Dual Currency Deposit

PURPOSE

To demonstrate how to book a dual currency deposit.

BACKGROUND

A dual currency deposit is product sold by banks to corporate.

The characteristics of the transaction are as follows:

- 1. Corporate place a money market transaction in, say, SGD.
- 2. At maturity of the money market, the bank has the option to settle the maturity proceeds either in SGD or in another currency, say, USD.
- 3. If the bank chooses to settle in USD, the rate that applies is an agreed known rate that is determined at the start of the money market transaction.

The right to settle in another currency is in reality a currency option that the corporate has granted (written) to the bank. Such a right has value and in a currency option it would require the payment of an option premium by the bank to the corporate.

In the case of a dual currency deposit, premium is actually paid. Instead, the bank "compensates" the corporate by contracting the SGD money market transaction at a rate that is typically higher than the prevailing market rate on trade date. For this reason, the dual currency deposit is sometime referred to as an enhance-yield deposit.

WHY IS THIS IMPORTANT?

The CS Lucas system does not directly book a dual currency deposit.

These instructions show how user may books the transaction based on its component parts: money market, currency option and (if the settlement is the second currency is exercised) a FX transaction.

TRANSACTION DETAILS

Trade Date: 25th Jan 2021

Value Date: 28th Jan 2021

Maturity Date: 17th Feb 2021

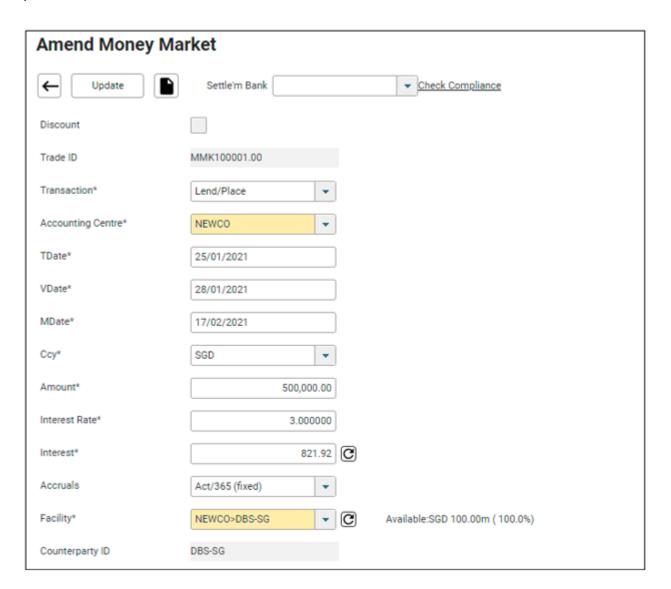
Principal: SGD 500K

Interest: 3%

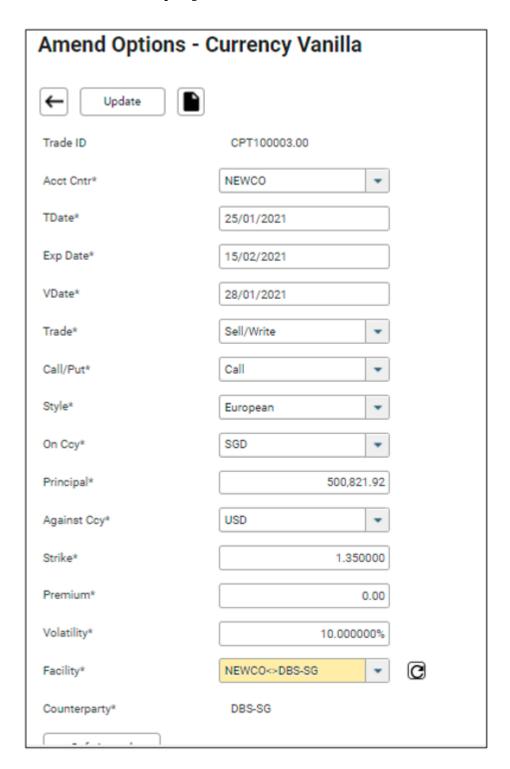
If on 15th Feb, the USD/SGD is above 1.350, business unit to receive the maturity proceeds in SGD

