

FOREIGN EXCHANGE RISK MANAGEMENT MANUAL-2016

Agrani Bank Limited

International Trade and Foreign Currency Management Division (IT&FCMD)
Head Office
9/D, Dilkusha C/A, Dhaka-1000
Bangladesh

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Chapter-1

1.1. INTRODUCTION

By the nature of its operations, Agrani Bank Limited must inevitably deal in the currencies of its customers' operations. Such exposure has made it necessary for the Bangladesh Bank to require our bank to put in place the risk management processes and procedures, so as to mitigate if not totally avoid losses due to market forces which it cannot control or to laxity in internal control procedures. Furthermore, it is recognized that there is a fine line between hedging a foreign exchange position and speculative behavior and, therefore all actions taken in the trading room or outside should be closely monitored.

This section of the Risk Management Reference Manual contains the policies and procedures that will assist the Agrani Bank Limited in ensuring foreign exchange risks in trading and associated support activities do not translate into material financial losses.

1.2. Mission Statement & Objectives (Mission Statement)

The provision of foreign exchange for customers' legitimate needs, as well as maintaining foreign exchange accounts for the purposes of marginal security and settlement, are integral to the operation of Agrani Bank Limited. The Agrani Bank Limited shall provide its customers with efficient, competitive foreign exchange services, without exposing itself to market and operational risks; Agrani Bank Limited will not engage in speculative transactions, and will only hedge its positions as needed and within approved prudential limits. It shall undertake its operations with a trained corps of officers and staff, who will conduct themselves with the highest degree of prudence and professionalism.

1.3. Functions and Organizational set up of Agrani Bank Limited.

The functions of today's International Trade & Foreign Currency Management Division (IT&FCMD) and treasury division can be categorized as follows:

- Foreign exchange
- Money market
- Asset Liability Management
- Fixed Income Trading

Some of the typical products that would fall under treasury's functions are as follows. Certain products/transactions require prior approval from Foreign Exchange Policy Department, Bangladesh Bank on a deal specific basis:

- Spot foreign exchange
- Forward foreign exchange
- Currency swap (*Plain Vanilla and Cross Currency Swap*)
- Interest rate swap (*Plain Vanilla, Collar, Cap, Cap Spread, etc.*)
- Forward rate agreement
- Non-deliverable forward exchange
- FX options (*Plain Vanilla, Seagull, Range forward, etc.*)
- Overnight deposits
- Term deposits

- Structured deposits
 - Coupon securities
 - Discounted securities
 - Commodity trading and hedging (Swap, Collar, Put, Cap, Cap Spread. Put Spread etc.)
- At present the treasury functions are performed by the following three distinct offices under separate supervision of the named two divisions:

Front office,
Back office and
Mid-office.

Functions of these offices are as follows:

1.4. Functions of Treasury Front Office (Under Treasury Division):

- Statutory management
- Optimization of risk return through specialization and management
- Funding of the Balance Sheet at optimum prices
- Proposing interest rate matrix to the ALCO
- Proposing various investment options to the ALCO
- Analyze various economic trends and propose Balance Sheet Strategy to the ALCO
- Quotation of various foreign exchange and interest rates to customers
- Dealing in foreign exchange for position covering as well as for own account trading
- Various funding activities through various derivatives
- Provide structured treasury solutions to customer
- Remain vigilant for any arbitrage opportunities
- Marketing activities for future business growth
- Estimate daily P&L and work with reporting unit in resolving any difference
- Record/maintain all foreign exchange and money market positions and check for differences with system generated/back-office reports
- Sending dealing information to Back Office through deal slip (if the deal is not done through automated system)
- Performing money market activities
- Security/fixed income trading (if it is a PD)

1.5. Functions of Treasury Mid Office (Under IT&FCMD):

- Limits monitoring and managing limit
- Adherence to various internal as well as regulatory policies
- Minimization of all risks
- Monitoring & management of various foreign exchange and money market positions
- Monitoring & management of various cash flows and cash positions
- Proposals/ renewals for various internal limits
- Monitor for trader's adherence to various internal and regulatory limits
- Monitor for trader's adherence to various counterparty limits
- Prepare, monitor and manage all balance sheet gaps
- Report any occurrence of crossing limit
- Various internal and regulatory reporting

1.6. Functions of Treasury Back Office (Under IT&FCMD):

- Input, verification and settlement of deals
- Receiving and sending of deal confirmation certificates
- Preparation of currency positions (of previous day-end) and report to traders prior to commencement of day's dealings
- Reconciliation of currency positions
- Rate appropriateness function for all deals done
- Revaluation of all foreign exchange positions at a pre-determined frequency
- Managing discrepancies and disputes
- Daily calculation for adherence to statutory maintenance
- Reconciliation of Nostro accounts
- Reconciliation of Vostro accounts
- Claim/ pay good value date effect of late settlements

1.7. Organization setup

In performing all the above listed functions in an appropriate manner and depending on the nature of business of our organization and its size, we determine the appropriate organization structure for its IT&FCMD and Treasury Division. However, irrespective of the size, nature of business, all treasury functions require to have clear demarcation between dealing and settlement/support functions i.e. the “treasury” that would be involved only in dealing activities and the “treasury support unit” (commonly known as the treasury back-office under IT&FCMD) that would be responsible for all related support functions including settlement of all transactions. This is required for control reasons i.e. different persons/departments should be responsible for the dealing and the settlement, measurement, reporting, etc.

Pursuant to the guidelines of "Foreign Exchange Risk Management" by Bangladesh Bank, Bank has set up:

Front Office: Involved only in dealing activities

Back Office: Be responsible for settlement & support functions

Mid Office: Be responsible to monitor and manage organization's balance sheet risk in a more detailed level.

1.8. Centralized Foreign Exchange and Money Market:

Bank performs Foreign Exchange and Money Market activities simultaneously. Foreign Exchange Dealing and Money Market (MM) operation being heavily correlated and interdependent considering profitability and liquidity. These are required to be housed in the same area. Prudent management and efficient trade off between interest and exchange of Money Market (MM) and Foreign Exchange (FX) can maximize Treasury's profitability. As per Bangladesh Bank Guidelines recently our Foreign Exchange Dealing Room and Money Market activities are centralized in the same floor. Both Money Market & Foreign Exchange operations are now under control of Managing Director & Chief Executive Officer.

1.9 Separate Trading and Risk Management Units:

The traders are required to operate their trading within a prescribed risk limit framework where a different department shall be responsible for identifying the risk areas and their appropriate limits. Banks Front Office is doing the trading business and Mid Office has been entrusted with the responsibility of identifying the risk areas and their appropriate limits.

1.10. Traders/Risk-Taking Units:

- Maintains compliance with the market risk limit policies and remain within their approved independent market risk limit framework at all times.
- Ensure no limit breaches and arrange for pre-approval of any higher limit requirements
- Inform the market risk management unit of any shifts in strategy or product mix that may necessitate a change in the market risk limit framework.
- Seek approval from the market risk management unit prior to engaging in trading in any new product

1.11. Market Risk Management:

- Review policy at least annually and update as required.
- Independently identify all relevant market risk factors for each risk taking unit.
- Develop proposals for the independent market risk limits/ triggers, in conjunction with the risk-taking units.
- Ensure that limits/ triggers are appropriately established.
- Independently monitor compliance with established market risk limits/ triggers.
- Ensure ongoing applicability of the market risk limits/ triggers; formally review framework at least annually.
- It applicable, review and approve limit frameworks, as well as limit change requirements.
- Review and approve any temporary limit requirements.
- Recommend corrective actions for any limit excesses.
- Maintain documentation of limit breaches, including corrective action and resolution date.

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Chapter-2

Organization Chart:

2.1. An organizational chart has been drawn mentioning the possible roles and functions that are currently applicable to our market. To strengthen the control mechanism and to ensure monitoring of balance sheet risks the organizational structure in banks have been restructured detailed shown in Annexure-I

From chart above it is evident that the reporting lines for the officers maintaining the treasury front office and back office are different. This structure is required only for control reason. These two offices would report their activities according to their existing structure/policy.

2.2. Job Descriptions:

The job description of an ideal treasury Front Office, Back Office and Mid Office are as under:

2.3. TREASURY FRONT OFFICE:

- a) Reuters Money & News 2000/Reuters 3000extra/others.
- b) Reuters Dealing System.
- c) Dedicated/Independent Broad Band Internet Connection.
- d) Financial TV Channel(s).
- e) PC with necessary office package software.
- f) ISD telephone(s).
- g) ISD mobile phone for each dealer.
- h) Voice Recorder.
- i) Time Keeper.
- j) Swipe Door.

2.3.1. Head of Treasury:

- Overall responsibility of all treasury activities
- Responsible for the treasury financial plan
- Determine overall treasury business and risk strategy within internal and regulatory limits
- Set individual trader dealing limits from limits approved by management
- Monitor all traders' positions and ensure traders adhere to all internal, regulatory as well as trader specific limits
- Decide on particular positions during adverse situations
- Continuous development of systems, processes, business strategies, etc.
- Membership in the ALCO
- Propose overall balance sheet strategy to the ALCO
- Ensures a robust control environment for the treasury functions including dealers code of conduct, Chinese wall between the private and public side.
- To ensure proper execution of dealing limits.

2.3.2. Cross Currency Trader:

- Forming Market Views
- Monitoring exchange positions
- Counterparty limits monitoring
- Collating all the cross currency exchange positions
- Remaining within all given internal and regulatory limits
- Remaining within all counterparty limits at all times
- Profitably trading/squaring the positions

2.3.3. USD/BDT Trader:

- Trading spot and forward positions arising from import/export/remittances, etc.
- Collating the whole Bank's USD/BDT positions
- Remaining within all given internal and regulatory limits
- Remaining within all counterparty limits at all times
- Profitably trading/squaring the positions

2.3.4. Securities and Statutory Management Trader:

- Maintenance of CRR and SLR
- Investment in securities Portfolio as appropriate
- Repo, Reverse-repo activities
- Propose to the ALCO (through the head of treasury) of statutory investments

2.3.5. LCY & FCY Money Market Trader:

- Overnight/Call money activities
- Term market activities
- Repo, Reverse-repo activities
- Currency swaps
- FCY placements
- MM pricing of FCY
- Nostro fundings
- Spot any arbitrage opportunities and take advantage as per regulations.
- Remaining within all counterparty limits at all times
- Operating within all given balance sheet gap limits
- Profitably trading/ squaring the positions

2.3.6. Balance Sheet Manager:

- Managing all balance sheet gaps
- Monitoring of market factors
- Interest rate and market forecasts
- Analysis of risk reports for presentation to ALCO
- Daily reports to senior management

2.3.7. Corporate Dealer/Sales Manager

- Managing Client Relationships
- Checking Dealing Appropriateness
- Ensuring all appropriate documentation in place before dealing
- Preparing FX and IR Rate sheets
- Ensuring compliance with Credit/Risk Limits

2.3.8. Fixed Income Trader

- Take positions in Securities
- Quote price to clients
- Manage the trading portfolio of securities
- Ensure compliance with Regulations
- Manage client purchase/sale, both local and foreign, in T-bonds/bills

2.4. TREASURY BACK-OFFICE

The Treasury Back Office of Agrani Bank Limited provides necessary checks to prevent unauthorized FX Dealing and minimize the potential error and fraud. The role of the Back Office is to check, confirm, settle and reconcile the FX Deals conducted by the Treasury Front Office and possibly provide management information. In short, Treasury Back Office deals in processing and execution of Deals done by Treasury Front Office.

2.4.1. Head of Treasury Back Office:

- Overall responsibility of all treasury back office activities
- Responsible for all relevant regulatory reporting
- Ensure compliance with Regulatory limits and escalate any excesses
- Escalate reconciliation related issues
- Discuss Treasury Risk issues with the Management
- Responsible for accuracy and timeliness of all Back office reports and MIS

2.4.2. Manager – Local Currency Reconciliation:

- Reconcile all local currency accounts on a day to day basis
- Immediately advise money market trader and balance sheet manager of any discrepancy
- Track for reconciliation of any unmatched item
- Claim or arrange payment of good value date effects for any late settlements
- Send chasers for any unsettled items until it is settled

2.4.3. Manager –Nostro Reconciliation:

- Reconcile all Nostro accounts on a day to day basis
- Immediately advise USD/BDT or cross currency trader of any discrepancy
- Track for reconciliation of any unmatched item
- Claim or arrange payment of good value date effects for any late settlements
- Send chasers for any unsettled items until it is settled

2.4.4. Manager–Vostro Reconciliation:

- Reconcile all Vostro accounts on a day to day basis
- Immediately advise money market trader and balance sheet manager of any discrepancy
- Track for reconciliation of any unmatched item
- Claim or arrange payment of good value date effects for any late settlements
- Send chasers for any unsettled items until it is settled

2.4.5. Manager–Foreign Currency Position Reconciliation:

- Receive copies of USD/BDT and cross currency traders' position blotters
- Reconcile all foreign currency positions between accounted for records and USD/BDT & cross currency trader blotters on a day to day basis
- Immediately advise USD/BDT or cross currency trader of any position discrepancy
- Investigate and match unreconciled amounts
- Advise USD/BDT and cross currency traders of correct currency positions prior to commencement of day's dealing activities

2.4.6. Manager–Local Currency Position Reconciliation:

- Receive copies of position blotters from money market trader
- Reconcile all local currency positions between accounted for records and money market traders blotters on a day to day basis
- Immediately advise money market trader of any position discrepancy
- Investigate and match unmatched amounts
- To advise money market trader of correct positions prior to commencement of day's dealing activities

2.4.7. Manager–Foreign Currency Settlements:

- Settle for all foreign currency deals done by USD/BDT, cross currency and the Fcy money market traders
- Send and receive confirmations of all deals done by USD/BDT, cross currency and Fcy money market traders
- Check nostro statements for settlements of major items
- Advise traders of any discrepancy in settlement for the prior dealing day
- All related accounting entries
- Generate various MIS

2.4.8. Manager–Local Currency Settlements:

- Settle for all local currency deals done by Lcy money market traders
- Send and receive confirmations of all deals done by Lcy money market traders
- Check local currency statements for settlements of major items
- Advise traders of any discrepancy in settlement for the prior dealing day
- All related accounting entries
- Generate various MIS

2.4.9. Manager – Vostro Settlements:

- Settle for all vostro transaction
- Check vostro statements for settlements of major items
- Advise dealers of any discrepancy in settlement for the prior dealing day
- All related accounting entries
- Generate various MIS

2.4.10. Manager–Regulatory reporting:

- Send all required regulatory reports as per reporting schedule and as specifically required by the regulators
- Respond to various queries from regulators regarding reports
- Coordinate with other departments in receiving required information for reporting purpose
- Create awareness among various related departments of the importance of effective and accurate reporting

2.4.11. Treasury Back Office Functions at a glance

2.4.11.1 Functions

- a) Deal capture and accounting
- b) Deal confirmation
- c) Settlement & delivery
- d) Valuation
- e) Position & Nostro A/Cs Reconciliation
- f) Reporting (Regulatory & internal management)
- g) Custody

2.4.11.2. Back Office Equipment

- a) SWIFT Station
- b) PC with necessary software
- c) Telephone and Fax

2.4.11.3. Job Descriptions

- a) Settle all Foreign Currency Deals done by USD/BDT and Cross Currency Dealers
- b) Preparation & checking of Deal confirmation
- c) Maintenance & monitoring the deal records
- d) Send and receive confirmations of all deals done by USD/BDT and cross currency Dealers
- e) Preparation & Checking of settlement instructions
- f) Preparation & Checking of Blotter
- g) Find out late receipt in Nostro A/cs and claim for settlement with good value
- h) Check foreign currency Nostro statements for settlements of major items
- i) Advise dealers of any discrepancy in settlement of the prior dealing day
- j) Passing all related accounting entries
- k) Generate various MIS.

