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IDEAL ANSWERS

CA Final

Strategic Financial Management

May, 2012 Exam

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Question 1 (a) LMN & com plans to issue Commercial Paper (CP) of Rs.1,00,000 at a price of Rs. 98,000. Maturity Period: 4 Month

Expenses for issue of CP are:

(i)	Brokerage	0.10%
(ii)	Rating Charges	0.60% and
(iii)	Stamp Duty	0.15%

Find the effective interest rate per annum and the cost of Fund. (5 marks) (May 12)

Answer 1(a)

Assumptions: Let us assume that issue expenses are calculated on issue price. (question is silent therefore even if a student calculate issue expenses on face value, he should be awarded marks) and all expenses are for the period of 4 months.

$$Effective\ Rate\ of\ Interest = \frac{Face\ Value - Issue\ Price}{Issue\ Price} \times 100 \times \frac{12}{Maturity\ Period}$$

$$= \frac{100000 - 98000}{98000} \times 100 \times \frac{12}{4} = 6.12\%$$

Calculation of issue expenses:

Brokerage	98000 x 0.10%	= ₹ 98
Rating Charges	98000 x 0.6%	= ₹588
Stamp Duty	98000 x 0.15%	= ₹147
Total issue expenses		= ₹833

Total cost of fund = (100000-98000) + 833 = ₹2833

$$\%\ cost\ of\ fund = \frac{Face\ Value - (Issue\ Price - issue\ expenses)}{(Issue\ Price - issue\ expenses)} \times 100 \times \frac{12}{Maturity\ Period}$$

$$= \frac{100000 - (98000 - 833)}{(98000 - 833)} \times 100 \times \frac{12}{4} = 8.75\%$$

If we calculate % cost of fund as 6.12% + (0.1%+0.6%+0.15%)x12/4 = 8.67% then it will be a wrong solution because it does not consider issue expenses in denominator.

Question 1 (b) On 31-08-2011, the value of stock index was Rs. 2,200. The risk free rate of return has been 8% per annum. The dividend yield on this Stock Index is as under:

Month	**Dividend paid**
January	3%
February	4%
March	3%
April	3%

May	4%
June	3%
July	3%
August	4%
September	3%
October	3%
November	4%
December	3%

Assuming that interest is continuously compounded ~~**daily**~~, find out the future price of contract deliverable on 31-12-2011. Given: $e^{0.01583}$ = 1.01593 (5 marks) (May 12)

Answer 1(b)
Average annualized dividend yield for September to December = 3+3+4+3 /4 = 3.25%

$F = S \times e^{(r-d)\times t}$
Here r = risk free rate of interest. d = dividend yield. t = number of years.

$= 2200 \times e^{(0.08-0.0325)\times\frac{4}{12}}$
$= 2200 \times e^{0.01583} = 2200 \times 1.01593$
$= 2235$

Note: There is one printing mistake in question. It says "interest is continuously compounded daily". "Daily" word should be omitted.

Question 1 (c) The price of a bond just before a year of maturity is $ 5,000. Its redemption value is $5,250 at the end of the said period. Interest is $ 350 p.a. The Dollar appreciates by 2% during the said period. Calculate the rate of return. (5 marks) (May 12)

Answer 1(c)
Dollar return:

$$Return\ for\ the\ period = \frac{Interest + Ending\ price}{beginning\ price} - 1 = \frac{350 + 5250}{5000} - 1 = 12\%$$

Rupee return:
(1+dollar return) (1+currency premium) -1
1.12) x (1.02) -1 = 14.24%
A simple method can be 12%+2% = 14%

Question 1 (d) A company is long on 10 MT of copper @ Rs. 474 per kg (spot) and intends to remain so for the ensuing quarter. The standard deviation of changes of its spot and future prices are 4% and 6% respectively, having correlation coefficient of 0.75.

What is its hedge ratio? What is the amount of the copper future it should short to achieve a perfect hedge? (5 marks) (May 12)

Answer 1(d)

Looking at the language given in the this question we should first calculate beta of spot price with respect to future price.

$$\beta = r \times \frac{\sigma_y}{\sigma_x} = 0.75 \times \frac{4\%}{6\%} = 0.5$$

Appropriate hedge ratio is 0.5. It means that for 10MT of long position in copper, company should take 5MT of short position in copper futures. (A simple justification can be that copper futures are more volatile than copper, hence you need less number of copper futures to balance copper.)

