BANK OF MAURITIUS

Guidelines for Calculation and Reporting of Foreign Exchange Exposures of Banks

July 1996
Revised January 2011

Guidelines for Calculation and Reporting of Foreign Exchange Exposures of Banks

Measuring a bank's foreign exchange exposure is achieved in two successive steps: first the measurement of the exposure in each single currency, and then, the measurement of the overall foreign exchange exposure resulting from a mix of different positions in several foreign currencies.

Calculation of Exposure or Net Open Position in a Single Currency

The measurement of a bank's exposure in a single currency consists in determining if the bank has a long or a short open position in that particular currency, and how large this open position is. The open position in a currency is the sum of (a) the net spot position and (b) the net forward position.

(a) Net spot position

The spot position is simply the position which appears directly on the balance sheet. The net spot position is the difference between foreign currency assets and liabilities in a particular currency. This should include all accrued income and accrued expenses.

(b) Net forward position

This represents all amounts to be received less all amounts to be paid in the future in a particular currency as a result of foreign exchange transactions which have already taken place. These transactions which are recorded as off-balance sheet items would include:

(i) spot transactions which are not yet settled;

(ii) forward foreign exchange transactions;

(iii) guarantees and similar commitments denominated in foreign currencies which are certain to be called upon and are likely to be irrecoverable.

Calculation of Overall Foreign Exchange Exposure

This involves measurement of risks inherent in a bank's mix of long and short positions in different currencies. Banks should adopt the "shorthand method", which is accepted internationally, for calculating the overall foreign exchange exposure or overall open position as follows:

(i) Calculate the net open position in each currency (as above).
(ii) Arrive at the sum of all the net short positions.
(iii) Arrive at the sum of all the net long positions.

Overall foreign exchange exposure or overall open position is the **higher** of (ii) and (iii).

Reporting Instructions

Banks should submit a daily return to the Bank of Mauritius as in the attached format (Annexure I). The amounts reported should be the foreign currency amounts recorded in the reporting bank's books as at the close of business on the reporting date, adjusted where possible for transactions not posted as at the reporting date.

Structural positions, i.e, foreign currency capital assets and liabilities such as investments in subsidiaries, premises, loan capital, etc., that are of a fixed long-term nature, may be recorded by way of foot-notes to the return rather than in the body of the return.

Individual foreign currency details should be given in the return for those currencies with a total long or a total short position of Rs 1 million or more. Currencies with positions of less than Rs 1 million may be combined and reported in the row "Others" of the return.

Amounts reported for each foreign currency, including forward transactions, should be translated into rupees at the mid point of the indicative TT buying and selling exchange rates circulated by the Mauritius Bankers' Association applying at the close of business on the reporting date. The exchange rate used should be recorded in column 1 of the return.

Forward foreign exchange rates are different from the spot rates and take into account the respective levels of interest rates. The exposures should be measured by using the abovementioned spot indicative exchange rates rather than the forward rates.

Completion and Submission of Daily Return

(a) Completion of daily return

Balance Sheet Items (columns 2, 3, 4, 5, 10, 11 and 12): this refers to foreign currency assets and liabilities recorded in the reporting bank's books including all foreign currency borrowings, deposits, loans, overdrafts, bills and investments.

Liquid Assets and Short-Term Liabilities (columns 2 and 10): these are working balances, including notes and coin, and funds lodged with overseas banks and offshore banks that are held or owed by the reporting bank as at the reporting date. Where the working balances are overdrawn, the balances should appear in the liabilities section.

Other Balance Sheet Assets and Liabilities (columns 5 and 12): these are all other asset or liability balances other than liquid assets and short-term liabilities.

Off-Balance Sheet Items (columns 6-8 and 13-15): these are foreign currency items such as forward contracts which entail an identifiable foreign currency commitment. Gross amounts of outstanding sale and purchase contracts are to be reported.

Undelivered Spot Purchases and Sales (columns 6 and 13): foreign exchange deals are generally settled two business days after they are made. During these two days, the amount of the bought currency to be received and the amount of the sold currency to be delivered are recorded in off-balance sheet accounts. Undelivered spot transactions refer to all outstanding spot contracts written but not delivered.

