

# **Internship report**

**On**

**Foreign exchange Management System of Mercantile Bank  
Limited (Uttara Branch)**

## **Prepared for**

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## *Letter of Transmittal*

August 2013

Mohammad RezaurRazzak  
Director, MBA Program  
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BRAC University, Dhaka

Sub: **Submission of Internship Report.**

Dear Sir,

It is my great pleasure to submit the report on “Foreign exchange Management System of Mercantile Bank Limited (Uttara Branch)” as a part of my Internship program. I have closely observed different departments operations of Mercantile Bank Limited (Uttara Branch) in my internship period.

I enjoyed preparing this report, which enriched my practical knowledge of the theoretical concept. I tried to reflect the practical operational aspects of the Bank, which is complementary to the theoretical lessons. I am very much glad that you have given me the opportunity to prepare this report for you & hope that this report will meet the standards of your judgment.

Sincerely yours,

.....

MasumaNaorin  
ID#10264005  
MBA Program  
BRAC Business School

## *Acknowledgement*

I am pleased to get this opportunity to give special thanks to the persons whose ideas; views and supports have provided fluency to prepare this report and also enriched this report. I am grateful to all officials and staffs of Mercantile Bank Limited, Uttara Branch – as they for their huge cooperation. And also grateful to the persons whose books, working papers, journals and related materials give me continuous support to write this report.

I am greatly appreciated and inspired by Mohammad RezaurRazzakDirector, MBA Program, BRAC Business School to write this internee ship report on foreign exchange department of Mercantile Bank Limited, Uttara Branch. I would like to thank Mr. Abdul Halim Executive Vice President and Head of Mercantile Bank Limited, Uttara Branch, Dhaka for giving me the opportunity to work in his branch. My special thanks goes to MrBasu Deb Paul, Assistant Executive Vice President of Mercantile Bank Limited, Uttara Branch. I would also like to express my gratitude to allthe employees of Mercantile Bank Limited, for supervising me at the time of my internship attachment with their best efforts.

At all I am greatly thanking to the persons whose enrich books, journals and working papers on international financial management have provided a guideline to me in preparing this report. Moreover, I am very much grateful to all officials of Mercantile Bank Limited. This report would not be possible without the cooperation of all officials of MBL. So my heartiest appreciation goes to those officials. Finally, I would like to thank all others whose strong support makes us able to complete this report.

## *Abstract*

Banks are most active financial intermediary in today's world. As a financial institution bank mainly operate to communicate among persons and effectively works as safeguard among them in this age globalization. In recent economy banks plays a vital role to entrust international trade, it's quite impossible to commit international without help of banks and it also properly works to hedge away risk international traders. Banks operates most effectively to settle any transactions within different countries either trade purposes or personal purposes. This report tries to identify banks role foreign exchange management through evaluating foreign exchange operations of MBL, utara branch. I examine different aspects foreign exchanges innovation, development, regulations and related work papers to identify its impact, position and usefulness as banking procedures. The report provides a general view on Mercantile Bank Limited, theoretical aspects related to international trade and foreign exchange transactions as well as gives idea about foreign exchange regulations used in Bangladesh to control related financial institutions. This study also tries to clarify the operating procedures of foreign exchange department of MBL as a commercial bank and also tries to identify some aspects of further improvement in operations. It may help us to provide a scenario of foreign exchange control system in Bangladesh and foreign exchange transitions procedures applied in Bangladeshi commercial banks.

## *Certificate of Supervisor*

This is to certify that the research report on “Foreign exchange Management System of Mercantile Bank Limited (Uttara Branch)” is prepared by Masuma Naorin, ID# 10264005 as a partial fulfillment of the requirement of Administration MBA Masters of Business Administration from the BRAC Business School.

The report has been prepared under my guidance and is a record of bona fide work carried out successfully.

.....

Mohammad Rezaur Razzak

Director, MBA Program

BRAC Business School

BRAC University, Dhaka

## *Declaration*

I, MasumaNaorin, ID# 10264005, an MBA, major in Finance from BRAC Business School, would like to solemnly declare here that this research report has been authentically prepared by me. While preparing this internee report, I didn't breach any copyright act intentionally. I am further declaring that, I did not submit this report anywhere for awarding any degree or certificate.

.....

MasumaNaorin

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## *TO WHOM IT MAY CONCERN*

It is my pleasure to write on behalf of MasumaNaorin who is working with Mercantile Bank Ltd. as an Internee for 3 months.

During this time with us MasumaNaorinis a dedicated and valuable employee and she is working hard at any and all tasks. She is quite confident and is a consummate professional. She has always exhibited sound judgment in her work and she is a trusted worker. She is quick to take initiative and I am very satisfied with her performance. Her performance is quite helpful in the advancement of our organization.

Furthermore, please allow me to expand on her conduct during her stay with us. She has a wonderful temperament and works very efficiently both independently whilst working as part of team. Her co-workers are all pleased with her and they feel comfortable in teaming and coordinating with her to work towards common goal and objectives. While she will be missed, I wish her all the best of luck in her future endeavors.

.....

**Basudeb Paul**

First Vice President& Manager Operation

Mercantile Bank Limited

Uttara Branch

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*Foreign Exchange Management System  
of Mercantile Bank Limited (Uttara Branch)*



*Chapter One*  
*Introduction*

## **1.1 Background of the Study**

Bank is a financial institution, which accepts money from its customers as deposit and gives money as loan to the borrowers. A bank is financial intermediary a dealer in loans and debts. After completing my Masters of Business Administration (MBA) as a student I wanted to complete my Internship program from a reputed Bank which would be helpful for my future professional career. I got the opportunity to perform my internship in the Mercantile Bank Limited. I was sent to Uttara Branch. It will be three months practical orientation program. This report is originated as the requirement of Mercantile Bank Limited.

After completion of my MBA program demands a report on practical experience. Internship program is a must criterion for MBA students, designed to put them in a challenging environment of the relevant field, where the students get sample opportunity to apply their theoretical knowledge into practical applications. During the internship training, students have the opportunity to adopt themselves into the particular environment of the organization. It provides a unique opportunity to see the reality of business during student life, which enables them to building confidence and working knowledge in advance of the start of their career. To fulfill this requirement every university of business arrange a program of internship. Here we get a chance to apply our theoretical knowledge that we acquired from class lectures, books, journals, case studies, seminar, project, workshop, etc and compare them with practical setting.

I have selected Foreign Exchange department of Mercantile Bank Limited as my concentration topic.

The purpose of this report is to get an idea about the operations and specially my concentrating topic foreign exchange of Mercantile Bank Limited, a leading commercial bank of the country and make an industry analysis on the banking sector of Bangladesh.

Banks are profit – earning concern. The ‘word “Bank” refers to the financial institution deals with money transaction. Banks collect deposits at the lowest possible cost and provide loans and advances at higher cost. The difference between two is the profit for the bank. Commercial banks are the primary contributors to the country.

The revenue earning sources of banks are mainly loans and advances. The credit facility can be of two types: funded and non-funded. Funded credit can be expensive for the banks, as the bank has to pay interests. Non-funded credit includes Letter of Credit, which is the main source of income for the foreign exchange business.

If a bank can increase its import and export transactions, its profit will obviously reach a higher level, as the costs are negligible.

This report is an attempt to reflect the position of Mercantile Bank Limited in the banking industry procedures, policies and activities with emphasis on foreign remittance business.

## **1.2 Origin of the Study**

This report on 'Foreign Exchange Management of Mercantile Bank Limited' has been prepared as a requirement of the three months internship under MBA program Faculty of BRAC Business School. The organization attachment started on 16 June 2013 and will be ended on 15 September 2013. This project on 'Foreign Exchange Management of Mercantile Bank Limited' is assigned and approved by Mohammed Rezaur Razzak, director of MBA program, BRAC Business School.

## **1.3 Objective of the Study**

The objective of the study is to look into the concept of foreign exchange, the awareness and prevention measures taken by Bangladesh bank, and the implementation of these programs in MBL.

The major objective of the study is to observe & evaluate foreign exchange operations of the MBL.

The objective of the internship program is to familiarize students with the real business situation, to compare them with the business theories & at the last stage make a report on assigned task.

Specific objectives are as follow:

- ❖ To fulfill academic requirement;
- ❖ To gather knowledge about banking companies operations in practical field.
- ❖ To gather practical knowledge and real life experience in official environment.
- ❖ To apply theoretical knowledge in the practical field.
- ❖ To have exposure to the functions of foreign exchange section.
- ❖ To understand procedures of foreign exchange management of commercial banks in Bangladesh.
- ❖ To observe the working environment in commercial banks.
- ❖ To identify a link between practical operational aspects of the Bank to complementary the theoretical lessons
- ❖ To get an overview of the private Banking in our country.

## **1.4 Methodology of the Study**

Both qualitative and quantitative methods were applied for preparing this report. The data were analyzed and presented by Microsoft excel and shows percentage, graphical presentation and different types of charts. Best effort was given to analyze the numerical findings.

The main focus is on numerical data in preparing the report. Also theoretical portion of the report has been used as the demand of the report. Analyzing foreign trade management of a bank, both theoretical and technical knowledge are necessary for execution, then everything with accuracy.

### **1.4.1 Population**

All the companies company located in everywhere in Bangladesh have been taken into consideration as population.

### **1.4.2 Sample**

The Mercantile Bank Limited is considered as sample for preparing this report.

### 1.4.3 Data collection

Source of data of this report can be divided into two categories.

#### 1.4.3.1 Primary Sources

- ❖ Three months practical participation in internship
- ❖ Face-to-Face conversation with the respective officers and staffs
- ❖ Relevant file study provided by the officers concerned

#### 1.4.3.2 Secondary Sources

- ❖ Annual Report of Mercantile Bank Limited.
- ❖ Relevant books, Research papers, Newspapers and Journals.
- ❖ Internet and various study selected reports.

### 1.5 Limitations of the Study

- ❖ **Time limitation:** The duration of our internship program is only 3 months. The allocated time is not sufficient for us to gather knowledge and to make the study a complete and fruitful one. It was one of the main constraints that affected covering all aspects of the study.
- ❖ **Lack of Secondary Information:** The study also suffered from inadequacy of data provided by Mercantile Bank Limited. Secondary source of information was not sufficient for the completion of the report.
- ❖ **Limitation of the Study:** Much confidential information was not disclosed by respective personnel of the department.



Other limitations are as follows:

- ❖ For the lack of our practical knowledge, some shortcoming may be available in the paper.
- ❖ The bank has naturally shown us some indifference connecting its most confidential information.
- ❖ The executives of Mercantile Bank Limited were too busy to spare time for the internee.



*Chapter Two*  
*Overview of MBL*

## **2.1 Mercantile Bank Limited- At a Glance**

Mercantile Bank Limited is a scheduled private commercial Bank established on May 20, 1999 under the Bank Company Act, 1991 and incorporated as a Public Limited Company under Companies Act, 1994. The Bank started commercial Banking operations from June 02, 1999. From then with in a short time MBL established itself in a strong position in the economy of the country. It has earned significant reputation in the country's Banking sector as Bank and created a wide image in the eye of the people. The dream of creating MBL, which is 'A Bank of 21<sup>st</sup> Century', has become successful because of the initiative of some persons who are the sponsors of MBL. There are 30 sponsors in Mercantile Bank Limited and all of them are highly regarded for their entrepreneurial competence.

## **2.2 Approach of MBL**

The aim of Mercantile Bank Limited is to become a leading Bank of the 3<sup>rd</sup> generation by providing better service to the clients along with other quality operations in Private Banking Sector. The bank has some mission to achieve the organizational goals. This are-

- ❖ MBL intend to provide the better service for the customer.
- ❖ MBL intend to provide the good return for their respectable shareholders.
- ❖ MBL work as medium of exchange on behalf of their potential clients.
- ❖ MBL is much responsive in case of provide the optimum benefit of the customers.
- ❖ MBL is always concentrated to enhance the competitive advantages by upgrading banking technologies and information system.
- ❖ MBL believes in discipline growth strategy.
- ❖ MBL always encourages investors to boost up the share market.
- ❖ MBL maintain high standard of corporate and business ethics.
- ❖ MBL intends to play more important role in the economic development of Bangladesh and its financial relations with the rest of the world through international trade.

## 2.3 Objectives & Goals of Mercantile Bank Limited

- ❖ MBL is always ready to maintain the highest quality to services by upgrading banking technology prudence in management and by applying high standard of business ethics through its established commitment and heritage.
- ❖ MBL is committed to ensure its contribution to national economy by increasing its profitability through professional and disciplined growth strategy for its customer and by creating corporate culture in international banking arena.
- ❖ The objective MBL is not only to earn profit but also to keep the social commitment and to ensure its co-operation to the person of all level, to the businessman, industrialist-specially who are engaged in establishing large-scale industry by consortium and the agro-based export oriented medium & small-scale industries by self-inspiration.
- ❖ MBL, one of the renowned private banks is committed to continue its endeavor by rapidly increasing the investment of honorable shareholders into assets.
- ❖ MBL believes in building up strong-based capitalization of the country.
- ❖ MBL is committed to continue its activities in the new horizon of business with a view to developing service oriented industry and culture of morality and its maintenance in banking.
- ❖ MBL is always pre-occupied to encourage the inventors for purchasing its share by creating the opportunity of long-term investment and increasing the value of share through prosperity as developed day by day.
- ❖ MBL is playing a vital role in Socio-economic development of Bangladesh by way of linkage with rest of the world by developing worldwide network in domestic and international operations.

## **2.4 Directors and Management of MBL**

The organizational structure and corporate governance of MBL strongly reflect its determination to establish, uphold and gain a stronger footing as an organization, which is customer oriented and transparent in its management.

The Board of Directors consists of eminent personalities from commerce and industry of the country. Mr. Md. Abul Jalil, Founder Chairman of the Board of Directors, is a businessman besides being an eminent personality of the country.

The Bank is manned and managed by highly qualified and efficient professionals.

### **Board of Directors**

- M. Amanullah, Chairman
- Md. Shahabuddin Alam, Vice Chairman
- Md. Tabibul Huq, Vice Chairman
- Md. Anwarul Haque
- Dr. Mahmood Osman Imam
- M. S. Ahsan
- Al-Haj Akram Hussain (Humayun)
- A. S. M. Feroz Alam
- Md. Abdul Hannan
- Mohd. Selim
- Morshed Alam
- Al-Haj Mosharref Hossain
- Syed Ashraf Ali
- M Ehsanul Haque, Managing Director & CEO

**Sponsor**

- Mr. Md. Nasiruddin Choudhury
- Mr. S. M. Shafiqul Islam (Mamun)
- Engr. Mohd. Monsuruzzaman
- Mr. Subrota Narayan Roy
- Mrs. Bilkis Begum
- Mr. Golam Faruk Ahmed
- Alhaj S.M. Shakil Akhter
- Mrs. Feroza Begum
- Mrs. Nargis Anwar
- Mr. Md. Mizanur Rahman Chowdhury
- Dr. Toufique Rahman Chowdhury
- Mrs. Morzina Khan Monzu

**Executive Committee**

- Md. Anwarul Haque, Chairman
- M. S. Ahsan
- Al-Haj Akram Hussain (Humayun)
- A. S. M. Feroz Alam
- Md. Abdul Hannan
- Mohd. Selim
- Morshed Alam

**Audit Committee**

- Dr. Mahmood Osman Imam, Chairman
- Md. Shahabuddin Alam
- Al-Haj Mosharref Hossain
- Syed Ashraf Ali

**Company Secretary**

- S.Q. Bazlur Rashid

## 2.5 Corporate Structure of MBL

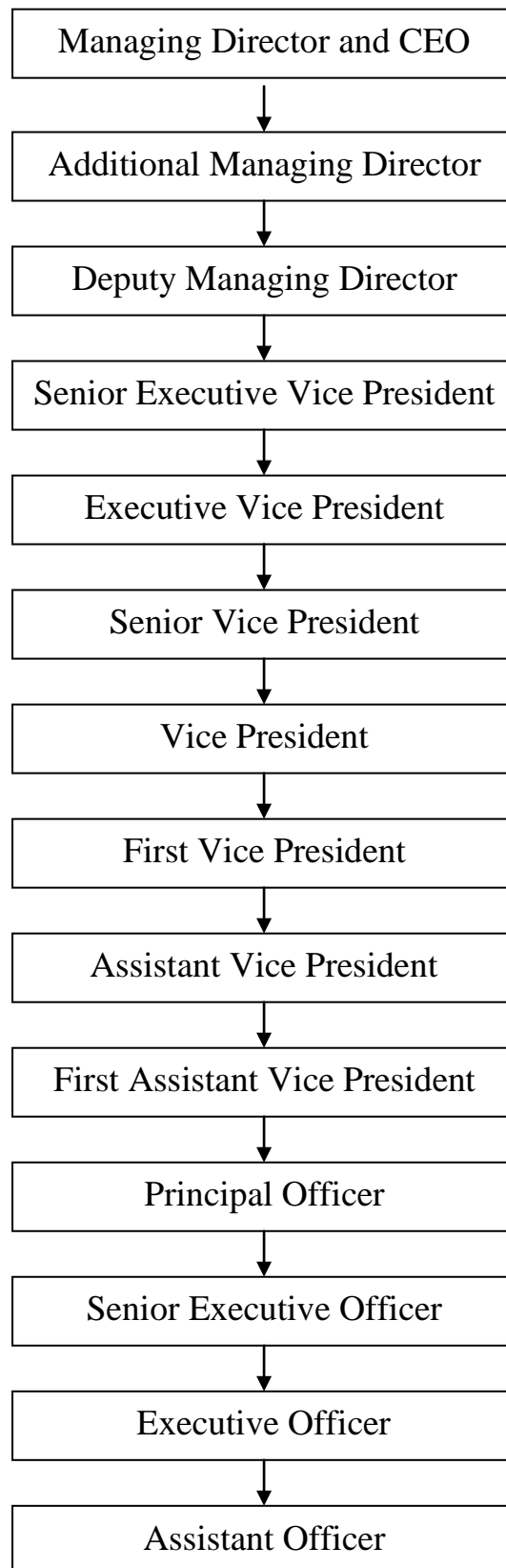


Figure 1: Corporate Structure

## **2.6 Vision, Mission & Objectives**

### **2.6.1 Vision**

Would make finest corporate citizen.

### **2.6.2 Mission**

Will become most caring, focused for equitable growth based on diversified deployment of resources, and nevertheless would remain healthy and gainfully profitable Bank.

### **2.6.3 Objectives**

#### **2.6.3.1 Strategic Objectives**

- ❖ To achieve positive Economic Value Added (EVA) each year.
- ❖ To be market leader in product innovation.
- ❖ To be one of the top three Financial Institutions in Bangladesh in terms of cost efficiency.
- ❖ To be one of the top five Financial Institutions in Bangladesh in terms of market share in all significant market segments we serve.

#### **2.6.3.2 Financial Objectives**

- ❖ To achieve 20% return on shareholders' equity or more, on average.

### **2.6.4 Core values**

#### **For the customers**

Providing with caring services by being innovative in the development of new banking products and services.

#### **For the shareholders**

Maximizing wealth of the Bank.

#### **For the employees**

Respecting worth and dignity of individual employees devoting their energies for the progress of the Bank.