Question 2 (a) A machine used on a production line must be replaced at least every four years. Costs incurred to run the machine according to its age are:

Age of Machine (years)	**0**	**1**	**2**	**3**	**4**
Purchase Price (in Rs.)	60,000				
Maintenance (in Rs.)		16,000	18,000	20,000	20,000
Repair (in Rs.)		0	4,000	8,000	16,000
Scrap Value (in Rs.)		32,000	24,000	16,000	8,000

Future replacement will be with identical machine with same cost. Revenue is unaffected by the age of the machine. Ignoring inflation and tax, determine the optimum replacement cycle. PV factors on the cost of capital of 15% for the respective four years are 0.8696, 0.7561, 0.6575 and 0.5718. (8 marks) (May 12)

Answer 2(a)

Year	**PVF@15%**	**Replace machine at year:**			
		1	**2**	**3**	**4**
0	1.0000	-60000	-60000	-60000	-60000
1	0.8696	16000*	-16000	-16000	-16000
2	0.7561	-	2000#	-22000	-22000
3	0.6575	-	-	-12000@	-28000
4	0.5718	-	-	-	-28000$
NPV		-46086	-72401	-98438	-124968
PVAF		0.8696	1.6257	2.2832	2.855
ENPV		-52997	-44536	**-43114**	-43772

* = -16000+32000 = 16000

= -18000-4000+24000 = 2000

@ = -20000-8000+16000 = 12000

$ = -20000-16000+8000 = -28000

Conclusion: Optimum replace point of machine is **3 years**.

Question 2 (b) In December, 2011 AB Co.'s share was sold for Rs.146 per share. A long term earnings growth rate of 7.5% is anticipated. AB Co. is expected to pay dividend of Rs.3.36 per share.

(i) What rate of return an investor can expect to earn assuming that dividends are expected to grow along with earnings at 7.5% per year in perpetuity

(ii) It is expected that AB Co. will earn about 10% on book Equity and shall retain 60% of earnings. In this case, whether, there would be any change in growth rate and cost of Equity? (8 marks) (May 12)

Answer 2(b)

(i) Rate of return to the investor:

$$K_e = \frac{D_1}{P_0} + g$$

Here P_0 = current market price

D_1 = Dividend at the end of current year

g = growth rate

$$K_e = \frac{3.36}{146} + 0.075 = 9.8\%$$

(ii) New growth and cost of equity:

Growth rate = Return on Equity x Retention Ratio = 10% x 60%= 6%.

(Let us assume that D_1 will remain same)

$$K_e = \frac{3.36}{146} + 0.06 = 8.3\%$$

If we assume that D1 will change with change in growth rate then revised D_1 will be 3.31(3.36 x 1.06/1.075) and K_e will be 8.27%.

Question 3 (a) LMN Ltd is considering merger with XYZ Ltd. LMN Ltd's shares are currently traded at Rs. 30.00 per share. It has 3,00,000 shares outstanding. Its earnings after taxes (EAT) amount to Rs. 6,00,000. XYZ Ltd has 1,60,000 shares outstanding and its current market price is Rs. 15.00 per share and its earnings after taxes (EAT) amount to Rs. 1,60,000. The merger is decided to be effected by means of a stock swap (exchange). XYZ Ltd. Has agreed to a proposal by which LMN Ltd. will offer the current market value of XYZ Ltd's shares.

Find out:

(i) The pre-merger earnings per share (EPS) and price/earnings (P/E) ratios of both the companies.

(ii) If XYZ Ltd's P/E ratio is 9.6, what is its current Market Price? What is the Exchange Ratio? What will LMN Ltd's post-merger EPS be?