If on 15th Feb, the USD/SGD is below 1.350, business unit to receive the maturity proceeds in USD converted using 1.350

a) Book a MM on trade date



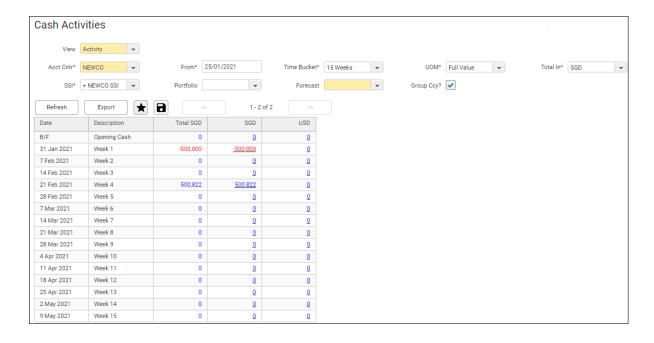
b) Book a Currency Option on Trade Date



On 15th Feb.

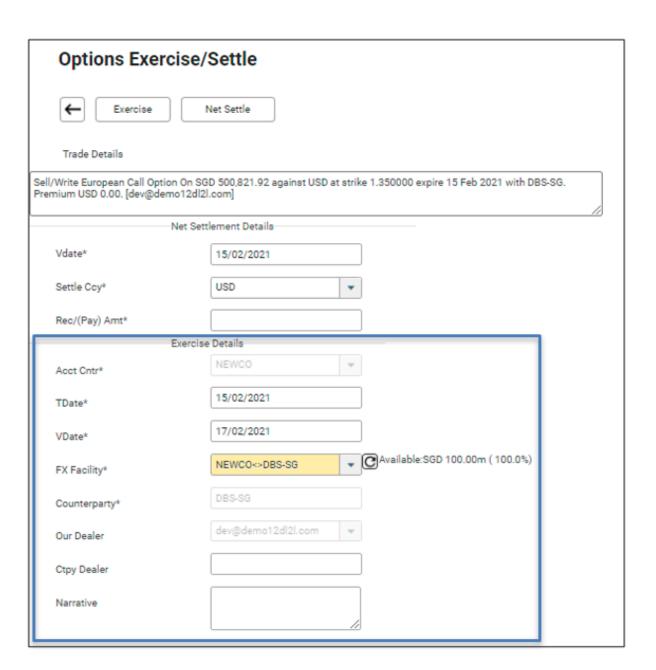
Condition 1: If on 15th Feb, the USD/SGD is above 1.350.

The option expires unexercised. No further action is required.

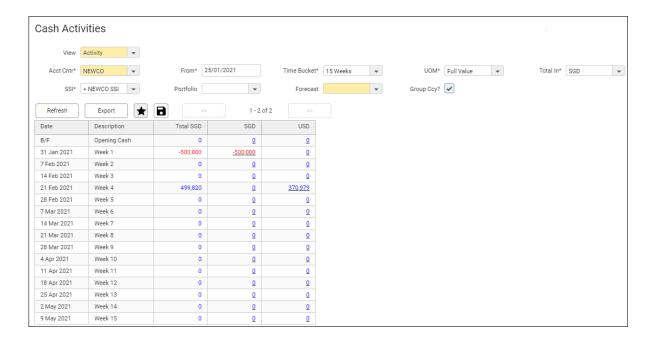


Condition 2: If on 15th Feb, the USD/SGD is below 1.350.

The option is exercised:



Amend Foreign Exchange Outright			
← 🗈			
This trade is created through the	e exercise of a ccy option trade (CPT100003.00). To delete this trade, cancel the exercise in the Currency Option module.		
TradeID	FRX100003.00		
Accounting Centre*	NEWCO -		
TDate*	15/02/2021		
VDate*	17/02/2022		
Transaction*	Sell		
Ccy*	SGD ▼		
Amount*	500,821.92		
Against Ccy*	USD		
Spot Ref Rate*	1.350000		
Forward Points	0.000000		
Contract Rate	1.350000		
Counter Value	370,979.20 🗷		
Facility*	NEWCO⇔DBS-SG ▼ Available:SGD 100.00m (100.0%)		
Counterparty ID	DBS-SG		
Reval Rate			



FREQUENTLY ASKED QUESTIONS

FAQ01: How to book a dual currency deposit if we do not have the currency option module?

- You may book the money market transaction as above.
- On maturity, if the bank decides to settle in USD, then book the FX above directly in the system.

RELATED INFORMATION

CHANGE HISTORY

Date	Ву	Changes
24-Jan-2022	Lуга	Created