

# ADVANCED FINANCIAL MANAGEMENT (AFM) | CA FINAL

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## Sriram Somayajula CA, CFA, ISB

- Co-Founder & CEO, IndigoLearn
- Faculty | CA Final, AFM & CFA
- Practical Experience of 20+ years
- Teaching Experience of 7+ Years
- Deeply Passionate about Financial Markets & Economics



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CFA





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Revision Lecture Playlist in **English**  
Contains videos of all chapters explained  
in <40 hours of videos



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Contains link to Last Day Revision Notes,  
Free Practical Q Compiler P 600+ ,  
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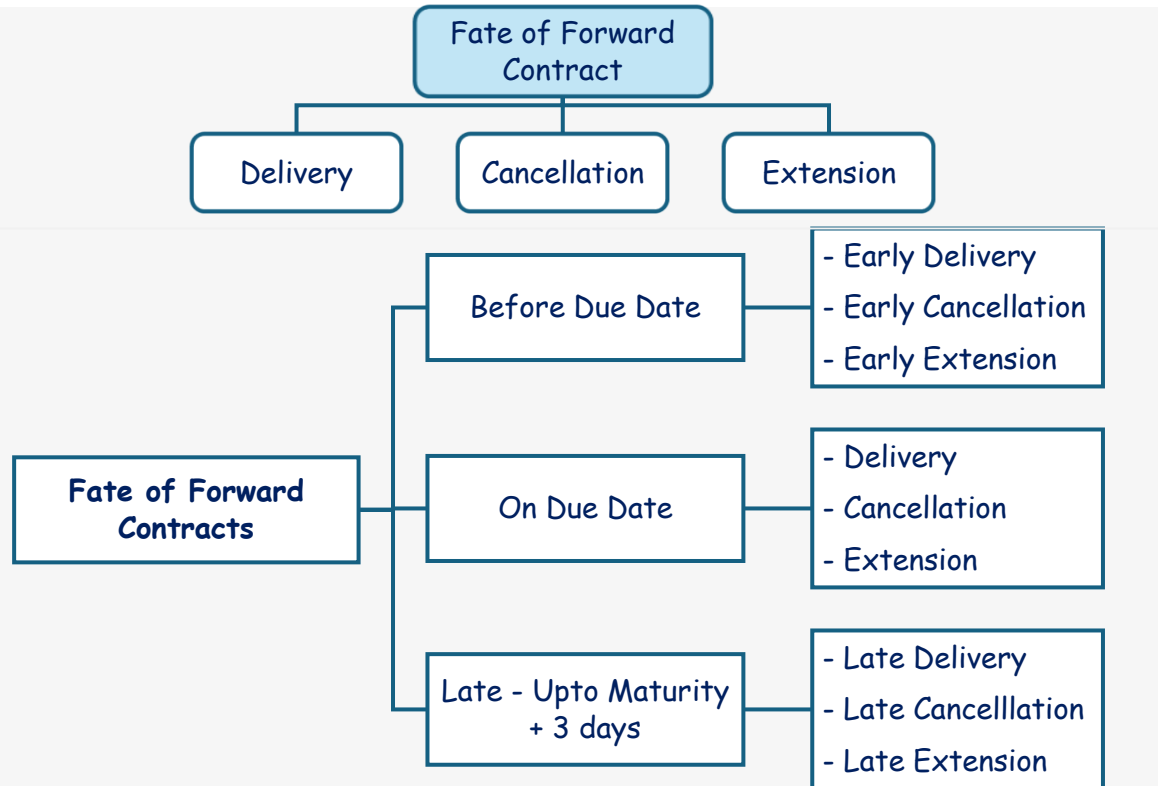
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# Fate of Forward Contracts

## AFM





• Forward contract overdue without instructions received on or before due date are automatically cancelled within 3 working days after maturity date.

• Banks Cancel Org Contract on due date & Books Optionally Deliverable Forward Contract (ODFC) for Next 3 Days

• If Org contract is sought to be extended, it shall be cancelled & rebooked for the new delivery period.

• FEDAI Guidelines rounding off Rs. 0.0025

• Whenever interbank rates are given and bank has to enter into a one side trans & cancel a contract, exchange margin will be applicable & it will be on the last cancellation by the bank.

