- an exchange rate system that combines features of freely floating rates with intervention by central banks (to moderate fluctuations in exchange rates).
- The ideal system would foster international trade, lower inflation, and promote a more stable economy

What is foreign exchange ?

- In a foreign exchange transaction one currency is exchanged for another currency. A Foreign exchange transaction involves:
- Buying of one country's currency by paying for it in another country's currency
- Selling one country's currency for payment to be received in another country's currency
- A currency exchange rate
 - Is simply the ratio of a unit of currency of country A to a unit of the currency of country B at the time of the buy or sell transaction

Why do we need FX market ?

- Every sovereign country has a currency which is legal tender within its territory
- To settle cost of imports, their payables
- To convert receipts for exports or other inward remittances, their receivables
- For travel purposes
- To invest in other countries
- To pay for services rendered by foreigners (e.g. medical, education, commission)
- To pay their International obligations like Foreign Currency Loan taken through the bank or dividend on ADR's/GDR's

How it began - Exchange rate systems

- Gold Standard – this system was in vogue till

WW 1 consisting of the Gold Specie and Gold Bullion Standards

- Gold Specie Standard
- Gold coins were an accepted medium of exchange and the total money supply in a country was determined by the gold available for monetary purposes
- The country's central bank guaranteed to buy and sell gold in unrestricted amounts at a fixed price

How it began - Exchange rate systems

- Bretton Woods System.
- to establish an international monetary system with stable exchange rates.
- to eliminate existing exchange controls.
- to bring about convertibility of all currencies.
- System required the member countries to fix the parities of their currencies in terms of USD or gold.
- USA fixed the parity at USD 35 per ounce of gold.
- Collapse of the system in 1971 as USA pulled out due to a run on the dollar.
- Then came the Smithsonian Agreement - Floating Rate System.

How it began - Exchange rate systems

- Purchasing Power Parity Theory.
- Gold Standard abandonment forced the world to look for a new exchange system.
- Simply stated currencies are valued for what they can buy .

E.g. If 100 Jpy can buy a Parker pen and the same pen can be bought by 1 USD it can be inferred that since 1 USD and 100 Jpy can buy the same pen then $1 \text{ USD} = 100 \text{ Jpy}$.

Balance of Payment or Demand/supply Theory.

Determination of Exchange Rates

- **Purchasing Power Parity Theory -**
 - Put forward by Gustav Cassel after First World War - "The rate of exchange between two currencies in the long run must stand essentially on the quotient of the internal purchasing powers of these currencies".
 - The value of one currency in terms of another currency will be determined by the relative values of two currencies as indicated by their relative purchasing power over goods & services.

Determination of Exchange Rates

- **Balance of Payment Theory**

- Also known as 'Demand & Supply Theory'

Holds that the foreign exchange rate, under free market condition, is determined by the conditions of demand & supply in the foreign exchange market (Just like the price of any commodity)

- Value of a currency appreciates when demand for it increases and depreciates when the demand falls, in relation to its supply in the FOREX market.

The extent of demand & supply for a country's currency depends upon its balance of payment position.

Nature of currency transactions

- Forex transactions have two aspects-
 - purchase & sale. Bank would pay INR while purchasing USD and accept INR while selling USD.
 - Any purchase or sale transaction is referred to from **bank's point of view** and the item referred to is the foreign currency.
 - Thus, a purchase transaction by a customer is actually a sale transaction by the bank and
 - sale of foreign currency by a customer is a purchase transaction by a bank.

Types of transactions

- Inter-Bank Transactions – Transactions with the Market participant Bank at Inter-Bank/Base Rate
- Merchant Transactions – Transactions with the customer at Card Rate or Negotiated Rate
- Ready or Cash –value today
- Tomorrow or “tom”-value tomorrow
- Spot transactions –two business days after trade date
- Forward transactions- any value date beyond spot
- Swap transaction – combination of spot and forward

Loading of swap points

- Cash Spot Premium to be deducted from TT buying/selling Rates.
- Cash Spot Discount to be added in TT Buying/Selling Rate.
- Forward Premiums to be added.
- Forward Discount to be deducted while arriving at Forward Rate .
- Booking, realization and crystallization of Bills, Bills Re-discounting –
INR –Foreign Currency Libor Rates.

Forex market conventions-contd

- Quotations in inter-bank are usually up to four decimal places except for JPY where it is up to two decimal places and the last two digits are called pips or points.
- Direct and Indirect methods of quoting .
- No fees charged.
- Transaction cost in the bid-offer spread.
- Message confirmations through SWIFT.

Types of Transaction: Value Date Concept

Due to vastness of the market and origin of transactions and settlements may take place at different time zones, most of times deal dates and settlement date differs. Market uses different terminology which are used universally to avoid conflict.

Type of TXN	Date of Deal	Value Date
T+0 Cash/Ready	15.11.2020 Wednesday	15.11.2020 Wednesday
T+1 TOM	15.11.2020 Wednesday	16.11.2020 Thursday
T+2 Spot	15.11.2020 Wednesday	17.11.2020 Friday
Forward	15.11.2020 Wednesday	Any day after 17.11.2020

FX Rates

- What is Exchange Rate ?
- Exchange Rate is a rate at which one currency can be exchanged into another currency. In other words it is value one currency in terms of other.

say:

$$\text{US \$ 1} = \text{Rs.45.18}$$

This rate is the conversion rate of every US \$ 1 to Rs. 45.18 OR

- **Rate of exchange means price of one currency in terms of another currency OR Rate at which number of units of one currency can be exchanged for number of units of another currency**

e.g.. USD/INR --- 1 USD = INR 46.95

EUR/USD --- 1 EURO = USD 1.2315

- **Two way quotations**
- **Direct and Indirect rates**
- **Bid and Offer rates**
- **24 hour x 5 day market (except USD/INR market)**

Methods of Quotation

- Method – I
- One Orange = Rs 2
- One Apple = Rs 2.50

- Method – II
- Rs. 10 = 5 Oranges
- Rs. 10 = 4 Apples

■ Price under both the methods is the same though expressed differently

Method - I

DIRECT(FC fixed)

USD 1 = Rs 45.18

GBP 1 = Rs.85.99

EUR 1 = Rs 57.92

Method - II

INDIRECT(HC fixed)

Rs 100 = USD 2.2133

Rs 100 = GBP 1.1629

Rs 100 = EUR 1.7265

With Effect from 02.08.1993, all exchanges are quoted in Direct Method

Understanding Two Way Exchange Quotes

In markets, there are two way quotes i.e. both buying and selling rates are given.