What should be the exchange ratio, if LMN Ltd's pre-merger and post-merger EPS are to be the same?(8 marks) (May 12)

Answer 3(a)

(i) Pre merger EPS and Price Earnings Ratio:

EPS (LMN Ltd.) = 600000/300000 = ₹2 EPS (XYZ ltd.) = 160000/160000 = ₹1

P/E (LMN Ltd.) = 30/2 = 15 P/E (XYZ Ltd.) = 15/1 = 15

(ii)

Current market price of XYZ ltd. = EPS x P/E = 1 x 9.6 = ₹9.6

Exchange ratio = Market price of Target co./ Market price of acquiring co. = 9.6/30 = 0.32

$$Post\ merger\ EPS = \frac{Post\ merger\ EAES}{Post\ merger\ no.of\ shares} = \frac{600000 + 160000}{300000 + 160000 \times 0.32} = 2.164$$

(iii)

Pre merger EPS of LMN = Post merger EPS of LMN

Let us assume that exchange ratio is "X"

$$2 = \frac{600000 + 160000}{300000 + 160000\ \ X}$$

By solving the above equation we get X = 0.5

A simple shortcut would be to exchange the shares in the ratio of EPS. Exchange ratio = 1/2 =0.5

Question 3 (b) DEF Ltd has been regularly paying a dividend of Rs. 19,20,000 per annum for several years and it is expected that same dividend would continue at this lever in near future. There are 12,00,000 equity shares of Rs. 10 each and the share is traded at par.

The company has an opportunity to invest Rs. 8,00,000 in one year's time as well as further Rs. 8,00,000 in two year's time in a project as it is estimated that the project will generate cash inflow of Rs. 3,60,000 per annum in three year's time which will continue forever. This investment is possible if dividend is reduced for next two years.

Whether the company should accept the project? Also analyze the effect on the market price of the shares, if the company decides to accept the project. (8 marks) (May 12)

Answer 3(b)

Dividend per share = 1920000/1200000 = ₹1.6

Cost of equity = DPS/MPS = 1.6/10 = 16%

Evaluation of project:

(i) Initial Cash Flows:

Year	Rs.	PVF @16%	PV
1	-800000	0.862	-689655
2	-800000	0.743	-594530
			-1284185

(ii) Annual Cash Flows:

$$Present\ Value\ of\ deferred\ perpetuity = \frac{A}{r} \times \frac{1}{(1+r)^m} = \frac{360000}{0.16} \times \frac{1}{(1.16)^2} = 16{,}72{,}117$$

(iii) NPV = 1672117-1284185 = +387932.
NPV is positive hence accept the proposal.

Effect on market price:
Proposed Wealth = current wealth + NPV = 12,00,000 x 10 + 3,87,932 = 1,23,87,932
Market price = 1,23,87,932 / 12,00,000 = ₹10.32

Question 4 (a) Indira has a fund of Rs. 3 lacs which she wants to invest in share market with rebalancing target after every 10 days to start with for a period of one months from now. The present NIFTY is 5326. The minimum NIFTY within a month can at most be 4793.4. She wants to know as to how she should rebalance her portfolio under the following situations, according to the theory of Constant Proportion Portfolio Insurance Policy, using "2" as the multiple:

1. Immediately to start with.
2. 10 days later-being the 1st day of rebalancing if NIFTY falls to 5122.96.
3. 10 days further from the above date if the NIFTY touches 5539.04.

For the sake of simplicity, assume that the value of her equity component will change in tandem with that of the NIFTY and the risk free securities in which she is going to invest will have no Beta. (8 marks) (May 12)

Answer 4(a)
As per CPPI : Investment in stock = (Portfolio Value – Floor Value) x m

In this question "floor value" of the portfolio is not given. Looking at the expected Nifty levels let us assume that it is 90% (4793.4/5326) , i.e., Rs.2,70,000. **(If student assume any other floor value that should also be accepted)**

(1) Immediately to start with
Stock investment = (300000-270000) x 2 = **60,000**
No. of Nifty = 60000/5326 = 11.265
Risk free investment = 300000 -60000 = **240000**

(2) 10 days later
Portfolio Value = 11.265 x 5122.96 + 240000 = 297710

Stock investment = (297710 – 270000) x 2 = **55420**
Sale of no. of nifty = (60000-55420)/5122.96 = 0.894
Remaining nifty = 11.265-0.894 = 10.371
Risk free investment = 297710 – 55420 = **242290**

(2) 10 days further
Portfolio Value = 10.371 x 5539.04 + 242290 = 299735
Stock investment = (299735 – 270000) x 2 = **59470**
Buy no. of nifty = (59470-55420)/5539.04 = 0.731
Remaining nifty = 10.371+0.731 = 11.102
Risk free investment = 299735 – 59470 = **240265**

Conclusion: when market falls investor will sell some stock and invest in risk free bonds and when market rises investor will buy some stock by sell risk free securities.