**For the community**

Strengthening the corporate values and taking environment and social risks and reward into account.

**New technology**

Adopting the state-of-the art technology in banking operations.

**2.7 Functions of Mercantile Bank Limited**

The functions of commercial Banks are now wide and varied. However, the functions of Commercial Banks may broadly be classified under the following two categories-

- Primary Functions
- Secondary Functions.

**2.7.1 Primary Functions**

The primary functions of Mercantile Bank Limited are same as other Commercial Banks. These functions includes-

- i) Accepts deposits;
- ii) Lends money;
- iii) Creates credit;
- iv) Creates medium of exchange.

**2.7.2 Secondary Functions**

Modern commercial Banks like MBL, besides performing the functions, cover a wide range of financial and on-financial services to meet the growing needs of the time. Some of these services are available only to the customers while others are available to the public in general.

The subsidiary services provided by a modern banker may be classified into following three groups-

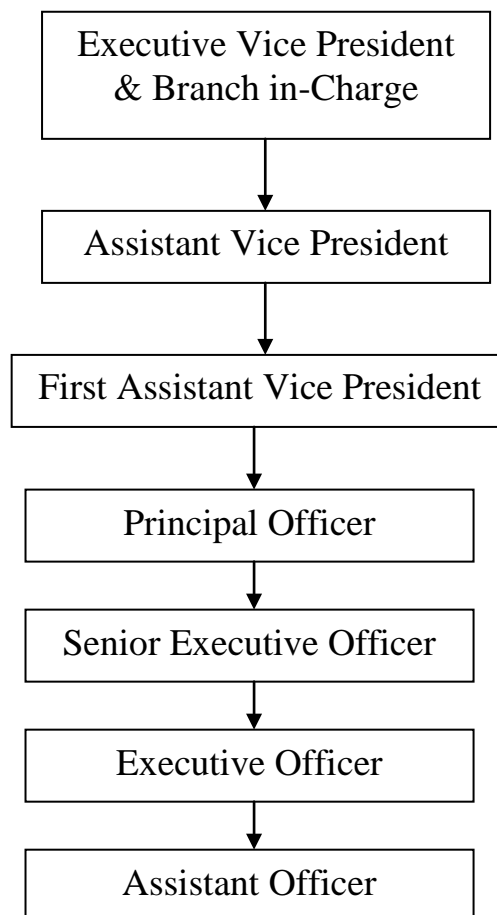
- i) Agency Services; and
- ii) Generally Utility Services
- iii) Foreign Exchange Business

## 2.8 MBL Uttara Branch-At a Glance

### 2.8.1 Start of Operation

Uttara Branch is one of the most profit-oriented branch of Mercantile Bank Limited which started its operation at Rajuk Uttara Model Town on January 31, 2000 with the 18 efficient & responsible officers. Now the number of employees of Uttara Branch is 52.

### 2.8.2 Corporate Structure of MBL, Uttara Branch



**Figure 2: Corporate Structure of MBL, Uttara Branch**

## **2.9 SOWT Analysis of MBL**

SOWT analysis is used to measure views of a single issue from different patterns. From historical data and practical observation, I found the following Strength opportunity, weakness and threat under SOWT analysis of Mercantile Bank Limited:

### **Strength**

- ❖ Not engaged in unfair business practice.
- ❖ Well-known reputed bank in the market.
- ❖ Concentrated market.
- ❖ Officers are highly educated and experienced.
- ❖ Deposit is larger than advance.
- ❖ Attractive credit and deposit schemes than competitive markets.
- ❖ Well-furnished and Air-conditioned Bank.
- ❖ Strictly complies of government banking rules, regulations and acts.

### **Weakness**

- ❖ Small market shares in Banking-business.
- ❖ Short time experience in the banking sector.
- ❖ Growth is slower than other competitive banks.
- ❖ Training programs to officers are not so effective and adequate.
- ❖ Lack of advance technology utilization in all aspects.

### **Opportunities**

- ❖ Can provide more attractive and deposit facilities and credit facilities.
- ❖ Take incentives to provide high quality service.
- ❖ Can increase the advertising of the Bank to highlight latest services of MBL.
- ❖ Can adopt high technology based inter-branch networking system.

### **Threats**

- ❖ The number competitors in banking sectors are increasing.
- ❖ Governments increasing rules and regulations are not so inspiring.
- ❖ Competitive performance is in high positive flow.
- ❖ Competitors are using more advance technological system.
- ❖ Government tendency of imposing tax and VAT is becoming stricter.



*Chapter Three*

*Theoretical Aspects of  
Foreign Exchange*

## 3.1 Foreign Exchange and Foreign Exchange Market

The most important prerequisite of this market is that the buyers and sellers are systematically in contact with each other for the purpose of executing foreign exchange transactions. For establishing the contact, would be buyer need not personally meet the probable sellers. It is of course true that in the early phase of the evolution of foreign exchange business there emerged meeting places known as bourse to conduct dealings in foreign exchange.

To buy foreign goods or services, or to invest in other countries, companies and individuals may need to first buy the currency of the country with which they are doing business. Generally, exporters prefer to be paid in their country's currency or in U.S. dollars, which are accepted all to the world.

The foreign exchange market, or the "FX" market, is where the buying and selling of different currencies takes place. The price of one currency in terms of another is called an exchange rate.

The market itself is actually a worldwide network of traders, connected by telephone lines and computer screens—there is no central headquarters. There are three main centers of trading, which handle the majority of all FX transactions—United Kingdom, United States, and Japan.

### 3.1.1 Foreign Exchange Market Participants

There are four types of market participants—banks, brokers, customers, and central banks.

- ❖ **Banks** and other financial institutions are the biggest participants. They earn profits by buying and selling currencies from and to each other. Roughly two-thirds of all FX transactions involve banks dealing directly with each other.
- ❖ **Brokers** act as intermediaries between banks. Dealers call them to find out where they can get the best price for currencies. Such arrangements are beneficial since they afford anonymity to the buyer/seller. Brokers earn profit by charging a commission on the transactions they arrange.
- ❖ **Customers**, mainly large companies, require foreign currency in the course of doing business or making investments. Some even have their own trading desks if their

requirements are large. Other types of customers are individuals who buy foreign exchange to travel abroad or make purchases in foreign countries.

- ❖ **Central banks**, which act on behalf of their governments, sometimes participate in the FX market to influence the value of their currencies.

In a way, foreign market looks like a clearinghouse to offset the purchases and sales of foreign exchanges. The banks are natural intermediaries for offsetting the transactions, which are carried out on five different planes:

- Between banks and customers
- Between banks in the same market
- Between banks in different centers
- Between banks and central banks
- Between central banks outside the market

### **3.1.2 Three-Tiered Market**

Foreign exchange market in Bangladesh is undeveloped and devoid of sophistication of the type witnessed in the advanced foreign exchange markets in the western world or Far East. The market of Bangladesh is essentially a three-tiered one:

- Between Bangladesh Bank and authorized dealers in foreign exchange (banks)
- Between banks and their correspondents and branches abroad
- Between banks and their customers

### **3.2 Foreign Exchange Transactions**

Conversion of currencies or exchanges is known as foreign exchange transactions. The conversion may arise from a transaction between a bank and another bank at home or abroad. The transactions involve at least two currencies. For a bank in Bangladesh, the process of conversion frequently involves conversion of Bangladesh Taka into foreign currency and vice versa.

### 3.2.1 Types of FX Transactions

There are different types of FX transactions

#### 1. Spot transactions

Spot market - deals with currency for immediate delivery (within one or two business days). Two parties agree on an exchange rate and trade currencies at that rate. This expresses only a potential interest in a deal, without the caller saying whether he wants to buy or sell. Although spot transactions are popular, they leave the currency buyer exposed to some potentially dangerous financial risks/

#### 2. Forward transaction

One way to deal with the FX risk is to engage in a forward transaction. In this transaction, money does not actually change hands until some agreed upon future date. A buyer and seller agree on an exchange rate for any date in the future and the transaction occurs on that date, regardless of what the market rates are then.

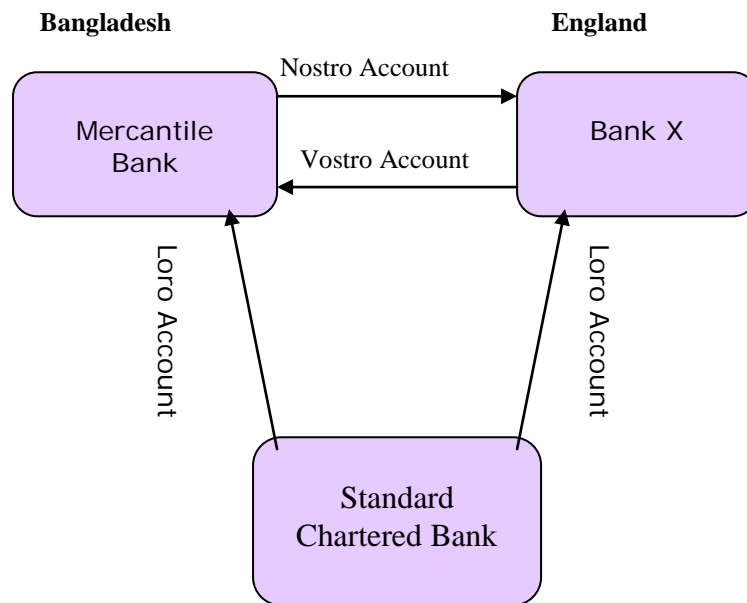
- **Futures:** Foreign currency futures are forward transactions with standard contract sizes and maturity dates — for example, 500,000 British pounds for next November at an agreed rate.
- **Swap:** The most common type of forward transaction is the currency swap. In a swap, two parties exchange currencies for a certain length of time and agree to reverse the transaction at a later date.

#### 3. Options

To address the lack of flexibility in forward transactions, the foreign currency option was developed. An option is similar to a forward transaction. It gives its owner the right to buy or sell a specified amount of foreign currency at a specified price at any time up to a specified expiration date. For a price, a market participant can buy the right, but not the obligation, to buy or sell a currency at a fixed price on or before an agreed upon future date.

### 3.3 Foreign Accounts of Banks

There are generally three types of inter-bank foreign accounts, which are discussed briefly in below:



**Figure 3: Type of Foreign Correspondent Accounts**

- I. Nostro Account:** Nostro account is a Latin word means 'ours'. In order to follow the exact position of the foreign currency accounts maintained by the bank concerned in Bangladesh with bank abroad, banks maintained 'Nostro Account' their own bank. In the Nostro Account bank will show the foreign currency accounts of each transaction and alongside the respective items of domestic currency equivalents are indicated.
- II. Vostro Account:** The word Vostro means 'yours'. It is also called a local currency account. Foreign banks maintained current accounts in domestic currency in local banks and such accounts are called Vostro Account. Generally the Vostro Account are maintained by the foreign banks on a reciprocal basis to effect payment of as well as to receive payment on behalf of their clients.
- III. Loro Account:** The word Loro means 'their'. Foreign bank accounts of any third party, whether in foreign currency or in home currency is treated as Loro Account.



### 3.4 Foreign Exchange Position

The exchange position is the net result of a bank's sales and purchases. An authorized dealer in foreign exchange engages itself in buying and selling currencies of different countries. At one stage it may find itself having sold a substantial amount of a foreign currency while at the same time accumulating sizeable surplus amount of another currency. To keep an eye on the level of purchase and sale of each currency the bank maintains a book, known as position book. Exchange position or open position is the difference between the cumulative sales and purchases of each currency at any stage or context of Bangladesh. There are generally three types of exchange position as follows:

- **Oversold (OS) Position:** When the cumulative sales exceed the purchases including the oversight balance, the bank is said to be 'short' or 'oversold' in the respective currencies.
- **Overbought (OB) Position:** If the amount of a currency purchases at any stage is more than the aggregate amount of sales – both short and forward – the bank reaches what is known as 'long' or 'overbought' position.
- **Square Position:** In the event the amount purchased is equal to the amount sold, the bank reaches a square position. Square position is what a bank wishes to maintain in order to eliminate the risk of adverse movement of the exchange rate on its oversold or overbought position.

#### 3.4.1 Components of Exchange Position:

Exchange position reflects all kinds of sales and purchases in each currency for which a rate of exchange has been agreed upon, explicitly or implicitly, with the customers, other dealers in the market and overseas correspondent and Bangladesh Bank. The purchase side of exchange position consists of the following:

- I. **Inward Remittance:** All inward foreign exchange remittances from the overseas branches and correspondents by means of cables or Mali Transfers payable to local payees and beneficiaries fall in this category.

**II. Outward Bills:** All outward bills purchased, discounted or negotiated shall be entered into the purchase side of the exchange position regardless whether the bill is payable at sight, on demand or after tenor. Cheques and drafts against which payments have not already been made received in banks Nostro Account also fall in this category.

**III. Ready and Forward Purchase:** Ready and forward purchase of a foreign currency in the form of bill or otherwise from customers would come under this head.

**IV. Other Purchases:** All other foreign exchange transaction, both ready and forward including those carried out by the bank to maintain its position and for which a firm rate has been quoted or agreed upon, would fall in this category.

The sales side of exchange position usually consists of the following:

- Outward remittances by means of TT, MT or DD.
- Foreign bills including those relating to imports, which have been paid.
- All sales including forward sales against which firm rates have been quoted.
- Ready and forward sales to maintain the position.

### **3.5 Back Ground of Bank's Involvement in FX**

Banks play a vital role by minimizing the risk of two parties, namely buyer and seller. In fact without the help of banks we cannot think about a congenial international trade environment. Now the question comes how banks help international trade. We know that in a local trade there is a chance to know about each other. But in international trade the involved parties stay two distant places. For a buyer the following risks are involved-

- Risk of non-delivery of goods.
- Risk of receiving sub standard goods.
- Risk of fraud in goods.

For the seller the following risk is involved-

- Risk of non-payment.

To reduce the aforesaid risks and independent system is introduced which will safeguard the buyer as well as seller in an international trade. Actually banks play due role by getting into two parties and bind them.

### **3.6 Factors are considered at Time Foreign Trade Payment**

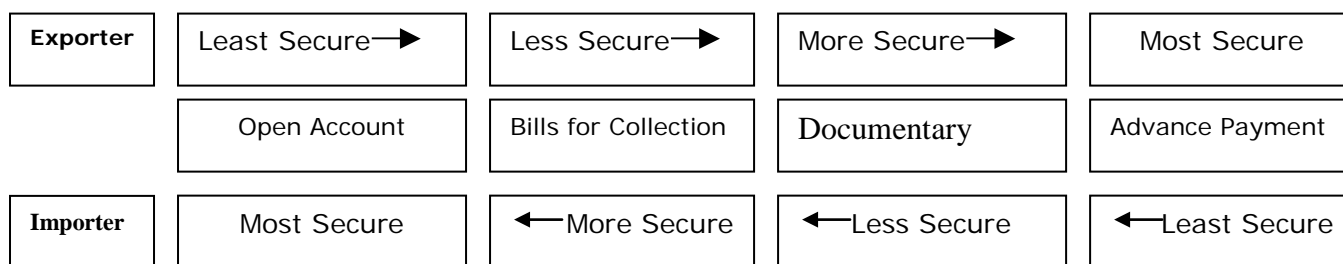
The following factors are usually taken into consideration while deciding about the terms of payment:

- ❖ Exporter's knowledge of the buyer
- ❖ Buyer's financing standing
- ❖ The degree of security of payment
- ❖ Speed of remittance
- ❖ Cost involved in receiving payment
- ❖ Exchange fluctuations in the importing country
- ❖ Competition faced by the seller.

#### **3.6.1 Payment mode of foreign trade**

An export contract can be deemed to be successfully completed when the exporter gets paid for the goods shipped by him, how he has to negotiate between which is to be decided during earlier negotiations between the exporter and the importer. There are five methods of payment which involve varying degrees of risk for the exporters are as follows:

1. Payment in advance
2. Open account
3. Documentary collections
4. Shipment on consignment basis
5. Documentary credit under letter of credit



**Figure 4: Payment Risk Ladder**

### 3.6.1.1 Cash in Advance

In this method of payment buyer pays seller before goods are shipped. Its generally used in case of new relationships and for smaller Transactions where buyer is unable to obtain an L/C. there is no advantage for buyer - Pays prior to receipt of goods and documents. Its adventurous for seller as eliminates risk of non-payment

### 3.6.1.2 Open Account

In open account method Buyer pays seller subsequent to receipt of an invoice, normally after goods are shipped. Its used when there is high trusts relationships between buyer and seller and in inter-company transactions. It allows buyer to delay payment until goods have been examined, and/or goods have been sold. It doesn't give any Advantage to seller - Risks non-payment.

### 3.6.1.3 Documentary Collections

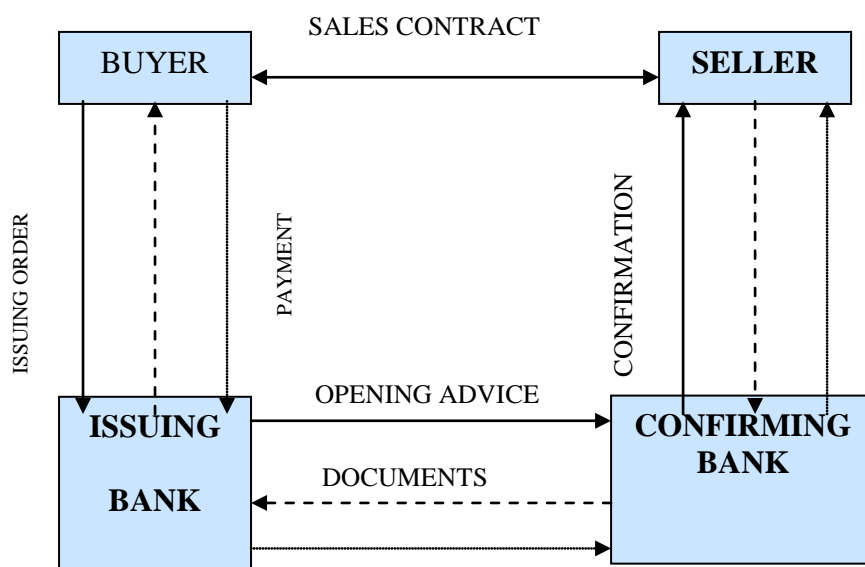
Documents (representing title to the goods) are exchanged through a bank for payment or acceptance (promise to pay). It is used for ongoing business relationships and transactions not requiring the protection and expense of L/C's. Its adventurous for buyer as delays payment until receipt of documents and buyer can be financed directly by seller through use of time drafts. Its benefit able for seller as they can retains title to goods until payment or acceptance.

### 3.6.1.4 Shipment on Consignment Basis

In this method the exporter makes shipment to the overseas consignee/ agent, but the title to the goods, as also the risk attendant thereto, even through the overseas consignee will have the physical possession of the goods. The payment is only made when the overseas consignee ultimately sells the goods to other parties; this producer is rather costly and risky to the exporter.