2.4.11.4. Restrictions

* There are certain activities that are restricted by traders and Back Office staff. These are as under:

2.4.11.5. Treasury Traders are restricted from:

- Deal processing
- * Accounting entries
- * Sending/receiving deal confirmations
- * Issuing/receiving Bangladesh bank cheques.
- * Sending settlement instruction i.e. swift messages/telexes.
- Generating revaluation rates.
- Running the revaluation process.
- Regulatory reporting.
- Involvement in raising rate appropriateness.
- Setting up/approving counterparty credit limits.
- Setting up/approving market risk limits.

2.4.11.6. Treasury Back-Office is restricted from:

- Dealing activities.
- * Deciding on exchange rates/quoting prices.
- * Striking deals with counterparties.
- * Raising deal slips.
- * Altering deal detail.
- Updating position blotters.
- Deciding on Nostro funding.
- Approving Counterparty credit limits.
- Approving market risk limits.

2.5. TREASURY MID-OFFICE:

It is considered by the leading banks practices for the FX treasury to have an independent risk management function that is involved at an appropriate level of decision making-say, new product approval, limit setting and strategy determinations.

2.5.1. Head of Treasury MID Office:

- Overall responsibility of all treasury Mid office activities
- Responsible for all relevant Risk reporting
- Measure for compliance with Regulatory/Internal limits and escalate any excesses
- Escalate regulatory and internal policy breaches by Front and back office
- Monitor Treasury Risk issues (both front and back office) with Management
- Responsible for accuracy and timeliness of all reports as well as MIS

2.5.2. Manager - Risk Reporting:

- Monitor limit utilizations against all internal and regulatory risk limits
- Reporting of limit excesses, etc.
- Stop loss/ cumulative loss limits monitoring and reporting
- Monitoring of daily P&L
- Measuring the of balance sheet gaps
- Measuring the mark to market gain/loss
- Identify and escalate cancelled/amended deals
- Identify and escalate rate exceptions against off market rates
- Generate various MIS

2.5.3. Manager - Risk Management:

- Monitor Key risk indicators of front and back office
- Identify future risk and design solutions as necessary
- Confirm risk management capabilities of the bank prior to introducing any new treasury product
- Ensure compliance with all action plans
- Prepare report detailing the risk management strategy for Treasury
- Responsible for accuracy and timeliness of all MIS

Banks may have the same individual looking after multiple functions of Treasury, and in some banks' treasury back office may perform treasury mid office functions too.

2.5.4. Individual Trader Dealing Mandate:

Each dealer should have a dealing mandate approved by the management of Agrani Bank Limited. The dealing mandate should describe the list of products the dealer is authorized to deal in, the individual limits authorised for each individual dealer, etc. The mandates should be reviewed and updated at least annually or more frequently if needed.

2.6. Treasury Mid-Office Functions at a glance

2.6.1. Treasury Mid-Office Policy Guidelines

- a) The Officials of Mid Office keeps an eye on dealing activities of Front Office i.e., functioning as the watchdog of the Front Office.
- b) The Dealing Room FX limits will be maintained by the Treasury Mid Office and approved by the Executive Committee.
- c) Establishment of prudent limit on risk exposure is an important aspect of Risk Management of Agrani Bank Limited. Boundaries should be set up for risk taking and if this limits are exceeds, it must be brought to the knowledge of the management for necessary guidelines.
- d) The Mid- Office personnel will have to fix up the Dealing limit/Renewal of Dealing Limit; fix up the Overnight/Stop Loss limit etc. Considering present volume of FX Dealing/Transactions & P&L with the approval of the competent Authority.
- e) The Treasure Mid Office must submit the Risk Report to the competent Authority.

2.6.2. Treasury Mid-Office Job Description

- a) Policy to be reviewed/updated at least annually or as required.
- b) Independently identify all relevant market risk factors for risk-taking unit
- c) Develop proposals for the independent market risk limits/ triggers, in conjunction with the risk-taking units/Treasury Front office
- d) Ensure that limits/triggers are appropriately established
- e) Independently monitor compliance with established market risk limits/triggers
- f) Ensure ongoing applicability of the market risk limits/triggers; formally review framework at least on a year.
- g) If applicable, review and approve limit frameworks, as well as change limit requirements
- h) Review and approve any temporary limit requirements
- i) Recommend corrective actions for any excess limit
- j) Maintain documentation of limit breaches, including corrective action and resolution date.

2.6.3. TREASURY MID-OFFICE STAFFS ARE RESTRICTED FROM:

- Dealing activities
- Decide on exchange rates/ quoting prices
- Striking deals with counterparties
- Raising deal slips
- Altering deal details
- Updating position blotters
- Deciding on Nostro funding

In treasuries without a dedicated mid office, back office staff may look after mid office functions

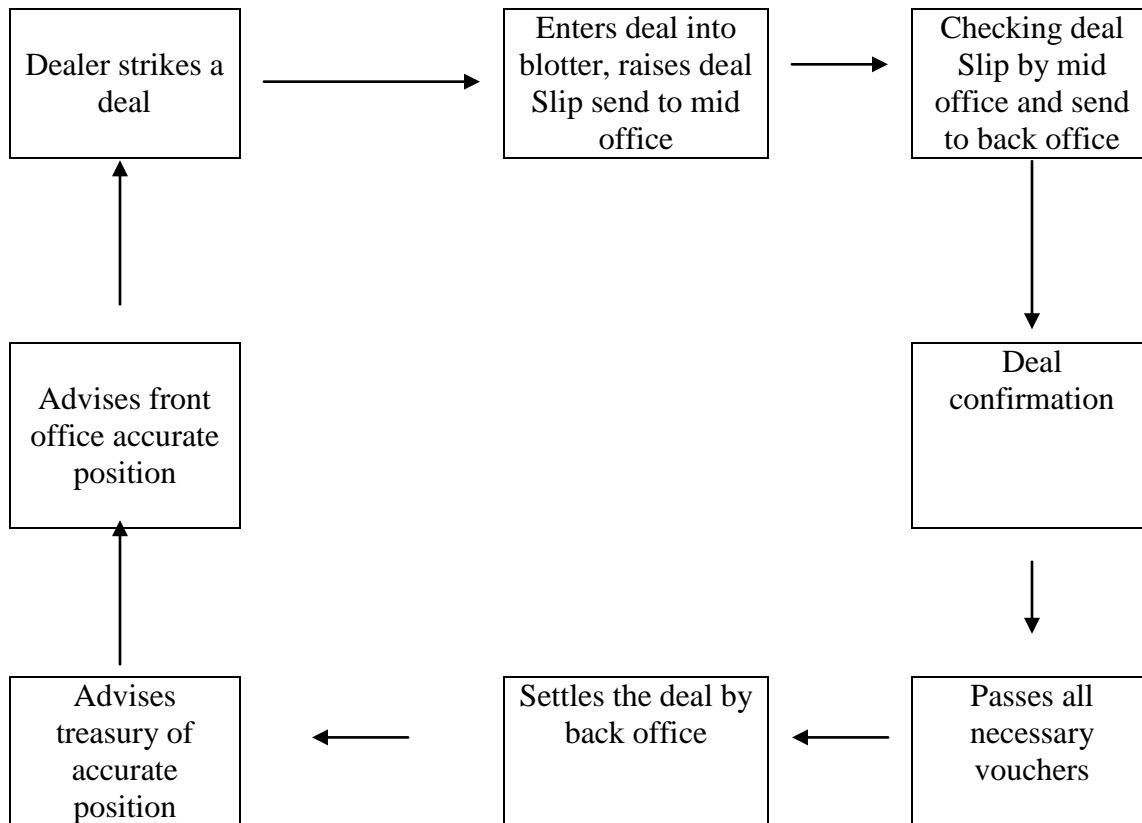
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Chapter-3

Process Flow Diagram

3.1. Process Flow Description

In a proper treasury setup a dealer strikes a deal in the market and maintains his/her own record for monitoring the exchange position. Within a reasonable time (30 minutes) he/she passes on the detailed information of the deal to the Treasury back office through the middle office. The back office arranges for the deal confirmation with the counterparty, arranges settlement and reconciles exchange positions and advice to treasury (Through Mid Office) and runs the valuation on a periodic basis and check the day to day treasury activities. A detailed flowchart of this function is as under:



The dealing function requires the dealers to make very quick decisions either for taking advantages of any market movements or for unwinding an unfavorable position. The treasury dealing is a wholesale function which involves large lots. In a treasury dealing the job of a dealer requires:

- Proper information sources, e.g., Reuters Money 2000, Bloomberg, financial TV channels etc., adequate and dedicated communication tools, e.g., Reuters Dealing System, telephone, fax, telex etc.;
- Specially designed dealing desks to appropriately accommodate the various information and communication tools;
- High level of dealing skills;
- Quick, independent decision-making authority; and
- Specific task allocation/specialization.

In order to achieve an optimum level of efficiency, returns and (most importantly) controls, there are certain processes that the organization's management must put in place. The very basic things that would be related to our market environment are explained below:

3.2. Dealing Room

The dealing room is an area which is specifically allocated for the dealers, equipped with modern communication tools for smooth function of our job. Since the dealers have access to global live prices of various products, using different communications tools, access to this room is restricted only to the dealers and related trading personnel.

3.3. Taped conversation

Generally, dealers execute their deals over the telephone. Deals conducted in this way do not provide hard evidence and, in a fast dealing environment, there is a risk of committing mistakes with regard to rates, amounts or value dates, etc. As such,

- a) All telephone lines of the dealing rooms must taped.
- b) Dealing over mobiles phones must restricted unless under specific circumstances allowed by the management.
- c) Counterpart dealers give beforehand knowledge about conversion to tape.

3.4. Deal Recording

Under an active trading environment, when a dealer continues to deal, his focus remains on the market. As such there is a risk of forgetting about a deal, or a part of deal, or making mistakes in recording a deal.

To eliminate this risk, a dealer must record the deal immediately after the deal is concluded with the counterparty. The deal recording is to be done in the following ways:

3.5. Position blotter

Immediately after execution of a deal, the dealer is to record the deals on the position blotter and up-date his position. The dealer should remain aware of his position at all times. This is required to capture any immediate opportunity, or to be in a position to immediate react to any adverse situation. **A sample blotter has been shown in [Annexure-II](#).**

3.6. Deal Slip

A slip or memo on which the details of the deal is recorded is known as the deal slip or deal ticket. Deal slips contain details of payment instructions, value dates, currencies, amounts etc. A dealer is to record the details of all deals on deal slips immediately after execution of a deal. The deal slip must pass on to the Treasury Back Office at the earliest possible time for their further processing of deal. All deal slips must pre-number for control reason. The Treasury Back Office must monitor for any breakage in sequence of the deal slips. Where pre-numbered deal slips are in place, any cancelled deal slip must also be forwarded to Back Office for appropriate recording. A typical format of deal slip is shown in [Annexure-III](#).

3.7. Deal Delay

All deals done by dealers are required to process by the Back Office, for which reason they need to be informed the details of the deals within certain time periods. The deal tickets must send to the treasury Back Office within shortest possible time.

The timeliness of raising deals slip and passing them on to Back Office is not only sound business practice but also critical for monitoring of credit risk, price risk and regulatory compliance.

The following table provides guidelines of deal capture standards:

Product	Deal-slip raising/System Input Time	Deal-slip to reach backoffice
Spot FX	Within 15 minutes	Within 30 minutes
Forward FX	Within 10 minutes	Within 25 minutes
FX Swaps	Within 15 minutes	Within 30 minutes
Call/Notice Money	Within 10 minutes	Within 25 minutes
Money Market Term	Within 10 minutes	Within 25 minutes
Foreign Currency Deposits	Within 10 minutes	Within 25 minutes
Treasury Bills Purchase	By 10:30 a.m. on payment day	Within 30 minutes
Repo	By 12:30 p.m.	Within 30 minutes
Reverse Repo	By 12:00 p.m.	Within 30 minutes

For monitoring of the proper functioning of the process, treasuries where manual deal slips are raised should use time stamping on the deal tickets.