Question 4 (b) X Ltd. has and internal rate of return @20%. It has declared dividend @ 18% on its equity shares, having face value of Rs. 10 each. The payout ratio is 36% and Price Earning Ratio is 7.25. Find the cost of equity according to Walter's Model and Hence determine the limiting value of its share in case the payout ratio is varied as per the said model. (8 marks) (May 12)

Answer 4(b)
Dividend per share = 10 x 18% =1.8
Earning per share = 1.8 /36% = 5
Market price per share = EPS x P/E ratio = 5 x 7.25 = 36.25
Internal rate of return = 20%

$$P = \frac{DPS + \frac{IRR}{k_e}(EPS - DPS)}{K_e}$$

$$36.25 = \frac{1.8 + \frac{0.20}{x}(5 - 1.8)}{x}$$

By Solving the above we get a quadratic equation: $36.25X^2$-1.8X-0.64 = 0
Above equation may be solved as follows

$$X = \frac{-b \pm \sqrt{b^2 - 4ac}}{2a} = \frac{-(-1.8) + \sqrt{-1.8^2 - 4 \times 36.25 \times -0.64}}{2 \times 36.25} = 16\%$$

Hence cost of equity is 16%. It is less than IRR hence it is better to distribute lower dividend, say 0. In that case value of share will be as follows:

$$\frac{0+\frac{0.20}{0.16}(5-0)}{0.16}=39.06$$

Solution with alternative assumption:
If we calculate cost of equity with P/E ratio and use Walter formula to find market value then the solution will be as follows:

K_e = 1/PE = 1/7.25 = 13.79%

$$P=\frac{1.8+\frac{0.20}{0.1379}(5-1.8)}{0.1379}=46.71$$

With zero payout ratio market price will be as follows:

$$P=\frac{0+\frac{0.20}{0.1379}(5-0)}{0.1379}=52.59$$

Question 5 (a) NP and Co. has imported goods for US $7,00,000. The amount is payable after three months. The company has also exported goods for US $ 4,50,000 and this amount is receivable in two months. For receivable amount a forward contract is already taken at Rs.48.90
The market rates for Rs. And Dollar are as under:

Spot	Rs. 48.50/70
Two months	Rs. 25/30 points
Three months	40/45 points

The company wants to cover the risk and it has two options as under:

A. To cover payables in the forward market and
B. To lag receivables by one months and cover the risk only for the net amount. No interest for delaying the receivables is earned. Evaluate both the options if the cost of Rupee Fund is 12%. Which option is preferable? (8 marks) (May 12)

Answer 5(a)
(i) Cover payables in forward market:
In this case forward rate will be 48.70 + 0.45 = 49.15

Payable for import ($700000x 49.15)	₹3,44,05,000
Receivable from export ($4,50,000 x 48.90)	₹2,20,05,000
Net payment	₹1,24,00,000

(ii) Lag the receivables by one month and cover net risk:
In this case also forward rate will be 48.70 + 0.45 = 49.15

Net payment ($7,00,000 - $4,50,000) x 49.15	₹1,22,87,500

Conclusion: second option is better, i.e., company should lag receivables by one month.

Question 5 (b) A has portfolio having following features:

Security	β	Random Error σ_{ei}	Weight
L	1.60	7	0.25
M	1.15	11	0.30
N	1.40	3	0.25
K	1.00	9	0.20

You are required to find out the risk of the portfolio if the standard deviation of the market (σ_m) is 18%. (8 marks) (May 12)

Answer 5(b)

(i) Beta of portfolio = 1.6x0.25 + 1.15x0.30 + 1.40x0.25 + 1x0.20 = 1.295

(ii) Unsystematic risk of portfolio

$$\sigma_{ep}^2 = \sum_{i=1}^{n} \sigma_{ei}^2 \times w_i^2 = 7^2 \times 0.25^2 + 11^2 \times 0.30^2 + 3^2 \times 0.25^2 + 9^2 \times 0.20^2 = 17.755$$

Note: symbol for random error given in the questions is σ_{ei} and not σ_{ei}^2 hence we have squared the same in the above formula.