- 1 USD = INR 45.16/ 18
- BUYING RATE \$/RE = RE 45.16
- SELLING RATE \$/RE = RE 45.18

**In the abovementioned quote,
lowest is market buying rate and highest is market selling rate.**

Spot rates

- USD/INR 40.65 / 66
 - EUR/USD 1.3215 / 16
 - GBP/USD 1.9915 / 16
 - USD/JPY 121.05 / 06
 - USD/SGD 1.5315 / 18
-
- Please take note of the two way direct quotations prevalent which is the market's bid and offer rate.

Understanding Two Way Exchange Quotes

One of the features of the FX markets is that this is the nearest form of perfect markets existing today.

One of the reasons why this is so is that prices are always Quoted as TWO WAY QUOTES

USD 1 = CHF 1.2570/73

CHF 1.2570

CHF 1.2573

BUYING RATE

SELLING RATE

Forex market conventions-contd

- Example of a Standard Quotation
 - USD/CHF Spot: 1.4550/1.4560
 - The left-side price is the bid i.e. the dealer will buy 1 USD and the “bid” rate for USD is CHF1.4550. His “offer” or “ask” rate for one USD is CHF 1.4560 i.e. he would be paid CHF 1.4560 for 1 USD sold.
- For most currencies quotations the base currency is the dollar. The major exceptions are EUR,GBP,AUD and NZD.

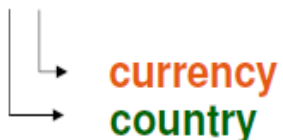
Understanding Exchange Quotes

- In the FX market, Time is of great importance.
- Therefore, there are short forms for everything.
- While quoting, the dealers use only the third & fourth decimals.
- USD/CHF 1.2540 / 45
- USD/INR 45.1675 / 00
- GBP/USD 1.8000 / 10
- BIG FIGURE
- In a live dealing scenario dealers would quote only 40/45 , 75/figure , figure/10 and the market assumes that all players already know the BIG FIGURE.

Foreign exchange – terms

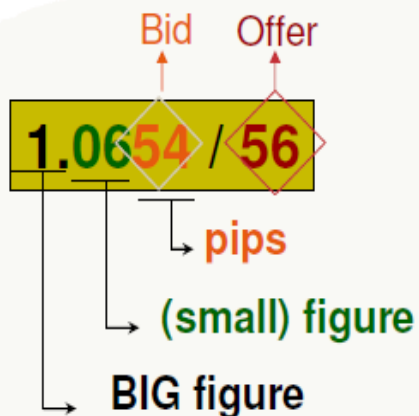
ISO-code = 3 letter-code

- USD, JPY, ITL, GBP, 1st 2 letters represent country and last letter currency



Pips and figures

- EUR/USD:



Understanding Exchange Rates

- Dollar/Swiss Francs -- USD/CHF
- Note the order of the currencies
- “USD” comes before the “CHF”



- The first currency(\$) - Base currency
 - Second currency (CHF) - Terms currency
- It is important to remember that Bid & Offer in trading always refers to the BASE CURRENCY.

Currency pairs – Way they are quoted

USD/INR 40.65/66	USD/JPY 121.05/06	USD/SGD 1.5315/17	USD/CHF 1.2172/75
USD/AED 3.6730/33	USD/HKD 7.8112/15	USD/CAD 1.0621/24	USD/LKR 110.74/78
AUD/USD 0.8408/12	EUR/USD 1.3510/12	GBP/USD 1.9918/20	NZD/USD 0.7500/04
USD/PKR 60.57/60	USD/PHP 45.85/86	USD/TWD 33.02/03	USD/KRW 926.70/7.30

CROSS RATE CALCULATION

USD/INR	63.50	63.52
EUR/USD	1.2120	1.2125

(EUR EXPORTS)

Bank's spot selling rate

$$\text{USD } 1 = \text{INR } 63.50$$

$$\text{EUR } 1 = \text{EUR}(1.2120) * \text{INR } (63.50)$$

$$1 \text{ Eur} = \text{INR } 76.96$$

- FOR FINDING THE Exchange Rate IN TERMS OF INR:
- **FOR GBP, EUR, AUD, NZD:**
 $\text{BID} * \text{BID} \ \& \ \text{ASK} * \text{ASK}$
- **FOR: OTHER CURRENCIES:**
 $\text{BID/ASK} \ \& \ \text{ASK/BID}$

(EUR IMPORTS)

Bank's spot selling rate

$$\text{USD } 1 = \text{INR } 63.52$$

$$\text{EUR } 1 = \text{EUR}(1.2125) * \text{INR } (63.52)$$

$$1 \text{ Eur} = \text{INR } 77.02$$

Calculating Cross Rates

- India is a market maker for Indian Rupee
- Dollar/ Rupee trading (the first quotes) start in the Mumbai Market
- BUT WHAT ABOUT OTHER CURRENCIES ?
- WHERE DO RATES FOR CHF, GBP, EUR ETC COME FROM? HOW ARE THEY CALCULATED?
- A CHF/RUPEE RATE IS A CROSS OF DOLLAR/RUPEE & DOLLAR / CHF.
- $\text{DOLLAR} / \text{RUPEE} = 45.35/36$
- $\text{DOLLAR} / \text{CHF} = 1.3440 / 45$
- In other words, $45.36 / 1.3440 = 33.75$ AND
 - » $45.35 / 1.3445 = 33.73$
 - » $\text{CHF} / \text{RUPEE} = 33.73 / 75$

Calculating Cross Rates – Chain Rule Method

- To find the value of FC in terms of INR:

– ? INR = CHF 1

– CHF 1.3010 = USD 1

– USD1 = 48.15

– SOLVE THE EQUATION= $\frac{1 \times 1 \times 48.15}{1 \times 1.3010}$

? INR = EURO 1

EURO 1 = USD 1.4050

USD 1 = 48.15

SOLVE THE EQUATION= $\frac{1 \times 1.4050 \times 48.15}{1 \times 1}$

1X1

» GBP, EUR, AUD, NZD : Bid X Bid & Ask
* Ask

» For other Currencies: Bid/Ask & Ask/Bid

Calculation of cross rates in INR

- Take the case of GBP/USD and USD/INR where GBP/USD is 1.7975/78 and USD/INR is 46.42/44

- Applying Chain rule we can arrive as follows

- How many Rs..... = GBP 1

If $\text{GBP } 1 = \text{USD } 1.9914$

$\text{USD } 1 = 40.65$

$\text{GBP } 1 = 1.9914 \times 40.65 = \text{Rs. } 80.95$

- Take the case of USD/SGD and USD/INR where USD/SGD is 1.5315 and USD/INR is 40.65