3.8. Counterparty Limits

The issue of counterparty limits arises from the risk that a customer with whom an organization has a reciprocal agreement defaults. Credit risk is the risk that the counterparty to a financial transaction (for example, a foreign exchange contract) may be unable to perform its obligation. The extent of risk depends on whether the other party's inability to pay is established before the value date or is on the same value date of the foreign exchange contract.

Management has set limits for the counterparties, which may be changed with the changing circumstances ([Annexure-IV](#)).

3.9. Triggers

A trigger is a level of a position at which an organization decides that the management should be informed with regard to either a market value of a position or an unusual trading volume, etc. This is a pre-determined level given by the management, and when a trigger point is reached, management should be informed of the same.

Management of the Bank has allocated the following trigger level for the dealers which may be changed with the changing circumstances:

<u>Designation</u>	<u>Trigger Level</u>
Head of Treasury & Chief Dealer/DGM	USD 1,500
Senior Principal Officer	USD 1,200
Principal Officer	USD 1,000
Senior Officer	USD 1,000

3.10. Stop-Loss Order

A stop-loss limit for a product is generally a certain percentage of the organization's prior year's profit from that product. For example if an organization's FX trading revenue for the year 2002 was USD A. The management, through its market risk management unit, may decide to accept a maximum of 10% loss of that amount "A" during the current year. In that case, the stop-loss limit for that organization for 2003 would be A X 10%. In managing the business within stop-loss limit, treasuries running overnight positions (within their overnight limits) must have the appropriate overnight watch order.

3.11. Appropriateness of dealing

While transacting with a client, a dealer should be aware of the counterparty's dealing style and product mix, and assess (prior to concluding a deal) whether the customer is dealing in an "appropriate" manner. A dealer should have the responsibility to ensure that the volumes of activity and types of products transacted by a client are appropriate for that particular client and the risks of these transactions are clearly understood by them. Prior to conclusion of any deal, a dealer needs to be assured that the counterparty is authorized to enter into such a transaction (both from counterparty's internal and regulatory perspective).

To address the appropriateness issue, it might be a good idea for the organization to get a standard agreement signed by all its counterparties. Such an agreement can be drafted by BAFEDA and can be made mandatory for all members to sign.

3.12. Rate appropriateness

This exercise is carried out by the treasury back-office to check for whether all deals have been conducted at market rates. Any deals done at off-market rates must be raised to the respective dealer for a satisfactory explanation, and brought to the notice of the chief dealer. In case of a non-acceptable justification provided by the dealer, the organization decides to conduct further investigation.

This monitoring process needs to be in place to guard against the application of any inappropriate rates.

Treasury front offices primarily use Reuters for pricing of its products and treasury back office operations should also collect most of the data for their independent verification process from the same source.

Instrument Source and Frequency of Update:

Instrument	Source	Frequency of Update	Note
Spot FX	Reuters/National Newspapers/BAFEDA Reports/Bloomberg and other financial TV channels	Minimum once daily, as frequently needed Reuters Pages: AFX, FXXZ, BD (F9), BKBG, etc.	
Forward FX/Swap	Reuters/Bloomberg/BAFEDA Report	Minimum once daily, as frequently needed Reuters Pages: AFX=, FXXZ, BD (F9), BGBD, BKBD, DIBR, LIBOR01, GBPF=, EURF=, JPYF= etc., USDIRS	In the absence of an active inter-bank USD/BDT forward market, banks may use spreadsheets to determine forward premium to use for verification of forward rates
Cross Currency	Reuters/Bloomberg	Minimum once daily, as frequently needed Pages: AFX=, EFX=, FXXZ	
Foreign Currency Deposits	Reuters	At Booking Pages: DEPO, GBPF=, EURF= etc.	
Call Money	Reuters/National Newspapers	Minimum once daily, as frequently needed DIBR, BD(F9), Bangladesh Bank's mid day call money report etc.	
T-Bills/T-Bonds Primary Data	Reuters/Bangladesh Bank website/Bloomberg	Once daily Pages: BKBD	
Repo	Reuters/National Newspapers/Bangladesh Bank website	Page: BD (F9)	
Reverse Repo	Reuters/National Newspapers/Bangladesh Bank website	Page BD (F9)	
T-Bill/T-Bond (price)	Primary auction rate from BB website, Reuters/Bloomberg	Minimum once daily, as frequently needed	

In absence of an active inter-bank term money market and lack of publicly available detailed information on T-bill/T-bond secondary trading, this cannot always be judged against any market information. However, for clarity, all term borrowings/placements should have sign-off from one level higher authority from the trader doing the transaction. This may also be covered under an appropriately delegated authority from the Head of Treasury and/or Chief Dealer as the case may be.

The rate band for each instrument needs to be fixed depending on the market liquidity and volatility for each. An indication of the rate bands that may be used by Treasury Operations for their independent price verification process is as below:

Instrument	Rate Band
Spot interbank FX	For currencies other than BDT, for contracts with USD on one side, a 1% on each side of the mid market rate can be taken as a guidance. For BDT it can be within 5 paisa on each side of the base rate.
Spot Customer FX	For spot Customer FX, the band can be 2% on either side.
Non BDT crosses	For CHF, EUR, GBP, JPY this can be 50 pips on either side.
Forward inter-bank swaps	25 pips on either side of the base swap rate for currencies against USD other than JPY. 25 bps on either side of the base swap rate for JPY.
FCY Borrowing/Lending	25 bps on both side of the base rate (quoted on Reuters for the particular tenor) for on and off-shore deals.
Call/Notice Money	1% on either side of mid rate of rage reported on Reuters BD page/newspaper.

The treasury departments of Agrani Bank Limited publishes a rate sheet for its daily FX transactions at the counter levels based on the market levels of USD/BDT as well as cross currencies available from Reuters. While these rates are mainly for retail transactions up to a certain threshold and for small transactions of corporate houses, it can be applied to all sorts of transactions at the discretion of the bank. However, both buy and sell transactions of large size and/or special nature and transactions under special circumstances may be dealt at rates outside these published rates which may be either over or under the published rates for that day by ensuring rate appropriateness.

It is noteworthy that all customer transactions are based on the principle of a positive spread. Any negative spread generating from a customer FX transaction must be highlighted as exceptions for explanations and approvals.

3.13. Deal Outstanding Trigger

It is a good practice to monitor the total deals outstanding of the treasury. This exercise should be carried out by the treasury back office to check against any unusual volumes of activity. Our treasury would have its own volume trend and the treasury back office should monitor whether all activities are being carried out within the usual trend. The Management may decide to set a limit for all outstanding FX contracts at any given point of time. In a fast dealing environment, a dealer may make a mistake and execute a deal with an additional zero that would make the deal amount much higher than intended. Mid-office may monitor the deals outstanding of the treasury as an independent unit. Mid-office should highlight and bring to the attention of the senior management for any appropriate action regarding such outstanding deals.

3.14. Daily Treasury Risk Report

The treasury back-office is required to summarize all daily positions, particularly the end-of-day positions on a report format for the information of senior management. Such report should contain information about:

- Outstanding open position against limit,
- the different currency-wise outstanding exchange positions (against limits if applicable);
- the outstanding foreign exchange forward gaps in different tenors;
- tenor-based MCO report
- interest rate exposures of the balance sheet;
- counterparty credit limits usage;
- the day's P&L against trigger & stop-loss limits, etc.

A format of daily treasury report for the senior management is shown in annexure-V.

3.15. Conversation Language

All dealing-related conversations taking place in the treasury must be in acceptable language for operational clarity. To elaborate, all conversations on the Reuters Dealing System must be in English and all conversations over telephone must be restricted to either Bengali and/or English.

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Chapter-4

Dealing Environment:

4.1. Dealing Limits:

Management of the Bank will assign the dealing room a set of specific limits. These may include:

a. Dealing Room FX Position Limit

b. Individual Trader Position Limit – The total position a trader may take, in US\$ million. Individual trader position may be broken up by currency and Tenor if required.

c. Individual Currency Position Limit: Each trader can have individual currency wise limit assigned to their name for FCY/BDT or FCY/FCY positions. These limits can be further divided by tenor: i) Intraday Limit, the maximum position volume per currency an individual trader can take between Opening and closing each day, and

ii) **d. Overnight limit** – The maximum position per currency an individual trader can carry into the next day.

○ By FX Product (Spot FX Trader, Forward FX Trader and FX Options Trader, etc.) individual limits.

○ By Tenor (Intraday, O/N and Forward limits)

○ Product List – Not all FX products may be traded by all banks or all traders. Dealing Mandates should reflect the FX Products that the dealing room or trading desk or an individual trader can deal in. The Bank taking a more conservative approach have the option to monitor the following limits:

i) FX Deal Limit: Management of the Bank can limit the individual FX deal size to a certain volume per day and per individual deal for individual traders and the dealing room.

ii) **Deal Outstanding limit:** Management of the Bank can limit the monthly trade volume for each currency to a certain number. Another method may be to monitor the daily trade volume for each currency and report any unusual patterns. Agrani Bank Limited with integrated systems and e-platform has instant access to trade flow volume data and can use this method easily.

4.2. Mandatory Leave and Training:

The dealing functions are extremely sensitive and stressful involving wholesale and large amounts with exposures to adverse market movements. There is also risk of mistakes not being unearthed. As a result, for a particular trader's functions to be run by a different trader, all traders are required to be away from their desks for a certain period of time at one stretch during a year.

During this period, traders are expected not to contact with their colleagues in the treasury area and the bank should not to contact the trader for any reason. Typically, this period is defined as a continuous two weeks period. This should be monitored and reported to top management. Any exceptions, including contacting a trader on block leave, should be done with prior approval of treasurer. Traders going on leave should ensure all relevant information is handed over to their backup.

Training (special ACI certification course/bourse course) should be organized for the treasury personnel. Only trained personnel should be engaged in treasury activities.

4.3. Treasury Bench Strength:

Traders are specialists in their jobs and each treasury should develop backup personnel for all job positions. This would ensure that a trader on mandatory leave need not be contacted as his/her backup can take care of duties.

4.4. Deal Cancel and Amend:

Deals input in the system may need to be amended due to various reasons, i.e. information error (price, volume currency, settlement date inaccuracy, etc.), client request, system error or any other reason. Agrani Bank Limited have a detailed policy regarding deal cancellation, and a monthly report is to be complied by Mid/Back Office capturing the reason for deal cancellation and amendment.

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Chapter-5

Code of Conduct of the Foreign Exchange Dealers

Due to the special nature of job that traders engage in, they are expected to act in a professional and ethical manner. The principles constituting the ethical conducts for traders are detailed in **Annexure-V**.

Detailed Dealers Code of Conduct prescribed by Bangladesh Bank that will guide the professional behavior of Dealing Room Staff. This should include and is not restricted to: Business Ethics, Interaction with Market, Risk Management and exception escalation process. For any deviations from the code, it should be notified to management immediately.

5.1 Electronic System and Data Safeguards

Our traders use various systems including spreadsheets for managing our day to day business. All such systems are ideally be password protected for the reason of data safety. To protect the data and maintain discipline, the following measures are ensured:

- The system access given to traders are periodically reviewed by the Treasurer to see if their job descriptions and dealing mandate justify the system access. We remove redundant access rights.
- Our dealers are not share individual passwords unless the system provider is unable to give individual password (Like Reuters).
- The Generic files used by Traders (example: Excel file to prepare Daily Rate sheet or to price forwards) is password protected and designed according to a standard format endorsed by the Treasurer. The IT department of our bank assists in protecting the specific cells of the file that contain formulae. We logged any changes/updates to the files.
- An authorized list is maintained for entities where e-mail communication is sent regularly using common e-communication platforms (Yahoo mail/hotmail/Gmail). This list is regularly updated. However, this is not apply to communications to the Regulators/BAFEDA.
- Confidential information is not send to third party over common e-mail without prior authorization.
- Dealing Rooms dealing in inside information (Private side bond issue, IPO, Capital Market issues, etc.) is set up process to prevent data leakage, both through physical and electronic means.

5.2. Dealing Room Access log

Our dealing rooms are restricted areas where the access is controlled for unauthorized persons. We use access doors with electronic swipe cards setup. Access rights is periodically checked and updated when needed.

5.3. Risk Limit Management

The Risk unit of our Bank provides Risk Limits (VaR, EaR, PV01, etc.) according to Regulations, Internal Policy and Risk appetite for dealing room, which are approved by management. A detailed policy on compliance with all such limits and escalation procedure is in place for the dealing room. The risk exposure is calculated daily by Middle Office/Risk unit/Finance and communicated to Management. Risk Management limits are include and are not restricted to:

5.4. PV01 limit:

Price Value of a Basis Point - the Price level that results from 1 basis point movement in product price. The FX Forward Positions are evaluated using the PV01 limits. The Dealing room is assigned an overall PV01 limit and individual PV01 limits for each currency the dealing room is authorized to deal in FX Forward purchase and sale. Net open forward position of the unit is to be within the PV01 and the bank's NOP limit.

5.5. Value at Risk Limit:

Value at Risk, commonly referred to by its acronym VAR, is a statistical measure of the worst probable loss on a position or portfolio of positions that can be expected over a specified period of time to a given level of confidence. Value at Risk (VAR) related terms and calculation are shown in **Annexure-VI**

5.6 Straddle Gap/MCO Limit:

Our bank, based on the annual FX inflow/outflow and balance sheet strengths, may choose to limit FX forward exposure for certain tenors. For example, Management may authorize a next FX exposure of US\$ 30 million up to three months, but US\$ 20 million for 1 year.

5.7. Out of Market Rate (OMR) Tolerance limit:

Our bank has a tolerance limit set on daily deal rate deviations from market rate. For example, if a bank sets the OMR Tolerance Limit at 1% of the daily market range, any deal rate that crosses that limit is reported to management and explanation is obtained from dealing room.

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Chapter-6

Compliance with Foreign Exchange Regulations

The ability of our Bank to provide foreign exchange services is dependent on maintaining its license from the Bangladesh Bank. Accordingly, it complies with all statutory obligations to ensure it has unimpeded access to and use of its foreign exchange resources for the benefit of the customers. This requires knowledge of all laws and regulations, as well as faithful compliance with all reporting requirements.