### 3.6.1.5 Documentary credit under Letter of Credit

The most popular form in recent times, as the credit and payment risks of the exporter can be eliminated under appropriate forms of documentary credit. Documentary credit is any agreement, however named or described whereby a bank (the issuing bank) acting at the request and in accordance with the instructions of the customer (the applicant for the credit) (i) is to make payment to or to the order of a third party (the beneficiary) or is to pay, accept or negotiate bills of exchange (drafts) drawn by the beneficiary or (ii) authorizes such payment to be made or such drafts to be paid, accepted or negotiated by another bank against stipulated documents, provided that the terms and conditions of the credit are complied with.



**Figure 5: Documentary Credit**

### 3.6.2 Letter of Credit

A letter of credit is basically a document issued by a bank guaranteeing a client's ability to pay for goods or services. A bank or finance company issues a letter of credit on behalf of an importer or buyer, authorizing the exporter or seller to obtain payment within a specified timeframe once the terms and conditions outlined in the letter of credit are met. LC is a conditional commitment to pay certain amount after a certain period and some contains are fulfilled. It is useful when the importer or buyer is not well known and when exchange restrictions exist or are possible.

Proper letters of credit have the following basic components:

- ❖ **Applicant:** The party applying for the letter of credit, usually the importer in a grain transaction.
- ❖ **The Issuing Bank:** The bank that issues the letter of credit and assumes the obligation to make payment to the beneficiary, usually the exporter.
- ❖ **Beneficiary:** The party in whose favor the letter of credit is issued, usually the exporter in a grain transaction.
- ❖ **Amount:** The sum of money, usually expressed as a maximum amount, of the credit defined in a specific currency.
- ❖ **Terms:** The requirements, including documents that must be met for the collection of the credit.
- ❖ **Expiry:** The final date for the beneficiary to present against the credit.

#### 3.6.2.1 Letters of Credit Parties Involved

- ❖ **Advising Bank:** Denotes the bank giving notification of the terms and conditions of a letter of credit to the beneficiary (seller). The advising bank also takes reasonable care to check the apparent authenticity of the letter of credit, which it advises.
- ❖ **Applicant:** The party who applies to the opening (issuing) bank for the issuance of a letter of credit.
- ❖ **Beneficiary:** The party in whose favor the letter of credit has been established. The beneficiary is the party who demands payment under the letter of credit.
- ❖ **Confirming Bank:** A bank, that at the request of the issuing bank, assures that drawings under the credit will be honored (provided the terms and conditions of the credit have been met).

- ❖ **Drawee Bank:** The bank on which the drafts specified in the credit are drawn and from which payment is expected.
- ❖ **Issuing Bank (Opening Bank):** The bank, which issues the letter of credit on behalf of the applicant.
- ❖ **Negotiating Bank:** Bank, other than the issuing bank, which elects to "negotiate" (advance funds or give value to the beneficiary) against presentation of complying documents.
- ❖ **Paying Bank:** The bank authorized in the letter of credit by the issuing bank to honor sight or deferred payments under the terms specified in the credit. (If this bank is the advising bank, it has no obligation to honor documents; however, if this is a confirming bank, it is obligated to pay against complying documents.)
- ❖ **Presenting Bank:** The bank that forwards the documents directly to the issuing bank to obtain settlement.
- ❖ **Reimbursing Bank:** The bank authorized by the issuing bank to reimburse the drawee bank or other banks submitting claims under the terms of the credit.
- ❖ **Transferring Bank:** A bank authorized by the issuing bank as specified in the credit that can transfer the issuing bank's documentary credit from one beneficiary to another at the request of the first beneficiary.

### **3.6.2.2 Types of Documentary of Credit**

Banks may issue several types of Documentary of credits. It is best for importers and exporters to meet with their banking officer to determine which type of credit best suits their needs. The most common types of letters of credits are:

#### **Revocable Credit**

A revocable letter of credit allows for amendments, modifications and cancellation of the terms outlined in the letter of credit at any time and without the consent of the exporter or beneficiary. Because this places the exporter at risk, revocable letters of credit are not generally accepted.

#### **Irrevocable Credit**

An irrevocable letter of credit requires the consent of the issuing bank, the beneficiary and applicant before any amendment, modification or cancellation to the original terms can be made. This type of letter of credit is commonly used and preferred by the exporter or beneficiary because payment is always assured, provided the documents submitted comply with the terms of the letter of credit. Irrevocable letters of credit can be both confirmed and unconfirmed.

#### **Add Confirmed Credit**

When a third Bank provides guarantee to the beneficiary to make payment, if issuing Bank fail to make payment, the L/C is called confirmed L/C. In case of a confirmed L/C a third Bank adds their confirmation to the beneficiary, to make payment, in addition to that of issuing Bank. Confirmed L/C gives the beneficiary a double assurance of payment.

### **3.6.2.3 Common forms of Documentary of Credit**

The most three general type documentary credit is discussed above but combinations of these three show us different forms documentary credit such as:

#### **Transferable**

Irrevocable letter of credit may also be transferable. With a transferable letter of credit, the exporter can transfer all or part of his rights to another party. Transferable letters of credit are



often used when the exporter is the importer's agent or a middleman between supplier and importer, and not the actual supplier of merchandise. With a transferable letter of credit, the exporter uses the credit standing of the issuing bank and avoids having to borrow or use his own funds to buy goods from a supplier. Hence, it is a viable pre-export financing vehicle.

### **Confirmed**

A confirmed letter of credit is when a second guarantee is added to the document by another bank. The advising bank, the branch or the correspondent through which the issuing bank routes the letter of credit, adds its undertaking and commitment to pay to the letter of credit. This confirmation means that the seller/beneficiary may also look to the credit worthiness of the confirming bank for payment assurance.

### **Unconfirmed**

An unconfirmed letter of credit is when the document bears the guarantee of the issuing bank alone. The advising bank merely informs the exporter of the terms and conditions of the letter of credit, without adding its obligation to pay. The exporter assumes the payment risk of the issuing bank, which is typically located in a foreign country.

### **Back-to-Back Letters of Credit**

Back-to-back letters of credit are two individual letters of credit that together offer an alternative to a transferable letter of credit. The back-to-back letter of credit allows exporters (sellers or middlemen) who do not qualify for unsecured bank credit to use a letter of credit as security for a second letter of credit in favor of a supplier. In other words, if a foreign buyer will issue a letter of credit to an exporter, certain banks and trade finance companies will issue independent letters of credit to the exporter's suppliers so that the required goods can be purchased. Even if the initial letter of credit is not successfully completed, the second remains valid, and the issuing bank is obligated to pay under its terms.

### **Standby Letter of Credit**

Unlike a commercial letter of credit, which is basically a payment mechanism, a standby letter of credit is a form of a bank guarantee. It may be used as necessary to cover nonpayment of a financial obligation. A standby letter of credit normally is intended to drawn on only in the event of nonpayment. The standby letter of credit is issued by the bank and

held by the seller, who in turn provides the customer open account terms. If payment is made according to the seller's terms, the letter of credit is never drawn on. However, if the customer is unable to pay, the seller presents a draft, and all other documents as required, to the bank for payment. The standby letter of credit typically expires within 12 months.

### **Cash Advance against Letter of Credit**

A cash advance against a letter of credit works like back-to-back letters of credit, with the exception that the bank or financing company will issue cash to the suppliers instead of another letter of credit.

### **Red Clause Credit**

When the clause of the credit authorizing the negotiating bank to provide pre-shipment advance to the beneficiary is printed /typed in red, the credit is called 'Red Clause Letter of Credit'. Under the above-mentioned clauses, the opening bank is liable for the pre-shipment advances made by the negotiating bank, in case the beneficiary fails to repay or deliver the documents for negotiation.

### **Green Clause Credit**

A Green Clause Credit is a credit with a special clause incorporated into it that which not only authorizes the advising bank to grant pre-shipment advances but also storage cost for storing the goods prior to shipment.

### **3.6.2.4 Operations of Documentary Letters of Credit**

The following five major steps are involved in the operation of a documentary letter of credit:

#### **Opening of Letter of Credit**

Opening of letter of credit means, at the request of the applicant (importer) issuance of a L/C in favour of the beneficiary (exporter) by a Bank. The Bank, which open or issue L/C opening Bank or issuing Bank.

#### **L/C Advising**

Advising through a Bank is a proof of evident authenticity of the credit to the seller. The process of advising a credit consists of forwarding the original credit to the beneficiary to whom

it is addressed. Before forwarding the advising Bank verify the signature (s) of the officer (s) of the issuing Bank & ensure that the terms & condition are not in violation of existing exchange control regulation & the other regulation relating to export. If credit is transmitted via telex, advising Bank will match the test used in the telex.

### **Amendment of Credit**

Parties involved in a L/C, particularly the seller and the buyer, cannot always satisfy the terms and conditions in full as expected due to some obvious and genuine reasons. In such a situation, the credit should be amended.

### **Presentation of Document**

The seller being satisfied with the terms and conditions of the credit proceeds to dispatch the required goods to the buyer and after that, has to present the documents evidencing dispatching of goods to the negotiating bank on or before the stipulated expiry date of the credit. After receiving the entire document, the negotiating bank then checks the documents against the credit. If the documents are found in order, the bank will pay, accept or negotiate to the issuing bank. The issuing bank also checks the documents and if they are found as per credit requirements, either effects payment, or reimburse in the pre-agreed manner.

- ❖ **Lodgment:** If import documents found in order, it to be made entry in the bill register and necessary voucher to be passed, putting bill number on the documents, these processes is called lodgment of the bill. Since the documents stay at this stage for a temporary period i.e. up to retirement of the documents, the process is called lodgment. Bank must lodge the documents immediate after receipt of the dame, not exceeding seven (7) Banking days, following the day of receipt of the documents.
- ❖ **Retirement of Import documents:** When the importer releases the import document from the Bank by acceptance/cash payment or under post import Bank finance it is known as retirement of the import document.
- ❖ **Refusal Notice:** After examination, if the documents become discrepant, issuing Bank will through the refusal notice to the negotiating Bank with seven Banking days.

### **Settlement**

Settlement means fulfilling the commitment of issuing Bank in regard to effecting payment subject to satisfying the credit terms fully. This settlement may be done three separate arrangements as stipulated in the credit

### 3.7 Main Types of Money Transfers through Banks

- ❖ **SWIFT Inter-Bank Transfer:** Now firmly established as standard practice in the major trading nations. The buyer will instruct their bank to make payment to any bank account specified by the exporter. It is good practice, therefore, for the exporter to include their account details on their invoice heads.
- ❖ **Buyer's Cheque:** An unsatisfactory method of settlement for the exporter as it carries the risk of dishonor upon presentation as well as the added inconvenience of being slow to clear. There is also the very real danger of the cheque being lost in transit as well. A cheque is also unsatisfactory if it is in the currency of the buyer, as this will take longer to clear and will involve additional bank charges. Exporters should only use this method if they have an established trading history with their customer or in cases where the profit margin has been increased to offset cash flow problems anticipated by the delay in receiving payment.
- ❖ **Banker's Draft:** The buyer who asks their bank to raise a draft on its corresponding bank in the exporter's country arranges this. Provides additional security to a buyer's cheque, but they can be costly to arrange and they do run the risk of getting lost in transit.
- ❖ **International Money Orders:** These are similar in nature to postal orders. They are pre-printed therefore cheaper to obtain than a Banker's Draft, although again there is the risk of loss in transit.



*Chapter Four*

*Foreign Exchange  
Regulations in Bangladesh*

## 4.1 Foreign Exchange Regulations

Foreign Exchange Regulation (FER) Act, 1947 (Act No. VII of 1947) enacted on 11th March, 1947 in the then British India provides the legal basis for regulating certain payments, dealings in foreign exchange and securities and the import and export of currency and bullion. This Act was first adapted in Pakistan and then, in Bangladesh. Bangladesh Bank is responsible for administration of regulations under the Act. The acts and regulations that provides guideline to control Foreign exchange transactions are the following:

- Foreign Exchange regulation act 1947.
- Bangladesh Bank issues foreign exchange circular from time to time to control the export, import & remittance business.
- Ministries of commerce issues export & import policy giving basic formalities for import & export business.
- Sometime CCI&E issues public notice for any kind of change in foreign exchange transaction.
- Bangladesh bank published two volumes in 1996. This is compilation of the instructions to be followed by the authorized dealers in transactions related to foreign exchange.
- Uniform Customs & Practices for Documentary Credit (UCPDC) published by international Chamber of Commerce (1993) Revision.

## **4.2 Purpose of FER Act**

Basic regulations under the FER Act are issued by the Government as well as by the Bangladesh Bank in the form of Notifications, which are published in the Bangladesh Gazette. Directions having general application are issued by the Bangladesh Bank in the form of notifications, foreign exchange circulars and circular letters.

Authorized Dealers (ADs) in foreign exchange are required to bring the foreign exchange regulations to the notice of their customers in their day-to-day dealings and to ensure compliance with the regulations by such customers. The ADs should report to the Bangladesh Bank any attempt, direct or indirect, of evasion of the provisions of the Act, or any rules, orders or directions issued there under.

The ADs must maintain adequate and proper records of all foreign exchange transactions and furnish such particulars in the prescribed returns for submission to the Bangladesh Bank. They should continue to preserve the records for a reasonable period for ready reference as also for inspection, if necessary, by Bangladesh Bank's officials.

The instructions issued under the FER Act as well as the prudential instructions issued by Bangladesh Bank (as of 30th September, 1996) to be followed by ADs in their day-to-day foreign exchange transactions.

### **4.2.1 Terms Related to FER Act**

Terms having a special meaning for the purpose of the FER Act are defined under Section 2 of that Act. However, the instructions issued by the Bangladesh Bank from time to time, the following terms as defined below shall be used in addition to those defined under Section 2 of the FER Act:

#### **(i) Resident and Non-Resident**

A resident is a person bank or firm who/which resides in Bangladesh. A non-resident is a person; bank or firm who/which resides outside Bangladesh. Non-residents include Bangladesh nationals who go out of Bangladesh for any purpose (for details of this category of non-resident please see Chapter 12). A person is presumed to be ordinarily resident if he maintains a home in Bangladesh or resides in the country for a substantial part of each year or

pays income tax as a resident of Bangladesh. On the other hand, the fact that a person gives an address in Bangladesh does not necessarily mean that he should be regarded as a resident if he is, in fact, only a temporary visitor and is ordinarily resident elsewhere.

**(ii) Bangladesh Bank**

Bangladesh Bank (BB) means the Bangladesh Bank established under the Bangladesh Bank Order, 1972 (President's Order No. 127 of 1972).

**(iii) Taka**

Taka means the Bangladesh Taka unless otherwise specified.

**(iv) Dollar**

Unless otherwise indicated the term dollar used in this publication shall mean the US dollar.

**(v) Authorized Dealers**

Wherever used in this publication, the term Authorized Dealer or AD would mean a bank authorized -by Bangladesh Bank to deal in foreign exchange under the FER Act, 1947.

## **4.3 Licenses to Deal in Foreign Exchange**

Bangladesh Bank issues licenses normally to scheduled banks to deal in foreign exchange if it is satisfied that the bank applying for this license has adequate manpower trained in foreign exchange, there is prospect to attract reasonable volume of foreign exchange business in the desired location and the applicant bank meticulously complies with the instructions of the Bangladesh Bank especially with regard to submission of periodical returns. Bangladesh Bank may issue general licenses or licenses with authority to perform limited functions only.

## **4.4 Bangladesh Bank's Transactions with Ads**

Bangladesh Bank's purchases and sales from and to the ADs are in US Dollar only, on spot basis. All such transactions with Bangladesh Bank are required to be in multiples of US\$ 10,000, subject to a minimum of US\$ 50,000. ADs are free to quote their own rates, ready and forward, for transactions in the inter bank market and with their customers.



The Central Banks of Bangladesh, India, Iran, Nepal, Pakistan, Sri Lanka, Bhutan and Myanmar have an Agreement to settle current transactions between these countries through the Asian Clearing Union (ACU) mechanism. All such payments to the ACU member countries excepting those covered by loan/ credit agreements are accordingly settled through the Asian Clearing Union (ACU) mechanism in Asian Monetary Unit (AMU, also called ACU dollar) which is defined as equivalent to the US dollar.

Bangladesh Bank operates a foreign currency clearing system enabling the AD banks to settle their mutual claims in US dollar, Pound Sterling, Euro and Japanese Yen arising from inter bank transactions; to economize the time and cost involved in settlements through correspondents abroad. Under this arrangement, AD banks maintain clearing accounts with the BB in US dollar, pound sterling, Euro and Japanese yen. Apart from the purpose of settlement with other ADs, these accounts may also be used for transfers to and from correspondents abroad.

#### **4.5 Foreign Currency Accounts of the ADs and Purchase and Sale of Foreign Currency**

ADs, may maintain accounts in freely convertible currencies with their correspondents/ branches abroad. Accounts may also be maintained in ECU for the purpose of investment of surplus fund, if any, of the ADs.

The foreign currencies held by the ADs shall at all time deemed to be held at the disposal of the Bangladesh Bank. The Bangladesh Bank, through its Foreign exchange Policy Department, may give such instructions with regard to the disposal of such currencies, as it may deem necessary and expedient.

The Bangladesh Bank sets prudential limits on each AD bank's open (overbought/oversold) exchange position. The AD should ensure that the prescribed open position limit is not exceeded. If an AD exceeds the prescribed limit and fails to furnish satisfactory explanation for the same, it may be asked to sell the excess amount ready and to cover its position by buying forward for deliveries corresponding to the maturities of its own forward obligations.

In general, the ADs should aim at maintaining their ready and forward positions month by month reasonably in line, avoiding heavy ready purchases against forward commitments.

The ADs are required to work out their open exchange position daily and to report to the Bangladesh Bank the positions (overbought / oversold) as at the close of business on Thursday of each week (See Chapter 2, Vol. 2). If for reasons beyond control the overbought/oversold position during the period under report is in excess of the prescribed limit, a letter explaining the circumstances must accompany the weekly return.

The ADs may freely enter into transactions for sale or purchase of foreign currencies both ready and forward with other ADs, foreign correspondents and overseas branches provided that all such transactions must be reported to the Bangladesh Bank in the appropriate returns

#### **4.6 Non-Resident Taka Accounts of Foreign Bank Branches and Correspondents**

The Taka accounts of all foreign bank branches or correspondents Outside Bangladesh are regarded as non-resident accounts. The accounts of different branches of the same bank situated in different countries must be identified separately and the accounts of each branch or group of branches in one country should be designated as accounts of that country.

ADs may freely open or continue to maintain Non-Resident Taka Accounts in the names of their overseas branches and correspondents against inward remittance in convertible currencies only. Transfer between non-resident Taka accounts are permitted freely. Approved foreign currency may also be sold to non-resident bank branches and correspondents provided the remittance is charged against credit balances held in the non-resident Taka account. Non-resident Taka accounts may be opened with initial deposits sent from abroad in a freely convertible currency. New non-resident Taka accounts opened by the ADs must be reported to the Bangladesh Bank with details.

Payments from and receipts to the non-resident Taka accounts constitute purchases or inward remittances and sales or outward remittances respectively of foreign currency. Consequently, all the regulations and instructions applicable to inward and outward remittances shall apply

mutatis mutandis to payments, made to and from these accounts. All credits and debits and balances on non-resident Taka accounts of foreign bank branches and correspondents will be reported in the appropriate Returns.