- Applying Chain rule we can arrive as follows

- How many Rs. = SGD 1

If $\text{SGD } 1.5315 = \text{USD } 1$

$\text{USD } 1 = 40.65$

$\text{SGD } 1.5315 = 40.65$

$\text{SGD } 1 = 40.65 / 1.5315 = \text{Rs. } 26.5425$

Role of FEDAI

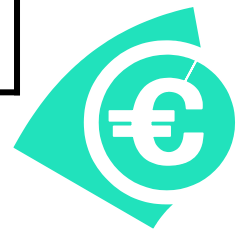
Functions:

- Set guidelines and rules for forex business.
- Training the bank Personnel
- Accreditation of Forex Brokers
- Advising/ assisting member banks in settling issues/ matters in their dealings.
- Represent members on govt. / RBI/ other bodies.
- Monitor developments
- Identify problems/ difficulties
- Ensure proper adherence.
- Refer www.fedai.org.in

Merchant FX Rates



Buying Rates		Selling Rates	
TT	Buying	TT	Selling
BILL	Buying	BILL	Selling
TC/Pre -paid	Buying	TC/Pre- paid	Selling
FCN	Buying	FCN	Selling



Rate Mechanism

Transaction	Buying	Selling
Spot TT	Base 48.5500 Less <u>Margin@.08%</u> 0.0380 Spot TT 48.5120	Base 48.7000 Add <u>Margin@.15%</u> 0.0731 Spot TT 48.7731
Forward TT	Base 48.5500 Add Premium 0.1500 Less <u>Margin@0.08%</u> 0.0389 Forward 48.6611	Base 48.7000 Add Premium 0.2000 Add <u>Margin@.15%</u> 0.0734 Forward 48.9734
Bill	Base 48.5500 Premium 0.4000 Less <u>Margin@.15%</u> 0.0734 Bill 48.8766	Base 48.7000 Add <u>Margin@.15%</u> 0.0731 Add <u>Margin@0.2%</u> 0.0975 Bill 48.8706
TC/Prepaid Card	Base 48.7500 Less Margin@1% 0.4875 TC 48.2625	TT Selling 48.7641 Add <u>Margin@0.5%</u> 0.2438 Add Commission@1% 0.4900 TC 49.4979

Exchange Rates ,Transactions & Bank books

TT Buying Rates

- ✓ Clean inward remittances for which cover has already been provided.
- ✓ Conversion of proceeds of instruments sent for collection
- ✓ Cancellation of outward TT, MT, PO,(swift) etc.
- ✓ Cancellation of a forward sale contract.
- ✓ Disbursement of PCFC
- ✓ Conversion of EEFC/RFC Account Balances
- ✓ Corporates receiving funds under ECB, ADR & GDR

Bill Buying Rates

- ✓ Purchase/discounting of bills and other instruments.

TC/Prepaid Card Buying

- ✓ Encashment of Travellers' Cheques/Prepaid Currency Cards

FCN Buying

- ✓ Encashment of Foreign Currency Notes

Exchange Rates ,Transactions & Bank books

TT Selling Rates

- ✓ Outward remittance in foreign currency (TT, MT, DD).
- ✓ Cancellation of purchase, e. g.
 - ✓ Bills Purchased returned unpaid
 - ✓ Bills purchased transferred to collection account.
 - ✓ Inward Remittance (converted into local currency) refunded
 - ✓ Cancellation of PCFC/Forward Purchase Contract
 - ✓ Repatriation of Balances in NRE Account into FC.

Bill Selling Rates

- ✓ Transaction involving transfer of proceeds of import bills.
- ✓ Payments under Buyer's Credit against Import bills

TC/Pre-paid Card Selling Issue of Travellers' Cheques/Prepaid Currency Cards

FCN Selling - Selling of foreign currency

**How can I
reduce my Cost
of Funds ?**

**Where is the
Indian Rupee
headed ?**

**Is my
Banking
Transaction
Cost
optimal?**

**Am I hedging
FX Risk
effectively ?**



UNIVERSE OF HEDGING TOOLS

Forex Risk Mitigation Strategies

- Hedging transaction risk - the Internal techniques
 - Invoice in Home currency
 - Leading and Lagging
 - Netting or Natural Hedge/Matching
 - EEFC
- Hedging transaction risk - the External techniques
 - Forward contracts
 - Futures contracts
 - Options
 - Forex/Currency swaps
 - Money market hedges- Interest Rate swaps/FRA's
- **Based on: Anticipated Exposure or Contracted Exposure**

RISK MANAGEMENT POLICY =100% OR 50% Hedged – 50% Open (self hedge)

Hedging Techniques

Forex Risk Hedging Techniques

A. OTC Market

1. Forward
2. Swap
3. Option
4. Money

Market Hedge

B. Exchange Traded

1. Futures
2. Options

C. Operational/Internal

1. Invoicing in Home Currency
2. Leading & Lagging
3. Matching

4. Exposure Netting



Unhedged, Forwards & Options



VARIOUS HEDGING TOOLS

```
graph TD; A[VARIOUS HEDGING TOOLS] --> B[OPEN]; A --> C[FORWAR]; A --> D[FUTURES]; B --> B1[Could be speculative]; C --> C1[Most basic hedging tool]; D --> D1[Means of Insurance];
```

OPEN

**Could be
speculative**

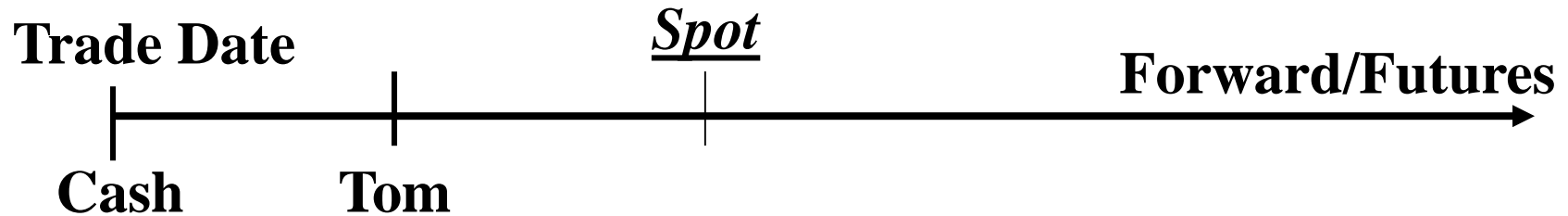
FORWAR

**Most basic
hedging
tool**

FUTURES

**Means of
Insurance**

MATURITY DATES



- Value date is a date on which the exchange of currencies actually takes place
- Cash is the same day transaction.
- Tom is the transaction on the next working day after the deal date
- Spot is the transaction on the second working day after the deal date. Inter-bank rates are always quoted on spot basis
- Forward is the transaction after a period of spot date. USD/INR futures are quoted for month end largely linked to month end premium rates.