<b>S</b>	Swap	Swap Charges are applicable when bank is buying & selling for diff time frames due to customer actions - one spot & other <u>Fwd</u>
<b>F</b>	Flat Charges	<u>Usually</u> nominal amount = ₹100 or ₹1000 or so; consider only if it is given in question - usually applicable in all cases where there is an impact
<b>ED/C</b>	Exchange Diff - Cancellation Gain / Loss	Diff between initial rate (agreed with customer) and interbank (sale / buy rate in market on due date) rate <u>entered into</u> by bank due to customer cancellation
<b>I</b>	Interest on funds	Interest is applicable whenever there is inflow and outflow of funds for Bank & In case of post maturity transactions, Bank's B to Back transaction rate will be considered; In other cases that rate will be ignored. In case of early delivery int is NOT computed using B/B rate
<b>N</b>	New Contract	<u>Entered into</u> in case of Extension or Cancellation & Delivery

	Action	Early Action	On Due Date	Late - Up to M + 3	Beyond M + 3
	Delivery	S + I	No impact	ED/C + I + S + N (Spot)	Automatic Cancellation - ED/C + I + S
<u>Canc G / L</u>	Cancellation	ED/C	ED/C	ED/C + I + S	
New contract	Extension	ED/C + N	ED/C + N	ED/C + I + S + N ( <u>Fwd</u> )	
			No Interest	No profit share	

On 10th July, an importer entered into a forward contract with bank for US \$	50000		
due on 10th September at an exchange rate of	₹66.8400		
The bank covered its position in the interbank market at	₹66.6800		
Exchange margin buying and selling.	0.10%		
Interest on outlay of funds on pa basis	12%		
You are required to show the calculations to:			
How the bank would react if the customer requested on 7 <sup>th</sup> /10 <sup>th</sup> / 12th			
(i)to cancel the contract?			
(ii)to execute the contract?			
(iii)to extend the contract with due date to fall on 10 <sup>th</sup> November?			

	7th September		10th September		12th September	
	Bid	Ask	Bid	Ask	Bid	Ask
Spot	66.3500	66.3700	66.1500	66.1700	65.9600	65.99
Sep 10 <sup>th</sup> Fwd	66.3800	66.4000	NA	NA	NA	NA
Spot/September Month End	66.4800	66.5000	66.2800	66.3200	66.1200	66.18
Spot/October	66.5800	66.6000	66.4100	66.4300	66.2500	66.33
Spot/November	66.6800	66.7000	66.5600	66.6100	66.4000	66.49

Date	Customer	Buy / Sell	USD	USDINR	INR	Bank	Buy / Sell	USD	USDINR	INR
10th July	2 Month forward - Maturity 10th Sep	Buy USD	50,000	66.8400		Sell USD on 10th Sep	Sell USD	50,000	66.8400	
						Back-to-Back :Buy forward on Interbank	Buy USD	50,000	66.6800	
7th Sep Cancellation										
07/09/2025	Cancel request					Enter into forward to Sell in InterBank on 10th Sep	Sell USD	50,000	66.3800	
						Less: Margin 0.1%			0.0664	
						Net Sell Price			66.3136	
						Net Sale price Rounded Off			66.3125	
						Exchange difference Loss for bank				
						Original Sale Price		50,000	66.8400	
						Sale price in Interbank		50,000	66.3125	
						Exchange Gain / Loss		50,000	0.5275	26,375.00



Date	Customer	Buy / Sell	USD	USDINR	INR	Bank	Buy / Sell	USD	USDINR	INR
7th Sep Execution										
7th Sep	Execution Request	Buy USD	50,000	66.8400	Buy on Spot in InterBank		Buy USD	50,000	66.3700	
					Add: Margin 0.1%				0.0664	
					Net Buy Price				66.4364	
					Net Buy price Rounded Off				66.4375	
					Close org InterBank contract					
					Back to Back: Sell forward on InterBank for 10 Sep Mat		Sell USD	50,000	66.3800	
					Less: Margin				0.0664	
					Net Sale Price				66.3136	
					Net Sale price Rounded Off				66.3125	
10th Sep					Buy Spot		Buy USD	50,000	66.4375	
					Sell Forward		Sell USD	50,000	66.3125	
					Net Swap Loss			50,000	0.1250	6,250.00
Interest					CashFlows					
					Spot Buy		Buy USD	50,000	66.4375	
					Sell to Customer		Sell USD	50,000	66.8400	
					Net CF			50,000	0.4025	20,125.00
					Days pre poned 10th Sep to 7 th Sep					3.00
					Int @ 12%					19.85
					Swap Loss - Int					6,230.15