## **4.7 Forward Dealings in Foreign Exchange**

ADs, on their own, are free to buy and sell foreign currencies forward in accordance with tile internationally established practices however, in all cases the ADs must ensure that the cover is intended to neutralize the risks arising from definite and genuine transactions. Be it forward sale or purchase, ADs must cover their own risk within die shortest possible time.

All forward contracts should be treated as firm and should be closed out on expiry. In such cases the ADs should charge the difference between the contracted (booked) rate and the TT clean spot buying or TT spot selling rate, as the case may be, ruling on the date the contract is closed out. The forward contract should be closed without charging any difference if the rate moves in favor of the customer on the date of the closure. In other words, in case of a forward purchase by Authorized Dealer no difference will be charged if the TT spot selling rate on the date of closure is at par or lower (i.e., inferior from the point of view of tile customer) than the booked rate. Similarly, no difference should be charged for closing out a forward sale contract if the TT clean spot buying rate on the date of closure is at par or higher (i.e., costlier than the booked rate from the point of view of the customer) than the booked rate. No forward contract should be renewed at the old rate. All cases of renewal should be treated as new contracts and the rates as applicable for purchase-sale of forward contracts on the date of renewal should be applied.

The ADs may undertake swap transactions to cover their risks arising from forward transactions. However, they are advised to refrain from taking speculative positions through swap transactions.

All documents (copy of LC, contracts etc.) relating to forward contracts and Swap transactions must be, preserved for subsequent inspection by the Bangladesh Bank.

## **4.8 Outward Remittances**

Most outward remittances are approved by the ADs, on behalf of the Bangladesh Bank following declaration of Taka as convertible for current accounts payments from March 1994. Only a few remittances of special nature require Bangladesh Bank's prior approval.

All remittances from Bangladesh to a foreign country or local currency credited to on resident Taka accounts of foreign banks or convertible Taka account constitutes outward remittances of foreign exchange. ADs must exercise utmost caution to ensure that foreign currencies remitted or released by them are used only for the purposes for which they are released; they should also maintain proper records for submission of returns to Bangladesh Bank as also for the latter inspection from time to time.

In all cases of purchase of foreign currency an application must be made to an AD and, wherever necessary to Bangladesh Bank. For payments against imports into Bangladesh, the prescribed application form is form IMP and for other types of remittances forms TM. TM form must be used for reporting by the ADs even when remittance is approved by Bangladesh Bank in any other manner, for instance by issuing a special permit. On receipt of the application in the prescribed form, the ADs may affect the sale of foreign exchange if they are empowered to approve the application. If the transaction requires prior approval of the Bangladesh Bank, the form should be forwarded by the AD to the Bangladesh Bank for consideration.

## **4.9 Inward Remittances**

The term "Inward Remittances" includes not only remittance by T.T., M.T., Drafts etc., but also purchases of bills, purchases of drafts under Travelers' Letters of Credit and purchases of Travelers' Cheques.

The ADs may freely purchase foreign currencies or raise debits to non-resident Taka Accounts of the respective bank branches and correspondents. Remittances equivalent to US\$ 2000 and above should be reported on Form C attached to the appropriate schedule. However, declaration on Form C by the beneficiary is not required against remittances sent by Bangladesh nationals working abroad. The purpose of remittances should be clearly stated on the Form C. Where the country of origin of funds and currency in which remittances

received are the same, the ADs may submit a consolidated Form C in respect of those remittances attaching therewith a separate list showing details of remittances comprising the amount reported on Form C. Remittances received against exports should be certified and reported on EXP Forms. In case of remittance received in advance for exports the AD should obtain a signed declaration from the beneficiary on the back of the "Advance Receipt Voucher" certifying the purpose of remittance.

There is no objection to the ADs obtaining reimbursement from non-resident banks in freely convertible foreign currency in respect of Taka bills and drafts purchased by them under instructions from such a non-resident bank whether under Letters of Credit or under other arrangements.

If an inward remittance already reported to the Bangladesh Bank is cancelled, either in full or in part, because of non-availability of beneficiary, the ADs must report the cancellation of the inward remittance as an outward remittance on TM form. The return in which the reversal of the transaction is reported should be supported by a letter giving the (a) reference of the return in which the inward remittance was reported (b) name and address of the beneficiary (c) amount and the reason for cancellation and (d) amount of the purchase as effected originally.

#### **4.10 Dealing in Foreign Currency Notes and Coins**

No person, firm or company other than an AD or Authorized Money Changer is permitted to deal in foreign currency in any form. Other persons entering into transactions involving the buying or otherwise acquiring or borrowing from or selling or otherwise transferring or lending to or exchanging with, a person who is not an AD or Authorized Money Changer any foreign currency, will, therefore, be deemed to be contravening the provisions of the FER Act.

ADs and moneychangers may freely buy foreign currency from incoming passengers regardless of nationality and regardless of whether or not a declaration on form FMJ is produced at the time of encashment. If this form is produced, the amount en-cashed should be endorsed on it. The ADs may also purchase foreign currency notes, coins and other travel instruments freely from Authorized Money Changers without the production of Form FMJ.

The ADs are permitted to dispose of foreign currency notes etc. by way of sales to other ADs and the general public in accordance with the instructions of the Bangladesh Bank.

They may also dispatch to agents or correspondents abroad for credit to their Foreign Currency Accounts with the approval of the Bangladesh Bank. Application for Bangladesh Bank's permission should be made in duplicate; Bangladesh Bank's permission will be given in the duplicate copy. For reasons of security, strict confidentiality should be maintained for communications with Bangladesh Bank; this may preferably be done through personal calls on the senior officials of the Bangladesh Bank's Foreign Exchange Policy Department.

In addition to normal purchases from the public, authorized money changers and other authorized dealers, aft AD may supplement their holdings of foreign currency notes from abroad with approval from the Bangladesh Bank.

All purchases of foreign currency notes and coins made by the ADs and Authorized Money Changers are entirely on their own responsibility and they must make their own arrangements for realizing the proceeds of surplus foreign currency notes and coins purchased by them which cannot be sold to their customers as permitted under the Regulations. The ADs may realize the value of surplus foreign currency notes and coins by repatriating them through their foreign branches or correspondents and having the proceeds credited to their appropriate Foreign Currency Accounts.

## **4.11 Different Currency Accounts**

### **4.11.1 Private Foreign Currency Account**

The ADs may without prior approval of the Bangladesh Bank open foreign currency accounts in the names of-

- (a) Bangladesh nationals residing abroad
- (b) Foreign nationals residing abroad or in Bangladesh and also foreign firms registered abroad and operating in Bangladesh or abroad
- (c) Foreign missions and their expatriate employees.

Foreign exchange earned through business done or services rendered in Bangladesh cannot be put into these accounts. Credits to a foreign currency account may be made against inward remittance of foreign exchange in any form or transfer from another of account or non-resident Taka accounts of banks abroad. Bangladesh Bank may specially allow opening of foreign currency accounts not covered by this general authorization.

#### **4.11.2 Non-resident Foreign Currency Deposit Account**

All non-resident Bangladesh nationals and persons of Bangladesh origin including those having dual nationality and ordinarily residing abroad may maintain interest bearing time deposit accounts named "Non-Resident Foreign Currency Deposit (NFCD) Account" with the ADs.

Bangladesh nationals serving with Embassies/High Commissions of Bangladesh in foreign countries as also the officers/staff of the Government/semi-Government departments/nationalized banks and employees of body corporate posted abroad or deputed with International and Regional agencies like IMF, World Bank, IDB, and ADB etc. during their assignments abroad may open such accounts. Crewmembers of the Bangladeshi shipping companies are not entitled to open such accounts, but shore staff posted abroad may open such accounts. Accounts may also be opened with funds transferred from existing foreign currency accounts maintained by the wage earners with the ADs in Bangladesh.

#### **4.11.3 Resident Foreign Currency Deposit Account**

Persons ordinarily resident in Bangladesh may open and maintain Resident Foreign Currency Deposit (RFCD) accounts with foreign exchange brought in at the time of their return from travel abroad. Any amount brought in with declaration to Customs Authorities in form FMJ and upto US \$ 3000 brought in without any declaration, can be credited to such accounts. However, proceeds of export of goods or services from Bangladesh or commission arising from business deals in Bangladesh shall not be credited to such accounts.

Balances in these accounts shall be freely transferable abroad. Fund from these accounts may also be issued to account-holders for the purpose of their foreign travels in the usual manner (i.e. with endorsement in passport and ticket, upto US \$ 1500 in the form of cash currency notes and the remainder in the form of TC).

## 4.12 Activation of Foreign Exchange Market

Bangladesh Bank has taken the following steps to help stimulate/activate the interbank foreign exchange market:

1. Bangladesh Bank has stopped sales and purchases with ADs of any currency other than the US Dollar, to encourage interbank cross currency transactions.
2. To encourage inter-bank deals and to dissuade frequent recourse to transactions with the central bank, Bangladesh Bank has raised its transaction threshold to US\$ 50,000 with values in multiples of US\$ 10,000, for its deal with ADs. The exchange rates for the Bangladesh Bank's spot purchase and sales transactions of US Dollars with ADs is decided on a case to case basis, Bangladesh Bank does not undertake any forward transaction with ADs. The ADs are free to quote their own spot and forward exchange rates for inter-bank transactions and for transactions with non-bank customers.
3. To provide greater flexibility in the foreign exchange transactions of ADs, Bangladesh Bank has abolished their foreign exchange holding limits; they are, however, required to be within the open position limits prescribed by Bangladesh Bank in respect of exposure to exchange rate fluctuation risk.
4. Bangladesh Foreign Exchange Dealers Association (BAFEDA) has been formed and a “Code of Conduct” for treasury operations and interbank foreign exchange market has been formulated.
5. ADs have been allowed to maintain with Bangladesh Bank FC Clearing Accounts in Euro, Japanese Yen, as well as US Dollar & pound sterling.



## 4.13 Submission of Returns of Foreign Exchange Transactions

Authorized Dealers must maintain proper records of all in foreign exchange including transactions on non-resident Taka dealings accounts in their books. Authorized Dealers must submit Returns and Statements to the Bangladesh Bank as prescribed regulations. Where there is no transaction to report during a particular period, a NIL Return/ Statement should be submitted. The Returns/ Statements must be submitted to the Bangladesh Bank within the prescribed dates. These Returns/ Statements are of great importance to the Bangladesh Bank and it is essential, therefore, that care should be taken by the Authorized Dealers to ensure that all transactions are correctly reported and the relative forms are properly filled in. The Bangladesh Bank will take a serious view of the failure of any branch of an Authorized Dealer to furnish returns regularly or Promptly as well as of irregularities. If any, detected in the operations of any branch and where it deems fit, it may direct the Authorized Dealer concerned to refrain from transacting foreign exchange business at the branch concerned.

The system of reporting transactions is designed to compile figures on the basis of actual entries in the currency accounts so that there are no Suspense items. Authorized Dealers should report transactions as per following procedure:

### 4.13.1 Exports

- **Export bills drawn under confirmed and irrevocable Letters of Credit:** Transactions in respect of export bills negotiated by Authorized Dealers should be reported as purchases only at the time entries are made in the currency account duly supported by EXP Form and Schedule A.
- **Export bills drawn on collection basis:** Sometimes Authorized Dealers also purchase export bills drawn on collection/CAD basis. Transactions relating to such export bills should be reported as outright purchases against "Exports" in the Summary Statement after the transactions are put through the currency account on receipt of advice of realization of the export proceeds.

The following reporting procedure will be observed with regard to the export bills re-discounted with the Bangladesh Bank.

- **Export bills pertaining to head office or branch maintaining independent currency account:** When export bills are re-discounted with the Bangladesh Bank, the transactions should be reported as purchases in the Summary Statement supported by Schedule A and EXP Form and the contra entries should be reported on Schedule D as sales to the Bangladesh Bank.
- **Export bills pertaining to branch not maintaining its own currency account:** As and when the export bills are re-discounted by the Bangladesh Bank the branch concerned will report the transaction as purchase in the Summary Statement duly supported by Schedule A and EXP form. The head office of the bank maintaining the currency account will report the said purchase under the head "Branch transactions adjusted through this Account" supported by Schedule O and the contra entry should be reported on Schedule D as sale to the Bangladesh Bank. Authorized Dealers should ensure that transactions by head office and the branch are booked in the same reporting period.

#### **4.13.2 Other Receipts**

The procedure indicated in subpara (a) (i) above should also be followed with regard to DDs and MTs etc.; In other words, purchases in respect of DDs and MTs etc. should be reported only when the transactions are put through the currency accounts.

#### **4.13.3 Imports**

In case of import bills drawn under Letters of Credit, the foreign currency accounts of the Authorized Dealers are debited at the time of negotiation of documents by their foreign correspondents. Accordingly, sales on account of import bills drawn under confirmed and irrevocable Letters of Credit should be reported when the transactions are put through the currency account on receipt of import documents and not on the basis of retirement of bills by the importers.

All sales on account of imports are required to be supported by the original copy of the IMP Form. In view of the time lag between the date of receipt of the import bills and the date of their retirement by the importers it may not be possible to submit original copy of the IMP Form duly signed by the importers. In such cases, Authorized Dealers should fill in the

quadruplicate copy of the IMP Form and submit it along with the relevant schedule and the Summary Statement. The original copy of the IMP Form should be submitted after the importer has signed it.

With regard to import bills received on collection/ CAD basis, the transactions will be reported on Schedule E-2 supported by original IMP Form.

#### **4.13.4 Other Payments**

Transactions relating to DDs and MTs issued by the Authorized Dealers should also be reported only at the time entries are made in the currency accounts. Transactions in non-resident Taka accounts of foreign banks and correspondents including barter accounts should also be reported by Authorized Dealers in the manner indicated in this paragraph.



*Chapter Five*  
*Foreign Exchange Management*  
*of*  
*Mercantile Bank Limited*

## **5.1 Foreign Exchange Department of MBL**

International trade shapes our everyday lives and the world we live in. Nearly every time we make a purchase we are participating in the global economy. International trade is the system by which countries exchange goods and services. Countries trade with each other to obtain things that are better quality, less expensive or simply different from what is produced at home.

To buy foreign goods or services, or to invest in other countries, companies and individuals may need to first buy the currency of the country with which they are doing business. Generally, exporters prefer to be paid in their country's currency or in U.S. dollars, which are accepted all to the world.

The procedures used to exchange currency in international trade are called foreign exchange system, banks plays vital roles in this procedures world widely. The Bangladeshi banks provide foreign exchange services under, Foreign Exchange Act, 1947 is for dealing in foreign exchange business, and Import and Export Control Act, and 1950 is for Documentary Credits. MBL has also become a member of SWIFT (Society For Worldwide Inter Bank Financial Telecommunication) in 2000, which provides a fast, secured & accurate communication network for financial transactions such as letter of credit, fund transfer etc. As an authorized dealer under regulations of BB, MBL Uttara Branch provides the followings three type services under their foreign exchange department.

- ❖ **Import Services**
- ❖ **Export Services**
- ❖ **Remittance Services**

## **5.2 Foreign Currency Accounts offered by MBL**

Following the liberalization of exchange controls Bangladesh Bank has authorized the banks to maintain different types of foreign currency accounts and convertible Taka accounts. The following are the regulations laid down by Bangladesh in respect of these accounts.

### **5.2.1 Who can open the accounts?**

Branches of Mercantile Bank Limited may open Foreign Currency Accounts in the names of:

- ❖ Bangladesh nationals residing abroad
- ❖ Foreign nationals residing abroad or Bangladesh and foreign firms operating in Bangladesh or abroad
- ❖ Foreign missions and their expatriate employees.

#### **5.2.1.1 Resident Foreign Currency Deposit (RFCD)**

This is a foreign currency denominated account. Those who domicile in Bangladesh but have to remit money to abroad because of various reasons.

#### **5.2.1.2 Non Resident Foreign Currency Deposit (NFCD)**

This is a foreign currency denominated account. Those who doesn't domicile in Bangladesh but have to remit money to Bangladesh because of various reasons.

#### **Requirements for opening RFCD Account**

- ❖ Two copies of recent passport size photograph
- ❖ Photocopy of passport
- ❖ Photocopy of work permit
- ❖ Salary certificate or employers certificate

For the Officers of Different Embassy they need not to submit all these documents but the Employers certificate is must.

#### **Requirements for opening NFCD Account**

- ❖ Photocopy of passport
- ❖ Citizenship certificate if available
- ❖ Certificate or approval from our authority for exporting manpower
- ❖ A nominee or authorized person will be selected by the account holder for transactions.
- ❖ Under this account the nominee will receive local currency TK against any Foreign Currency.

### 5.3 Import Section of MBL

As a authorized dealer the major import items financed by MBL, utara branch are capital machinery, Hot Roll Steel, electronic equipment, rice, wheat, seeds, palmolein, cement clinkers, dyes, chemicals, raw cotton, garments accessories, fabrics, cotton etc. To import, a person should be competent to be an 'importer'. According to Import and Export (Control) Act, 1950, the officer of Chief Controller of Import and Export provides the registration (IRC) to the importer. After obtaining this, the person has to secure a letter of credit authorization (LCA) from Bangladesh Bank. And then a person becomes a qualified importer. He requests or instructs the opening bank to open an L/C.

#### 5.3.1 Import procedures

- ❖ **Registration with CCI&E**

- ❖ For engaging in international trade, every trader must be first registered with the Chief Controller of Import and Export.
- ❖ By paying specified registration fees and submitting necessary papers to the CCI&E, the trader will get IRC (*Import Registration Certificate*). After obtaining IRC, the person is eligible to import.

- ❖ **Purchase Contract between importers and exporter**

- ❖ Now the importer has to contact with the seller outside the country to obtain the Performa invoice/indent, which describes goods.
- ❖ Indent is got through indenters a local agent of the sellers.
- ❖ After the importer accept the preformed invoice, he makes a purchase contract with the exporter declaring the terms and conditions of the import.
- ❖ Import procedure differs with different means of payment. In most cases import payment is made by the documentary letter of credit (L/C) in our country.

- ❖ **Collection of LCA form**

Then the importer collects and Letter of Credit Authorization (LCA) from MBL utara Branch.

- ❖ **Opening a Letter of Credit (L/C)**

Bank provides guarantee to importer and exporter through Letter of Credit. Thus the contract between importer and exporter is given a legal shape by the banker by its

‘Letter of Credit’. The process of opening L/C regarding to import through MBL, Uttara branch are as following:

### **1. Interview of probable L/C opener**

At first in case of import L/C opening opener must give an oral interview to the responsible officers of MBL. If the officers is satisfied with openers motive of import, type of import goods, quality of imported goods and marketability of goods than they will give approval to opener to further steps.

### **2. Application for L/C limit**

Before opening L/C, importer applies for L/C limit. To have an import L/C limit, an importer submits an application to the Department of MBL furnishing the following information-

- ❖ Nature of business.
- ❖ Required amount of limit.
- ❖ Payment terms and conditions.
- ❖ Goods to be imported.
- ❖ Offered security.
- ❖ Repayment schedule.
- ❖ Full particulars of bank account maintained with MBL Uttara Branch.