CASH-SPOT CALCULATION

FinStation

21-Dec-2018

Welcome

[Logout](#)

Set Alert

[Change Password](#)

Live Rate

Cross Currency

Broken Date Calc

Cancellation Calc

Tools

Historical Data

Rules and Regulations

Others

Finrex Exposure Manager

SPOT RATE										Spot Date : 26-Dec-2018				INDICES				LIBOR RATES				
	Bid (Export)	Ask (Import)	% Chg	Today's High	Today's Low	Today's Open	Prv. Close	52 week High	52 week Low		LTP	Change	% Change		1M	3M	6M	1Y				
										\$ Index DXY	96.5626	0.2366	0.25									
										SENSEX	35742.07	-689.6	-1.89									
USDINR	70.145	70.155	0.64	70.3075	69.7225	69.7225	69.7	74.475	63.2425	NIFTY	10754	-197.7	-1.81	USD	2.50375	2.82375	2.9	3.06544				
EURINR	80.1225	80.1425	0.25	80.5475	79.825	79.8325	79.92	86.1589	75.2379	NIKKEI	20166.19	-226.39	-1.11	EUR	-0.41414	-0.35114	-0.315	-0.202				
GBPINR	88.8475	88.87	0.4	89.18	88.225	88.2575	88.495	98.5155	85.182	HANGSENG	25753.42	129.89	0.51	GBP	0.72925	0.90838	1.03294	1.16275				
JPYINR	63.0775	63.0875	1.09	63.28	62.63	62.655	62.4	0.6638	0.5587	DAX	12540.73	47.76	0.38	JPY	-0.18133	-0.08517	0.00683	0.10783				
										FTSE	6690.47	-21.46	-0.32									

FORWARD RATE	USDINR (Month End)	USDINR (Monthwise)			EURINR	GBPINR	JPYINR	EURUSD	GBPUSD	USDJPY			
Description	CASH/SPOT	DEC-2018	JAN-2019	FEB-2019	MAR-2019	APR-2019	MAY-2019	JUN-2019	JUL-2019	AUG-2019	SEP-2019	OCT-2019	NOV-2019
Month End Date	26-Dec-2018	31-Dec-2018	31-Jan-2019	28-Feb-2019	29-Mar-2019	30-Apr-2019	31-May-2019	28-Jun-2019	31-Jul-2019	30-Aug-2019	27-Sep-2019	31-Oct-2019	29-Nov-2019
BID (Export)	6.25	3	27	48	69.5	100.5	123	143.75	168.75	190.75	213.5	236.25	257
ASK (Import)	2.5	5	29	50	71.5	102.5	125	145.75	170.75	192.75	215.5	238.25	259
USDINR Outright Rate													
BID (Export)	70.0825	70.19	70.43	70.64	70.855	71.165	71.39	71.5975	71.8475	72.0675	72.295	72.5225	72.73
ASK (Import)	70.13	70.22	70.46	70.67	70.885	71.195	71.42	71.6275	71.8775	72.0975	72.325	72.5525	72.76
USDINR Annualised Premium %													
BID (Export)	0	3.1221	3.9026	3.9026	3.8886	4.1836	4.1028	4.0652	4.0465	4.0185	4.0398	3.9784	3.9565
ASK (Import)	0	5.2028	4.1911	4.0647	4	4.2663	4.1689	4.1212	4.0939	4.0601	4.0771	4.0115	3.9867

Derivative Instruments

- Derivatives are **management tools** derived from underlying exposures such as currency, commodities, shares, etc.
- Used to **neutralise the exposures** on the underlying contracts
- Can be over the counter (**OTC**) i.e. customised products or **exchange traded** which are standardized in terms of quantity, quality, start and ending dates
- **Hedging** - Covering of Forex risk. It provides a Mechanism to exporters and importers to guard themselves against losses arising from fluctuations in exchange rates.

Forward Contracts (1)

- **Forward contracts:** Typical OTC derivatives which involves fixing of rates (exchange rate, commodity price, etc.) in advance for delivery in future. Risk of adverse price movement is covered.
- Forward contracts are specified at **forward rates** which are spot rates plus cost of carry (interest rate differential in case of foreign exchange forward)

Forward Contract (2)

- Forward rate: spot rate + premium or – discount
- Premium/discount: function of cost of carry (interest rate differential)
- The currency with **lower** interest rate would be at a **premium** in future
- Other factors affecting forward rate
 - Demand and supply for forward currency
 - Perception about the movement in the currency
 - Political, fiscal and trade-related conditions in the country and for the currency

Forward Trade

- Forward rate may be more or less than spot rate
- Function of interest rate applicable to currencies
- **Law of One Price** - In an efficient market, all identical goods must have only one price
- Price Discovery

What is Forward Rates?

- Rate agreed for settlement on an agreed date in the future
- All rates are derived from Spot rates
- Forward rate is the spot rate adjusted for the premium / discount
- $\text{Forward Rate} = \text{Spot Rate} + / - \text{premium or discount}$
- Difference between spot and forward
- Quotes in paise say 150 paise for 6 months
- Can be converted into % age terms
- $= (\text{paise} \times 2) / \text{exchange rate}$
- $= (150 \times 2 / 42.50) = 7.00 \%$
- $42.50 + (150 / 100) = \text{RS.}44$
- Premium/Discount is the interest rate factor to be adjusted to the price

FORWARD CONTRACTS

- Forward transactions are OTC.
- Terms can be negotiated between parties to the contract.
- It is a legally binding Contract. Zero Cost Product
- It eliminates market risk completely.
- There is Credit Risk/Counterparty Risk involved.
- Forwards Can be booked against the Confirm Order or LC i.e. called **Contracted Exposure**; OR
- **Anticipated Exposure** upto USD 10 Mio for Capital/Current A/c anticipated exposure.
- You need to have limits for booking the Forward Contract or give Deposit Margin upto 5% of the Contract value