Forward Purchases and Sales (columns 7 and 14): a forward transaction is defined as one contracted for receipt or delivery beyond two business days from the reporting date. Forward purchases and sales refer to the gross amounts of outstanding forwards, other than those to be delivered "within spot".

Other Off-Balance Sheet Items (columns 8 and 15): this refers to items which involve foreign currency exposures which are not included elsewhere on the return. If material, details should be given by way of foot-notes.

Total Long and Short Foreign Currency Positions (columns 9 and 16): this refers to the sum of columns 2-8 and 10-15 respectively.

Net Open Position (column 17): this column is calculated by subtracting Total Foreign Currency Liabilities (column 16) from Total Foreign Currency Assets (column 9). A positive result indicates an overbought position (+) and a negative result an oversold position (-). The "Others" entry for currencies not individually specified should be divided to show the total for those currencies with net long positions and the total for those with net short positions.

Overall Foreign Exchange Exposure or Overall Open Position (i.e total net open position): this is the **higher** of (a) the sum of all the net short positions and (b) the sum of all the net long positions recorded in column 17.

Overall Foreign Exchange Exposure or Overall Open Position as a Percentage of Tier 1 Capital: this is calculated by dividing the Overall Foreign Exchange Exposure or Overall Open Position by the reporting bank's Tier 1 capital as computed for the purpose of the risk-weighted capital adequacy ratio (vide Annexure II).

(b) Submission of daily return

The daily return in the format given in Annexure I duly signed by the reporting bank's authorised officers should be submitted to the Banking Supervision Department of the Bank of Mauritius and should reach them before noon on the business day following the day to which it relates. The first return should be submitted as at the close of business on the 10 July 1996.

Bank of Mauritius
5 July 1996

ANNEXURE II

Computation of Tier 1 Capital

(Amount Rs'000)

(i) Paid up or assigned capital
(ii) Share premium
(iii) Statutory reserve
(iv) Surplus arising from sale of fixed assets [1]
(v) General reserve
(vi) Other disclosed free reserves, including undistributed balance in profit and loss account, created by appropriations of retained earnings (Please specify)
(vii) Current year's interim retained profits subject to certification by the bank's external auditors

Less: (i) Accumulated losses
(ii) Current year's interim losses
(iii) Fully paid bonus shares issued by capitalising property revaluation reserves [2]
(iv) Goodwill [3]
(v) Other intangible assets (Please specify)

Tier 1 capital

(1) Report only surplus on sale of fixed assets and held in a separate account. Do not report reserves arising from revaluation of tangible fixed assets.

(2) To be included in Tier 2 capital.

(3) To the extent that it is carried in the balance sheet.

Click here to navigate to the Foreign Exchange Exposure report format

ANNEXURE I

DAILY RETURN OF FOREIGN EXCHANGE EXPOSURES AS ON : ....

Name of Bank: ....

Tier 1 Capital as per the Quarterly Capital Adequacy Return as on: …………………. : …………………….

(Rs' 000)

		FOREIGN CURRENCY ASSETS									**FOREIGN CURRENCY LIABILITIES**								
		BALANCE SHEET ITEMS					OFF BALANCE SHEET ITEMS				BALANCE SHEET ITEMS			OFF BALANCE SHEET ITEMS					
				Balances on account of Foreign Currency Accounts															
Foreign Currency	Exchange Rate	Liquid Assets	Balance Held Against Forward Sales	Banks Abroad	OBU's in Mauritius	Other Balance Sheet Assets	Undelivered Spot Purchases	Forward Purchases	Others	TOTAL ASSETS	Short Term Liabilities	Foreign Currency Accounts	Other Balance Sheet Liabilities	Undelivered Spot Sales	Forward Sales	Others	TOTAL LIABILITIES	Net Open Position (+ or -)	Net Open Position as % of Tier 1 Capital
	1	2a	2b	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
USD																			
GBP																			
JPY																			
DEM																			
FRF																			
...																			
...																			
Others																			
																	Total		

Overall Foreign Exchange Exposure or Overall Open Position as a percentage of Tier 1 Capital..

Details of Structural Positions (Please give details of the items such as nature, purpose, amount, currency, period, etc.)

We certify that, to the best of our knowledge, the above information is true and correct.

Date : ....……...........

………………………....
(Authorised Signatory)

………………………....
(Authorised Signatory)