

Foreign Exchange Outright Base

PURPOSE

To show illustration of foreign exchange outright base.

OVERVIEW

- i. Foreign Exchange outright transaction revalued at period and using forward rates discounted to present value.
- ii. Settlement amounts are journalled across multi-currency cash clearing accounts in the general ledger.

TRANSACTION DETAILS

Accounting Base Ccy
Trade ID
Trade Date
Value Date
Transaction
Against Currency Settlement
Buy Amount
Sell Amount
USD
FRX1001
25-Mar-03
3-Apr-03
Sell GBP
USD
USD 1,430,000.00
GBP 1,000,000.00

SUMMARY OF JOURNALS

ID	Date	Description
J1	31-Mar-03	Month end revaluation
J2	1-Apr-03	Reversal of Month end revaluation
J3	3-Apr-03	Settlement of Trade
J4	3-Apr-03	Settlement of Trade

J1 **Month end revaluation**

TradeID	PostDate	B/P	Account	Ccy	Ccy Amount	Exc Rate	Ccy	Base Amount	Line
FRX1001	31-Mar-03	B	FRX: Derivative Liability Fair Value	USD	-18,529.23	1.000000	USD	-18,529.23	J1a
FRX1001	31-Mar-03	P	FX - Unrealised Losses - FX Trade	USD	18,529.23	1.000000	USD	18,529.23	J1b

Note J1a: The FX revaluation Profit/Loss is analyzed as follows:

Forward Points at 31-Mar-03

Ccy	Description	Days	Bid	Offer	Mid
GBP	1 Week	7	10	12	11
	1 Month	30	25	27	26

Interpolation of forward points

7 days forward	11	A
Days	3	A' = 31-Mar-03 to -3-Apr-03
3 days forward	4.714285714	B = A/7* A'
Spot Rate at 31-Mar-03	1.448060	C
Add Forward Points	0.000471429	D = B/10000
Forward Rate	1.448531	E = C + D

Future Value Profit and Loss in Settlement (Against Currency) USD

Transaction Amount	GBP	1,000,000.00	F
Cost	USD	1,430,000.00	G
Revalued	USD	1,448,531.25	H = F * E
Losses (FV)	USD	-18,531.25	I = G -H

Discount Rate

Ccy	Description	Days	Rate
USD	1 Week	7	3.123%
USD	1 Month	30	4.456%

Interpolation of discount rate

7 days forward	3.123%	J
3 days forward	1.338%	K = J / 7 * A'
Discount Factor	0.999890763	L = 1 / (1+K)^(3/365)

Present Value Profit and Loss in Settlement (Against Currency) USD

Losses(PV)	-18,529.23	M = L * I
------------	------------	-----------

J2 **Reversal of Month end revaluation**

TradeID	PostDate	B/P	Account	Ccy	Ccy Amount	Exc Rate	Ccy	Base Amount	Line
FRX1001	1-Apr-03	B	FRX: Derivative Liability Fair Value	USD	18,529.23	1.000000	USD	18,529.23	J2a
FRX1001	1-Apr-03	P	FX - Unrealised Losses - FX Trade	USD	-18,529.23	1.000000	USD	-18,529.23	J2b

J3**Settlement of Trade**

TradeID	PostDate	B/P	Account	Ccy	Ccy Amount	Exc Rate	Ccy	Base Amount	Line
FRX1001	3-Apr-03	B	Cash at Bank	USD	1,430,000.00	1.000000	USD	1,430,000.00	J3a
FRX1001	3-Apr-03	B	FX Cash Clearing Account	USD	-1,430,000.00	1.000000	USD	-1,430,000.00	J3b

J4**Settlement of Trade**

TradeID	PostDate	B/P	Account	Ccy	Ccy Amount	Exc Rate	Ccy	Base Amount	Line
FRX1001	3-Apr-03	B	Cash at Bank	GBP	-1,000,000.00	1.455237	USD	-1,455,236.81	J4a
FRX1001	3-Apr-03	B	FX Cash Clearing Account	GBP	1,000,000.00	1.455237	USD	1,455,236.81	J4b

Note J4a: The exchange rate on value date is 1.455237. See Exchange Rates below.

EXCHANGE RATES

Date	GBP
31-Mar-03	1.448060
3-Apr-03	1.455237

* round to 6 dp. Full precision used for calculation.

FREQUENTLY ASKED QUESTIONS**RELATED INFORMATION****CHANGE HISTORY**

Date	By	Changes
28-Jul-2008	CS	Creation.

Date	By	Changes
09-Jun-2016	RJ	Reformatted.
23-Apr-2020	LT	Re-formatting.