

PRINCIPLES OF FOREIGN EXCHANGE


UNIT V

EVOLUTION OF FOREX MARKET IN INDIA


Foreign Exchange Market is popularly called as Forex Market. It is a place where foreign currencies are brought and sold or exchanged.

According to “Kindelberger” Forex is defined as “Foreign Exchange Market, as a place where foreign money are brought and sold”. FEM is a part of money market.

RBI is the main authority that regulates & controls its operations. FEMA mainly prescribe rules, procedures etc regarding operations in FEMA.



The first Foreign Exchange Regulation Act (FERA) was passed in 1947, that was subsequently modified, revised with the changing economic conditions.



Amendment to FERA in 1999 and implementation of FEMA, gave new break to Forex Market to adopt itself to happening in global market. The market was liberalized in tune with globalization policies. Large number of restrictions on banks and corporate dealing in foreign exchange were liberalized.

Features of FEM in India:


- Limited International Trade & Regulations in flow of foreign capital.
- Restrictive Tax policy for foreign investments.
- Lack of efficient man power to handle infrastructure.
- Developing banking system & that doesn't have adequate exposure to international business & investments.
- Money market, bill market, discount houses have not developed to meet the International standards.



FEDAI

FOREIGN EXCHANGE
DEALERS ASSOCIATION
OF INDIA





FEDAI was set up in 1958 as an Association of Banks dealing in foreign exchange. As a self regulated body & is incorporated u/s 25 of Co's Act 1956.

Its major activities include:



“Framing of rules governing the conduct of inter-bank foreign exchange business among banks in public with RBI”.



FEDAI ensure smart & efficient functioning of FEM.

Role of FEDAI (Market Makers):


- Buying or selling of foreign currency on behalf of their client or for their own self.
- Participation in currency derivative markets.
- Determining cross rates between currencies.
- Determining forward rates of different currencies.
- Development of new products in FEM like derivatives & effective implementation.
- Risk management due to currency exposure.

- 
- Forecast future exchange rates to enable forward trading & help derivatives operations.
 - Publish data & information necessary for corporate & public who are participants in international business.
- 



AUTHORISED DEALERS

Bankers recognized by RBI and FEDAI are called as Authorized Dealers. These dealers popularly called as AD's. They have to satisfy norms like minimum deposit & other terms decided by RBI from time to time.



CLEARING HOUSE

Clearing House is defined as, “Financial Institution that provides clearing & settlement services for financial & commodities derivatives & securities transaction”.

The function & services of clearing house is popular in banking services. Cheques issued between two parties of different banks are settled through clearing process.

Similarly it is popular in stock & commodity trading where the deal to buy or sell that entered through exchange is concluded through clearing house participation.

Functions of Clearing House:

1. Facilities of clearing:

It gives information of exchange rates between currencies, market position, supply condition and trading in different currencies.

2. Risk Management:


- * Settlement risk
- * Netting (adjustment receipt & payment)
- * Control over member bank account to recover the payment.
- * Clearing house minimises the risk of member by providing hedging, swap & options to minimise risk.



3. Monitors member's Creditworthiness:

Clearing House regularly monitors creditworthiness of member & his capacity to honour his obligation to clear deal.

4. Provide Trade terminals:



Clearing House provides independent trade terminal for each member to understand his trading & clearing operations. Such terminal may be at the premises of clearing house or it may be offered online with the bankers.

5. Control over Client member's bank account:

Every Clearing member must have a bank account with a banker designated by Clearing House, such account must have adequate balance to cover the clearing operations submitted by members. Members cannot alter the balance or close the account without permission of clearing house.

* _____ * _____ *



:NOTE:

Students to kindly note that you are supposed to study or cover all the concepts from Unit I to Unit V. Practical problems from Unit IV is also been updated in the college website. Kindly refer previous 5 years question papers and assignments given.