### **3. The L/C Application**

After getting the importer applies to the bank to open a letter of credit on behalf of him with required papers. Documentary Credit Application Form:

- ❖ Tax Identification Number Certificate.
- ❖ VAT Registration Certificate.
- ❖ Membership Certificate of recognized Trade Association as per IPO.
- ❖ Proforma Invoice: It states description of the goods including quantity, unit price etc.
- ❖ L/C Form: MBL provides a printed form for opening of L/C (MF-fx 13) to the importer. This form is known as Credit Application form. A special adhesive



stamp is affixed on the form. While opening, the stamp is cancelled. Usually the importer expresses his desire to open the L/C quoting the amount of margin in percentage.

- ❖ L/C authorization form (LCAF) duly signed by the importer.
- ❖ The insurance cover note: The name of issuing company and the insurance number are to be mentioned on it.
- ❖ IMP form duly signed by the importer.
- ❖ Forwarding for Pre-Shipment Inspection (PSI): Importer sends forwarding letter to exporter for Pre-Shipment Inspection. But all types of goods do not require PSI.

#### **4. Time limit for opening L/C**

L/C (s) shall be open within 180 days from the date of issuance of LCAF or from the date of registration of LCAF with Bangladesh Bank.

#### **5. Terms of L/C**

Full description of the goods along with quantity and unit price to be incorporated in the L/C and shall take all precautions to quote the correct H.S. Codes of the goods. Prices to be quoted on CER or FOB basis according to the P/Invoice or Indent. No import shall be made on CIF basis without prior approval from the Ministry of Commerce.

All L/Cs should provide for payment to be made against full sets of on board (shipped) transport documents drawn and/or endorsed to cover by the credit to a destination in Bangladesh.

All L/Cs must specify submission of signed invoices, certificates of origin & pre-shipment Inspection Certificate. L/Cs shall also incorporate any other documents, which are mandatory specified for those commodities in the IPO/Public Notices/Bangladesh Bank Circulars.

It is not permissible to open import L/Cs in favor of beneficiaries or to use shipping carriers of the countries from which import into Bangladesh are banned by the competent authority.

#### **6. Shipment Validity & Expiry**

All L/Cs must specify shipment validity as per terms of the P/Invoice or indent or L/C application. However, shipment validity under any circumstances shall not exceed 9 (nine)

months from the date of issuance of LCAF or registration LCAF with Bangladesh Bank excepting capital machinery and spare parts shipments of which shall be made within 17 (seventeen) months. All L/Cs must stipulate an expiry date and a place for presentation of documents for payment/acceptance.

## **7. Amendments**

The MBL, Uttara Branch may allow amendments to the L/Cs only upon requests of the L/C applicants that do not violate foreign exchange regulations and import control regulations. Necessary charges and/or margin (where L/C value is increased by subsequent amendments) also to be realized/recovered from the customer before amending the L/Cs.

## **8. Transmission of L/C to Beneficiary through Advising Bank**

In this step the transmission of L/C is done through tested telex or fax to advise the L/C by MBL to the advising bank. The advising bank verifies the authenticity of the L/C. MBL has corresponding relationship or arrangement throughout the world by which the L/C is advised. Actually the advising bank does not take and liability if otherwise not requested.

## **9. Presentation of the Documents**

- i) The seller being satisfied with the terms and the conditions of the credit makes shipment of the goods as per L/C terms.
- ii) After making the shipment of the goods in favor of the importer the exporter submits the documents to the negotiating bank.
- iii) After receiving all the documents, the negotiating bank then checks the documents against the credit. If the documents are found in order, the bank will pay, accept or negotiate to MBL.
- iv) MBL, Uttara Branch & bank received seal to be affixed on the forwarding schedule.
- v) MBL, Uttara Branch crossed the bill of exchange & transport documents immediately to protect loss or fraudulent.

MBL checks the documents. The usual documents are-

- ❖ Bill of exchange.
- ❖ Invoice.
- ❖ Bill of lading or Airway bills
- ❖ Certificate of origin.
- ❖ Packing list.
- ❖ Weight list.
- ❖ Shipping advice.
- ❖ Non-negotiable copy of bill of lading.
- ❖ Pre-shipment inspection report.
- ❖ Shipment certificate.

#### **10. Lodgment of Documents**

If the documents are found in order or the discrepancies in the document if any, are subsequently accepted by the applicant, the branch will record the particulars of the documents in the PAD Register (MB fx-05) .

#### **11. Retirement of Documents**

MBL advise Importer about the date of lodgment of documents with full particulars of shipment to retire the documents against payment or to dispose the import documents as per prearrangement, if any. Subsequent reminders (MF fx-05) are also to be issued every week till retirement of the bill. Such bills will be considered and be reported as overdue if the importer fails to retire the documents within 21 days of arrival of the relative import consignments at the port of destination.

#### **12. Endorsement of Non-Negotiable Copy Documents**

##### **❖ For Clearance of Cargo**

In the event of non-receipt of import documents relating to goods, which have already reached the port, the customer may ask the bank to provide a Shipping Guarantee/NOC to enable them to clear the goods, from the customers. The Shipping Guarantee may be given on the basis of a written undertaking from the clients by MBL. The S/G should state, inter alias,

that he will in due course accept the original documents in spite of discrepancies, if any and bear the exchange loss on account of fluctuation of exchange rates between the dates of guarantee to actual date of lodgment of original documents, when received.

- MBL, utara Branch will check the non-negotiable copy documents with the L/C terms and make entries of particulars of copy documents in the Shipping Guarantee Issue Register (MB fx-06)
- MBL, utara Branch will recover Taka equivalent of F.C value of N/N copy documents and charges from the customer.
- MBL, utara Branch will ensure return back of the shipping indemnity/guarantee from the shipping company by delivering original shipping documents to the importer after receipt of original documents from the payee bank.
- MBL, utara Branch will mark cancellation on the shipping indemnity/guarantee returned by the shipping company through the importer and file it in the respective L/C file.

#### ❖ **For Customer Assessment Purpose**

At the request of the importer, MBL, Utara branch may endorse Non-negotiable copy documents for custom assessment purpose. The branch will certify the value of F.C on the copy invoice and also certify the copy transport documents under single authorized signature. Endorsement charge is to be realized as per schedule of charges of the bank.

### **13. Cancellation of L/Cs**

An irrevocable L/C cannot be cancelled without the agreement of the beneficiary and the confirming bank, if any.

The MBL, utara branch at the request of the importer may approach the L/C advising bank for cancellation of the L/C and such cancellation will only be effective upon consent of the beneficiary advised to the branch through the L/C advising bank. However, the MBL, utara branch may cancel the L/C without the consent of the beneficiary. Advising bank and confirming bank, if any, if the L/C expires and the MBL, utara branch receives no shipping documents within 15 days of expiry of the L/C. The branch should send a message to the concerned bank advising such cancellation and closure of L/C file due to expiry of the same. The MBL then cancels the Reimbursement Authorization, which has been provided to the

Reimbursement Bank while opening the L/C. The branch will reverse L/C contra liabilities, refund margin and recover charges from the L/C applicant as per schedule of charges.

### **5.3.2 Import Financing by MBL**

#### **5.3.2.1 Payment Against Document (PAD)**

The MBL, Uttara branch starts PAD procedure after getting all documents from the exporter of importer as evidence of exporting goods. Documents required for PAD is mentioned below:

- ❖ Original (Non-negotiable) bill of Lading.
- ❖ Commercial Invoice.
- ❖ Certificate of Insurance.
- ❖ Certificate of Origin.
- ❖ Bill of exchange.
- ❖ Pre-shipment Inspection Certificate.
- ❖ Packing List.
- ❖ Clean Report of Findings (CRF).

#### **Examination of PAD Documents**

Scrutinizing documents is very important for the MBL, Uttara branch. As after examining all the documents the MBL will make payment to the negotiating bank. So any mistake in the examination process may cost MBL, Uttara branch.

#### **5.3.2.2 Loan against Trust Receipt (LTR)**

Under this LTR, Loan is allowed by MBL only to first class importers. Here only on the basis of trust without paying MBL anything or a partial amount, the importer takes the documents. Then importer is allowed 60-90 days time to make payment.

#### **5.3.2.3 Loan against Imported Merchandise (LIM)**

The imported goods come to the port the party may fall into financial crisis and requests MBL to clear the goods from the port making payment to the exporter. In this case the party later may take the goods partly or fully from MBL by making required payment (if he/she takes the goods time-to-time payment will be adjusted simultaneously).

## 5.4 Accounting Treatment for Opening Import L/C

When the officer thinks fit the application to open a L/C, giving the following entries-creates the following charges-Table-Showing accounting treatment at the time of L/C opening:

| Particulars           | Debit/ Credit | Charges in Taka   |
|-----------------------|---------------|-------------------|
| Customer's A/C        | Debit         |                   |
| L/C Margin A/C        | Credit        | Commonly 10-20%   |
| Commission A/C on L/C | Credit        | 0.09%             |
| VAT                   | Credit        | 15% on commission |
| SWIFT Charge          | Credit        | 3500/=            |
| Service Charge        | Credit        | 1000/=            |
| Stamp                 | Credit        | 150/=             |
| Miscellaneous         | Credit        | 600/=             |

Source: Uttara branch, MBL

The following accountings treatments are given by MBL in different stages of import L/C are as following:

❖ When import L/C is opened:

| Date | Particulars                                                          | Ref. No | Debit(TK.) | Credit(TK.) |
|------|----------------------------------------------------------------------|---------|------------|-------------|
|      | Customers Liability . . . . . Dr.<br>Bankers Liability . . . . . Cr. |         |            |             |

When L/C against import is opened then bank as gives guarantee on behalf on customers so customer's liability is transferred to bankers liability.

❖ When charges are taken by MBL:

| Date | Particulars                                                                                                                                                                                                   | Ref.<br>No | Debit(TK.) | Credit(TK.) |
|------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|------------|-------------|
|      | Party A/C ..... Dr.<br>Margin on L/C ..... Cr.<br>Commission on L/C .... Cr.<br>Vat on L/C ..... Cr.<br>Swift charges ..... Cr.<br>Bank service charges ... Cr.<br>Stamps .....Cr.<br>Miscellaneous ..... Cr. |            |            |             |

When different charges and margin is charged by bank for import L/C then party a/c or current deposit account of L/C opening party is charged against different charges and margin on L/C.

❖ When documents are received:

| Date | Particulars                                                                                                                                                           | Ref.<br>No | Debit(TK.) | Credit(TK.) |
|------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|------------|-------------|
|      | PAD A/C..... Dr.<br>ETCA Head Office .....Cr.<br>Income A/C Telex.....Cr.<br>Income A/C Interest on PAD<br>A/C.....Cr.<br>Income A/c Exchange on Earnings<br>.....Cr. |            |            |             |
|      | Bankers Liability.....Dr.<br>Customers liability.....Cr.                                                                                                              |            |            |             |

When documents is received than the amount provided to importer is debited under PAD account and head office and other charges as income is credited and at the same time as

documents are received so MBL liability against that documentary credit is decreased and importers liability is increased.

❖ When payment is made:

| Date | Particulars                                                          | Ref.<br>No | Debit(TK.) | Credit(TK.) |
|------|----------------------------------------------------------------------|------------|------------|-------------|
|      | Party A/C .....Dr.<br>Margin on L/C .....Dr.<br>PAD cash A/C.....Cr. |            |            |             |

When payment is made by bank then importer account i.e. party a/c and margin on L/C account is debited PAD account is credited.

## 5.5 Export Section of MBL

### 5.5.1 Export Procedures

The import and export trade in our country are regulated by the Import and Export (Control) Act, 1950. Under the export policy of Bangladesh the exporter has to get valid Export registration Certificate (ERC) from Chief Controller of Import & Export (CCI&E). The ERC is required to renew every year. The ERC number is to incorporate on EXP forms and other papers connected with exports. MBL mainly handles export of readymade garments, jute goods, leather, plastic scrap, handicrafts etc. The followings process must be passed by a exporter to open a documentary credit in MBL, Uttara branch.

**(a) Registration of Exporters:** For obtaining ERC, intending Bangladeshi exporters are required to apply to the controller/ Joint Controller/ Deputy Controller/ Assistant Controller of Imports and Exports, Dhaka/ Chittagong/ Rajshahi/ Mymensingh/ Sylhet/ Comilla/ Barishal/ Bogra/ Rangpur/ Dinajpur in the prescribed form along with the following documents:

❖ Nationality and Assets Certificate;



- ❖ Memorandum and Article of Association and Certificate of Incorporation in case of Limited Company;
- ❖ Bank Certificate;
- ❖ Income Tax Certificate;
- ❖ Trade License etc.

**(b) Securing the Order:** After getting ERC Certificate the exporter may proceed to secure the export order. He can do this by contacting the buyers directly or through agent. In this purpose the exporter may get help from:

- ❖ License Officer;
- ❖ Buyer's Local Agent;
- ❖ Export Promoting Organization;
- ❖ Bangladesh Mission Abroad;
- ❖ Chamber of Commerce (local & foreign)
- ❖ Trade Fair etc.

**(c) Signing the Contract:** After communicating buyer, exporter has to get contracted (writing or oral) for exporting exportable items from Bangladesh detailing commodity, quantity, price, shipment, insurance and marks, inspection and arbitration etc.

**(d) Receiving Letter of Credit:** After getting contract for sale, exporter should ask the buyer for Letter of Credit (L/C) clearly stating terms and conditions of export and payment.

The following are the main points to be looked into for receiving/ collecting export proceeds by means of Documentary Credit:

- ❖ The terms of the L/C are in conformity with those of the contract;
- ❖ The L/C is an irrevocable one, preferably confirmed by the advising bank;
- ❖ The L/C allows sufficient time for shipment and negotiation.

(Here the regulatory framework is UCPDC-500, ICC publication)

Terms and conditions should be stated in the contract clearly in case of other mode of payment:

- ❖ Cash in advance;
- ❖ Open account;
- ❖ Collection basis (Documentary/ Clean)

(Here the regulatory framework is URC-525, ICC publication)

**(e) Procuring the materials:** After making the deal and on having the L/C opened in his favor, the next step for the exporter is to set about the task of procuring or manufacturing the contracted merchandise.

**(f) Shipment of goods:** Then the exporter should take the preparation for export arrangement for delivery of goods as per L/C and incomer's, prepare and submit shipping documents for Payment/ Acceptance/ Negotiation in due time.

### **Documents for Shipment**

- ❖ EXP form,
- ❖ ERC (valid),
- ❖ L/C copy,
- ❖ Customer Duty Certificate,
- ❖ Shipping Instruction,
- ❖ Transport Documents,
- ❖ Insurance Documents,
- ❖ Invoice,
- ❖ Other Documents,
- ❖ Bills of Exchange (if required)
- ❖ Certificate of Origin,
- ❖ Inspection Certificate,
- ❖ Quality Control Certificate,

❖ G.S.P. Certificate,

**(g) Documents submission:** In this step exporter who confined with MBL will prepare export related documents and submit those documents to MBL, Uttara branch for negotiation. According to those documents MBL collects proceeds from the former issuing banks.

### **5.5.2 Export Financing by MBL**

Financing exports constitutes an important part of a bank's activities. Exporters require financial services at four different stages of their export operation. During each of these phases exporters need MBL provides different types of financial assistance depending on the nature of the export contract are as follows:

#### **5.5.2.1 Pre-shipment credit:**

Pre-shipment credit, as the name suggests, is given to finance the activities of an exporter prior to the actual shipment of the goods for export. MBL provides different type of Pre-shipment credit to its worthy customers for the following purposes:

- ❖ Cost of production or purchase
- ❖ Packing including any special packing for export
- ❖ Cost of special inspection or tests required by the exporter
- ❖ Internal transport cost
- ❖ Port, customs and shipping agent's costs
- ❖ Freight and insurance charges if the contract is either C&F contract or a CIF contract and
- ❖ Export duty or tax etc

For Pre-shipment finance MBL, Uttara branch must consider the following factors related to exporters such as:

- ❖ Honesty, integrity and capital of the borrower
- ❖ Exporter experience in the line
- ❖ Security offered
- ❖ The margin and the rate of interest
- ❖ The banks previous experience about the exporter

- ❖ The standing of the foreign buyer

MBL provides facilities to extend Pre-shipment credit for contracts made on the basis of cables/fax/telex provided the following minimum information is available:

- ❖ Details regarding customers
- ❖ Particulars of the items
- ❖ Quantity and unit price
- ❖ Terms of sales and payment and
- ❖ Date of shipment

An exporter can obtain credit facilities against lien on the irrevocable, confirmed and unrestricted export letter of credit in form of the followings from MBL, but PC and BTB L/C is most common from of pre shipment of credit provided by MBL:

- a) Export cash credit (Hypothecation)
- b) Export cash credit (Pledge)
- c) Export cash credit against trust receipt.
- d) Packing credit.
- e) Back to back letter of credit.

#### **(a) Export cash credit (Hypothecation)**

Here MBL only gets charge documents and lien on exports L/C or contract, bank normally insists on the exporter in furnishing collateral security. The letter of hypothecation creates a charge against merchandise in favor of MBL but neither the ownership nor the possession is passed to it.

#### **(b) Export cash Credit (Pledge)**

MBL provides such credit facility to exporter by pledge of exportable goods or raw materials. Here pledged goods are kept in MBL's control and failure of the exporter to honor his commitment, MBL can sell the pledged merchandise for recovery the advance.

### **(c) Export Cash Credit Against Trust Receipt**

In this case, MBL provides credit limit is sanctioned against trust receipt (TR). Its also unlike MBL's pledge facility, only difference is that the exportable goods remain in the custody of the exporter. This facility is allowed by MBL only to the first class party and collateral security is generally obtained in this case.

### **(d) Packing Credit**

Packing Credit is essentially a short-term advance granted by MBL to an exporter for assisting him to buy, process, manufacture, pack and ship the goods. The highest limit of providing PC to a first class exporter by MBL is 10% of total export value.

#### **➤ Charge Documents for P.C.**

Responsible officer of MBL should obtain the following charge documents duly stamped prior to disbursement:

- ❖ Demand Promissory Note
- ❖ Letter of Arrangement
- ❖ Letter of Lien of Packing Credit (On special adhesive stamp)
- ❖ Letter of Disbursement
- ❖ Packing Credit Letter

#### **➤ Additional Documents for P.C:**

- ❖ Letter of Partnership along with Registered Partnership Deed in case of Partnership Accounts.
- ❖ Resolution of the Board of Directors along with Memorandum & Articles of association in case of Accounts of Limited Companies. In case of Corporation, Resolution of the Board Meeting along with Charter is needed.
- ❖ Personal Guarantee of all the Partners in case of Partnership Accounts and all the Directors in case of Limited Companies.

### **(e) Back to Back Letter of Credit (BTB)**

When exporter falls short of raw materials in that case, exporter gives lien of export L/C to bank as security and opens an L/C against it for importing raw materials. This L/C is called Back To Back L/C. In back to back L/C, MBL gives facility to open BTB L/C upto highest 80% of lined export L/C.