MERITS OF FORWARD CONTRACTS

Simple hedge instruments

Eliminates exchange risk, provides certainty

Useful in long unidirectional movements

Flexible – dates can be matched exactly with
underlying exposure

To overcome the time lag between buying or
selling goods and payment for the same

USD/INR FORWARD CALCULATION

Spot rate	74.14	74.15
29th March'21	0.70	0.72
31th May'21	1.23	1.25
30th Augus'21	1.90	1.92

- **Applicable rate for hedging USD receivables (Exports) for maturity 29/03/2021**
 - Spot date : 21-12-2020
 - USD/INR : $74.14 + 0.70 - \text{BM (3 paisa)} = 74.81$
- **Applicable rate for hedging USD payables (Imports) for maturity 31/05/2021**
 - Spot date : 21-12-2020
 - USD/INR : $74.15 + 1.25 + \text{BM (3 paisa)} = 75.43$

PRE-UTILIZATION & CANCELLATION

FinStation

SPOT RATE							CANCELLATION CALC	
	Bid (Export)	Ask (Import)	% Chg	Today's High	Today's Low	Today's Open	CANCELLATION OF FORWARD CONTRACT (EXPORT)	
USDINR	64.1125	64.1225	-0.16	64.15	64.1	64.1	Early Utilisation of Contract (Export)	
EURINR	70.075	70.1125	0	70.135	70.06	70.1	CANCELLATION OF FORWARD CONTRACT (IMPORT)	
GBPINR	82.895	82.9125	-0.05	83.0475	82.8875	83.0025	Early Utilisation of Forward Contract (Import)	
JPYINR	57.24	57.2475	0.01	57.28	57.2025	57.2525		

FORWARD RATE					
USDINR (Month End)		USDINR (Monthwise)		EURINR	
Description	CASH/SPOT	MAY-2017	JUN-2017	JUL-2017	AUG-2017
Month End Date	05-May-2017	31-May-2017	30-Jun-2017	31-Jul-2017	31-Aug-2017
BID (Export)	3	22.25	49.5	77.5	105.5
ASK (Import)	1.75	23.25	50.5	79.5	107.5

USDINR Outright Rate					
BID (Export)	64.0825	64.3425	64.615	64.895	65.1675
			64.925	65.1975	

Early Utilisation of Forward Contract (Export)

Contracted rate/Forward Rate	67.06
Delivery Period	From 31-05-2017 To 31-05-2017
Select Currency	USDINR
Amount	100000
Bank Margin in paisa	5
Forward rate on	31-05-2017
Forward Premium	0.2350
Cash/spot	0.0300
Early Utilisation Rate	66.7450
Spot Rate	64.13
Net Swap gain/loss	2.6150
Total profit and loss	261500.0000
CASH OUTLAY	NO

Logout

Password

Manager

1M	1Y
1.43239	1.78011
0.26157	-0.14329
0.47431	0.68275
0.02429	0.13214

APR-2018

30-Apr-2018

318.5

320.5

67.2975

FinChat

Transactions in the Foreign Exchange Market

- **Forward Exchange Rates**
 - Agreed in advance rates to buy/sell a currency on a future date. Usually quoted 30, 90, 120, 365 days in advance OR even more than 1 year.
 - May be **at par, discount, or premium**.
 - Forward contracts can be used to hedge or cover exposure to foreign exchange risk
- **Forward Market - Participants**
 - **Hedgers:** traders that try to protect themselves from future unfavorable exchange rate movements.
 - **Speculators:** traders that expose themselves to currency risk in order to profit from exchange rate fluctuations.
- Determination of Forward Premia
- $\text{Forward Premium} = \text{Interest rate differential}$
- Demand and supply, Openness of economy
- Integration of economy-forward premia gets aligned with interest rate differentials
- Essentially the forward points are a function of interest rates of the two currencies involved, for the respective period.
- They do not reflect any expectation of the future price of the currency

Key drivers of USD/INR Forwards

- Spot Rupee
- Domestic liquidity & Interest Rates
- Domestic Interest rate scenario
- US/External interest rate prospects
- RBI – Actions/Monetary Policy
- Inflation
- Local Swap differences
- Integration -FC Funds to INR and
- INR to FC

INR1F=

reuters-main (*)

Home | Thomson Reuters Eikon

IndiaFocus1 (*)

+ -

Home | Thomson Reuters Eikon

FOREX EQUITY STOCK FOREX 1 FOREX 2 CCIL/NDF CP/CD/FX 10 year

INR1F=

INR1F=	INR FWDS							
RIC	Bid	Ask	Srce	Time	RIC	Bid	Ask	Srce Time
INR=	61.7600	61.7700	FEDF	15:45				
INR=IN	61.7600	61.7700	FEDF	15:45				
EURINR=R	83.969	84.001		15:46				
INRON=	1.10	1.40	SCBY	12:17				
INRCS=	4.50	6.50	CIBY	12:13				
INRTN=	3.00	4.50	BNBY	15:02				
INRSN=	1.00	1.50	BNBY	15:02				
INRSW=	8.25	10.25	BNBY	15:02				
INRDECM=	31.50	32.50	FEDF	15:44				
INRJANM=	76.50	78.00	FEDF	15:44				
INRFEBM=	116.75	118.25	FEDF	15:44				
INRMARM=	158.00	160.00	FEDF	15:44				
INRAPRM=	207.00	209.00	FEDF	15:44				
INRMAYM=	244.50	246.50	FEDF	15:44				
INRJUNM=	284.00	286.00	FEDF	15:44				
INRJULM=	324.50	326.50	FEDF	15:44				
INRAUGM=	362.50	364.50	FEDF	15:44				
INRSEPM=	405.00	407.00	FEDF	15:44				
INROCTM=	444.50	446.50	FEDF	15:44				
INRNOVM=	479.00	481.00	FEDF	15:44				

INR1F= 19.6 12.0 INR1F=

Premium and Discounts

Transaction	Premium	Discount
Forward	Add	Deduct
Prior to spot	Deduct	Add
BUY/SELL	1 st (BID) price	1 st (BID) price
SELL/BUY	2nd (OFFER) price	2nd (OFFER) price

- Premiums quoted in ascending order such as 10/11
- Discounts quoted in descending order and/or with negative sign such as –25/-24 or 25/24

Summary of transactions

Transaction	EXPORTS	IMPORTS
SPOT	SELL	BUY
FORWARD	SELL spot BUY/SELL forward	BUY spot SELL/BUY forward
CASH	SELL spot SELL/BUY cash/spot	BUY spot BUY/SELL cash/spot