6.1. Liquidity

Our bank will maintain sufficient levels of foreign currency reserves to comply with statutory open-position limits/operational needs. We estimate our liquidity requirements on a periodic basis for this purpose.

6.2. Transactions

The sale and exchange of foreign exchange, and the settlement of foreign currency obligations, is undertaken within authorized counterparty and dealing limits. All transactions is faithfully recorded for accounting, monitoring and audit purposes. Off-premises transactions are, as a preventive measure, not be allowed under any circumstances. Traders perform their functions ethically and professionally in accordance with a code of behavior.

6.3. Monitoring

Our bank maintains a data base containing up-to-date information on foreign exchange rates to track and statistically analyze their movements over time for risk modeling purposes.

6.4. Reconciliation

Reconciliation of accounts is undertaken diligently, and with due consideration for the need to provide timely information concerning our Bank's exposed positions and outstanding balances in all its accounts both locally and abroad.

6.5. Risk Associated with Foreign Exchange Operations

The key risk areas are broadly categorized as follows:

6.5.1. **Credit Risk**-This is defined as the failure of an obligor or counter-party to perform as agreed in accordance with exchange/settlement arrangements on a stipulated/value date.

6.5.2 **Liquidity Risk**- It is defined as the inability to meet obligations in any currency when due, owing to either lack of funds by either of the contracting parties or to systemic problems in markets that make it difficult to purchase the amounts needed for settlement. Accordingly, there is a close relationship between liquidity and credit risks.

6.5.3 Market Risk

It is defined as the potentially adverse change in the current economic value of a position (i.e., its market value) due to changes in the associated underlying market risk factors.

6.6. Market Risk terminology

a) Market Factor

It is defined as a Variable (i.e., a market price or rate, such as spot FX rate or an interest rate) that can impact the economic valuation of a contractual position. It is a part of the market risk management activity to identify relevant market factors and to take them into consideration in the establishment of the independent market risk limit frameworks.

b) Factor's Sensitivity

It is defined as the change in the value of a position for a defined change in a market risk factor (e.g., the change in the value of a spot foreign exchange position for a 1% change in the spot FX rate).

c) Volatility & Correlation

This refers to factors that are used to statistically calculate the relationship (correlation) between market Variables/parameters and the range of movements (volatility) by which one Variable influences another. This is used in portfolio risk measurements, such as value at-risk (VaR).

d) Value-at-Risk (VaR)

VaR is a statistical tool that is used to estimate the potential decline in the value of a position or a portfolio, under normal market conditions, within a defined confidence level, and over a specific time period.

6.7. Operational Risk

This broadly refers to:

- a) the risk of losses arising from the failure (or inadequacy) of internal controls and procedures, or of information systems; and
- b) the risk, and adverse consequences, of non-compliance with anti-money laundering statutes and policies.

6.8. Settlement risk

The risk on settlement day that one party pays funds or delivers a security to fulfill its side of the contractual agreement, but the other counterparty fails on its side to pay or deliver. This occurs when items of agreed-upon originally equal values are not simultaneously exchanged between counterparties, and/or when an organization's funds are released without knowledge that the counter value items have actually been received. The risk is that the organization delivers but does not receive delivery. In this situation 100% of the principal amount is at risk. This risk may be greater than 100% if, in addition, there was an adverse price fluctuation between the contract price and the market price.

6.9. Pre-settlement risk

This is the risk that a client defaults on its agreement with the organization before the settlement day. Whilst the organization has not paid away any funds, it still has to replace the contract at the current market rates, which might have moved against it. In this case, the organization is exposed to possible adverse price fluctuations between the contract price and the market price on the date of default or final liquidation. The organization's loss would then be the difference between the original contract price and the current market price on the date of default.

As a good practice, all banking organizations must have appropriate counterparty limits in place for their treasuries. The limit structure depends on each organization's credit risk appetite based on their credit risk policies as well as target market criteria. All such credit risk limits should be set by the organization's credit risk approving unit, which is independent of the treasury dealing function.

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Chapter-7

Treasury Activities

Our bank engages in several activities, ranging from the basic services (e.g., import, export and remittance) to more complex operations (e.g., derivatives and complex structured products). The latter require a high degree of expertise that is difficult to achieve in the transaction- origination departments and, as such, are housed in a separate department i.e., Treasury. Treasury activities can normally be categorized into four areas:

7.1. Money Market

This refers to the day-to-day activities where the Agrani Bank Limited addresses its short-term cash requirements, by either lending/investing its excess liquidity or borrowing to cover liquidity short-falls.

7.2. Fixed Income

This refers to a sub-set of the investment universe where instruments with fixed pricing are the traded commodities.

7.3. Foreign Exchange

This refers to the buying and selling of funds denominated in Various currencies, where the Bank may dispose of its excess stock or purchase its operational requirements (e.g., to settle L/C transactions).

7.4. Asset-Liability Management

This refers to the Treasury functions that are associated with the execution of ALM strategies (described in Volume 2 Section II of the Risk Management Reference Manual).

7.5. Products

Some of the typical products that would fall under treasury's functions of Agrani Bank Limited are listed as follows:

- o Spot foreign exchange
- o Forward foreign exchange
- o Currency swap
- o Interest rate swap
- o Forward rate agreement
- o Non-deliverable forward exchange
- o FX options
- o Overnight deposits
- o Term deposits
- o Coupon securities
- o Discounted securities

7.6. Remittance Activities

A major source of our Bank's foreign exchange is the inward remittances from overseas by migrant workers, non-resident nationals, etc., as well as export proceeds. It is therefore our Bank's duty to handle these funds with care and efficiency in order to: to protect its reputation as a reliable remittance channel; we ensure that money-laundering is prevented; and maintain liquidity.

7.7. Treasury Functions

Following is a list of some of the functions that a Treasury Department performs:

- **Statutory management**
- **Limits monitoring & management**
- **Adherence to internal as well as regulatory policies**
- **Minimization of risk exposures**
- Optimization of risk returns through specialization
- **Monitoring & management of various foreign exchange and money market positions**
- **Monitoring & management of various cash flows and cash positions**
- Funding of the balance sheet at optimum prices
- Propose interest rate matrix to the ALCOM
- Propose various investment options to the ALCOM
- Analyze various economic trends and propose balance sheet strategy to the ALCOM
- Quote various foreign exchange rates to customers
- **Deal in foreign exchange for position covering** as well as for own account trading
- Various funding activities through currency swaps
- **Closely liaise with regulators**
- Provide structured treasury solutions to customers
- Remain vigilant for any arbitrage opportunities
- Undertake marketing activities for future business growth
- **Propose or renew VaRious internal limits**
- Estimate daily P&L and work with reporting unit in resolving any differences
- **Record all foreign exchange and money market positions and check for differences with system-generated/back-office reports**

(Note: At the time this manual was prepared, Agrani Bank was performing only those above-listed activities in bold lettering which are related to asset-liability management.)

7.8. Principal Guidelines

The success of our Bank's foreign exchange business, and particularly its trading operations, depends on the ability to manage effectively the various risks encountered in the trading environment. The organization's policies and processes require development over time to ensure that the activities of this business are undertaken with a high degree of control.

7.9. Dealing Limit

The limit which is allocated to a dealer for sale/purchase of foreign currency on a particular day by the authority is termed as dealing limit. A specific dealing limit is allocated to a dealer as per approval of Bank's Board of Director, depending on his official capacity, which may be reviewed or change in accordance with circumstances.

Our bank's dealing room is allocated with specific dealing limit of USD 2.50 million. Details are as follows:

Overall Dealing Room Limit for Total Open positions at any point of time		US\$ 2.50 million
Total Overnight Limit for Dealing Room		US\$ 1.25 million
Head of Treasury AGM/ Chief Dealer	Overall Position Limit Single Deal Limit Overnight Limit * Deal outstanding Limit Overall Stop Loss Limit Trigger Level (Defined as: Notifying dealing room supervisor if position hit a loss at this level, the MD-CEO will nominate an overall supervisor of dealing room)	US\$ 1.00 MM US\$ 500,000 US\$ 500,000 US\$ 300,000 US\$ 2,500 US\$ 1.500
Senior Principal Officer	Overall Position Limit Single Deal Limit Overnight Limit * Deal outstanding Limit Overall Stop Loss Limit Trigger Level (Defined as: Notifying dealing room supervisor if position hit a loss at this level, the MD-CEO will nominate an overall supervisor of dealing room)	US\$ 750,000 US\$ 375,000 US\$ 375,000 US\$ 200,000 US\$ 2,000 US\$ 1,200
Principal Officer	Overall Position Limit Single Deal Overnight Limit * Deal outstanding Limit Overall Stop Loss Limit Trigger Level (Defined as: Notifying dealing room supervisor if position hits a loss at this level, the MD-CEO will nominate an overall supervisor of dealing room)	US\$ 500,000 US\$ 250,000 US\$ 250,000 US\$ 200,000 US\$ 1,500 US\$ 1,000
Senior Officer	Overall Position Limit Single Deal Overnight Limit * Deal outstanding Limit Overall Stop Loss Limit Trigger Level (Defined as: Notifying dealing room supervisor if position hit a loss at this level, the MD-CEO will nominate an overall supervisor of dealing room)	US\$ 250,000 US\$ 125,000 US\$ 125,000 US\$ 100,000 US\$ 1,250 US\$ 1,000

* N.B: For the time being, overnight limits are held in abeyance until further notice.

The following are additional guidelines with regard to the front-office dealing room operations.

7.9.1. The overall dealing room limits are monitored by the back office, and the dealing room supervisor is notified immediately upon any breach of the limits by the back office-in-charge.

7.9.2. A reporting format is prepared to report overall daily trading activities, which is submitted to the FX dealing room supervisor at the end of each day including: positions taken and squared, profit/losses and outstanding open positions.

7.9.3. The dealing room supervisor will have the discretion to allow trading during holidays and any off-site dealing activities. All transactions should be conducted through the dealing room by using the dealing room phones. A Voice recorder for the dealing room and telephone lines are in place.

7.9.4. The mid-office/back office should cross-verify the open position statement with the dealing room supervisor on a daily basis.

7.10 FC Position reconciliation

All dealer positions are reconciled with the positions provided by the Treasury back office. Position reconciliation is done prior to commencement of the day's business.

7.11. Nostro A/C reconciliation

Bank maintains Various *Nostro* accounts in order to conduct operations in different currencies including Bangladesh Taka. NOSTRO Accounts play a vital role in dealings since all deals are executed & settled through them. So the reconciliation of *Nostro* Account transactions are done properly and in a timely manner. Officials engaged in reconciliation activities follow the following prescriptive guidelines:

7.11.1. Officials must ensure that all items are properly matched or reconciled.

7.11.2. All matches are cross-referenced between our books (shadow Ledger) and the Foreign Bank's statements.

7.11.3. Detailed particulars of unmatched / outstanding entries are to be recorded properly.

7.11.4. Preparation of a reconciliation balancing report on monthly/quarterly basis, which must include "our book" balance and related 'statement balance', and a listing of all open items.

7.11.5. The officer-in-charge of the back office must set time limits for reconciliation of open items or differences found to be un-reconciled.

7.11.6. Persons reconciling *Nostro* A/Cs are independent of originating, responding to, authorizing or booking transactions, and must not reconcile the same A/Cs for a continuous period more than twelve months.

7.11.7. The officer-in-charge of the back office must review all the reconciliation statements of *Nostro* A/CS on quarterly basis for effective control

7.11.8. L/C-related unmatched items equivalent to USD 200,000 and above that remain outstanding for more than a day are brought to the attention of AGM for review.

7.11.9. With regard to other L/C-related unmatched items equivalent to US\$50,000 up to \$199,999 that have remained outstanding for more than a day are to be brought to the attention of the officer-in-charge for review.

7.11.10. The table in annexure-VII(B) shows the maximum time limit after which unmatched items must be referred to the respective Assistant General Manager, Reconciliation Section, who may take obtain the assistance of the Deputy General Manager of the Foreign Currency Management Division:

7.12. Type of Transaction Transit Time

L/C payments 3 days, ACU-7 days Foreign exchange settlements Nil. Immediately notify respective department if settlement does not occur on value date TC encashment 21 days Outward remittances 3 days Draft payments 30 days ACU cover funds sent through Bangladesh Bank 7 days Credits to our accounts with insufficient details 20 days Correspondent Bank charges recoverable from our customers or otherwise 30 days Any other credits to our accounts, where we have not passed corresponding debit entry 7 days Any other transactions where we have debited, but they do not credit 7 days Any other transactions where they have debited, but we do not credit 7 days Any other transactions where we have credited, but they do not debit 7 days

A detailed flow chart of the reconciliation process is been shown in Annexure VII(A&B).

7.13. After-Hours Dealing

After-hours dealing refers to transactions initiated when the dealer's own trading room is scheduled to be closed. Locally, business hours are from 9.00 A.M. to 4.00 P.M. The Bank's dealers generally start their transacting after 12:00 noon due to the time gap with the markets in London and New York. The Bank has taken steps to allow our dealers to do after-hours deals within existing dealing limits; thus deals after 4.00 P.M. may be treated as after-hour deals. All such transactions are to be properly entered in FX blotter and Foreign Currency Control Ledger (FCCL). Deal slips are to be handed over to the Treasury Back/Mid-offices as early as possible after holding positions.

7.14. Off-Premises Dealings

A transaction done by a dealer who is not physically located in the dealing premises (irrespective of the time of day) is referred to as an "off- premises" deal. This type of deal needs to be treated separately from a deal done within the dealing room, as it utilizes communication tools that are not as special as those of the dealing room. For example, an off-premises deal done on the phone is generally not recorded and thus there is no record in case of any future dispute. The back office is not in a position to take immediate action (confirmation, settlement, etc.) in case of off-premises deals. For this reason, the Bank's Management has decided that such activity should not be encouraged and may be undertaken ONLY upon satisfaction of the following conditions:

7.14.1. There must have laid down procedures of accounting for any off-premises deal transactions on a case by case basis;

7.14.2.. Management must specifically designate, in writing, particular dealer(s) with the authority for such transactions.