(iii) Risk of portfolio

$$\sigma_p = \sqrt{\beta_p^2 \sigma_m^2 + \sigma_{ep}^2} = \sqrt{1.295^2 \times 18^2 + 17.755} = 23.69\%$$

Question 6 (a) Sumana wanted to buy shares of EIL which has a range of Rs. 411 to Rs. 592 a month later. The present price per share is Rs. 421. Her broker informs her that the price of this share can sore up to Rs. 522 within a month or so, so that she should buy a one month CALL of EIL. In order to be prudent in buying the call, the share price should be more than or at least Rs. 522 the assurance of which could not be given by her broker.

Though she understands the uncertainty of the market, she wants to know the probability of attaining the share price Rs. 592 so that buying of a one month CALL of EIL at the execution price of Rs. 522 is justified. Advice her. Take the risk free interest to be 3.60% and $e^{0.036} = 1.037$. (8 marks) (May 12)

Answer 6(a)

Let us assume that the risk free rate of interest given in the question is per month.
Strike Price (E) = 522
Present price of stock = 421
upside value of stock (uV_s)= 592
downside value of stock (dV_s)= 411

upside factor (u) = 592/421= 1.406

downside factor (d)= 411/421 =0.976

$$Probability\ of\ price\ going\ up = p = \frac{e^{0.036} - d}{u - d} = \frac{1.037 - 0.976}{1.406 - 0.976} = \frac{0.061}{0.43} = 0.142$$

Question 6 (b) A Mutual Fund Co. has the following assets under it on the close of business as on:

Company	No. of shares	1st February 2012 Market price per share	2nd February 2012 Market price per share
L Ltd.	20,000	20.00	20.50
M Ltd.	30,000	312.40	360.00
N Ltd.	20,000	361.20	383.10
P Ltd.	60,000	505.10	503.90

Total No. of Units 6,00,000

(i) Calculate Net Assets Value (NAV) of the fund.

(ii) Following information is given:
Assuming one Mr. A, submits a cheque of Rs. 30,00,000 to the Mutual Fund and the Fund manager of this company purchase 8,000 share of M Ltd; and the balance amount is held in bank. In such a case, what would be the position of the fund?

(iii) Find new NAV of the fund as on 2nd February 2012.(8 marks) (May 12)

Answer 6(b)

Company	No.	1st Feb		2nd Feb	
		MPS	Value	MPS	Value
L	20000	20	400000	20.5	410000
M	30000	312.4	9372000	360	10800000
N	20000	361.2	7224000	383.1	7662000
P	60000	505.1	30306000	503.9	30234000
			47302000		49106000

(i) NAV as on 1st Feb = 4,73,02,000/6,00,000 = 78.83
(iii) NAV as on 2nd Feb (without new subscription) = 4,91,06,000/6,00,000 = 81.84

(ii) **Language of this part of the question is confusing**. Let us assume that Mr. A is making subscription on 1st Feb and question is asking to calculate NAV on 2nd Feb.

NAV of a mutual fund does not change due to joining or leaving of an Investor because he enters/exits at NAV. But NAV of the next day (2nd feb) will be calculated as follow:

No. of units allotted = 30,00,000/78.83 = 38056.58
Amount kept as cash = 30,00,000 – 8000x 312.40 = 500800
Wealth on 2nd Feb = 4,91,06,000 + 8000 x 360 + 500800 = 5,24,86,800
NAV = 5,24,86,800 / 600000+38056.58 = 82.26

Question 7 Write short notes on **any Four** of the following: (4x4 marks) (May 12)

a) Zero coupon bonds
b) Interest swap
c) Inter-Bank Participation Certificate
d) Meaning and Advantages on Netting
e) Nostro, Vostro and Loro Accounts

Answer 7(a)

Zero coupon bonds means a debt instrument on which interest is not paid periodically rather than investors get return in the shape of difference between issue price & redemption price. one can compare its cash flow with a fixed deposit. But while FDs are not transferable, zero coupon bonds are transferable in the secondary market. Zero coupon bonds may come with the following features:

Zero coupon premium Bonds: These are issued at par and redeemed at premium. Govt. of India dated securities is an example for this type of bonds.

Discount Bonds: These are issued at discount to the face value and redeemed at par. Yield to investors may be calculated as follows:

$$\text{Yield} = \frac{\text{Face Value - Issue Price}}{\text{Issue Price}} \times 100$$

Answer 7(b)

A swap in which one party (say A) agrees to pay to the another party (say B) cash flows equal to interest at a floating rate on a notional principal for a number of years. At the same time another party (B) agrees to pay to the first party (A) cash flows equal to interest at a fixed rate of interest on the same notional principal for the same period of time.