- Exports always sell (Cash, Tom, Spot and Forward)
- Exports always hits 1st (Bid) price for spot
- Imports always buy (Cash, Tom, Spot and Forward)
- Imports always hits 2nd (Offer) price for spot

EUR Deps & Fwds

Bid	Ask	Srce	Time	RIC	Bid	Ask	Srce	Time
1.3817	1.3819	1RBS	10:40					
0.14	0.24	KLMM	10:33	EUR0N=	-0.0030	0.0180	MSFW	10:40
0.14	0.24	KLMM	10:33	EURTN=	-0.2400	-0.1700		10:39
0.15	0.33	CBSI	10:36	EURSN=	-0.0150	0.0050	MSFW	10:40
0.21	0.33	CBSI	10:36	EURSW=	-0.11	-0.05	MSFW	10:40
0.14	0.73	ALFH	10:36	EUR2W=	-0.67	-0.58	MSFW	10:40
0.17	0.27	KLMM	10:33	EUR3W=	-0.73	-0.68	KLMM	10:38
0.21	0.33	CBSI	10:36	EUR1M=	-0.84	-0.71	MSFW	10:40
0.20	0.30	KLMM	10:33	EUR2M=	-1.82	-1.59	MSFW	10:40
0.24	0.34	KLMM	10:33	EUR3M=	-2.85	-2.55	MSFW	10:40
0.27	0.37	KLMM	10:33	EUR4M=	-3.23	-2.78	MSFW	10:40
0.29	0.39	KLMM	10:33	EUR5M=	-3.58	-2.93	MSFW	10:40
0.34	0.39	CBSI	10:36	EUR6M=	-3.65	-2.85	MSFW	10:40
0.35	0.45	KLMM	10:33	EUR7M=	-3.75	-2.75	MSFW	10:40
0.38	0.48	KLMM	10:33	EUR8M=	-3.45	-2.25	MSFW	10:40
0.39	0.44	CBSI	10:36	EUR9M=	-3.59	-2.16	SGSW	10:40
0.44	0.54	KLMM	10:33	EUR10M=	-2.88	-1.13	MSFW	10:40
0.47	0.57	KLMM	10:33	EUR11M=	-2.30	-0.30	MSFW	10:40
0.45	0.50	CBSI	10:36	EUR1Y=	-1.55	0.95	MSFW	10:40
0.69	0.89	KLMM	10:33	EUR15M=	4.00	8.00	MSFW	10:40
0.95	1.15		20:36	EUR18M=	16.00	21.00	MSFW	10:40
1.20	1.40		22:19	EUR21M=	38.12	43.12	MSFW	10:40
1.15	1.45	KLMM	10:33	EUR2Y=	60.00	65.00	MSFW	10:40
1.53	1.93	KLMM	10:33	EUR3Y=	223.50	243.50	MSFW	10:40

Export Warehousing.

- The process of storing goods ready to be shipped internationally is called export warehousing. The goods are usually stored in an export warehouse for a certain period of time before being shipped
- Warehousing can facilitate the entire order fulfillment process, from the moment the order is placed to when it leaves the facility for delivery. It ensures that every leg of order fulfillment is done correctly and that the goods are shipped out as quickly as possible
- Export logistics process includes a number of steps from handling and packaging to shipping and delivery

What is export logistics?

- Export logistics is the process of organization and execution of an end-to-end transportation process involving order handling, inventory management, clearing of export goods and delivery. Within this, there are multiple steps like efficiently handling bulk orders, selecting the mode of transportation, managing inventory, packaging of goods, etc. Efficient export logistics process management is key to hassle-free shipping and helps the business receive positive reviews from customers in the long run.

How does the export logistics process work?

- The process of exporting goods from India involves a few parties such as – exporter, importer, bank, insurance companies, clearing and forwarding agents, customs department, port authorities, shipping company, etc. Below is the step-by-step export logistics process:
- Step 1:
- The process of export starts with quality checks of the export goods and an inspection certificate is obtained.
- Step 2:
- The customs house agents handle packaging, once inspection is done. They label and mark the goods and make sure that standard shipping practices are followed.
- Step 3:
- The freight forwarder then gets a delivery order.

- Step 4:
- Goods are collected and arrangements are made for the pickup and sealing of the containers.
- Step 5:
- Intermodal transportation is arranged.
- Step 6:
- Goods are taken to the point of loading from the exporter's warehouse or factory.
- Step 7:
- After the arrival of goods at the port (depending on the mode of shipping – ocean freight or air freight), an export agency makes arrangements for customs clearance, documentation, physical verification, etc.
- Step 8:
- Once done, the export agency pays the port duties.
- Step 9:
- The export agency hands over the export documents to the shipping line and gets a Bill of Lading (BoL). The exporter sends the original BoL and other required documents to the importer.
- Step 10:
- The goods are loaded on the carrier and they depart from the point of origin.



Step 1



Step 2



Step 3



Step 4



Step 5



Step 10



Step 9



Step 8



Step 7



Step 6

What documents are required in the export logistics process?

- Export logistics involves a list of documents required for smooth shipping of goods. Some of the mandatory documents are:
 - Commercial invoice
 - Packing List
 - Shipper's Letter of Instruction
 - Name and address of the seller (exporter)
 - Name and address of the buyer (importer)
 - Importer of Record (IoR)
 - A letter from the shipper providing instructions
- It is the duty of the export logistics coordinator to take care of the required and above-mentioned documents for smooth export from India.
- Delivering global orders plays a crucial role for sellers to be successful and grow your business. Indian exporters have the option to opt for Fulfillment by Amazon (FBA) and let Amazon handle shipping or they can opt for self-ship or Fulfillment by Merchant (MFN).

ICEGATE

- Indian Customs Electronic Data Interchange Gateway (ICEGATE) is the national portal of Indian Customs of Central Board of Indirect Taxes and Customs (CBIC) that provides e-filing services to the Trade, Cargo Carriers and other Trading Partners electronically.
- Indian Customs Electronic Data Interchange Gateway (ICEGATE) is the national portal of Indian Customs of Central Board of Indirect Taxes and Customs (CBIC) that provides e-filing services to the Trade, Cargo Carriers and other Trading Partners electronically.
- ICEGATE serves as an interface between the trade users and Customs Department and acts as a hub for exchanging information with external trading partners involved in international trading.

Costing & Pricing

- **Cost** is typically the expense incurred for making a product or service that is sold by a company.
- **Price** is the amount a customer is willing to pay for a product or service.
- The cost of producing a product has a direct impact on both the price of the product and the profit earned from its sale.