7.15. Stop-Loss Limits

Bank management has allocated a dealing room limit as well dealing limits to individual dealers. There is always risk of losses in executing deals due to adverse market movement. Bank is not in a position to accept un-limited loss in dealing. So management has determined the following stop loss limit where the dealers must close the position to stop incurring further losses:

<u>Designation</u>	<u>Stop loss limit</u>
Head of Treasury and Chief Dealer/DGM	USD 2,500
S.P.O.	USD 2,000
P.O.	USD 1,500
S.O.	USD 1,250

7.16. Mark-to-Market

Mark-to-Market is a process through which all outstanding positions is valued at current market rates to ascertain probable Profit / (Loss) at a particular point of time. Treasury mid-office shall determine mark-to-market of the outstanding deals. This system provides the profitability of the outstanding positions for decisions of the management. Treasury Mid Office be assigned to calculate dealer wise weekly and cumulative profit and loss through out the year to measure the overall dealing performance of the Bank.

7.17. Valuation

The process of revaluing all positions at a pre-specified interval is known as valuation. This function is to be carried out by Treasury back office by gathering and applying revaluation rates. Dealers are required to have their profit / (loss) estimates which must be tailed with the ones provided by the Treasury back office. Any unacceptable difference between these two must be reconciled to an acceptable level.

7.18. Model Control Policy

Treasuries of Bank use quantitative models for the following reasons:

- ° To generate valuations used in financial statements; and
- ° To produce market risk measurements used by independent risk managements in monitoring risk exposures:

7.18.1. All financial models that are used for updating organization's independent risk monitoring, must be validated and periodically reviewed at least annually by qualified personnel independent of the area that creates such models. The models include valuation and risk measurement systems that are developed in-house, certain models on spreadsheets and models within vendor systems.

7.18.2. Model validation is the process through which models are independently and comprehensively evaluated by reviewing underlying assumptions, verifying mathematical formulae, testing the models to verify proper implementation and assessing any weaknesses, and ensuring appropriate application. The validation process of a model reduces the risks associated with using a model that has flaws in the underlying assumptions, errors in its implementation and/or is used inappropriately.

7.18.3. The originator of a model must ensure that it is documented, resides in a control environment, and that any change to an existing model is documented and reported. Treasury units using the financial models, in conjunction with their systems support group, are ultimately responsible for ensuring that all models reside in controlled environments.

7.18.4. A model validation process is not applicable to financial models which only perform simple arithmetic operations. On the other hand, the process must be applied to the following: value-at-risk calculations, earnings at risk ([Annexure-VIII](#)) calculations, interest accrual calculations, and aggregation or consolidation of risk exposures to compare against risk limits.

7.19. Internal Audit

Considering the complexities of the FX Dealing, a process of an Internal Audit has widely been accepted as a check point to review the adequacy of the key control issue. The nature and scope of Internal Audit varies widely between Banks. However, its approach will generally be designed to ensure that the established procedure in this manual are adhere to and operating effectively. Audit should be conducted as per Bangladesh Bank Policy Guidelines.

Areas to Audit:

- a) Limits have been followed by all concerned in all cases
- b) All deals have been properly recorded
- c) The Treasury Front Office ensures that all the Deals are executed promptly and properly captured by the Treasury Back Office
- d) Reconciliation of F.C position between Dealers' Position records and accounting system
- e) Review of Deal confirmation and counter confirmations
- f) Completeness, correctness and timeliness of the Reporting System
- g) Functional Separation
- h) Valuation of FC(s)
- i) Different Dealing Limits
- j) Periodic/Concurrent Audit on reconciliation of Nostro A/Cs.

Foreign Currency Loan/Over draft:

- a) Foreign currency from Local/Foreign sources should be availed up to a certain limit.
- b) Prior approval to be taken in case foreign currency loan from abroad.
- c) Interest rate should be as per guide lines of Bangladesh Bank.
- d) Prior approval from Line Management/Board of Directors is to be taken for FC loan.

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Chapter-8

Derivatives Guideline

Introduction

Derivative means an instrument, to be settled at a future date, whose value is derived from change in interest rate, foreign exchange rate, credit rating or credit index, price of securities (also called “underlying”), or a combination of more than one of them. Participants of this market can broadly be classified into two functional categories, namely, market-makers and users.

Users can undertake derivative transactions to hedge - specifically reduce or extinguish an existing identified risk on an ongoing basis during the life of the derivative transaction - or for transformation of risk exposure. Users can also undertake hedging of a homogeneous group of assets & liabilities, provided the assets & liabilities are individually permitted to be hedged. Market-makers can undertake derivative transactions to act as counterparties in derivative transactions with users and also amongst themselves with prior permission from Bangladesh Bank where necessary.

Market-makers are all AD Banks (and their overseas offices) and users are business entities with identified underlying risk exposure. Market-makers may undertake a transaction in any derivative structured product as long as it is permitted by Bangladesh Bank. Users can enter into derivatives transactions only to hedge underlying commercial exposure and not for speculative purposes. The management of derivatives activities should be an integral part of the overall risk management policy and mechanism. It is desirable that the board of directors and senior management with customer understand the risks inherent in the derivatives activities being undertaken. Market-makers should have a ‘Suitability and Appropriateness Policy’ vis-à-vis users in respect of the products offered, on the lines indicated in these guidelines.

Foreign Exchange Forward (Local and Foreign Currencies), Foreign Exchange Swaps (Local and Foreign Currencies) and Cross Currency Swaps are permitted subject to creation conditions specified Guidelines for Foreign Exchange Transactions, 2009 (Volume-1) Chapter-1 and subsequent circular issued thereafter. Other derivative contract (not specifically mentioned in any instruction) Foreign Exchange Options, Interest Rate Swaps, Interest Rate Cap and Interest Rate Collar, etc. may be exercised only with prior permission from Bangladesh Bank and subject to certain conditions detailed in the following sections:

- Foreign Exchange Forward: Local and Foreign Currencies
- Foreign Exchange Swaps: Local and Foreign Currencies
- Foreign Exchange Options: Local and Foreign Currencies
- Cross Currency Swaps: Local and Foreign Currencies
- Interest Rate Swaps: Foreign Currencies
- Interest Rate Cap and Collar: Foreign Currencies

Derivatives Application to Central Bank Format is shown in [Annexure-IX](#)

8.1. Risk Management Aspects in Derivatives and new product transactions

8.1.1. Market Maker- AD Bank(s)

8.1.2. User: Exporter and Importer

This section sets out the basic principles of a prudent system to control the risks in derivatives and new product activities. These include:

- a) Appropriate oversight by the board of directors and senior management in of Agrani Bank Limited in case of launching new derivatives/products.
- b) Adequate risk management process that integrates prudent risk limits, sound measurement procedures and information systems, continuous risk monitoring and frequent management reporting; and
- c) Comprehensive internal controls and audit procedures.

8.2. Corporate Governance

- It is vital, while dealing with potentially complex new products, such as derivatives that the board/senior management of Agrani Bank Limited understands the nature of the business which the bank is undertaking.
- The board of directors and senior management of Agrani Bank Limited also demonstrate through their actions that they have a strong commitment to an effective control environment throughout the organization.
- The board and senior management of Agrani Bank Limited, in addition to advocating prudent risk management, encourage more stable and durable return performance and discourage high, but volatile returns.
- The board of directors and senior management of Agrani Bank Limited should ensure that the organization of the bank is conducive to managing risk. It is necessary to ensure that clear lines of responsibility and accountability are established for all business activities, including new derivative activities.
- The central risk control function at the head office should also ensure that there is sufficient awareness of the risks and the size of exposure of the trading activities in new derivatives & new product operations. The compliance risks in all new products and processes should be thoroughly analyzed and appropriate risk mitigation by way of necessary checks and balances should be put in place before the launching of new products. The Chief Compliance Officer must be involved in the mechanism for approval of new products and all such products should be signed off by him. The Compliance Officer should also review and approve all the existing products in light of these guidelines.

8.3. Board and Senior Management oversight

The board of Agrani Bank Limited should approve written policies which define the overall framework within which new derivatives activities or new product transactions should be conducted and the risks controlled. The policy framework for derivatives approved by the board may be general in nature. But the framework should cover the following aspects:

- To establish the institution's overall appetite for taking risk and ensure that it is consistent with its strategic objectives, capital strength and management capability to hedge or transfer risk effectively, efficiently and expeditiously.
- To define the approved derivatives products and their likes and the authorized derivatives & new product activities.

- To detail requirements for the evaluation and approval of new products or activities.
- To provide for sufficient staff resources and other resources to enable the approved derivatives and new products activities to be conducted in a prudent manner;
- To ensure appropriate structure and staffing for the key risk control functions, including internal audit;
- To establish management responsibilities;
- To identify the various types of risk faced by the bank and establish a clear and comprehensive set of limits to control these;
- To establish risk measurement methodologies which are consistent with the nature and scale of the derivatives and new product activities; and
- To detail the type and frequency of reports which are to be made to the board (or concerned committee(s) of the board). The type of reports to be received by the board should include those which indicate the levels of risk being undertaken by the institution, the degree of compliance with policies, procedures and limits, and the financial performance of the various derivatives and trading activities. Internal and external audit reports should be reviewed by a board-level audit committee and significant issues of concern should be drawn to the attention of the board.

8.4. Checklist for transacting derivatives

• **Suitability and Appropriateness Policy:** The rapid growth of the derivatives market, especially structured derivatives has increased the focus on ‘suitability’ and ‘appropriateness’ of derivative products being offered by market-makers to customers (users) as also customer appropriateness. Market-makers should undertake derivative transactions, particularly with users with a sense of responsibility and circumspection that would avoid, among other things, miscelling. Inadequate understanding of the risks and future obligations under the contracts by the users, in the initial stage, may lead to potential disputes and thus cause damage to the reputation of market-makers.

The market-makers may also be exposed to credit risk if the counterparty fails to meet his financial obligations under the contract. The market-makers should carry out proper due diligence regarding ‘user appropriateness’ and ‘suitability’ of products before offering derivative products to users. Each market-maker should adopt a board-approved ‘Customer Appropriateness & Suitability Policy’ for derivatives business. The objective of the policy is prudential in nature: to protect the market-maker against the credit, reputation and litigation risks that may arise from a user’s inadequate understanding of the nature and risks of the derivatives transaction.

8.5. Capability checking of the users: In general, market-makers of Agrani Bank Limited should not undertake derivative transactions with or sell structured products to users that do not have properly documented risk management policies that include, among other things, risk limits for various risk exposures. Furthermore, structured products should be sold only to those users which follow prudent accounting and disclosure norms and are capable of ascertaining the mark to market position of these products on an on-going basis.

8.6. Documented Records: While undertaking derivative transactions with or selling structured derivative products to a user, a market-maker should document how the pricing has been done and how periodic valuations will be done. In the case of structured products, this document should contain a dissection of the product into its generic components to demonstrate its permissibility, on the one hand, and to explain its price and periodic valuation principles, on the other. The following information may be shared with the user:

- a) Description of the transaction
- b) Building blocs of the transaction
- c) Rationale along with appropriate risk disclosures
- d) Sensitivity analysis identifying the various market parameters that affect the product.
- e) Scenario Analysis encompassing both the possible upside as well as the downsides and analyze the expected impact of the proposed derivatives transaction on the user;
- f) Inform the customer of its opinion, where the market-maker considers that a proposed derivatives transaction is inappropriate for a customer. If the customer nonetheless wishes to proceed, the market-maker should document its analysis and its discussions with the customer in its files to lessen the chances of litigation in case the transaction proves unprofitable to the customer. The approval for such transactions should be escalated to highest level of authority at the market-maker as also for the user,
- g) Ensure the terms of the contract are properly documented, disclosing the inherent risks in the proposed transaction to the customer in the form of a Risk Disclosure Statement which should include a detailed scenario analysis (both positive and negative) and payouts in quantitative terms under different combination of underlying market variables such as interest rates and currency rates, etc., assumptions made for the scenario analysis and obtaining a written acknowledgement from the counterparty for having read and understood the Risk Disclosure Statement.
- h) Guard against the possibility of misunderstandings all significant communications between the market-maker and user should be in writing or recorded in meeting notes.

8.7. Authority Check: Market maker of Agrani Bank Limited will ascertain whether a user has the appropriate authority to enter into derivative transactions and whether there are any limitations on the use of specific types of derivatives in terms of the former board memorandum/policy, level at which derivative transactions are approved, the involvement of senior management in decision-making and monitoring derivatives activity undertaken by it.

8.8. Exposure check: Market maker of Agrani Bank Limited will identify whether the proposed transaction is consistent with the user's policies and procedures with respect to derivatives transactions, as they are known to the market-maker.

8.9. Terms of the contract: Market maker of Agrani Bank Limited ensure that the terms of the contract are clear and assess whether the user is capable of understanding the terms of the contract and of fulfilling its obligations under the contract. A term sheet detailing all the information related to trade should be signed by the client before executing any trades. Detail definitions of the various Terms of the contract shown in [Annexure-X](#).

8.10. Dispute handling: Market maker of Agrani Bank Limited should establish internal procedures for handling customer disputes and complaints. They should be investigated thoroughly and handled fairly and promptly. Senior management and the Compliance Department/Officer should be informed of all customer disputes and complaints at a regular interval. It may also be noted that the responsibility of ‘Customer Appropriateness and Suitability’ review is on the market-maker.

8.11. Documentation Requirement: Market participants are advised to ensure that the documentation requirements in respect of derivative contracts are complete in all respects. For the sake of uniformity and standardization in respect of all derivative contracts, participants may use ISDA documentation, with suitable modifications for continuing ongoing relationships. Counterparties are free to modify the ISDA Master Agreement by inserting suitable clauses in the schedule to the ISDA Master Agreement to reflect the terms that the counterparties may agree to, including the manner of settlement of transactions and choice of governing law of the Agreement.

