

90 Days

USD/ZAR	8,1783		EUR/USD	1,5542	
3 mths fwd pts	+ 2230			- 3	
EUR/ZAR 3 mths fwd	<u>8,4013</u>	x		<u>1,5539</u>	= 13,0548 (5)

Bank will sell at **EUR/ZAR 13,0548** (1)

1.5 90 Days

USD/ZAR	8,1658		NZD/USD	0,7859	
3 mths fwd pts	+ 2140			+ 8	
NZD/ZAR 3 mths fwd	<u>8,3798</u>	x		<u>0,7939</u>	= 6,6527 (5)

ZAR/NZD 3 mths fwd $\frac{1}{6,6527}$ = **0,1503** (1)

Bank will quote **ZAR/NZD 0,1503**

180 Days

USD/ZAR	8,1658		NZD/USD	0,7859	
3 mths fwd pts	+ 4295			+ 15	
NZD/ZAR 3 mths fwd	<u>8,5953</u>	x		<u>0,7874</u>	= 6,7679 (5)

ZAR/NZD 3 mths fwd $\frac{1}{6,7679}$ = **0,1478** (1)

(1)

Bank will quote **ZAR/NZD 0,1478**

QUESTION 2**[40]**

Description		Due date	Debit	Credit
Bank takes delivery of USD 32 000 under the original contract				
Spot (1/3)	7,9926			
2 mths fwd pts	+ 1380			
Fwd rate (1/3)	<u>8,1306</u>	1 May		260 179 (5)
Bank sells USD 32 000 at the spot mid-rate 8,1106 [(8,0580 + 8,1632 : 2)]		1 May	259 539	(3)
Bank buys USD 32 000 forward for 1 month				
Spot mid-rate (1/5)	8,1106			
1 mth fwd pts	+ 715			
Fwd rate (1/5)	<u>8,1821</u>	1 June		261 827 (5)
Bank sells USD 32 000 at the spot mid-rate 8,0841 [(8,0315 + 8,1367) : 2]		1 June	258 691	(3)
Bank buys USD 32 000 forward for 3 months				
Spot mid-rate (1/6)	8,0841			
3 mths fwd pts	+ 2140			
Fwd rate (1/6)	<u>8,2981</u>	1 Sep.		265 539 (5)
Bank sells USD 32 000 forward for 2 months				
Spot rate (1/7)	8,3890			
2 mths fwd pts	+ 1455			
Fwd rate (1/7)	<u>8,5345</u>	1 Sep.	273 104	(5)
Bank buys forward for 2 months USD 32 000 - USD 160 = USD 31 840				(2)
Spot rate (1/9)	8,1255			
2 mths fwd pts	+ 1340			
Fwd rate (1/9)	<u>8,2595</u>	1 Nov.		262 982 (5)
			791 334	1 050 527
				<u>791 334</u>
Net Credit				259 193 (3)

Cash flows

1 May: positive cash flow: ZAR 260 179 – ZAR 259 539 = ZAR 640

1 June: positive cash flow: ZAR 261 827 – ZAR 258 691 = ZAR 3 136

1 Sep: negative cash flow: ZAR 265 539 – ZAR 273 104 = ZAR 7 565

1 Nov: overall profitability, a loss: ZAR 259 193 – ZAR 260 179 = ZAR 986

(4)

QUESTION 3**[30]****3.1 (Learner Guide p. 111)**

- Offsetting of payables against receivables in the same currency and of approximately the same value and due date.
- According to South African exchange control regulations, offsets must take place within 180 days from date of receipt of the export proceeds on a 'first-in, first-out' basis.
- Any export proceeds not utilised within the 180-day period will be converted to rands at the current spot rate.
- CFC accounts are offered by banks and must be specifically applied for.

(4)**3.2 (Learner Guide pp. 112, 114)****Early payment**

- When an invoice is settled earlier than the initial due date, the risk is also eliminated earlier.
- Early payment is thus a useful strategy when adverse exchange rate changes are expected.
- The cost of this method of protection for an export is the discount offered to the buyer less the interest income resulting from an earlier deposit of the export proceeds.
- For an importer, the cost is the difference between the early payment discount and the borrowing for making the earlier payment.
- The net cost of opting for early payment in the face of exchange rate changes needs to be measured against the cost of forward cover, so that the lowest cost alternative is selected.
- A discount is calculated at a flat percentage of the transaction amount, while the interest charge is calculated on the basis of a percentage per annum.

(6)**Delayed payment**

- This is the opposite of early payment and could be used whenever a favourable movement of the exchange rate is anticipated.
- By delaying accrual of the funds, the South African exporter incurs a higher interest charge on local borrowing because of the additional credit period granted to his/her customer.
- This may be offset by some interest recovery on the additional credit period granted to the customer.
- Generally, the objective for exporters is to hold currency abroad in the expectation of a weakening SA rand and consequently profit from a more favourable exchange rate at a later date.
- However, exporters may not delay the receipt of payment for longer than six months after shipment (unless approval for an extension up to 12 months has been obtained) as this would be contravening the exchange control regulations.

(5)

3.3 (Learner Guide pp. 25-26)

Purpose of exchange control

- To ensure the timeous repatriation into the SA banking system of certain foreign currency acquired by SA residents, whether through transactions of current or of a capital nature.
- To regulate any changes in foreign currency resources occurring through the transfer abroad of real or financial capital assets held in South Africa.
- In order to meet the above objectives, to provide an effective system of control over the movement into and out of South Africa of financial and real assets, while at the same time not interfering with the efficient operation of the commercial, industrial and financial systems of the country.
- South Africa's foreign exchange reserves are mainly used to pay for goods and services imported into this country and to service the country's foreign debt.
- Adequate foreign exchange reserves are essential for any country because any shortage restricts economic development. **(5)**

Exchange control administration

- The Minister of Finance has delegated to the Governor the SA Reserve Bank as well as to the Exchange Control Department all the powers, functions and duties assigned to and imposed on the Treasury under the exchange control regulations.
- The Exchange Control Department is responsible for the day-to-day administration of exchange control.
- The Minister of Finance has appointed certain banks to act as authorised dealers in foreign exchange which gives them the right to buy and sell foreign exchange, subject to conditions and within limits prescribed by the Exchange Control Department.
- These conditions and limitations are usually referred to as 'the Rulings'.
- Any activities not covered by the Rulings must be referred back to the Reserve Bank for authorisation.
- Copies of the Rulings are not made generally available but are issued to specific persons/officials employed by an authorised dealer.
- All queries, requests and applications relating to exchange control must be directed to the bank at which one conducts one's normal business and not to the Reserve Bank. **(7)**

Legal basis for exchange control

- The legal basis for exchange control is the gazetted publication 'The Exchange Control Regulations, Orders and Rules 1961 (The Regulations)', as amended, which is available from the Government Printer in Pretoria.
- In terms of certain bilateral agreements, the exchange control regulations of Lesotho, Namibia and Swaziland are harmonised with those of the Republic, and the whole region is referred to as the Common Monetary Area.
- In terms of the Regulations, no entity may deal in foreign exchange without the express permission of the Treasury and penalties are imposed on any person who is caught contravening these regulations. **(3)**