Export Costing & Pricing

- **What is Export Costing & Pricing**
- Pricing and costing are two different things and an exporter should not confuse between the two. Price is what an exporter offer to a customer on particular products while cost is what an exporter pay for manufacturing the same product.
- Export pricing is the most important factor in for promoting export and facing international trade competition. It is important for the exporter to keep the prices down keeping in mind all export benefits and expenses. However, there is no fixed formula for successful export pricing and is differ from exporter to exporter depending upon whether the exporter is a merchant exporter or a manufacturer exporter or exporting through a canalising agency.
- **Export Costing** is basically Cost Accountant's job. It consists of fixed cost and variable cost comprising various elements. It is advisable to prepare an export costing sheet for every export product.
- As regards quoting the prices to the overseas buyer, the same are quoted in internationally accepted terms which are commonly known as **Incoterm**.

Determining Export Pricing

- **Export Pricing** can be determine by the following factors:
- Range of products offered.
- Prompt deliveries and continuity in supply.
- After-sales service in products like machine tools, consumer durables.
- Product differentiation and brand image.
- Frequency of purchase.
- Presumed relationship between quality and price.
- Specialty value goods and gift items.
- Credit offered.
- Preference or prejudice for products originating from a particular source.
- Aggressive marketing and sales promotion.
- Prompt acceptance and settlement of claims.
- Unique value goods and gift items.
- **Govt subsidies like PLI scheme or Interest rate sub-vention**

Determining Factors

- **Internal** – Costs, Objectives of the firm, Product, Image of the firm, Promotional Firm, Product Life Cycle
- **External:** Competition, Demand, Consumers, Economic Conditions. Channel Intermediaries & Market Opportunities

Basic Data Required

- Product information – Cost of product, cost of Distribution, nature of Product & Demand
- Market Information – Market structure, Terms of payments by competitors & importers, price of substitute, tariff & quotas, trade preferences and agreements
- Other relevant information – Company's policy, political restrictions/sanctions on trade, bilateral/multilateral agreements, Sales in units/ INR, availability of air lines/shipping's services, warehousing facilities & costs, geopolitical situation

Marginal Cost Pricing

- Marginal Cost more preferred to Total Cost – Plus approach, since it takes into account only those costs which are directly attributable to export product;
- Total Cost-plus pricing: Cost-plus pricing, also known as markup pricing, involves calculating total costs, then applying a markup percentage to those costs to reach an asking price. Retail brands aim for a 30 - 50% profit margin
- Marginal Cost pricing:
- Divide the cost into Fixed Cost & Variable Cost
- Marginal Cost pricing is justified or advisable

Pricing Strategies

- **Skimming** - Price skimming is a **product pricing strategy** by which a firm charges the highest initial price that customers will pay and then lowers it over time.
- Penetration- Market Entry or Market Withhold
- Standard Export Pricing
- Follow the Leader Pricing Strategies
- Differential Pricing or Different Market Pricing Strategies
- Transfer Pricing Strategies
- INCOTERMS - 2020

Incoterms 2010 vs. 2020

- | | |
|--------------------------------------|--------------------------------------|
| • EXW – Ex Works | • EXW – Ex Works |
| • FCA – Free Carrier | • FCA – Free Carrier |
| • FAS – Free Alongside Ship | • FAS – Free Alongside Ship |
| • FOB – Free On Board | • FOB – Free On Board |
| • CFR – Cost and Freight | • CFR – Cost and Freight |
| • CIF – Cost, Insurance & Freight | • CIF – Cost, Insurance & Freight |
| • CPT – Carriage Paid To | • CPT – Carriage Paid To |
| • CIP – Carriage & Insurance Paid To | • CIP – Carriage & Insurance Paid To |
| • DEQ – Delivered Ex Quay | • DPU – Delivered At Place Unloaded |
| • DES – Delivered Ex Ship | • DAP – Delivered At Place |
| • DAF – Delivered at Frontier | • DDP – Delivered Duty Paid |
| • DDU – Delivered Duty Unpaid | |
| • DDP – Delivered Duty Paid | |
- 

Marine Restricted

Omni-Modal

Incoterms-2020 – Costing & Pricing

INCOTERMS 2020					
Costing & Pricing		Mobile - INR			
		Omni-Modal INR	Equivalent	Marine Restricted INR	
Ex-works		25000	FAS	25100	
FCA		25200	FOB	25200	
CPT		25500	CFR	25500	
CIP		25700	CIF	25700	
DPU		25800			
DAP		25800			
DDP		28000			
		1USD=73.50			
		28000/73.50 = \$380.95 per Piece			



This chart is designed to provide a basic level of understanding of Income tax • 2020 Rules published by the International Chamber of Commerce (ICC). For a more detailed explanation, visit the ICC website.

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Break-Even Analysis

- $BEP = FC/SP - VC$ or FC/C
- FC= Fixed Cost, SP=Sales Price, VC= Variable Cost, C= Contribution
- It is the technique commonly used in costing to analyze the cost-volume-profit relationship
- Break Even Technique is concerned with finding out that level or point at which the sales will break-even (no profit, no loss)
- The point or the level at which sales Break Even is called Break-Even Point

Cost Sheet

Based on Marginal Costing, we need to prepare Cost Sheet in INR for the Product to be exported considering all of its costs, expenses, with respective Incoterm and than exchange rate to be used for conversion on INR into respective Foreign Currency.

Exporter may consider benefit of Duty Draw Back, Forward Premium and benefit of RoDTEP & Interest Rate sub-vention to make price more competitive.