8.12. The Identification of Risk: Market-makers of Agrani Bank Limited should identify the various types of risk to which they are exposed in their derivatives activities. The main types of risk are and discussed in earlier sections:

- credit risk
- market risk
- liquidity risk
- operational risk
- legal risk

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Chapter-9

Product Guidelines

9.1. Spot Foreign Exchange

A foreign exchange spot transaction, also known as FX spot, is an agreement between two parties to buy one currency against selling another currency at an agreed price for settlement on the spot date. The exchange rate at which the transaction is done is called the spot exchange rate.

9.2. Forward Foreign Exchange

A FX forward contract or is a non-standardized contract between two parties to buy or sell a currency against another at a specified future time at a price agreed upon today. The party agreeing to buy the underlying currency in the future assumes a long position, and the party agreeing to sell the currency in the future assumes a short position. The price agreed upon is called the forward rate, which is agreed at the time when the contract is entered into.

The forward price of such a contract is commonly contrasted with the spot price, which is the price at which the asset changes hands on the spot date. The difference between the spot and the forward price is the forward premium or forward discount.

Forwards, like other derivative securities, can be used to hedge risk (typically currency or exchange rate risk).

9.3. Forex Options

A foreign-exchange option (commonly shortened to just FX option or currency option) is a financial derivative instrument that gives the owner the right but not the obligation to exchange money denominated in one currency into another currency at a pre-agreed exchange rate on a specified date. To hedge bonafide transactions, banks can exercise foreign exchange option only with prior permission from Bangladesh Bank in case to case basis.

9.4. Relevant Guidelines

- Banks can only offer plain vanilla options and its simple variations only.
- These transactions may be freely booked and/ or cancelled subject to verification of the underlying.
- All guidelines applicable for FX forward contracts are applicable to cross currency option contracts also.
- Cross currency options should be written by banks on a fully covered back-to-back basis. The cover transaction may be undertaken with a bank outside or inside Bangladesh or an internationally recognized option exchange. Agrani Bank Limited can desirous of writing options (i.e. not back to back), should obtain a one-time approval from Foreign Exchange Policy department of Bangladesh Bank before undertaking the business. Agrani Bank Limited should clearly explain the booking, processing, risk mitigates (i.e. option greeks like Delta hedging strategy) covering the transactions and scenario analysis of profit/loss of customer in details while seeking the approval.
- Bank have to go through a robust suitability process before commencing any options related transactions with the clients.

- The term sheet for the derivative transactions should also necessarily and clearly mention the following:

- a) The purpose for the transaction detailing how the product and each of its components help the client in hedging;

- b) The spot rate prevailing at the time of executing the transaction; and quantified maximum loss/ worst downside in various scenarios.

- The pricing of all forex derivative products should be locally demonstrable at all times.

9.5. Forex Swaps

Clients having a foreign currency liability and undertaking a foreign currency vs BDT swap to move from a foreign currency liability to a BDT liability or vice versa is allowed given AD branches of Agrani Bank Limited is able to examine the suitability and appropriateness of the swap and be satisfied about the financial soundness of the client.

Purpose of this is to hedge exchange rate and/or interest rate risk exposure for those having long or short term foreign currency borrowing or to transform long or short term BDT borrowing into foreign currency liability.

9.5.1.Guidelines

- The term “long-term exposure” means exposures with residual maturity of one year or more. “Short term exposure” meaning less than one year exposures.

- The swap transactions, once cancelled, shall not be rebooked or re-entered, by whichever mechanism or by whatever name called.

- AD branches of Agrani Bank Limited should not offer any swap structures other than vanilla, i.e. leveraged swap.

- The notional principal amount of the swap should not exceed the outstanding amount of the underlying exposure.

- The maturity of the swap should not exceed the remaining maturity of the underlying exposure.

- Banks should carry out due diligence regarding “user appropriateness” and “suitability” of the swap transaction.

- The term sheet for the derivative transactions should also necessarily and clearly mention the following: a) The purpose for the transaction detailing how the product and each of its components help the client in hedging; b) The spot rate prevailing at the time of executing the transaction. c) Quantified maximum loss/ worst downside in various scenarios.

- The pricing of all forex derivative products should be locally demonstrable at all times.

- Buying/Selling/Swapping foreign currency against BDT or another foreign currency is allowed between resident interbank counterparties and Buying/Selling/Swapping foreign currency against another foreign currency to cover client transactions or for adjustment of own position is allowed with banks abroad if Guidelines on Managing Core Risks in Banking’ (as prescribed by Bangladesh Bank vide BRPD circular 19 dated 09/10/2003). It is also allowed for AD branches of Agrani Bank Limited to initiate trading positions with the overseas markets banks.

9.6. Cross Currency Swaps

Cross Currency Swap (CCS) or Currency Swap is an agreement between two parties to exchange interest payments and principals denominated in two different currencies. Purpose is to hedge FCY borrowing or lending related interest rate and exchange rate exposure and unwinding from such hedges.

9.6.1.Guidelines

- The notional principal amount of the product should not exceed the outstanding amount of the foreign currency loan.
- The maturity of the product should not exceed the unexpired maturity of the underlying loan.
- The contracts may be cancelled and rebooked freely.
- Banks should carry out due diligence regarding “user appropriateness” and “suitability” of the swap transaction.
- The term sheet for the derivative transactions should also necessarily and clearly mention the following:
 1. The purpose for the transaction detailing how the product and each of its components help the client in hedging;
 2. The spot rate prevailing at the time of executing the transaction.
 3. Quantified maximum loss/worst downside in various scenarios.
- The pricing of all forex derivative products should be locally demonstrable at all times.

9.7. Interest Rate Swaps

An Interest Rate Swap is a financial contract between two parties exchanging or swapping a stream of interest payments for a `notional principal` amount on multiple occasions during a specified period. Such contracts generally involve exchange of a `fixed to floating` or `floating to floating` rates of interest. Accordingly, on each payment date-that occurs during the swap period - cash payments based on fixed/ floating and floating rates, are made by the parties to one another. Purpose is to hedge FCY borrowing or lending related interest rates exposure and unwinding from such hedges.

9.7.1.Guidelines

- The notional principal amount of the product should not exceed the outstanding amount of the foreign currency loan.
- The maturity of the product should not exceed the unexpired maturity of the underlying loan.
- The contracts may be cancelled and rebooked freely as per specific predetermined policy guidelines.
- Banks should carry out due diligence regarding “user appropriateness” and “suitability” of the swap transaction.
- The pricing of all forex derivative products should be locally demonstrable at all times.

9.8. Interest Rate Cap and Collar

An interest rate cap is an interest rate option in which payments are made when the reference rate exceeds the strike rate. Analogously, an interest rate floor is an interest rate option in which payments are made when the reference rate falls below the strike rate. Purpose is to hedge FCY borrowing or lending related interest rate exposure and unwinding from such hedges.

9.8.1.Guidelines

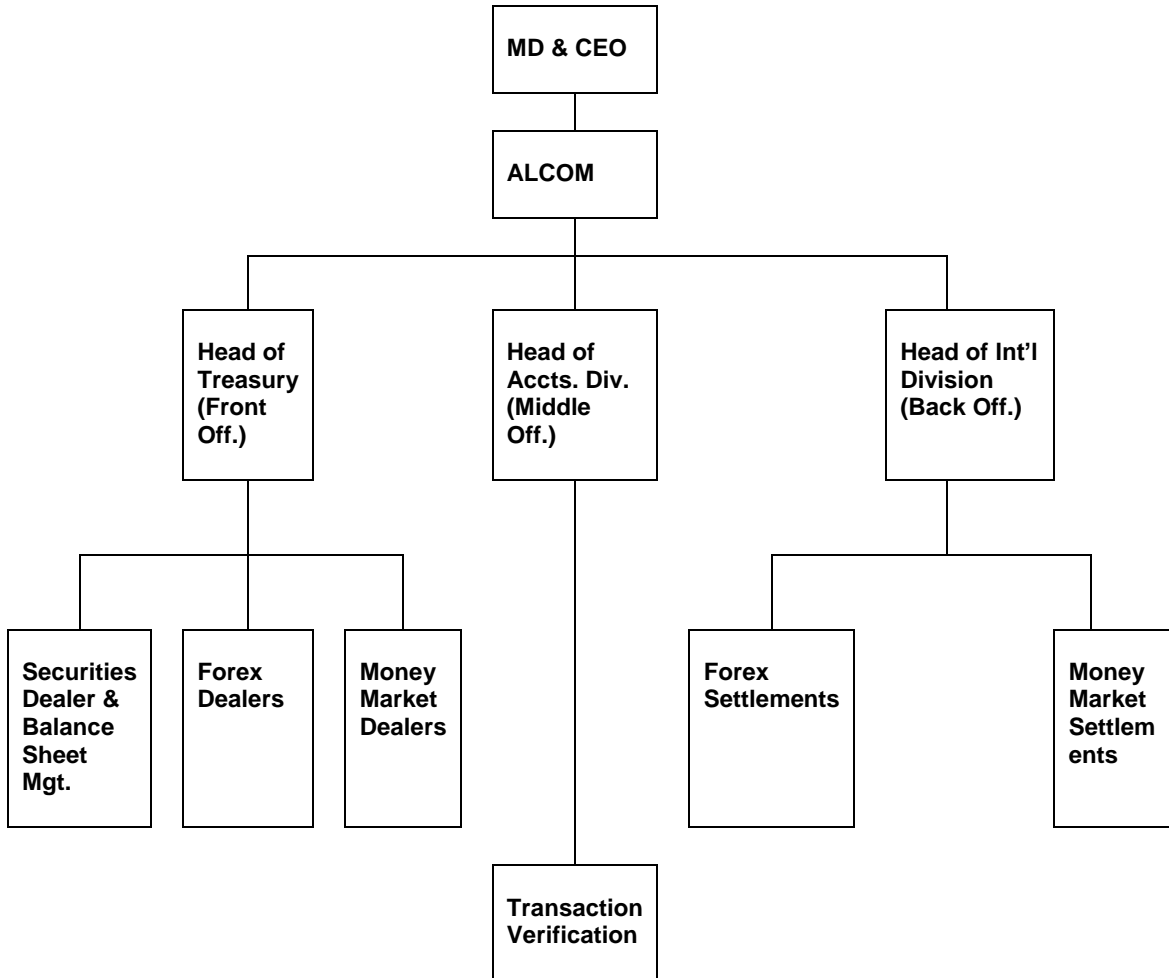
- The notional principal amount of the product should not exceed the outstanding amount of the foreign currency loan.
- The maturity of the product should not exceed the unexpired maturity of the underlying loan.
- The contracts may be cancelled and rebooked freely.
- Banks should carry out due diligence regarding “user appropriateness” and “suitability” of the Cap and Collar.
- AD branches of Agrani Bank Limited can offer only those products that they can price independently. This is also applicable to the products offered even on back to back basis. The pricing of all forex derivative products should be locally demonstrable at all times.

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Chapter-10

Annexure-1

Simplified Organization Chart for Foreign Exchange Treasury Operations



Agrani Bank Limited
9/D, Dilkusha C/A,
Dhaka-1000

FX POSITION BLOTTER

Date:

Currency: USD				
Counterparty	Purchase	Sale	Comments	Net Position

Currency: GBP				
Counterparty	Purchase	Sale	Comments	Net Position

Currency: EUR				
Counterparty	Purchase	Sale	Comments	Net Position

Currency: JPY				
Counterparty	Purchase	Sale	Comments	Net Position

NET OPEN POSITION:	
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Note: Agrani Bank Limited can add/delete currencies according to their own requirement in the same format.

Agrani Bank Limited
9/D, Dilkusha C/A,
Dhaka-1000

Foreign Exchange Deal Slip

Date:

Counterparty :

We Have Purchased/ Sold :

Currency :

Amount :

Against Sale/ Purchase of:

Currency :

Amount :

Deal Rate :

Value Date :

We Receive Payment at :

Their Payment at :

Special Instruction :

.....
Dealer's Signature

Note:

There is no manual deal ticket raised where the front office and back office use integrated dealing and settlement systems.

Counterparty Limits:

Sl. No.	Name of Bank	Limit (Million USD)
1	AB Bank Limited	20.00
2	Al-Arafah Islamic Bank Limited	5.00
3	Bangladesh Commerce Bank Limited	8.00
4	Bangladesh Development Bank Limited	5.00
5	Bangladesh Krishi Bank	10.00
6	Bank Al-falah Limited	5.00
7	Bank Asia Limited	15.00
8	BASIC Bank Limited	20.00
9	BRAC Bank Limited	15.00
10	Citi Bank NA	25.00
11	Commercial Bank of Ceylon	12.00
12	Dhaka Bank Limited	12.00
13	Dutch Bangla Bank Limited	15.00
14	Eastern Bank Limited	15.00
15	EXIM Bank Limited	15.00
16	First Security Islami Bank Limited	5.00
17	Habib Bank Limited	10.00
18	HSBC	25.00
19	ICB Islamic Bank Limited	5.00
20	IFIC Bank Limited	15.00
21	Islamic Bank Bangladesh Limited	25.00
22	Jamuna Bank Limited	20.00
23	Janata Bank Limited	25.00
24	Mercantile Bank Limited	15.00
25	Mutual Trust Bank Limited	15.00
26	National Bank Limited	20.00
27	National Bank of Pakistan	8.00
28	National Credit & Commerce Bank Limited	12.00
29	One Bank Limited	12.00
30	Prime Bank Limited	20.00
31	Pubali Bank Limited	20.00
32	Rupali Bank Limited	25.00
33	Shahjalal Islami Bank Limited	20.00
34	Social Islami Bank Limited	5.00
35	Sonali Bank Limited	25.00
36	Southeast Bank Limited	12.00
37	Standard Bank Limited	12.00
38	Standard Chartered Bank	25.00
39	State Bank of India	10.00
40	The City Bank Limited	12.00
41	The Premier Bank Limited	10.00
42	Trust Bank Limited	10.00
43	United Commercial Bank Limited	12.00
44	Uttara Bank Limited	20.00
45	Woori Bank Limited	10.00

Code of Conduct of the Foreign Exchange Dealers

General Code

1. Purpose

The aim of the code of conduct is to set out the manner and spirit in which business should be conducted, in order to ensure that the foreign exchange market and its participants enjoy a reputation for high standards of professionalism, integrity, and ethical conduct. This is addressed not only to dealers in foreign banks, but to the management of such institutions together with relevant operational support staff, and should be well understood by each of them.

