MODULE I

FOREIGN EXCHANGE

1. Introduction to Foreign Exchange

- Foreign Exchange Market – evolution of the market – features – major currencies – size and volume of transactions
- Market participants
- Nature of transactions – cross border currency flows relating to capital market, world trade and speculative currency trading
- Foreign Exchange markets in India –
- Liberalisation of exchange control regime
- Current regulatory environment – role of RBI and SROs like FEDAI & FIMMDA
- Residual controls on exchange transactions – FEMA provisions

2. Global Monetary System

- Gold standard – rise and fall of Bretton Woods System – Smithsonian and European Joint Float Agreements
- Changing Facets of global monetary system – Regional blocks and unified currencies
- Free-float, Pegged and Managed currency systems
- Impact of recent global crises – Role of IMF – Reserve Management of Central Banks

3. Determination of Exchange Rates

- Classical theory – Purchasing Power Parity – Relative & absolute
- Interest Rate Parity
- Expectation Hypothesis
- The Fisher Effect
- Exchange Rates and Interest Rates, Real and nominal
- Macro Economic factors affecting exchange Rate volatility
- Forecasting Rates – Technical & Fundamental Analysis

4. Forex Arithmetic

- Type of quotes – cash, spot and forward settlement
- Direct, Indirect and cross-currency quotes
- Forward Exchange Rate calculation – utilization, cancellation & rollover of Forward Contracts – Option delivery period, impact on the forward rate
- Cross-currency forwards – calculation of premium / discount etc. – pre-utilisation of contracts
- Merchant quotes – card rates, TT / BC quotes etc.
- FEDAI guidelines for merchant quotes – notional due dates – notional transit period for trade bills – regulatory aspects for crystallization of export / import bills
- Exchange Rate movements – volatility of major currencies
- Exchange Rate and Interest Rate arbitrage – NDF markets

MODULE 2

WORLD TRADE AND GLOBAL FINANCIAL MARKETS

5. World Trade & Current Account Operations

- World Trade Organisation – Trade Reforms in India – Full Convertibility on current account
- Current Trends in Export Import volumes and BOP – Service Sector & Invisible Trade flows
- Non-trade flows – FDI and FII – liberalization on capital account
- Exim Trade – regulatory provisions
- Pre-shipment and post-shipment finance – PCFC and EEFC accounts – diamond Dollar & Running FC accounts
- Forfeiting and bill-finance
- Documentary credits – LC D/P and D/A – UCC provisions
- Structured Trade Finance – Suppliers' and buyers' credit – LC rollover – standby Letter of Credit
- Project Exports (PEM)
- NRI / FCNR and RFC accounts
- Returns submitted to AD / RBI (R-returns etc.)

6. International Finance

- International financial markets – institutional set-up – credit rating agencies, multi-lateral financial institutions & investment banks
- Global debt market – syndications, FRN & bond issues and convertible debt
- Global equity – GDR / ADR and IDR funds
- Indian corporates and global markets – RBI guidelines for FDI, ODI and ECB
- Mobilising global debt and equity funds – interest and tax considerations – process for syndications and debt issues – listing on overseas exchanges
- Investment in global securities – portfolio management
- Multinational companies – political / country risks / capital budgeting – mergers & acquisitions

7. Money Markets and Capital Markets in India

- Structure of financial markets in India
- Money Market – instruments – benchmarking -
- RBI Policy rates – liquidity support for banks and PDs
- Repo trade – CLB mechanism
- Bond market – G-sec and corporate bonds – variety of bonds including zero coupon and perpetual bonds and STRIPS - Primary and secondary market volumes
- Market practices & FIMMDA guidelines

8. Bond Mathematics

- Present and future value of money – benchmark rates for discounting cashflows
- YTM calculation –modified YTM, current yield etc.
- Yield curve – building of ZCC – use of ZCC yields
- Term structure of interest rates
- Risk Measures – VaR – Duration and Mecaulay Duration – interest rate sensitivity
- Liquidity & interest rate sensitivity gap measures under ALM – RBI guidelines

MODULE 3

INTRODUCTION TO DERIVATIVES AND FX RISK MANAGEMENT

9. Currency & Interest Rate Derivatives

- OTC and Exchange Traded Derivatives – Forwards vs. options, and options vs. futures
- Option products – Put / Call plain Vanilla options – purchased and written options
- Strike rate – notional amount – expiry date – intrinsic value & time value – ATM and OTM options
- Option pricing – Black-Sholes model – factors influencing option price
- Combination of options – zero-cost, range forward, participating fprward, put / call spreads and sea-gull structures
- Exotic structured products
- Interest rate swaps– currency & POS swaps – interest rate swaps – coupon-only swaps - FRAs
- Swap pricing
- Interest rate options – use of caps & floors
- Participants in derivatives market - RBI guidelines for derivatives

10. FX Risk Management

- Exchange rate and interest rate volatility – impact on business profits
- Approach to FX Risk Management Policy
- Exposure identification –balancesheet and revenue risks
- Transaction, Translation and Economic exposures
- Hedging strategies – mandatory and optional hedging – transaction-wise / portfolio-wise risk management
- Natural hedges – opportunity costs
- Monitoring risks in open positions – Risk limits
- Exposure limits
- Liability Management, using interest rate derivatives
- Permissible instruments

- Hedge Accounting & Documentation for derivative deals
- Risks in use of derivatives - RBI Guidelines for banks & corporates for use of derivatives – prudential practices

11. Other Derivative products

- CMS and Total Return swaps
- Credit Derivatives – nature & types – RBI guidelines
- Commodity Derivatives
- Currency & Interest Rate Futures – futures exchanges in India
- Debt securitization - Securitised products – MBS, ABS, CDO, etc – Regulatory guidelines

MODULE 4

TREASURY RISK MANAGEMENT

12. Treasury Management - FX

- Scope, objectives and functions of treasury
- Treasury management in bank and corporate – integrated treasury – centralized group treasury
- Treasury as profit centre
- ALM – bridging liquidity and interest rate sensitivity gaps
- ALM Book – Merchant book & Trading Book
- Treasury Organisation –Front Office, Back Office and Middle Office
- Control and Reporting requirements
- Dealing procedures – interbank dealing and risk management
- Open position – day-end, day-light and overnight position limits – limit orders with other banks
- Mismatch of positions – gap limits (IGL and AGL) and stop-loss limits – VaR & capital provisions
- Profit booking
- Credit risk, country risk, operating risk and market risk – implications of BASEL III on capital requirement
- FEDAI Rules – RBI guidelines for Internal Control

- Audit

13. Treasury Management – Investments

- Investment Policy
- Classification of Investments
- Valuation of SLR and non-SLR / corporate securities on reporting date
- Policy for trading in investments – duration and stop-loss limits
- Managing Reserve Ratios
- Interbank operations – compliance with regulatory limits
- Investment in short term securities – CP. CD and Treasury Bills
- Overseas lending and investment limit
- Globalisation of markets
- Measuring Treasury Performance

Case Studies relating to

- ✓ Derivative losses
- ✓ Global Financial Crisis &
- ✓ ALM issues