Any Questions??



www.nkguptaconsulting.com

Email: nijaikgupta@yahoo.com or
nijaikgupta@yahoo.com

98672-63944

<https://www.youtube.com/channel/UC9mCn-RmeLWvRGoP8l4cBuQ>

21/05/20-15:04:14

ReferenceToSwi-9462-000001 1

```

----- Instance Type and Transmission -----
Copy received from APPLI
Priority/Delivery      : Normal
Message Output Reference : 1239 200521FromDelta8250000001
----- Message Header -----
Swift Input          : FIN 700 Issue of a Documentary Credit
Sender      : BNALDZALXXX
              BANQUE NATIONALE D'ALGERIE
              ALGIERS DZ
Receiver    : CITIUS33XXX
              CITIBANK N.A.
              NEW YORK,NY US
----- Message Text -----
27: Sequence of Total
    1/1
40A: Form of Documentary Credit
    IRREVOCABLE
20: Documentary Credit Number
    00840CDI20000542
31C: Date of Issue
    200521
40E: Applicable Rules
    UCPURR LATEST VERSION
31D: Date and Place of Expiry
    201109NEWYORK
50: Applicant
    DEMOCEDES PHARMA ALGERIE SARL
    ZONE INDUSTRIELLE Q2
    AIN M'LILA
    OUM EL BOUAGHI
59: Beneficiary - Name & Address
    SPECTRUM PHARMATEC CONSULTANTS
    503 DOSTI PINNACLE PLOT N E-7 ROAD
    N 22 WAGLE ESTATE,THANE WEST
    4000604 MAHARASHTRA INDIA
32B: Currency Code, Amount
    Currency      : USD (US DOLLAR)
    Amount        : #2.046.843,#
41A: Available with...By... - FI BIC
    CITIUS33
    CITIBANK N.A.
    NEW YORK,NY  US
    BY PAYMENT
43P: Partial Shipments
    ALLOWED
43T: Transhipment
    ALLOWED
44E: Port of Loading/Airport of Dep.
    INDIA,BELGIUM AND CHINESE PORT
44F: Port of Discharge/Airport of Dest
    SKIKDA PORT
44C: Latest Date of Shipment
    201019
45A: Description of Goods and/or Services
    EQUIPEMENT ET MACHINERIES MEDICALES
    CFR SKIKDA PORT
    AS PER PROFORMA INVOICE N 19-20/DB2/003 PI DATED ON 02/03/2020
    REFERENCE TO BE INDICATED ON THE FINAL INVOICE
    INSURANCE COVERED BY THE APPLICANT
46A: Documents Required
    FULL SET OCEAN BILL OF LADING CLEAN ON BOARD MADE OUT TO THE
    ORDER OF BANQUE NATIONALE D'ALGERIE, NOTIFY APPLICANT AND MARKED
    FREIGHT PREPAID,BEARING THE FOLLOWING REFERENCE:

```

CDI20000542 ouv.prt

(NIF: 001 604 040 576 743)+02 COPIES OF NON NEGOTIABLE BL
 COMMERCIAL INVOICE IN 07 ORIGINALS, ESTABLISHED FOR 100PCT OF THE
 SHIPPED GOODS SHOWIN THE ADVANCE DEDUCTION AND THE PAYMENT DETAIL
 AND SHOWING THE TOTAL FOB,FREIGHT AND THE TOTAL CFR
 CERTIFICATE OF CONFORMITY
 CERTIFICATE OF ORIGIN STAMPED BY THE CHAMBER OF COMMERCE
 PACKING LIST
 CERTIFICATE OF GARANTIE

47A: Additional Conditions
 PAYMENT OF DOCUMENTS UNDER RESERVE OR AGAINST GUARANTEE
 IS NOT ALLOWED. ARTICLE 37C OF UCP600, REVISED ON 2007
 IS NOT APPLICABLE EVEN IF THE PRESENT L/C IS NOT USED
 THIS CLAUSE IS AN INTEGRAL PART OF THIS L/C
 ALL DOCUMENTS MENTIONED IN FIELD 46A SHOULD BE IMPERATIVELY
 SENT TO US BY YOUR BANK
 THE PRESENT L/C IS NOT FREELY NEGOTIABLE
 WHILE CHECKING THE RECEIVED DOCUMENTS FOR PAYMENT ,THE TRANSPORT
 ACCEPTABLE
 DOCUMENTS ESTABLISHED BEFORE THE L/C ISSUING ARE NOT ACCEPTABLE
 READ IN FIELD 43T: ALLOWED UNDER A DIRECT BILL OF LADING
 DISCREPANCY FEES FOR USD 100,00 WILL BE DEDUCTED FROM DOCUMENTS
 AMOUNT FOR EACH PRESENTATION OF DISCREPANT DOCUMENTS UNDER THIS
 CREDIT.
 ARTICLE 10'C' AND 10'F' ARE NOT APPLICABLE FOR AMENDMENTS FOR
 WHICH OUR CHARGES ARE CLAIMED FROM THE BENEFICIARY.
 BENEFICIARY SHOULD COMMUNICATE THEIR ACCEPTANCE OR REJECTION OF
 THE AMENDMENT ONCE IT IS ADVISED TO THEM.

,
 THE TOTAL AMOUNT OF THE PROFORMA INVOICE IS : USD 2 408 050,00
 APPORTIONNED AS FOLLOWS:
 361 207,00 USD REPRESENT THE ADVANCE ALREADY PAID OUTSIDE THE
 PRESENT L/C
 2 046 843,00 USD REPRESENT THE LC AMOUT PAYABLE AS FOLLOWS:
 1 926 440,00 USD WILL BE PAID AGAINST PRESENTATION OF COMPLYING
 DOCUMENTS REQUIRED IN FIELD 46A
 120 403 ,00 USD WILL BE PAID AGAINST PRESENTATION ,AT YOUR
 COUNTERS OF A COMMERCIAL INVOICE PLUS A REPORT OF
 FINAL GOODS RECEIPT WITHOUT ANY RESERVES SIGNED BY APPLICANT
 THE SPECIMEN OF SIGNATURE WILL BE SENT TO YOU LATER
 A SPECIMEN OF SIGNATURE WIL BE SENT TO YOU LATER

71D: Charges
 ALL YOUR FEES AND COMMISSIONS
 OUTSIDE ALGERIA WILL BE
 BORNE BY THE BENEFICIARY.

48: Period for Presentation in Days
 21/JOURS

49: Confirmation Instructions
 CONFIRM

78: Instr to Payg/Accptg/Negotg Bank
 BY DEBITING OUR ACCOUNT HELD WITH YOUR BANK, AGAINST PRESENTATION
 OF DOCUMENTS IN COMPLIANCE WITH THE TERMS OF THE L/C, TEN (10)
 BANKING DAYS FROM THE NEXT,BANKING DAY OF YOUR SWIFT CLAIM OF
 FUNDS (MT754) SENT TO OUR DIRECTION OF DOCUMENTARY OPERATIONS
 (DOD), SWIFT CODE BNALDZAL.

57D: 'Advise Through' Bank -Name&Addr
 CITI BANK N,A
 MUMBAI
 SWIFT: CITINBX

72Z: Sender to Receiver Information
 /TELEBEN/
 DOCUMENTS TO BE SENT BY DHL
 UNDER 02 CONSECUTIVES COVERS TO
 BNA DOD BP 129/130
 12 ROUTE DE MEFTAH OUED SMAR
 ALGER (ALGERIA)