2. Responsibility of management for dealing activities

Control of the activities of all personnel engaged in dealing (both dealers and the support staff) is the management's responsibility of such organizations. Management should therefore clearly set out, in writing, the authorities and responsibilities within which dealers and the support staff should operate. These might include:

- General dealing policy including reporting procedures;
- Persons authorized to deal;
- Instrument to deal in;
- Limits on open positions, mismatch positions, counterparts, stop-loss limits etc...
- Confirmation and settlement procedures;
- Relationships with other foreign exchange banks, brokers, and customers; and
- Other relevant guidance as considered appropriate.

3. Responsibility of staff for dealing activities

All personnel engaged in dealing activities both dealers and support staff of Agrani Bank Limited must observe the following code as their fundamental behavior in the dealing activities:

- The staffs for dealing activities must keep dealing activities within the responsibilities authorized by the management, and observe the instruction given by the management for supervisors in each dealing section (dealing room and back office) concerned.
- Troubles which arose during dealing activities, and other issues, which might cause serious troubles, must immediately be reported to the management or supervisors for their instructions.
- Full compliance with all regulations at all times.

4. Use market terminology and definitions

The management of Agrani Bank Limited should see if it's staff use common expressions, and have knowledge of their generally accepted meanings in their dealing activities in order to avoid misunderstandings.

5. Dealing unit and back-office

The organizational framework of Agrani Bank Limited in an institution should clearly separate the dealing unit from the back office where all the administrative work (payments, global position keeping) is done and from bookkeeping department which should, among others, be responsible for a timely and swift check of all incoming confirmations. A bank should not start foreign exchange trading with less than two trained and authorized people in its room designated for dealing.

6. Recording a deal

All the essential details of a deal must be written down in a dealing ticket which must be forwarding as soon as possible to the back-office for further processing. Alternatively, the information may be entered into the computer system.

7. Accounting

The back-office must work with the Agrani Bank Limited's accounting department to ensure that all transactions and violation changes are accounted for promptly. Because of two-day settlements, the value date accounting is inadequate for the monitoring of risk positions, and hence accounting must be established on a transactions basis.

Code Regarding Dealing Practices

1. **Opening hours in the foreign exchange market-** Opening hour is 10:00 a.m.

2. **Confirming procedures**

Our dealers must confirm verbally or other authenticated electronic means. After dealers' confirmation, it is the back-office's responsibility to carry out reconfirmation independently from those who initiated deals. Recommendation must be sent out as quickly as possible after a deal has been done, and should be addressed to the back-office of the counterparty bank. All reconfirmations should include the following information as a minimum requirement:

- date of transaction;
- By which means effected (phone, telexed. ;
- Name and location of counterpart;
- Rate amount and currency;
- Type and side of deal (buying and selling)
- Value date, maturity date, and all other relevant dates;
- Standard terms/conditions applicable; and
- All other important and relevant information.

Upon receipt, all reconfirmation must immediately be thoroughly checked, and appropriate action be taken to rectify differences. If the counterpart's recommendation is considered incorrect, it must immediately be informed. A new reconfirmation (or written agreement to a correction) must be requested from, and provided by the bank whose original reconfirmation was incorrect.

3. **Payment/settlement instruction**

Payment/settlement instructions should be passed as quickly as possible to facilitate prompt settlement. The use of standardized payment instructions between counterparts who regularly deal with each other is recommended as their use can make a significant contribution to reducing both the incidence, and the size of differences arising from the mistaken settlement of funds.

4. **Confidentiality**

Confidentiality anonymity are essential to the operation of a professional foreign exchange market. Participants in the market—commercial clients as well as banks—can expect to have their interest and to ensure that its employees can readily identify information that is confidential or situations where anonymity is essential, and instruct their employees to handle such information accordingly. Whenever confidentiality is broken, management has to see that the institutions are issued swiftly to correct the conditions that permitted such a situation to occur.

The use of confidential information by tenders for their personal benefit, or in a manner that compromiser the institution in any way, should be strictly forbidden. Dealers operating in the market are responsible for maintaining confidentiality. Without disclosed or discuss any information relating to deals transacted, in the process of being arranged except to, or with the counterparts involved. A dealer should not be permitted to pass on information outside

his institution, nor should he distribute information within his institution, except on explicit permission from the parties involved. Banks should have policies to ensure electronic and hard data are secure.

III. Ethical Rules

1. Trading for personal account

Traders will give full attention to the employing institution's business activities, and not to be distracted by his own financial affairs. Any bank dealer should not be allowed to deal for their own account in any instruments since it is expected that any dealer will fulfill his institutional responsibilities objectively, unbiased by his own financial position.

2. Protection against Fraud

All staffs of Agrani Bank Limited should pay great vigilance to fraud attempted particularly in the following cases:

- Deals which do not include pre-agreed standard settlement institutions;
- Deals whose payment is made in favor of a third party;
- Inability to make reconfirmation after concluding the deal; and
- Other deals which have different standards than the pre-agreed.

3. Entertainment, gifts and gambling : Neither management nor employees of Agrani Bank Limited should offer inducements to conduct business, or solicit them from the personnel of other institutions.

4. Escalation Process:

Bank should have an escalation process to report exceptions/deviations from the code of conduct.

VALUE AT RISK (VaR)

Value at Risk, commonly referred to by its acronym *VaR*, is a statistical measure of the worst probable loss on a position or portfolio of positions that can be expected over a specified period of time to a given level of confidence. The calculation of *VAR* requires a number of inputs:

- Market value of the position
- Daily volatility of the currencies
- Holding period
- Level of confidence

Market Value of position:

The market value of position, expressed in US Dollars, is the base point from which expected losses are calculated. In other words, adding or subtracting (depending on whether the position is long or short) the *VaR* on a position to the market value will give the worst probable market value of the position.

Daily Volatility:

Foreign Exchange volatility is calculated from the daily movements in the foreign exchange rate over a specified historic time period. A key assumption in the calculation of historic volatility is that recent events play a more significant role in determining likely rate movements in the future than events, say, which took place a year ago. As a result, recent rate movements are usually given higher weight in the calculation of volatility. An alternative method commonly used in the market is to limit the historic period used to calculate volatility, and not apply any weighting. A third method is to use implied volatility i.e. the actual volatility traded in the market.

Whatever method is used, the risk manager should be aware of the difference between implied and historic. If the difference is significant, then it may be necessary to tune the calculation of historic volatility to bring it in line with implied.

Historic volatility is calculated by simply taking the Standard Deviation of the daily changes in the rates for the historic time period selected. To compare historic to implied volatility, the daily volatility needs to be converted to an annualized basis. This is done by multiplying the daily volatility by the square root of the number of trading days in a year (say 260).

Holding Period:

The holding period for *VaR* refers to the liquidity of the position i.e. how long it will take to liquidate the position in terms of number of trading days. The majority of positions (regardless of size) in freely floating currencies should be able to be liquidated within a twenty-four hour period.

For these currencies, the holding period will therefore be set to one day. However, positions in currency that is not liquid may take several days to unwind, which may depend on the size of the position or general market conditions. In these cases, the holding period should be extended appropriately.

Level of Confidence:

The level of confidence selected determines the probability and frequency that there will be a rate movement in excess of the predicted (i.e. *VaR*) amount.

Market volatility is quoted to one standard deviation, thereby inferring that once in every five trading days the calculated worst probable loss will be exceeded. At two standard deviations, this raised to one in every forty trading days. At three standard deviations this is increased to once in every two hundred days.

Based on the normal distribution of rate changes, the percentage of the distribution, defined by the number of Standard Deviation (σ), Level of Confidence will define the probability of a rate movement occurring outside the worst probable rate. The approximate relationship between Confidence Level and Standard Deviation is as follows:

1. σ =60% Confidence Level
2. σ =95% Confidence Level
3. σ =99% Confidence Level

However, since the concern is only with the half of the distribution that may cause a loss on a position, the Confidence Levels are raised as follows:

1. σ =80% Confidence Level
2. σ =97.5% Confidence Level
3. σ =99.5% Confidence Level

These Confidence Levels in turn can be expressed as frequency of occurrence (how frequently our expectation of worst probable rate movement will be exceeded in terms of number of trading days).

- 80% Confidence Level =1 in 5 days
- 97.5% Confidence Level=1 in 40 days
- 99.5% Confidence Level=1 in 200 days

Market volatility is quoted to one standard deviation, thereby inferring that once in every five trading days the calculated worst probable loss will be exceeded. At two standard deviations, this raised to one in every forty trading days. At three standard deviations this is increased to once in every two hundred days.

CALCULATION OF FOREIGN EXCHANGE VaR

Gross VaR:

Gross VaR is calculated as follows, using the inputs discussed above:

Gross VaR = Market value of the position X Daily Volatility X Level of confidence X Holding Period

Net VaR

Net VaR reduces the Gross VaR calculated on a portfolio of positions by taking into account the way foreign exchange rates move in relation to each other. As with volatility, this Portfolio Effect (using the Marckowitz's Portfolio Theory) or Correlation is also calculated from the same historic period. Correlations range from +1 to -1. A +1 correlation indicates that two currencies move identically to each other against the US dollar. A -1 correlation indicates that two currencies move in diametrically opposite directions to each other against the US dollar. A Zero correlation means there is no relationship between the ways the currencies move.

For example, studies reveal that there is positive correlation between Euro and Swiss Franc, which indicates that a long Euro position is hedged by the short CHF position. The Gross VaR calculated on each position can therefore be reduced proportionately. Just as the loss is limited, so is the profit potential in EUR/CHF position is limited.

The following table shows how positive and negative correlations between currencies affect

Net VaR calculation:

Position A (Any currency)	Position B (Any currency)	Correlation	Correlation term sign (Effect on Net Var)
Short (+)	Short (+)	Negative (-)	Negative (-)
Long (-)	Long (-)	Negative (-)	Negative (-)
Short (+)	Long (-)	Positive (+)	Negative (-)
Long (-)	Short (+)	Positive (+)	Negative (-)
Short (+)	Short (+)	Positive (+)	Positive (+)
Long (-)	Long (-)	Positive (+)	Positive (+)
Short (+)	Long (-)	Negative (-)	Positive (+)
Long (-)	Short (+)	Negative (-)	Positive (+)

The correlation term sign indicates whether the portfolio effect will be added or subtracted in the Net VaR calculation. It should be noted that the Net VaR calculation cannot increase the aggregate of the Gross VaR on each position, rather reduces it to the extent of the correlation.

It should also be noted that a zero correlation does not mean that Net VaR will equal aggregate Gross VaR. There will be a reduction in Gross VaR on the basis that even a random movement between currency rates may to some extent reduce risk.

Calculation of Net VAR for Two Currencies:

$$Net\ VaR = \sqrt{(VaR_{x,a}^2 + VaR_{x,b}^2 + VaR_{y,a}^2 + VaR_{y,b}^2) + 2r_{x,y} [(VaR_{x,a} \times VaR_{y,a}) + (VaR_{x,b} \times VaR_{y,b}) + (VaR_{x,a} \times VaR_{y,b}) + (VaR_{x,b} \times VaR_{y,a})]}$$

Where,

VAR_{x,a} = Gross VAR of currency 'x' in case of short position

VAR_{x,b} = Gross VAR of currency 'x' in case of long position

VAR_{y,a} = Gross VAR of currency 'y' in case of short position

VAR_{y,b} = Gross VAR of currency 'y' in case of long position

r_{x,y} = Coefficient of Correlation between currencies 'x' and 'y'

Calculation of Net VAR for Four Currencies:

$$Net\ VaR_{w,x,y,z} = \sqrt{(VaR_{w,a}^2 + VaR_{w,b}^2 + VaR_{x,a}^2 + VaR_{x,b}^2 + VaR_{y,a}^2 + VaR_{y,b}^2 + VaR_{z,a}^2 + VaR_{z,b}^2) + 2r_{w,x} [(VaR_{w,a} \times VaR_{x,a}) + (VaR_{w,b} \times VaR_{x,b}) + (VaR_{w,a} \times VaR_{x,b}) + (VaR_{w,b} \times VaR_{x,a})] + 2r_{w,y} [(VaR_{w,a} \times VaR_{y,a}) + (VaR_{w,b} \times VaR_{y,b}) + (VaR_{w,a} \times VaR_{y,b}) + (VaR_{w,b} \times VaR_{y,a})] + 2r_{w,z} [(VaR_{w,a} \times VaR_{z,a}) + (VaR_{w,b} \times VaR_{z,b}) + (VaR_{w,a} \times VaR_{z,b}) + (VaR_{w,b} \times VaR_{z,a})] + 2r_{x,y} [(VaR_{x,a} \times VaR_{y,a}) + (VaR_{x,b} \times VaR_{y,b}) + (VaR_{x,a} \times VaR_{y,b}) + (VaR_{x,b} \times VaR_{y,a})] + 2r_{x,z} [(VaR_{x,a} \times VaR_{z,a}) + (VaR_{x,b} \times VaR_{z,b}) + (VaR_{x,a} \times VaR_{z,b}) + (VaR_{x,b} \times VaR_{z,a})] + 2r_{y,z} [(VaR_{y,a} \times VaR_{z,a}) + (VaR_{y,b} \times VaR_{z,b}) + (VaR_{y,a} \times VaR_{z,b}) + (VaR_{y,b} \times VaR_{z,a})]}$$

Where,

VAR_{w,a} = Gross VAR of currency 'w' in case of short position

VAR_{w,b} = Gross VAR of currency 'w' in case of long position

VAR_{x,a} = Gross VAR of currency 'x' in case of short position

VAR_{x,b} = Gross VAR of currency 'x' in case of long position

VAR_{y,a} = Gross VAR of currency 'y' in case of short position

VAR_{y,b} = Gross VAR of currency 'y' in case of long position

VAR_{z,a} = Gross VAR of currency 'z' in case of short position

VAR_{z,b} = Gross VAR of currency 'z' in case of long position

r_{w,x} = Coefficient of Correlation between currencies 'w' and 'x'

r_{w,y} = Coefficient of Correlation between currencies 'w' and 'y'