Date	Customer	Buy / Sell	USD	USDINR	INR	Bank	Buy / Sell	USD	USDINR	INR
7th Sep Extension										
7th Sep	Extend to 10th Nov					Cancellation Loss		50,000	0.5275	26,375.00
	<b>New Contract</b>					<b>New Contract</b>				
7th Sep	Buy USD on 10th Nov	Buy USD	50,000			Sell USD to Cust on 10th Nov	Sell USD	50,000	66.7000	
						Add: Margin			0.0667	
						Net Sale Price			66.7667	
						<b>Net Sale price Rounded Off</b>			<b>66.7675</b>	

[illegible]

Date	Customer	Buy / Sell	USD	USDINR	INR	Bank	Buy / Sell	USD	USDINR	INR
12th Sep Cancellation										
10th Sep	No Action					Execute Interbank Buy Fwd Contract	Buy USD	50,000	66.6800	
						Sell USD on Spot in InterBank	Sell USD	50,000	66.1500	
						Less: InterBank Margin			-	
						Net Sell Price			66.1500	
						<b>Net Sale price Rounded Off</b>			<b>66.1500</b>	
						Enter into optionally deliverable forward contract for month end on Interbank Buy	Buy USD	50,000	66.3200	
12 Sep	Cancellation request					<b>Exercise ODFC &amp; Buy</b>	<b>Buy USD</b>	<b>50,000</b>	<b>66.3200</b>	
						<b>Sell on Spot</b>	<b>Sell USD</b>	<b>50,000</b>	<b>65.9600</b>	
						Less: InterBank Margin			0.0660	
						Net Sell Price			65.8940	
						<b>Net Sale price Rounded Off</b>			<b>65.8950</b>	
						<b>Swap Gain Loss</b>				
						Buy Fwd	Buy USD	50,000	66.3200	
						Sell Spot	Sell USD	50,000	66.1500	
						<b>Loss</b>		<b>50,000</b>	<b>0.1700</b>	<b>8,500.00</b>
						<b>Exchange Gain Loss</b>				
						Last Interbank rate for cancellation	Sell USD	50,000	65.8950	
						Original Agreed rate for cancellation	Sell USD	50,000	66.8400	
						<b>Loss for Bank</b>		<b>50,000</b>	<b>0.9450</b>	<b>47,250.00</b>
						<b>Interest Cost</b>				
						Interbank Buy per org contract	Buy USD	50,000	66.6800	
						Sell in Mkt on org date	Sell USD	50,000	66.1500	
						<b>Net CF</b>		<b>50,000</b>	<b>0.5300</b>	<b>26,500.00</b>
						Days delayed				2.00
						<b>Int @ 12%</b>				<b>17.42</b>
						<b>Swap + Loss + Int</b>				<b>55,767.42</b>

- Cancellation loss is computed by comparing Original Contract rate with customer & Last interbank cancellation rate i.e ODFC Square off rate
- Margin is NOT computed on original ODFC & Square off of Interbank contract on due date
- Interest is computed on flows that happen on or before due date (Interbank org contract execution & spot square off on ord due date) & not after due date

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**12th Sep Execution**

10 Sep Cancellation			Swap + Loss + Int			55,767.42
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12th Sep new Spot			Sell at Spot on 12th Sep to Customer	USD SELL	50,000	65.9900
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			Add: InterBank Margin			0.0660
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			Net Sell Price			66.0560
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			Net Sale price Rounded Off			66.0550
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**12th Sep Extension**

10 Sep Cancellation			Swap + Loss + Int			55,767.42
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12 Sep New Fwd			Sell at Fwd rate on 12 Sep for 11 Nov to Customer	USD SELL	50,000	66.4900
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			Add: InterBank Margin			0.0665
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			Net Sell Price			66.5565
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			Net Sale price Rounded Off			66.5575
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# Thank You

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