### **Documents Required for Opening a Back-to-back L/C**

In MBL, Uttara Branch, following papers/ documents are required for opening a back-to-back L/C-

- ❖ Master L/C
- ❖ Valid Import Registration Certificate (IRC) and Export Registration Certificate (ERC)
- ❖ L/C Application and LCAF duly filled in and signed
- ❖ Proforma Invoice or Indent
- ❖ Insurance Cover Note with money receipt
- ❖ IMP Form duly signed

In addition to the above documents, the followings are also required to export oriented garment industries while requesting for opening a back-to-back L/C –

- ❖ Textile Permission
- ❖ Valid Bonded Warehouse License
- ❖ Quota Allocation Letter issued by the Export Promotion Bureau (EPB) in favor of the applicant for quota items
- ❖ In case the factory premises is a rented one, Letter of Disclaimer duly executed by the owner of the house/premises to be submitted.

A checklist to open back-to-back L/C is as follows –

- ❖ Applicant is registered with CCI&E and has bonded warehouse license;
- ❖ The master L/C has adequate validity period and has no defective clause;
- ❖ L/C value shall not exceed the admissible percentage of net FOB value of relative Master L/C;
- ❖ Usage Period will be up to 180 days.

### **Check Points Noted in Master L/C**

Following sensitive points of the Master L/C are carefully checked by the officials of MBL. This are-

- ❖ Issuing Bank is not reputed;
- ❖ Advising credit by the advising Bank without authentication;
- ❖ Port of destination absent;
- ❖ Inspection clause;
- ❖ Nomination of specific shipping/Air line or nomination of specified vessel by subsequent amendment;
- ❖ Bill of lading endorses blank, endorses to 3<sup>rd</sup> Bank, endorses to buyer or 3<sup>rd</sup> party;
- ❖ No specific reimbursing clause;
- ❖ UCP clause not mentioned;
- ❖ Shipment/ presentation period is not sufficient;
- ❖ Original documents to be sent to buyer or nominated agent;
- ❖ FCR or HAWB consigned to applicant or buyer;
- ❖ “Shipper’s load and count is not acceptable” clause;
- ❖ L/C shall expire in the country of the issuing Bank;
- ❖ Negotiation is restricted.

### **Payment of Back-to-Back L/C**

Client gives the payment of the BTB L/C after receiving the payment from the importers. But in some cases, client sells the bills to the MBL. But if there is discrepancy, the MBL sends it for collection. In case of BTB L/C, MBL gives the payment to the beneficiary after receiving the payment from the L/C of the finished product (i.e. exporter). Bank gives the payment from DFCA (Deposit Foreign Currency Account) where Dollar is deposited in national rate.

In MBL for BTB L/C, opener has to pay interest at LIBOR rate (London Inter Bank Offering Rate), which is 4% to 7%. A schedule named PI (Payment Instruction); Forwarding Schedule is prepared while making the payment to MBL’s foreign corresponding banks. PI is prepared when the payment of L/C is made and it contains the followings:

- i) Reference number of the beneficiary’s bank and date.

- ii) Beneficiary's name.
- iii) Bill value.
- iv) Payment order number and date.

#### **5.5.2.2 Post Shipment Credit**

This type of credit refers to the credit facilities extended to the exporters by the banks after shipment of the goods against export documents. Before extending such credit, it is necessary for MBL to look into carefully the financial soundness of exporters and buyers as well as other relevant documents connected with the export in accordance with the rules and regulations in force.

MBL provides following post shipment credit to the exporters through:

##### **(a) Foreign Documentary Bill Purchase (FDBP):**

most of the client submits the bill of export to bank for collection and payment of the BTB L/C. In that case, MBL purchases the bill and collects the money from the exporter. MBL subtracts the amount of bill for PC and BTB payment and gives the rest amount to the client in cash or by crediting his account or by the pay order.

For this purpose, MBL maintains a separate register named FDBP Register. This register contains the following information:

- ❖ Date
- ❖ Reference number (FDBP)
- ❖ Name of the drawee
- ❖ Name of the collecting bank
- ❖ Conversion rate
- ❖ Bill amount both in figure & in Taka.
- ❖ Export form number
- ❖ Export L/C number

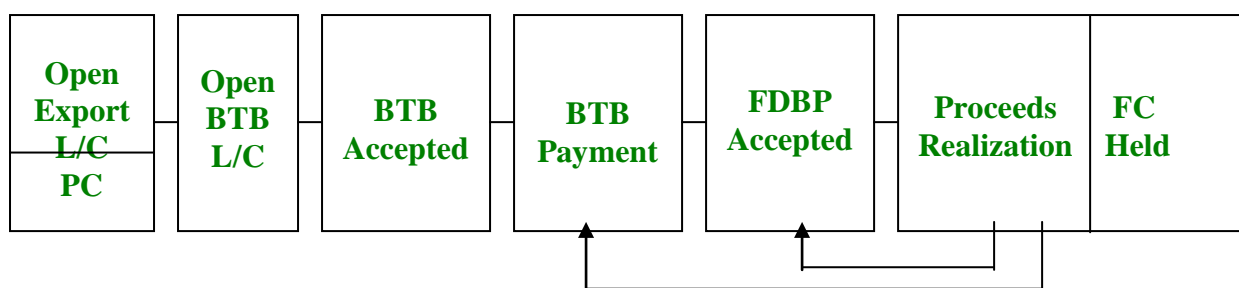


### **(b) Advances against Export Bills surrendered for collection:**

MBL also accept bills for collection of proceeds when they are not drawn under an L/C or when the documents, even though drawn against an L/C contain some discrepancies. MBL generally negotiates bills drawn under L/C, without any discrepancy in the documents, and the exporter gets the money from the bank immediately. However, if the bill is not eligible for negotiation, the exporter may obtain advance from MBL against the security of export bill. In addition to the export bill MBL generally ask for collateral security like a guarantee by a third party and equitable/registered mortgage of property.

### **5.5.3 Appraisal of Documentary Credit in MBL**

The sequence that are provided in open an export L/C up to its proceeds realization the following steps are generally passed in MBL, Uttara branch which are recorded in performance register are shown below:



**Figure 6: Different stages of export L/C**

When customer open export L/C in MBL, Uttara branch then it provides export finance through packing credit (PC), the limit of PC is highest 10% of export L/C value is provided to customers by MBL. Generally export L/C holder have advantage of opening back-to-Back (BTB) L/C under its export L/C, in MBL customers can open BTB L/C up to 80% of their export L/C value.

When BTB L/C documents is realized than MBL acknowledged the date and amount of payment for BTB Bills to its export L/C holder. The period of payment of BTB Bills is always kept longer than period of export value realization which helps to reduce risk of MBL.

When export proceeds than documents is presented in MBL than foreign documents bills is presented for purchase (FDBP) as 10% is given as PC and 80% is for BTB L/C so the remaining percentage of L/C value is purchased by MBL. When proceeds is realized than 10% is taken for PC and 80% is used for BTB payment and remaining is deposited to foreign currency (FC) Held account. If customers only present foreign documents bills for collection than remaining portion of export value other than PC and BTB payment will be deposited to parties CD account.

#### 5.5.4 Accounting treatment for exports L/C

In different stages of export L/C the different accounting treatment is taken by MBL, utara branch, which are recorded in different register i.e. L/C Register, PAD, Due Date Register, BTB L/C Register, BTB Bills Register, Performance Register etc. The followings recording process is generally maintained by MBL, utara branch in case of export L/C:

- ❖ When export L/C is opened than no voucher is passed but when is PC is taken than following voucher is passed:

| Date | Particulars                                              | Ref.<br>No | Debit(TK) | Credit(TK<br>) |
|------|----------------------------------------------------------|------------|-----------|----------------|
|      | PC<br>A/C.....<br>.....Dr.<br>CD<br>A/C.....<br>.....Cr. |            |           |                |

As packing credit is provided to the customers so MBL will deposit the packing credit amount to the parties current account.

- ❖ When BTB L/C is opened than following vouchers is passed:

| Date | Particulars                     | Ref.<br>No | Debit(TK) | Credit(TK<br>) |
|------|---------------------------------|------------|-----------|----------------|
|      | Customers liability against BTB |            |           |                |

|  |                                                                                                                                                                                           |  |  |  |
|--|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|--|--|
|  | L/C.....Dr.<br>Bankers liability against BTB L/C...Cr.                                                                                                                                    |  |  |  |
|  | CD<br>A/C.....<br>.....Dr.<br>I/A on<br>Commission.....Cr.<br>I/A on service<br>Charges.....Cr.<br>I/A on<br>SWIFT.....Cr.<br>I/A on<br>Stamps.....Cr.<br>I/A on<br>Miscellaneous.....Cr. |  |  |  |

When BTB L/C is opened than party's liability is transferred to MBL so bankers liability against BTB L/C is credited and different charges is taken from party so amount of different charges is transferred from party account to income account.

- ❖ When documents under BTB L/C is received lodgment is made and due date is realized than vouchers are passed as follows:

| Date | Particulars                                                                                        | Ref. No | Debit(TK) | Credit(TK) |
|------|----------------------------------------------------------------------------------------------------|---------|-----------|------------|
|      | Banker's liability against BTB L/C.....Dr.<br>Customers liability against BTB L/C.....<br>.....Cr. |         |           |            |
|      | Customers liability against BTB Bills.....Dr.                                                      |         |           |            |

|  |                                                     |  |  |  |
|--|-----------------------------------------------------|--|--|--|
|  | Bankers liability against BTB Bills...Cr.           |  |  |  |
|  | CD<br>A/C.....<br>.....Dr.<br>Income<br>A/C.....Cr. |  |  |  |

When documents against BTB L/C are received than bankers liability on BTB L/C is reduced and banker's liability for BTB Bills is increased and income is also increased for lodgment process.

❖ When due date arises:

| Date | Particulars                                                                                                 | Ref.<br>No | Debit(TK) | Credit(TK<br>) |
|------|-------------------------------------------------------------------------------------------------------------|------------|-----------|----------------|
|      | Bankers liability against BTB<br>Bills.....Dr.<br>Customers liability against BTB<br>Bills.....<br>.....Cr. |            |           |                |

When due date appears bankers liability against BTB Bills is decreased by MBL and customers liability against BTB Bills is increased by passing above vouchers.

❖ For BTB payment following treatment will be given:

| Date | Particulars                  | Ref.<br>No | Debit(TK) | Credit(TK<br>) |
|------|------------------------------|------------|-----------|----------------|
|      | FC Held<br>.....<br>.....Dr. |            |           |                |

|  |                                                                                                                                                                                   |  |  |  |
|--|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|--|--|
|  | Head<br>Office.....Cr.                                                                                                                                                            |  |  |  |
|  | Head<br>Office.....<br>.....Dr.<br>I/a on Exchange<br>Gain.....Cr.<br>I/A on<br>Commission.....Cr.<br>I/A on<br>VAT.....Cr.<br>I/A on<br>P.O.....Cr.<br>I/A on<br>postage.....Cr. |  |  |  |

For payment the amount of foreign currency is at first send to head office lower rate and at time of payment currency is bring at higher rate the amount is distributed in different income account and difference between the higher and lower rate is treated as exchange gain.

- ❖ When documentary loan or FDBP Loan is given according to B/l and delivery Challan the following entry is given:

| Date | Particulars                                                                                                             | Ref.<br>No | Debit(TK) | Credit(TK<br>) |
|------|-------------------------------------------------------------------------------------------------------------------------|------------|-----------|----------------|
|      | FDBP Loan A/C<br>.....Dr.<br>I/A on Courier<br>Service.....Cr.<br>I/A on<br>H.C.....Cr.<br>I/A on Source<br>Tax.....Cr. |            |           |                |

|  |          |  |  |  |
|--|----------|--|--|--|
|  | PC       |  |  |  |
|  | A/C..... |  |  |  |
|  | Cr.      |  |  |  |
|  | CD       |  |  |  |
|  | A/C..... |  |  |  |
|  | Cr.      |  |  |  |

When foreign bills is purchased by MBL than FDBP loan account is debited against different income account, PC account and as well as CD account. The amount of bills purchased will be remaining portion of the total export L/C value after deducting BTB L/C and PC value.

#### **5.5.5 Export Documents checking by MBL**

The export documents should be carefully justified by the MBL officials in following manner.

##### **❖ General verification**

- L/C restricted or not.
- Exporter submitted documents before expiry date of the credit.
- Shortage of documents etc.

##### **❖ Particular verification**

Each and every document should be verified with the L/C.

##### **❖ Cross verification**

Verified one documents to another

After proper examination or checking of a described Export document MBL can provide discrepancies on followings facts:

#### **General Checking**

- ❖ Late shipment
- ❖ Late presentation
- ❖ L/C expired

- ❖ L/C over-drawn
- ❖ Partial shipment or transshipment beyond L/C terms.

### **Bill of exchange (B/E)**

- ❖ Amount of B/E differ with Invoice.
- ❖ Not drawn on L/C issuing Bank.
- ❖ Not signed
- ❖ Tenor of B/E not identical with L/C.
- ❖ Full set not submitted.

### **Commercial Invoice(C/I)**

- ❖ Not issued by the Beneficiary.
- ❖ Not signed by the Beneficiary.
- ❖ Not made out in the name of the Applicant
- ❖ Description, Price, quantity, sales terms of the goods not corresponds to the Credit.
- ❖ Not marked one fold as Original.
- ❖ Shipping Mark differs with B/L & Packing List.

### **Packing List**

- ❖ Gross Wt., Net Wt. & Measurement, Number of Cartoons/Packages differs with B/L.
- ❖ Not market one fold as Original.
- ❖ Not signed by the Beneficiary.
- ❖ Shipping marks differ with B/L.

### **Bill Of Lading/Airway Bill Etc (Transport Documents)**

- ❖ Full set of B/L not submitted.
- ❖ B/L is not drawn or endorsed to the Order of Mercantile Bank Ltd.
- ❖ “Shipped on Board”, “Freight Prepaid” or “Freight Collect” etc. notations are not marked on the B/L.
- ❖ B/L not indicate the name and the capacity of the party i.e. carrier or master, on whose behalf the agent is signing the B/L.
- ❖ Shipped on Board Notation not showing name of Pre-carriage vessel/intended vessel.

- ❖ Shipped on Board Notation not showing port of loading and vessel name (In case B/L indicates a place of receipt or taking in charge different from the port of loading).
- ❖ Short Form B/L
- ❖ Charter party B/L
- ❖ Description of goods in B/L not agree with that of Invoice, B/E & P/L
- ❖ Alterations in B/L not authenticated.
- ❖ Loaded on Deck.
- ❖ B/L bearing clauses or notations expressly declaring defective condition of the goods and/or the packages.

### **Others Checking**

- N.N. Documents not forwarded to buyers or forwarded beyond L/C terms.
- Inadequate number of Invoice, Packing List, B/L & Others submitted.
- Short shipment Certificate not submitted.

While checking the export documents following things must be taken in consideration by MBL:

### **L/C terms**

Each and every clause in the L/C must be complied with meticulously and ensure the following:

- That the documents are not state;
- That the documents are negotiated within the L/C validity,
- That the documents value does not exceeds the L/C value.

### **Draft/Bill of Exchange**

Draft is examined as under:

- Draft must be dated
- It must be made out in the name of the beneficiary's bank or to be endorsed to the bank.
- The negotiating bank must verify the signature of the drawer.
- Amount must be tallied with the Invoice amount.
- It must be marked as drawn under L/C No...Dated...Issued by.....Bank.



## **Invoice**

It is to be scrutinized to ensure the following:

- The Invoice is addressed to the Importer
- The full description of merchandise must be given in the invoice strictly as per L/C.
- The price, quality, quantity, etc. must be as per L/C.
- The Invoice must be languaged in the language of L/C.
- No other charges are permissible in the Invoice beyond the stipulation on the L/C.
- The amount of draft and Invoice must be same and within the L/C value.
- If L/C calls for consular invoice, then the beneficiary's invoice is not sufficient.
- Number of Invoice will be submitted as per L/C.
- The shipping mark and number of packing list shown in the B/L must be identical with those given in the Invoice and other documents.
- The Invoice value must not be less than the value declared in EXP Forms.
- Invoice amount must be correct on the basis of price, quantity as per L/C.
- Invoice amount, indicate sale terms/ FOB, CFR, CIF etc.

## **Other Documents**

- Beneficiary statement,
- VISA/Export License issued by EPB,
- Certificate of Origin,
- Weight Certificate,
- Packing List,
- Inspection Certificate.
- Certificate of analysis,
- Quality certificate,
- MCD duly signed and any other documents required by L/C each of these certificates/documents conform to the goods invoice and are relevant to L/C.

When MBL acts Negotiating Bank it will check the above documents whether it is as per L/C or not. If MBL finds everything in order or as per export L/C; bank will negotiate the document and will disburse the generated fund as per Banks norms. If the MBL finds any discrepancies in the documents, it will send the documents on collection or they can negotiate under reserve by the request of the exporter or they can seek permission/Negotiation

authority from issuing Bank to allow MBL to Negotiate the documents despite the discrepancies. L/C issuing Bank will inform the matter to buyer, if the buyer accepts the discrepancies mentioned by MBL, issuing bank will authorize MBL to negotiate the discrepant documents.

### **Export Proceed Realization**

The last step of export process in foreign exchange by MBL is to realization of the proceeds when payment is received from buyer. Here realized proceeds is used meet up PC and also to meet up the amount of bills purchased and the amount for payment Back-to-Back L/C is kept for payment of import and rest amount is transferred to party account.

### **5.5.6 L/C Classification by MBL for Practical Purpose**

L/C's that are generally deals in MBL irrevocable type of documentary credit. The L/C terms are used in MBL practical practice in quite different from theoretical classification of documentary credit. So L/C classification used by MBL in practical purpose are as follows:

Incase of practical purpose MBL defines import L/C as cash L/C which are used to import goods as cash payment basis. Cash L/C are classified in to groups:

- **Deferred Cash L/C:** Deferred Cash L/C is applicable when payment delayed upto maximum 90 days. MBL uses (02) as code for Deferred Cash L/C.
- **At sight Cash L/C:** When payment is made within 7 days after receiving documents that's called At sight Cash L/C. MBL uses (01) as code for foreign At sight Cash L/C and (99) as code for local At sight Cash L/C.

Incase of BTB L/C for practical use MBL categories in three aspects such as:

- **Foreign:** Foreign BTB L/C is used goods are imported from outside Bangladesh. MBL uses (06) as code for foreign BTB L/C.
- **Local:** Local BTB L/C is used goods are imported inside Bangladesh. MBL uses (04) as code for local BTB L/C.

- **EPZ:** BTB L/C for EPZ is also treated as foreign L/C by MBL because goods are imported for EPZ are used for further export and owners of EPZ oriented industries are generally foreign. MBL uses (12) as code for EPZ oriented BTB L/C.

Incase of export L/C MBL use the term of master L/C and provides different advantages against it as PC and BTB L/C etc. The documentary credits where MBL plays advising bank their MBL uses term FDBP (Foreign Documents for Bills Payment).