Note that: -

1) Floating rate of interest means the rate of interest that is not fixed and that varies with the time, e.g., LIBOR (London interbank offer rate), PLR (Prime lending rate) etc.
2) Principal itself is not exchanged in swap contracts. That is why it is termed as *notional principal*
3) The currencies of the two sets of interest cash flows should be the same.
4) Fixed rate payer is called buyer of swap or long the swap, while a floating rate payer is called seller of swap or short swap.

Answer 7(c)

Definition: IBPCs are the certificates issued by one bank to another to raise the short term funds. These are issued to even out short term liquidity within the banking system.

Characteristics:

1) Period: Without risk participation certificates can be issued for a period not exceeding 90 days and with risk certificates can be issued for a period between 91 days and 180 days.
2) Liquidity: IBPCs are neither transferable nor prematurely redeemable by the issuing bank.
3) Issuer: IBPCs can be issued by any scheduled commercial bank.
4) Subscribers: IBPCs can be subscribed by any scheduled commercial bank.
5) Security: IBPCs are issued against an underlying advance, classified as standard.
6) Types: IBPCs may be of the following two types:

- *Without risk:* in this case risk of non recovery of the underlying advance is borne by the issuing bank. It means that the issuing bank is required to pay the amount borrowed through IBPC to the subscribing bank irrespective of the fact, whether the underlying advance is recovered or it turns bad.
- *With risk:* In this case of the risk of non recovery of underlying advance is borne by the subscribing bank.

7) Interest rate: on IBPC is freely determined in the market.

Answer 7(d)

Netting means the settlement of obligations between two parties that processes the combined value of transactions. It is designed to lower the number of transactions required. For example, if Indian Importer owed US Exporter $100,000, and US Exporter owed Indian Importer ₹12,50,000. In this case either both the parties can make payment separately to each other or they can make settlement of net amount.

But in this case there is a problem that one party owes in dollars and other owes in rupees. Therefore we have to bring both either in dollars or in rupees. Suppose we decided to convert ₹12,50,000 in dollars and current exchange rate is $1 = Rs. 51.00/52.00. Now there is another problem if we take the bid rate, i.e., 51 then the entire advantage of bid-ask spread will go to Indian importer and if we take the ask rate, i.e., 52 then the entire advantage of bid-ask spread will go to US Exporter. If the two transactions are settled separately then neither importer nor exporter will get this advantage and it will go to the bank/forex dealer. But in this case there is not bank/forex dealer hence it is appropriate to give one half advantage to each party. Hence we can use a mid rate, i.e., 51.5.

Now Indian importer has to pay	$1,00,000
Indian importer has to receive ₹12,50,000/51.5	$24272
Net payment by Indian importer	$75,728

So the two main advantages of netting are:

1) Reduction in money transfer cost.
2) Advantage of bid ask spread in case of forex transactions.

Answer 7(e)

In Latin NOSTRO account means “Our Account with you”. For example if State Bank of India opens a dollar account with the New York bank then it is called Nostro account.

VOSTRO means "Your account with us". For example rupee account of Sri Lanka bank with State Bank of India.

LORO means "Their account with them". If Bank of Rajasthan wants to transfer dollar to the nostro account of SBI maintained with the New York Bank, they will call this account LORO account.

How to prepare Nostro Account?
There are two parts of Nostro account: 1) Exchange position 2) Fund/ Cash Position.

a) **Exchange position**
It is also called Currency position. The aggregate relationship between the amount of a currency bought and the amount of the same currency sold is known as 'position' in the currency. It can be as under:

Overbought position: If amount of foreign currency bought by a bank is more than the amount sold, the bank is said to have 'overbought' or 'long' or 'plus' position.

Oversold position: If amount of foreign currency sold by a bank is more than the amount bought, the bank is said to have 'oversold' or 'short' or 'minus' position.

Square position: If amount of foreign currency bought by a bank equals the amount sold, the bank is said to have 'square' position. Similarly, if there is small difference in a currency bought and sold the bank is said to have 'Near Square position'.

b) Cash position
It is also called Fund position. Banks maintain accounts with counter – party banks always in foreign currency. Banks, depending on items requirement, have many such accounts in different currencies. It is not uncommon that the bank may have more than one account even in one currency. Balances available in the accounts reflect cash position.