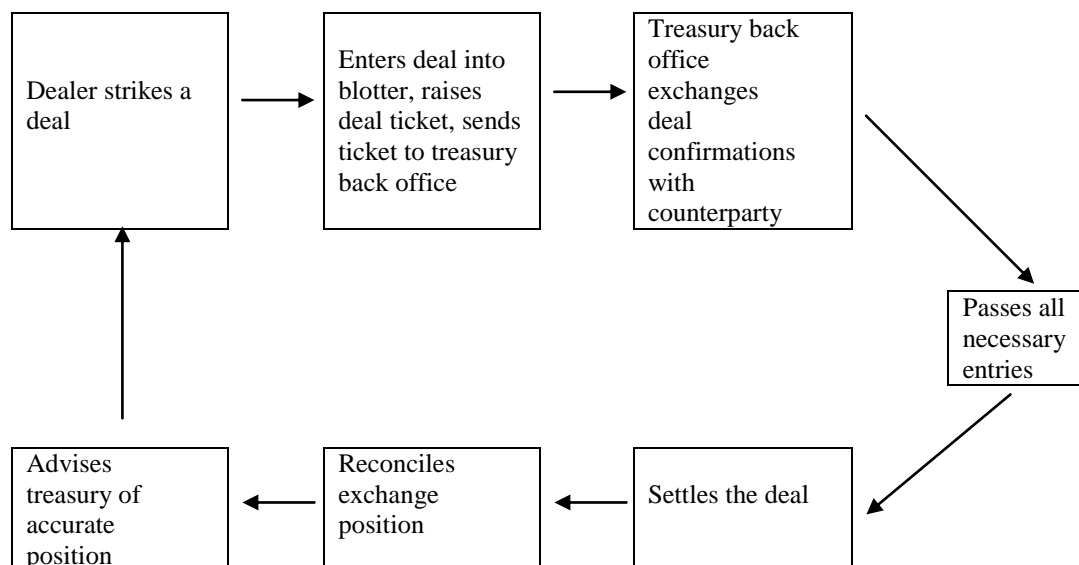
r_{w,z} = Coefficient of Correlation between currencies 'w' and 'z'

r_{x,y} = Coefficient of Correlation between currencies 'x' and 'y'

r_{x,z} = Coefficient of Correlation between currencies 'x' and 'z'

r_{y,z} = Coefficient of Correlation between currencies 'y' and 'z'

The Reconciliation Process Flow chart



Nostro Account Reconciliation: The following table shows the maximum time limit after which unmatched items must be referred to the operations manager.

<u>Type of Transaction</u>	<u>Transit Time</u>
L/C payments	3 days, ACU - 9 days
Foreign exchange settlements	Nil. Immediately notify respective department if settlement does not occur on value date
TC Encashments	21 days
Outward remittances	3 days
Draft payments	30 days
ACU cover funds sent through Bangladesh Bank	9 days
Credits to our accounts with insufficient details	20 days
Correspondent bank charges recoverable from our customers or otherwise	30 days
Any other credits to our accounts, where we have not passed corresponding debit entry	9 days
Any other transactions where we have debited, but they do not credit	9 days
Any other transactions where they have debited, but we do not credit	9 days
Any other transactions where we have credited, but they do not debit	9 days

EARNINGS AT RISK

For those portfolios that are subject to accrual accounting, the Earnings at Risk methodology should be used for measuring how much the earnings might be impacted by an adverse movement in interest rates. Interest rate risk occurs when assets and liabilities reprice at different times (gaps), when assets and liabilities are subject to administered rate pricing, or when assets and liabilities reprice on different yield curves.

Earnings at Risk measures the potential pre-tax earnings impact on the non-trading portfolios for a given time period of a specified parallel movement in interest rates. The specific rate movements are statistically derived. For a portfolio without options, the Earnings at Risk for each currency are calculated by multiplying the repricing gap by the specified rate movement.

Earnings at Risk calculations are generally done for the full life of the portfolio. By convention, since there may be assets and liabilities with indefinite maturities, the calculation of full life earnings at risk is normally truncated at 5 years. The first step in calculating earnings at risk for a balance sheet without options is to construct gap schedules based on asset and liability repricings for each month and each year. Some assets and liabilities do not have contractual repricing dates or maturities, e.g. demand deposit accounts and overdraft loans: in these cases, assumptions need to be made and approved by the market risk unit.

All profit and loss items which have interest rate sensitivity, i.e. those revenues or expenses which vary with interest rate changes, must be included in the Earnings at Risk calculations. To calculate possible impact of rate changes on such positions, it is necessary to estimate the time it would take to eliminate the risk and close the gap, the defeasance period. This will obviously depend on the nature of the assets and liabilities and the availability of suitable hedging facilities. The level of change in interest rates will be determined by the length of the defeasance period. The longer it takes to rebalance the positions of the greater possible movement in interest rates.

The impact of the specified parallel shift of the yield curve is calculated for each year. The results for each year of the full life calculation are then discounted using the appropriate swap rate and are added together to provide the total change in the earnings of the portfolio.

Earnings at risk limits are to be set for all accrual portfolios, for the full life of the portfolio. Generally, the aggregate earnings at risk is limited to a percentage of annual budgeted earnings. The utilization of the earnings at risk against the set limits should be measured at least weekly, but procedures must be in place to ensure that the limits are not exceeded on a daily basis.

Example of Earnings at Risk in a Commercial Lending Portfolio:

Customer A – deposits Tk. 100 million for 91 days, fixed rate at 5% per annum.

Customer B – borrows Tk. 10 million for 15 days, fixed rate at 9% per annum.

Customer C – borrows Tk. 90 million for 151 days, floating rate determined monthly, currently at 9% per annum

	Outstanding Volume	Month 1 Volume	Month 2 Volume	Month 3 Volume	Month 1 Volume	Total
Assets e.g Loans	Tk. 100 M	Tk. 100M	Tk. 20M	0	0	0
Liabilities e.g Deposits	Tk. 100 M	Tk. 100M	Tk. 100M	Tk. 100M	0	0
Cumulative interest sensitive gap (Liabilities minus assets)			Tk. 90M	Tk. 100M	0	0
Rate Change/Defeasance factor		55 bp	55 bp	55 bp		
Earnings at Risk			Tk. 39.9k	Tk 15.9k		Tk. 92.5k

Notes:

In month 2 the loan of 90 million is repriced, so is not included in outstanding volume. The average volume of the fixed rate loan is 20 million, i.e. 10 million x 15 days/30 days.

The defeasance period is considered to be 1 weeks, i.e. the time to come to a decision, find a suitable hedge to close the position, obtain approval and put the hedge into operation could be as long as 1 month. Over this period of time, the 2 standard deviation interest rate movement, for example, is derived historically to be 55 basis points. Earnings at Risk is calculated as Cumulative interest rate gap x Rate Change x Time. For example in the second month: 90 million x 55 bps x 30/390 days = Tk. 39.9 thousand.

Earnings at Risk calculations are rarely as straightforward as the above example. Some products do not have easily defined maturities so actuarial estimates need to be used instead. Portfolios may also contain embedded options, the effect of which have to be taken into consideration.

This is an example of positive gapping: the balance sheet has been positioned to take advantage of a rise in rates, by borrowing longer term and lending shorter term.

Derivatives Application to Central Bank Format

Applicant Bank's Name:	
Product Name:	
For which Client/s (Legal Name) :	
Level of client sophistication: Seniority of the client in the business, management awareness, level of product knowledge, understanding of pricing knowledge, used to do forward transactions and other hedging solutions.	
Back to Back with another market maker:	<input type="checkbox"/> Yes <input type="checkbox"/> No
If yes with which Bank?	

Target Transaction Date:	
Description of the product	
Deal flow chart (from start to end of the process)	
How many transactions required under this approval?	
Estimated volumes?	
Risk Assesment and mitigants: <ul style="list-style-type: none"> • System Booking capability • Tax and Legal checking • Credit Risk checking • Market Risk checking • Compliance check [any conflict with Bangladesh Bank rules and regulations] 	
Board and Senior Management awareness? (For first time transaction only)	<input type="checkbox"/> Yes <input type="checkbox"/> No
Documentations: <ul style="list-style-type: none"> • ISDA required <input type="checkbox"/> Yes <input type="checkbox"/> No [If yes , attach sample ISDA vetted by lawyer] • Term Sheet required <input type="checkbox"/> Yes <input type="checkbox"/> No [If yes , attach sample TS vetted by lawyer] • Deal confirmation required <input type="checkbox"/> Yes <input type="checkbox"/> No [If yes , attach confirmation vetted by lawyer] • Client Suitability <input type="checkbox"/> Yes <input type="checkbox"/> No [If yes , attach the signed document] • Other documentations if any? <input type="checkbox"/> Yes <input type="checkbox"/> No [If yes , attach the document] 	
Followed FX Core Risk Guideline section on Derivatives?	<input type="checkbox"/> Yes <input type="checkbox"/> No

Definitions:

Following are definitions of some terminologies used for this document:

- a) **Counter-party:** The other entity/bank or party with whom a transaction is concluded.
- b) **Exchange Position:** Exchange position refers to the position of foreign currency (FCY) to be reported as per prescribed format of Bangladesh Bank which indicates the total FX assets and liabilities and differences thereof.
- c) **Inter-bank Transactions:** Inter-bank Transactions refer to transactions between counterparties (banks and/ or other financial institutions) which participate in the inter-bank market.
- d) **Limit and Sub-Limit:** Limit and Sub-Limit express the approved aggregate value for particular currency (currency limit) either booked as asset or as liability.
- e) **Merchant Transaction:** Merchant Transaction indicates those transactions which involves in-house customers e.g. exporter, importer and remitter of the Bank. These are often termed as flow transactions or internal flows.
- f) **Open Position Limit:** Open Position Limit indicates the limit approved by Bangladesh Bank for maximum long and short aggregate currency position in equivalent USD.
- h) **Position Taking:** Position Taking refers to the transactions for which dealers enter into buy/ sell transaction in a particular currency with a view to making profit.
- i) **Revaluation:** Through this process, the LCY equivalent of the FCY assets and liabilities of the balance sheet (book value) are valued at market price using the prevailing exchange rate and any difference is accounted for.
- j) **Ready/Cash Deals:** Deals where the Transaction date and the Settlement date is same.
- k) **Value TOM:** Deals where the Settlement date is one working day after the Transaction date i.e. the settlement of the transaction is T + 1 working day. The term “TOM” here is used in a short form for “tomorrow”.
- l) **Value Spot:** Deals where the Settlement date is two working days after the Transaction date i.e. the settlement of the transaction is T + 2 working days, except USD/CAD where spot is T+1
- m) **After Hour’s Dealings:** Deals concluded by the dealers at a time that is after the bank’s internally approved dealing hour.
- n) **Off Premises dealing:** Deals concluded by dealers from outside the dealing room i.e. when the dealer is not physically located inside the dealing room.
- o) **Stop loss limit:** A limit set by the independent market risk management department or risk management unit which a dealer must not exceed when managing and/or closing an adverse position or portfolio.
- p) **Mark to Market:** A process through which all outstanding FX positions and portfolios are valued at the current market rate to determine the current market value.
- q) **Deal Blotter:** A listing of all the Deals that are executed over a trading day.
- r) **Deal Slip:** The Primary document where a dealer records all the information related to an executed deal. Banks with automated front office systems writes and passes their deal slips electronically while banks without automated systems hand over a physical slip to their back office for further processing of the transaction.
- s) **Currency Pair:** The two currencies in a foreign exchange transaction.
- t) **Spread:** The difference between the buying and selling price for foreign currency.

- t) **Overbought/Long:** If the F.C(s) purchased/FX asset(s) is/are more than the F.C(s) sold/FX liability(s), the Bank is said to have Overbought/Long position.
- u) **Oversold/Short:** If the F.C(s) sold/FX liability(s) is/are more than the F.C(s) bought/FX asset(s), the Bank is said to have Oversold/short position.
- v) **Square:** If the F.C(s) Purchase/FX Asset(s) are equal to F.C(s) Sales/FX liability(s), then the position is square.
- w) **Net Open Position (NOP):** The Net Open Position (NOP) is the residual balance of total F.C assets minus liabilities/ aggregate F.C purchase minus aggregate F.C sales.
- x) **Daylight/Intraday Limit:** The Daylight/Intraday Limit is the maximum position allowed by the management that can be taken during the course of the trading session by the dealers in a particular trading day.
- y) **Money market:** The Money Market refers to the marketplace where short term resources with maturity of funds ranging from one day to one year are raised and/ or deployed.
- z) **Treasury Bills:** Treasury bills refer to short-term negotiable debt obligations issued by the government of Bangladesh and backed by its full faith and credit with a maturity of up to one year.
- aa) **Repo:** Repo or Repurchase Agreement refers to sale of securities with a commitment to repurchase the same securities at a pre-agreed date in the future. Presently only government securities are being dealt with under repo transactions.
- bb) **Reverse Repo:** Reverse Repo refers to purchase of securities with a commitment to sell the same securities at a pre-agreed date in the future.
- cc) **Call Money:** Call Money refers to borrowing/lending of funds which can be matured by a same day notice of either party at any given date starting from the next working day.
- dd) **Overnight Money:** Refers to funds placed/borrowed that automatically mature on the following working day.
- ee) **Notice Money:** Notice Money refers to placement of funds beyond overnight for periods not exceeding 14 days.
- ff) **Term Money:** Term Money refers to placement or borrowing of funds for periods over 14 days.
- gg) **Dealing system:** System used for conversation/dealing among the counterparts for foreign exchange dealing.
- hh) **Trading spikes:** The comparatively large upward or downward movement of a price or value level in a short period.

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