# Swapping from the current exchange rate – client buys EUR

Citfin
S citem pro finance

## Concluding forward contracts

On 1 August, the client concludes a forward trade contract for the purchase of EUR 100,000 from CZK at EURCZK 25.80 with settlement on 1 September. The client sends a deposit of 5% of the trade: CZK 129,000.

**Client's sub-account balance:**

| CZK | Deposit in CZK | EUR |
|---|---|---|
| 0 | 129,000 | 0 |

**Expiry of trade I**

The client wishes to postpone the settlement of the trade for another month. The koruna has strengthened to EURCZK 25.50. A swap occurs when CITFIN buys EUR 100,000 at EURCZK 25.50 on 1 September and simultaneously sells EUR 100,000 from the client at the same rate, EURCZK 25.50, on 1 October.

**Client's sub-account balance:**

| CZK | Deposit in CZK | EUR |
|---|---|---|
| 0 | 99,000 | 0 |

2,550,000 – 2,580,000 = CZK -30,000

The CZK deposit in the blocking sub-account is reduced by the current exchange rate loss of CZK 30,000 from the swap transaction. If the client did not swap but settled the trade, the exchange rate of EURCZK 25.80 would still apply.

The forward is covered in absolute terms: 129,000 – 30,000 = CZK 99,000

The forward is covered in relative terms: (99,000 / 2,580,000) * 100 = 3.8%

At the moment CITFIN does not yet require a replenishment of the deposit; this is replenished if the amount of the forward cover falls below 2.5%.

When the trade is settled on 1 October, the client would be in the following situation:

The client wires CZK 2,550,000 to CITFIN, which immediately wires EUR 100,000 back to the client. CITFIN also returns the deposit of CZK 99,000 to the client, which can be offset against the CZK sent for the FWD settlement by agreement. Total value of CZK spent corresponds to the original exchange rate of EURCZK 25.80, as the lower CZK amount for the settlement of the forward is equal to the exchange loss on the swap trade.

**Expiry of trade II**

On October 1, the client wishes to postpone the settlement of the forward trade again. Meanwhile, the koruna has weakened to EURCZK 26.10. A swap occurs when CITFIN buys EUR 100,000 at EURCZK 26.10 on 1 October and simultaneously sells EUR 100,000 from the client at the same rate, EURCZK 26.10, on 1 November.

**Client’s sub-account balance:**

| CZK | Deposit in CZK | EUR |
|---|---|---|
| 0 | 159,000 | 0 |

2,610,000 – 2,550,000 = CZK 60,000

The balance in the CZK account increases by the current exchange rate gain from the swap transaction, leaving CZK 159,000 in the blocking sub-account (i.e. 129,000 - 30,000 + 60,000 = CZK 159,000).

## Trade settlement

On 1 November, the client wishes to settle the trade. The client wires CZK 2,610,000 (the value of the forward trade) to CITFIN, which immediately wires the client EUR 100,000 together with a blocking balance of CZK 99,000. When EUR 100,000 is purchased, the resulting exchange rate is again the initial EURCZK 25.80 after the deposit is credited, because the difference between the CZK amount to settle the forward and the returned deposit of CZK 2,451, 000 is equal to the difference between the values of the original forward and the deposit.

| | | | |
|---|---|---|---|
| **1.** | 1 August - forward trade contract concluded | EUR receivable<br>25.80 * 100,000 | liability<br>CZK 2,580,000 |
| **2a** | 1 August - the client sends a deposit in the amount of 5% from his/her bank account | receivable in CZK from the FWD trade (blocked amount) 129,000 | current account<br>CZK 129,000 |
| **2b** | 1 August - if the client has CZK in a sub-account with CITFIN, the deposit amount can be recorded as follows: | receivable in CZK from the FWD trade (blocked) 129,000 | reduction of the amount receivable in the CITFIN sub-account by 129,000 |
| **3.** | 1 September - extension of the FWD trade (termination of the originally concluded FWD trade) | liability in CZK<br>2,550,000 | receivable in EUR<br>25.50 * 100,000 |
| **4.** | 1 September - exchange rate loss | exchange rate loss (expense) 30,000 | receivable in CZK from the FWD trade (blocked amount) 30,000 |
| **5.** | 1 September - extension of FWD for another month (a new swap trade is concluded) | receivable in EUR<br>25.50 * 100,000 | liability in CZK<br>2,550,000 |
| **6.** | 1 October - extension of the FWD for another month (termination of the previously concluded swap trade) | liability in CZK<br>2,610,000 | receivable in EUR<br>26.10 * 100,000 |
| **7.** | 1 October - exchange rate gain | receivable in CZK from the FWD trade (blocked) 60,000 | exchange gain (revenue) 60,000 |
| **8.** | 1 October - extension of the FWD for another month | receivable in EUR<br>26.10 * 100,000 | liability in CZK<br>2,610,000 |
| **9.** | **Settlement of the FWD trade** | | |
| **9a** | 1 November - client makes a payment in CZK | current account in EUR<br>26,10 * 100 000 | receivable in EUR<br>26.10 * 100,000 |
| **9b** | 1 November - client sends the remaining amount of CZK | liability in CZK<br>2,451 000 | current account in CZK<br>2,451,000 |

For Sections 1, 3, 5, 6 and 8, off-balance sheet accounts may be used.
As a result of forward trades being swapped from the current exchange rate, exchange gains and exchange losses are accounted for on an ongoing basis. Exchange gains are included in revenues against the receivable from CITFIN, and exchange trade losses are included in expenses against the payable to CITFIN. The resulting exchange rate is always the same.