#### 5.5.7 Different Important Register of FX Department of MBL

- **L/C register:** MBL, utara branch records all opened L/C number, date of opening, name of beneficiary and applicant, amount etc in this register.
- **Advising register:** All L/C received by MBL, utara branch as advising bank is recorded in this register along with name of issuing bank, /c number, date of received, name of beneficiary and applicant, amount etc.
- **PAD register:** MBL records bill no, L/C number, name of beneficiary and applicant, amount of BTB bill received, commodity type, tenor, due date etc in PAD register.
- **Due date register:** The due date at which payment will be made by MBL for BTB bills is party wise separately recorded in this register by MBL.
- **L/C liability (foreign) register:** MBL records L/C liability for foreign L/C and EPZ related L/C party wise separately in this register.
- **L/C liability (local) register:** MBL records L/C liability for local L/C party wise separately in this register.
- **BTB Bills (foreign) register:** All foreign BTB bills are party wise separately reordered in this register by MBL.
- **BTB Bills (local) register:** All local BTB bills are party wise separately reordered in this register by MBL.

- **Performance register:** Performance register gives at a glance view of an export L/C from open to proceeds realization. MBL records export L/C number, opening date, amount, breakup of value purchase, BTB L/C opening information, due date, payment date, proceeds realization information etc in this register party wise.
- **FDBP register:** MBL records all export L/C information in foreign documents bills for payment register as party wise along with opening date, FDBP number, name of beneficiary and applicant, amount of L/C, due ate, payment date etc.
- **Import register:** All information about import such as commodity, L/C number, L/C opening date tenor, amount and amount in thousand, expiry date etc are recorded in this register by MBL.
- **IMP register:** MBL records IMP serial number, L/C number and amount remitted in IMP register.
- **EXP register:** MBL records EXP serial number, commodity, amount of remittance received, Commercial invoice number, B/L date etc in EXP register.
- **Payment register:** payment made for foreign and local L/C is recorded in this register along with party name, L/C number, amount of payment, date of payment etc.

The all registers, vouchers, forms of MBL, utara branch are prepared, passed and maintained according to BB regulations and Bangladesh government acts.

## 5.6 Foreign Remittance

Foreign remittance means remittance of foreign currencies from one place/persons to another place/person. In broad sense, foreign remittance includes all sale and purchase of foreign currencies on account of Import, Export, Travel and other purposes. However, specifically foreign remittance means sale & purchase of foreign currencies for the purposes other than export and import. As such, this chapter will not cover purchase & sale of foreign currencies on account of Import & Export of goods.

On March 24, 1994 Bangladesh Taka was declared convertible for Current account International Transaction. As a prelude to this wide-ranging reforms were made in the country's foreign exchange regime to lay the ground for a market friendly environment to induce investment, growth and productivity. Following liberalization under convertibility, most remittances are now approved by the Authorized Dealers themselves on behalf of the Central Bank. Only a few remittances of special nature require Bangladesh Bank's prior approval.

#### **5.6.1 Foreign Remittance Section of MBL**

Foreign exchange department of MBL, Uttara branch are responsible to deal with outward and inward remittance other export and import only when remittance are in foreign currency. MBL has already made foreign remittance arrangement with UniCredito Italiano, Italy and ICICI bank Canada to expedite inward foreign remittances. MBL also has established Drawing Arrangement with United commercial Bank and Arab Bangladesh Bank for prompt delivery services of remittances to the beneficiaries located any corner of Bangladesh.

#### **Workings of this department**

- Overall supervision of Foreign Remit. Dept.
- Foreign TT payments & Purchase of F. Drafts, preparations of F.B.P. (Foreign Bill Purchased).
- Issuance of outward TT & FDD.
- Issuance of proceed responding certificate (PRC).
- Foreign Collection, Bangladesh Bank Clearing Check Collection, which comes from all branch of MBL.
- Withdrawal from F.C. A/C.
- Encashment of T.C. & Cash Dollar and Sterling Pound.
- Deduction of Tax and VAT. On behalf of Bangladesh Bank.
- Preparation of related statements including convertible Taka Accounts.
- Preparation of IBCA & IBDA and Balancing of Collection and other special assignment as desired by Department in charge.
- Balancing of Account Statements.
- Compliance of audit & inspection.
- Statement of all related works submitted to Bangladesh Bank.

All foreign remittance transactions are grouped into two broad categories of remittance i.e. Outward remittance & Inward remittance. As an AD MBL foreign exchange department focuses on this two sources of remittance.

### **5.6.2 Outward Remittance of MBL**

The term “ Outward remittances” include not only remittance i.e. sale of foreign currency by TT, MT, Drafts, Traveler’s cheque but also includes payment against imports into Bangladesh & Local currency credited to Non-resident Taka Accounts of Foreign Banks or Convertible Taka Account. The main three type of outward remittance find MBL are as follows:

#### **5.6.2.1 Private Remittance**

- 1. Family remittance facility:** Foreign Nationals working in Bangladesh with approval of the Government may remit through an MBL 50% of Salary and 100% of leave salary as also actual savings and admissible person benefits. No prior approval of BB is necessary for such remittance.
- 2. Remittance of Membership fees/registration fees etc:** MBL may remit without prior approval of BB, membership fees of Foreign professional and scientific institutions and fees for application registration, admission, examination (TOEFL, SAT etc.) in connection with admission into foreign educational institutions on the basis of written application supported by demand notice/letter of the concerned institution.
- 3. Education:** Prior permission of BB is not required for releasing foreign exchange in favor/on behalf of Bangladeshi students studying abroad or willing to proceeds abroad for studies. MBL shall allow exchange facilities for this purpose according to the following drill:
  - Application duly filled in by the student as per prescribed format of Bangladesh Bank.
  - Original and photocopy of admission letter issued by the concerned institution in favor of the student.
  - Original and photocopy of estimate relating to annual tuition fee, board and lodging incidental expenses etc. issued by the concerned institutions.
  - Attested copies of educational certificates of the applicant and

- Valid passport.

**4. Remittance of Consular Fees:** Consular fees collected by foreign embassies in Bangladesh Taka and deposited in a Taka Account maintained with MBL solely for this purpose may be remitted abroad without prior approval of BB.

**5. Remittance of evaluation fee:** MBL without prior approval of BB may remit evaluation fee on behalf of Bangladeshis desiring immigration to foreign countries for getting educational certificates of the person concerned evaluated by a foreign institution. A demand note of the foreign immigration authority is required for this purpose.

**6. Travel:** Private travel quota entitlement of Bangladesh Nationals is set at US\$3000/- per year for visit to countries other than SAARC member countries and Myanmar, Quota for SAARC member countries and Myanmar is US\$1000/- for travel by air and US\$500/-for travel by overland route. MBL may release this travel quota in the form of foreign currency notes up to US\$500/- or equivalent and balance exchange in the form of TCs or total quota in the form of TCs The annual quotas mentioned above are for adult passengers. For minors (Below 12 year in age) the applicable quota will be half the amount allowable to adults.

MBL may release above travel quota without prior approval of BB subject to observation and satisfaction of following points-

- i) The intending traveler is a customer of the MBL or is sufficiently well known to the MBL or the intending traveler has paid relevant Travel Tax. The intending traveler has a valid passport.
- ii) MBL should verify and satisfy itself that any foreign exchange released for an earlier travel was utilized with the journey being actually undertaken or was duly encashed/unutilized.
- iii) The intending traveler is in possession of confirmed air ticket for journey to be undertaken and that the intended journey to be undertaken not later than two weeks after the date on which exchange is issued.

- iv) The amount released is endorsed on the passport and air ticket of the traveler with indelible ink, with the signature and the name of MBL embossed in the passport and ticket.
- v) However, while issuing foreign exchange to the Diplomats/ privileged persons/ UN personnel, Govt. Officials traveling on officials' duties, such endorsement in the passports need not be made.
- vi) In each case of release of foreign exchange for travel abroad, photocopies of first six pages of the passports and the page recording endorsement of foreign exchange and photocopies of the pages of ticket showing name of the passenger, route and date of journey and endorsement of foreign exchange along with the relative T.M. form should be sent to BB along with monthly returns.

**7. Health & Medical:** MBL without prior approval of BB may release foreign exchange up to US\$10,000/- for medical treatment abroad on the basis of the recommendation of the medical Board set up the Head Directorate and the cost estimate of the foreign medical institution.

**8. Seminars & workshops:** Without prior approval of BB MBL may release US\$200/- per diem and US\$250/- per diem to the private sector participants for attending seminars, conferences and workshops organized by recognized International bodies in SAARC member countries or Myanmar and in other countries respectively for the actual period of the seminar/workshop/conference to be held on this basis of invitation letters received in the names of the application or their employer institutional.

## **9. Foreign Nationals:**

- i) The MBL may issue foreign currency TCs to foreign nationals without any limit and foreign currency notes upto US\$300/- or equivalent per person against surrender of equivalent amounts in foreign currencies. The TCs and foreign currency notes should however, be delivered only on production of ticket for a destination outside Bangladesh and the amount issued should be endorsed on the relative passports.



- ii) MBL may allow reconversion of unspent Taka funds of foreign tourists into foreign exchange on production of the encashment certificate of foreign currency. Reconversion shall be allowed by the same AD with which the foreign currency was encashed earlier. MBL should retain the original encashment certificate and relative FMJ forms where reconversion exceeds US\$5000/-.

**10. Remittance for Haji:** MBL may release foreign exchange to the intending pilgrims for performing Hajj as per instructions/circulars to be issued by the Bangladesh Bank each year.

**11. Other Private remittance:** Applications for remittances by private individuals for purposes other than those mentioned above should be forwarded to BB by MBL for consideration & approval after assessing the bonafides of the purpose of remittance on the basis of documentary evidence submitted by the applicant.

#### **5.6.2.2 Fiscal & Business Travel**

**1. Official Visit:** For official or semi officials visits abroad by the officials of govt., Autonomous/Semi-autonomous institutions etc., MBL may release foreign exchange as per entitlements fixed by the Ministry of Finance from time to time, In such cases, the applicant for foreign exchange shall be required to submit the sanction letter and the competent authority's Order/Notification/Circular authorizing the travel.

**2. Business Travel Quota for New Exporters:** Up to US\$6,000/- or equivalent may be issued by an MBL without prior approval of BB to a new exporter for business travel abroad, against recommendation letter from Export Promotion Bureau, Bonafide requirement beyond US\$6000/- is accommodated by BB upon written request through MBL with supporting documents.

#### **3. Business Travel Quota for Importers and Non-exporting producers:**

- i) Subject to annual upper limit of US\$5000/- importers are entitled to a business travel quota @ 1% of their imports settled during the previous financial year. Subject to annual upper limit of US\$5000/- non exporting producers for the local markets are entitled to a business travel quota @1% of their turnover of the proceeding financial year as declared in their tax returns.

- ii) The same business organization engaged in imports as well as production shall however; draw business travel quota entitlement only on one count.

#### **4. Exporters' Retention Quota:**

- i) Exporters may at their option, retain the foreign currency in interest bearing renewable term deposit accounts with MBL in US Dollar, Pound Sterling DM or Japanese Yen with a minimum account of US\$2000 or Pound 1500/-
- ii) Service exporters (excluding indenting commission or agency commission of indenting house of buying house respectively) may retain 5% of their repatriated income in foreign currency accounts or as renewable time deposits with MBL, Funds from these accounts can be used to meet expenses for bonafide business travel abroad.

#### **5.6.2.3 Commercial Remittances**

**1. Opening of branches or subsidiary companies abroad:** Remittance of up to US\$30,000/- or equivalent per annum may be released by MBL without prior approval of BB to meet current expenses of offices/branches opened abroad by resident in Bangladesh or Commercial/Industrial concern incorporated in Bangladesh.

Such remittance may only be made in the names of concerned offices/subsidiary companies abroad subject top examination of following papers by MBL:

- i) Approval letter of the competent authority of the country concerned for opening the office in that country copy of report submitted to Bangladesh banks, as per prescribed format, within one month of opening of foreign branches/subsidiaries.
- ii) Before effecting remittances for subsequent years MBL shall verify the renewed lease agreement (if applicable and shall satisfy itself about the actual necessity of remitting funds by examining the actual and/or estimated incomes and expenses of the offices/subsidiaries abroad as revealed from the its audited accounts and the other papers/vouchers.

**2. Remittance by shipping companies airlines & courier service:** Foreign Shipping Companies, airlines and courier service companies may send, through an AD, funds collected in Bangladesh towards freight and passage after adjustment of local cost & Taxes, if any without prior approval of Bangladesh Bank.

**3. Remittance of Royalty and technical fees:** No prior permission of the BB of BOI is required by the enterprises for entering into agreement involving remittance of royalty, technical know-how or technical assistance fees, operational services fees, marketing commission etc., if the total fees and other expenses connected with technology transfer do not exceed.

- i) 6% of the cost of imported machinery in case of new projects.
- ii) 6% of the previous year's sales as declared in the income tax returns of the ongoing concerns.

MBL may remit such royalty and other fees without prior approval of BB.

Royalty and other fees beyond the rate mentioned above may be remitted by the MBL without prior approval of BB provided specific approval of BOI has been obtained by the applicant company.

**4. Remittance on account of training & consultancy:** Industrial enterprises producing for local market may remit through MBL up to 1% of their annual sales as declared in their previous years' tax return for the purpose of training and consultancy services as per relevant contract with the foreign trainer/consultant, without prior approval of BB.

**5. Remittance of profits of foreign firms/branches:** MBL may without prior BB approval remit abroad the post tax profits of branches of foreign firms and companies including foreign banks & other financial institutions subject to submission of relevant documents/information along with the application.

**6. Remittance of Dividend:** Prior permission of BB is not required for-

- i) Remittance of dividend income to non-resident shareholders on receipt of application in the prescribe form from the companies concerned.
- ii) Remittance of dividend declared out of previous years' accumulated reserves.

**7. Subscriptions to foreign media services:** On application from the local newspapers, MBL may remit foreign exchange towards cost of subscription of news items, features, articles of foreign news agencies subject to submission of (i) contracts entered into between the applicant and the foreign news agency and (ii) NOC of the Ministry of Information.

**8. Costs/ for Reuter monitors:** MBL may remit abroad costs/fees on account of their own subscription to foreign media services such as Reuter monitor service, without prior approval of BB.

**9. Advertisement of Bangladeshi Products in mass media abroad:** Prior permission of BB is not required by the MBL for remittance of charges for advertisement of Bangladeshi commodities in mass media abroad subject to submission of Invoice from the concerned foreign mass media along with the applications of the remitter. The applicant will have to submit copy of the advertisement to the Ad within one month of this issuance.

**10. Bank Charges:** MBL may affect remittances towards settlement of dues to foreign banks of bank charges, cost of cables and other incidental charges arising in their normal course of the business without prior approval of BB.

### **5.6.3 Inward Remittance of MBL**

The term "Inward Remittance" includes not only purchase of Foreign Currency by TT, MT, Drafts etc. but also purchases of bills, purchases of Traveler's cheques. The main two sources of inward remittance are proceeds realized from export process and also a strong source Bangladeshi workers remittance from abroad.

**1. Purchase of Currency Notes, Travelers cheques, Drafts etc:** Following General observations are required in addition to common judgment/intelligent /vigilance of the dealing officers: -

- i) Currency notes to be checked very carefully so as to avoid risk of purchasing counter fiat Notes.

- ii) While purchasing Travellers cheque signature of the holder to be obtained on the TC/s in front of MBL officials and should be verified with the signature of the holder already given at the time of issuance of T.Cs,
- iii) Drafts should not be purchased under any circumstances unless the holder is a regular/valued customer of MBL. Indemnity Bond to be obtained for revering the amount paid in advance to the holder in case of dishonor of the instrument.
- iv) Private cheque should not be purchased under any circumstance without prior approval of MBL Head Office.

**2. Dealing In Foreign Currency Notes & Coins:** MBL are permitted to deal in foreign currency notes & coins, MBL may freely buy foreign currency from incoming passengers regardless of nationality and regardless of whether or not a declaration on form FMJ is produced at the time of encashment. If this form is produced, the amount encashed should be endorsed on it. MBL may also purchase foreign currency notes, coins and other travel instruments freely from Authorized Money changers without production of Form FMJ.

All schedules that are used by MBL, Uttara branch to record and report remittances are according to foreign exchange guideline volume-2 provided by BB.

## **5.7 Collection of Foreign Currency Instruments**

To collect proceed of Foreign Instrument following procedures to be maintained by MBL Uttara branch:

- i) Receive instrument with deposit slip.
- ii) Affix crossing stamp of the Bank.
- iii) Entry in the register putting IBCA number.
- iv) Affix endorsement “pay to the order of any Bank or trust company, prior endorsement guaranteed”.
- v) Instrument to be sent to adjacent correspondents

## **5.8 Reporting to Bangladesh Bank by MBL**

As authorized dealer of foreign exchange Mercantile Bank works as important source of Bangladeshi government to collect information about remittance. MBL has to report monthly to Bangladesh Bank in following forms:

### **5.8.1 Types of out ward form**

Two forms are used for Outward Remittance of foreign Currency such as: -

#### **5.8.1.1 IMP Form**

All outward remittance on account of Imports is done by form IMP. MBL, Uttara branch weekly informs Bangladesh Bank about outward remittance of import and it sends IMP FORM information in each month to BB. Among four copies of IMP Form original copy is kept by customs and MBL fill up Duplicate, Triplicate, and Quadruplicate copy of IMP Form with following information Such as:

- IMP number with MBL's code, serial no. and year code
- Name and branch of bank
- Amount of foreign currency paid in figures and in words
- LCAF number, Date and value in Taka according to LCAF
- Description of goods along with unit, quantity and H.S. code.
- Invoice value
- Country of origin
- Port of shipment, mode of transport and place of importation
- Code of reporting month, country receiving payment, county of origin goods, commodity, unit, quantity, type of LCAF, currency, amount are also reported in IMP Form by MBL
- Imp from will be duly signed and sealed by importer and authorized officer of MBL.
- Duplicate, Triplicate copy of IMP Form are send to Head office of MBL by MBL, Uttara branch where as head office send Duplicate copy to BB and Triplicate copy is kept in head office and Quadruplicate copy is kept in regarding import L/C file by MBL Uttara branch.
- Along with IMP Form Proforma invoice, commercial invoice and LACF is attached.

#### **5.8.1.2 T.M. Form**

For all other outward remittances form T.M. is used. MBL, Uttara branch provides all outward remittance information other than import through Travels & Miscellaneous (T.M) FORM to BB. The following information is provided through T.M Form:

- Name and branch of bank

- Amount of money remitted outside the country
- The name, address and country of the person to whom currency is paid
- Code of month of reporting, country receiving payment, purpose of payment, category, currency, amount.
- Person remitting the currency and authorized officer of MBL, Uttara branch, duly signs T.M Form.

### **5.8.2 Types of inward form**

Two forms as prescribed by Bangladesh Bank are used for purchase of Foreign Currencies such as.

#### **5.8.2.1 EXP Form**

Remittances received against exports of goods from Bangladesh are done by form EXP. MBL; Uttara branch weekly informs Bangladesh Bank about inward remittance of export and it sends EXP FORM information in each month to BB. MBL fill up two copy of EXP Form with following information such as:

- EXP number Duplicate, Triplicate, and Quadruplicate with MBL, Uttara branch code, serial number and year code.
- L/C number, date of L/C opening, L/C value.
- Amount proceeds realized, method of currency such as Taka or foreign currency and date of realization.
- Among two copy one copy is send to BB along with MBL head office and another copy is kept in relative documentary credit file as office copy by MBL, Uttara branch.
- Along with duplicate copy commercial invoice and short shipment certificate if any is attached

#### **5.8.2.2 Form C**

Inward remittances equivalent to US \$2000/- and above are done by Form "C". However, declaration in Form C is not required in case of remittances by Bangladesh Nationals working abroad. Utmost care should be taken while purchasing Currency Notes, Travelers cheque, Demand Draft & similar Instrument for protecting the bank from probable loss as well as safety of the Bank officials concerned. MBL, Uttara branch provides information

about person who remits currency and relationship with the person to whom currency is remitted and reason for remitting currency to BB.

In case of reporting for export and import to Bangladesh Bank MBL, utara branch categories IMP FORM and EXP FORM into four categories according to currency and their characteristics those are as follows:

- U.S Dollar- the documentary credit opened on US Dollar is reported to BB under this category.
- ACU Dollar- the export import related to India, Iran, Nepal, Pakistan, Sri Lanka, Bhutan and Myanmar will be reported to BB at ACU Dollar.
- EURO- the documentary credit opened with EURO exchange based countries are reported under this category.
- EPZ- the documentary credit opened related to EPZ industries are reported to BB under this category.

## 5.9 Foreign Correspondence of MBL

MBL keeps foreign correspondences to handle it foreign currency transactions with different foreign according to Nostro account and Vostro account. The list of settlement accounts and list of major correspondents are as follows:

### 5.9.1 List of Settlement Accounts

| Sl. No. | Currency  | Name & Address of Foreign Correspondents  |
|---------|-----------|-------------------------------------------|
| 01      | US Dollar | Standard Chartered Bank, New York Branch, |
| 02      | US Dollar | American Express Bank Ltd, New Jersy,     |
| 03      | US Dollar | MashreqBank psc, New York,                |
| 04      | US Dollar | Citibank, N.A., New York,                 |
| 05      | US Dollar | HSBC, U.S.A.                              |
| 06      | US Dollar | Wachovia BankNew York,                    |



|    |            |                                                |
|----|------------|------------------------------------------------|
| 07 | CAD        | The Toronto-Dominion Bank , Canada.            |
| 08 | AUD        | Commonwealth Bank of Australia, Australia      |
| 09 | GBP        | Standard Chartered Bank, United kingdom        |
| 10 | Euro       | Commerzbank, Germany                           |
| 11 | Euro       | Unicredito Italiano, Milan                     |
| 12 | JPY        | The Bank of Tokyo-Mitsubishi Ltd, <b>Japan</b> |
| 13 | ACU Dollar | American Express Bank Ltd, Calcutta            |
| 14 | ACU Dollar | Arab Bangladesh Bank Ltd., Mumbai              |
| 15 | ACU Dollar | Hatton National Bank Ltd, Sri Lanka            |
| 16 | ACU Dollar | Bank of Bhutan, Bhutan                         |
| 17 | ACU Dollar | United Bank of India, Calcutta                 |
| 18 | ACU Dollar | Nepal Bangladesh Bank Ltd , Nepal.             |
| 19 | ACU Dollar | Standard Chartered Bank, Kolkata               |
| 20 | ACU Dollar | HSBC, Mumbai                                   |
| 21 | ACU Dollar | HSBC, Pakistan                                 |
| 22 | ACU Dollar | ICICI Bank Ltd., kolkata                       |

### 5.9.2 List of Major Correspondents

- |                                                           |                                    |
|-----------------------------------------------------------|------------------------------------|
| 1. Citibank, N.A.                                         | 14. MashreqBank                    |
| 2. Wachovia Bank, N.A.                                    | 15. Hatton National Bank           |
| 3. The Bank of Tokyo Mitsubishi Ltd.                      | 16. Bank Austria Creditanstalt     |
| 4. The Hongkong and Shanghai Banking Corporation Limited. | 17. Mizuho Corporate Bank Ltd.     |
| 5. Sumitomo Mitsui Banking Corporation                    | 18. Dresdner Bank AG               |
| 6. Commerzbank                                            | 19. UTI Bank                       |
| 7. Standard Chartered Bank                                | 20. UBAF                           |
| 8. The bank of Nova Scotia                                | 21. Danske Bank A/S                |
| 9. HypoVereinsbank                                        | 22. ING Bank                       |
| 10. Commonwealth Bank of Australia                        | 23. United Bank of India           |
| 11. Toronto Dominion Bank                                 | 24. ICICI Bank etc.                |
| 12. UniCredito Italiano                                   | 25. Woori Bank                     |
| 13. American Express Bank                                 | 26. Bank of America, N.A.          |
|                                                           | 27. ABN AMRO Bank (Deutschland) AG |

- |                                  |                                       |
|----------------------------------|---------------------------------------|
| 28. Korea Exchange Bank          | 35. Bank of Cyprus Ltd.               |
| 29. Bank of Maldives Plc         | 36. British Arab Commercial Bank Ltd. |
| 30. Credit Lyonnais              | 37. Swed Bank                         |
| 31. Sevenska Handelsbanken       | 38. HBZ Finance                       |
| 32. Nordea Bank Sweden AB (PUBL) | 39. Habib American Bank               |
| 33. UBS AG                       | 40. Nepal Bangladesh Bank Ltd.        |
| 34. Habib Bank AG Zurich         | 41. China Merchants Bank              |

## **5.10 Exchange Rate and Exchange Gain of MBL**

Exchange rate is the rate at which one currency is converted to another currency. In case of foreign exchange the rates, which are used to convert in local or any other currencies, in case of foreign dealings. Bangladeshi banks use exchange rates that are convertible to different currencies into BDT.

Exchange rate is determined by Bangladeshi banks from interbank offer rate (IOR). Bangladesh bank provides interbank offer rate and the MBL purchase currency at spot rate where as spot rate is addition of different primary charges such as cost of transfer, cost of freight etc along with inter bank offer rate.

In case of selling of currency or payment of import MBL, Uttara branch adds different charges as documents and telex charges to customers so BDT increases and in case of buying or receiving export value charges as documents and telex charges are deducted from customers so BDT decreases in case of selling. In case of selling charges are added and in case of buying charges are deducted from spot rate because MBL is not responsible to carry out documents charges and telex charges for others or customers.

Exchange gain of MBL, Uttara branch arises from transaction foreign currency with Head Office. In case of payment of import or selling currency convertible to BDT MBL Uttara branch buys from Head Office 0.10 paisa lower and sells it to customers at 0.10 paisa higher which will provide exchange gain. In case of currency buying or export payment receiving MBL, Uttara branch buys currency from customer and sells it 0.20 paisa higher than purchase rate from customers to Head Office that ultimately provides exchange gain. So MBL, Uttara branch arranges exchange gain in following two ways:

- ❖ In case of payment of import or selling currency MBL, Uttara branch buys currency from Head Office at 0.10 paisa lower than selling price.
- ❖ In case of payment received of export or buying currency MBL, Uttara branch sells currency to Head Office at 0.20 paisa higher than buying price.

The foreign exchange transactions of MBL, Uttara branch is supported by daily exchange rate schedule provided by head office, the exchange rate schedule of March 30, 2007 is attached below

### **5.11 Foreign Exchange Risk Management by MBL**

Foreign exchange rate fluctuations affect banks both directly and indirectly. The direct effect comes from banks' holdings of assets (or liabilities) with net payment streams denominated in a foreign currency. Foreign exchange rate fluctuations alter the domestic currency values of such assets. This explicit source of foreign exchange risk is the easiest to identify, and it is the most easily hedged.

Foreign exchange risk is treated by MBL as market risk because market risk is the potential for loss from changes in interest rates, foreign exchange rates and equity and commodity prices. So transactions related to foreign exchange positioning will bring market risk to MBL. The vulnerability of the MBL's as a whole to foreign exchange fluctuations depends on more than just its holdings of foreign exchange.

Foreign exchange risk is defined as the possibility of losses due to change in exchange rates according to market forces. The foreign exchange risk of MBL is minimum as all the transactions are carried out on behalf of the customers against underlying foreign exchange transactions.

Treasury Division of MBL independently conducts the transactions and the MBL head office of Treasury is responsible for verification of the deals and passing of their entries in the books of accounts. All foreign exchange transactions are revalued at (Market-to-Market) rate as determined by Bangladesh bank at the month-end. All Nostro accounts are reconciled on monthly basis and the management for their settlement reviews outstanding entries beyond 30 days.



**Chapter Six**  
*Recommendations*  
*&*  
*Conclusion*

## 6.1 Findings

This is the ending part of my report. After working in the MBL, Uttara Branch, I have collected and gathered the data, analyzed it, and with my limited experience I found some noticeable points that I am going to mention. Regarding those I have generated some information that I would like to share in my Recommendation section.

- ❖ The delegation of authority or action in foreign exchange department is not well defined from top level so the officers under this department willingly fix their own course of action, which sometimes creates indiscipline and confusions in operating procedures of this department.
- ❖ Foreign exchange department has sensitive issues as it has to provide different information through BB to Bangladesh government. So MBL, Uttara branch as ADs strictly follows the regulations mentioned by BB and related regulations acts. But sometimes it views that the officers of this department are giving priority to those matters that have to be informed in BB and other internal procedures are followed by regulations but not so strictly.
- ❖ The procedures to open documentary credit are full of hard & fast rules and regulations (as per Bangladesh Bank). But compare to other Bank MBL is not as flexible as they are doing to open documentary credit or attract customers.
- ❖ In case of different stage of performance of documentary credit MBL, Uttara branch sometimes faces some critical aspects such as delay or lack of commitment in performing because of lack of appropriate coordination, which mostly creates dissatisfaction among the clients of this department.
- ❖ In some cases MBL recording process is done on shortcut method i.e. for some internal transactions limited vouchers are passed. Such as no vouchers are passed for amendment in foreign exchange department of MBL.

- ❖ The total process of recording and keeping documents of foreign exchange department is not so highly integrated or combined through high chain networking systems.
- ❖ All of the officers on this department of Uttara Branch are not having computer facilities, which are slowing down the activities of foreign exchange department and dissatisfied the customers. The most crucial is that vouchers are prepared and different persons do computer posting, which creates confusion and delay of operation. Another problem is that only some documents and recording procedures done by computer others are done manually.
- ❖ Though this department provides SWIFT facilities but to maintain continuous relation with head office for foreign currency transfer related transaction it doesn't have technological support, as it doesn't have any computerized or technological network with head office its transactions become slower.
- ❖ The information of foreign exchange department of MBL shows positive trend of export, import and remittance but it's relatively slower than other competitive commercial banks. As MBL's large portion of income comes from this department but incentive to increase this trend is not adequate.
- ❖ Foreign exchange department has highly adhered with procedures; rules and regulations provided by Bangladeshi government so officers of this department must have adequate knowledge about these regulations and acts. But MBL doesn't provide adequate training to this department.
- ❖ In this department there are lacks of motivating mid & lower level officers. Lower level officers compare to the upper & mid level officers are not happy regarding their promotion.
- ❖ In MBL's Uttara branch administrative control is not so much concrete as to be, the delegation of authority and division of works is not appropriately arranged and controlled.

## 6.2 Recommendations

- ❖ High administrative control should be exercised in MBL Uttara branch and proper delegation of authority should be established so every officers of every department should be confined with their own responsibility and duty, which will bring fluency in operation.
- ❖ As authorized dealers MBL Uttara branch must follow of rules regulation regarding to foreign exchange and currency transactions in all aspects. It should time to time provide all necessary information to officers of foreign exchange department for adequate knowledge about applying rules and regulations in every related transaction.
- ❖ The process opening documentary credit and steps followed by MBL to settlement of documentary credit should be liberalized as much as possible. If process is liberalized according to regulations it will be attract customers.
- ❖ The procedures followed by MBL for open documentary credit up to settlement is lengthy and some cases are not as per committed. So the whole procedures should be integrated to provide more efficiency hat will increases satisfaction of the customers.
- ❖ The recording procedures and documents keeping process of in this department must be improved through sequential effort system and for all type recoding of this department should be computerized to get this improvement.
- ❖ Foreign exchange department of MBL branch should provide adequate computerized network facilities that will ultimately provide supports to all officers of this department and as well as improve quality of customer service by increasing swiftness of activity.
- ❖ MBL should provide different facilities and incentives to customers who are related with foreign exchange transactions and also increase quality of services that will attract the customers and that's will increase foreign exchange transactions of MBL.

- ❖ As foreign exchange transactions are guided by strict rules and regulations so all officers under this department must be properly trained and give adequate knowledge so that they apply relative regulations in practical operations.
- ❖ Enough motivation and incentives should be provided to all officers of MBL, so a positive attitude about work is buildup that will increase the quality of service provided by them.
- ❖ The number of human resources in foreign exchange department is really insufficient to give services to huge volume foreign exchange transactions. So, number of employee should be increased in this department.
- ❖ MBL have keep huge number of files regarding to export and import. As the huge volume of files is kept so its not all time possible for officers to keep proper format of those files so all officers of this department should try to reduce these irregularities.
- ❖ Customer of this department should be offered occasional gifts and discounts, attractive incentives that can make service more attractive and keep consumer delight.
- ❖ As above those all incentives that are necessary to improve the quality of service of the foreign exchange department of MBL must be taken. MBL as service providing organization provides services through all its departments so quality of services must be increased to attract and extend customers.
- ❖ MBL should improve its technological support and communication network system by using different advance technological support system that are used in different competitive banks in Bangladesh. It should also establish high quality integrated computerized networking system for foreign exchange department as well as for all departments of MBL.



## 6.3 Conclusion

Bank is the most common type financial intermediary in today's globalized world. Banks play important constructive role in the economy. Banking sector of Bangladesh quite positively contributing to its economy. In today's globalized world its impossible to stay without transacting among two countries i.e. foreign trade and banks are the only safe way transacting international transactions. The different nationalized and privatized banks are providing services among them foreign exchange services are important for globalized transactions. As a commercial bank of Bangladesh Mercantile Bank Limited is providing different services along with foreign exchange services. MBL is trying to establish is a stable position in competitive market and providing positive contribution to economy through different services as well as foreign exchange services. MBL foreign exchange department facilities not only induce export-import and private transactions but also help to encourage economic development of Bangladesh. The new mode of planned advance facilities that will be enforced in future by Mercantile Bank Limited for improving service quality. So I hope as Mercantile Bank Limited has great chance of being one of the leading banks of Bangladesh by enforcing its available opportunities and will highly contribute to the economic development of Bangladesh in future.

## Appendix

The following readings of books, working papers and journals will aid readers who want to peruse more depth information about foreign exchange:

- ❖ Madura. Jeff, 1975, International Financial Management.
- ❖ Haskins Mark E., 1982, International Financial Reporting and Analysis.
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- ❖ Uctum, M. & Wickens, M.R., 1989, Exchange Rate Determination with Bank Fianaced Investment.
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- ❖ Sarna Lazar, 1989, Letters of credit: the law and current practice.
- ❖ Kent Mckeever and Boriana Dictheva, 2006, Letter of Circular Credit.
- ❖ Bangladesh Bank, 1996, Guidelines for Foreign Exchange Transactions, Volume- 2.
- ❖ Chamberlain, Sandra, John Howe, and Helen Popper. 1995, The Exchange Rate Exposure of U.S. and Japanese Banking Institutions.
- ❖ Robert D., Deborah L. Cotton and T.K. Khan. , May 2004, Credit enhancement: letters of credit, guaranties, insurance and swaps (the clash of cultures), Business Lawyer, Vol-59.
- ❖ McTaggart, D., C. Findlay and M. Parkin, 1996, Economics, (2nd Edition), Addison-Wesley.
- ❖ ZionBanks, 2007, foreign Exchange Services, Available at: [www.zionbank.com](http://www.zionbank.com).

- ❖ C.H. Kwan, Asia in Search of a New Exchange Rate Regime, February 2000, CNAPS Working Paper.

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- Harun-Ar-Rashid Khan, M. Farid Ahmed, Ehsan Latif, 1993, Foreign Banks in Bangladesh: Performance& Limitations, Dhaka University Journal Of Business Studies, Vol- 14, No-1, Page: 185-198.
- Begum Khaleda Khanam & md. Abdul Hakim, 2002, Performance Appraisal system in Private Banks, Dhaka University Journal Of Business Studies, Vol- 23, No-1, Page: 129-136.

### **Instructional Publications**

- Bangladesh Bank, 1996, Guidelines for Foreign Exchange Transactions, Vol-1, Page: 4-29.
- Mercantile Bank Limited, 2012, Annual Report.

## Web Sites

- Foreign Exchange, Available at: [www.investorwords.com](http://www.investorwords.com)
- Methods of Expanded Payments, Available at: [www.fnb.com](http://www.fnb.com)
- Cambridge Mercantile Corporation, Foreign Exchange Global Payments, Available at: [www.cambridgefx.com](http://www.cambridgefx.com)
- Convertibility of Taka for Foreign Transactions, Available at: [www.bbank.org](http://www.bbank.org)
- Trade Port, Global Trade Tutorial, Available at: [www.caltip.org](http://www.caltip.org)
- SITPRO, Methods of International Payments, Available at: [www.info@sitpro.org.uk](http://www.info@sitpro.org.uk)
- WORLDElawDirect, What are letters of credit in international trade? Available at: [www.worldlawdirect.com](http://www.worldlawdirect.com)
- Freightgate-International Trade Terms, Available at: [www.freightgate.com](http://www.freightgate.com)
- International Finance Corporation, The Basics of Foreign Trade and Exchange, Available at: [www.ifc.org](http://www.ifc.org)
- Foreign Currency Account, Available at: [www.bankasia.com](http://www.bankasia.com)
- Foreign Exchange Risk, Available at: [www.riskinfo.org](http://www.riskinfo.org)
- Information about Mercantile Bank Limited, Available at: [www.mblbd.com](http://www.mblbd.com)

## Abbreviation

- ACU- Asian Clearing Union
- ADs- Authorized Dealers
- AWB- Air Way Bill
- BB- Bangladesh Bank
- BE- Bill of Exchange
- BL- Bill of Lading
- CAD- Canadian Dollar
- CC I & E- Chief Controller of Import & Export
- CIF- Cost Insurance and Freight
- CRF- Clean Report of Findings
- DD- Demand Draft
- DFCA- Deposit Foreign Currency Account
- ERC- Export registration Certificate
- FDBP- Foreign Document Bills for Purchase
- FOB- Free on Board
- FX- Foreign Exchange
- H.S. Code- Harmonic Symbolized Code
- IBCA- Inter Branch Credit Advice
- IBDA- Inter Branch Debit Advice
- IRC- Import Registration Certificate
- LCAF- Letter of Credit Authorization From
- LIM- Loan Against Imported Merchandise
- LTR- Loan Against Trust Receipt
- MBL- Mercantile Bank Limited
- MT- Mail Transfer
- NNC- Non-negotiable Copy
- PAD- Payment Against Document
- PC- Packing Credit
- PSI- Pre-Shipment Inspection
- S/G- Shipping Guarantee
- SWIFT- Society for Worldwide Inter bank Financial Telecommunication

- T.C- Travelers Cheque
- TIN- Tax Identification Number
- T.T- Telegraphic Transfer
- UCPDC- Uniform Customs & Practices for Documentary Credit





