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B.Com Honours

Semester VI

Calicut University

BANKING AND INTERNATIONAL FINANCE

Course Code: COM6EJ303 • Module 4 Notes

Module IV: Foreign Exchange Markets, Payment Systems, & Transactions

Covers foreign exchange market structure, participants (Hedgers, Speculators, Arbitrageurs), global payment messaging & clearing systems (SWIFT, CHIPS, CHAPS, Fedwire), and interbank forex transactions.

Unit 14: Foreign Exchange Market Structure & Features

Forex Market: 24-hour decentralized global OTC market for currency trading. Structure: Tier-1 Interbank market (market makers) & Retail commercial market.

Unit 15: Market Users (Hedgers, Speculators, Arbitrageurs)

Participants: Importers/Exporters (Hedgers locking exchange rates), Currency Speculators (positional trading), & Spatial/Triangular Arbitrageurs.

Unit 16: Global Financial Settlement Systems (SWIFT, CHIPS, Fedwire)

Global Settlement Architecture:
- **SWIFT:** Global secure messaging network for interbank instructions (BIC code).
- **CHIPS:** Primary USD private clearing system in New York.
- **Fedwire:** Real-time gross settlement system operated by US Federal Reserve.

Unit 17: Interbank Forex Transactions (Spot, Forward, Swap, NDF)

Transaction Types:
1. **Cash / TOD:** Settlement on same day ($T+0$).
2. **TOM:** Settlement on next business day ($T+1$).
3. **SPOT:** Settlement on 2nd business day ($T+2$).
4. **Forward:** Settlement beyond 2 business days at pre-agreed rate.
5. **Non-Deliverable Forwards (NDF):** Cash-settled synthetic forward traded offshore for non-convertible currencies.

Practical Case Framework 1 (Global Payment Messaging & Settlement Systems Matrix): Compare system name, operating jurisdiction, settlement nature, and primary operational function.

Global Financial Payment Systems Table:

Payment / Settlement System	Operating Jurisdiction	Primary Operational Function
SWIFT Network	Global (Brussels, Belgium)	Secure financial messaging infrastructure (No fund holding)
CHIPS Clearinghouse	United States (New York)	Private USD netting & clearing system for cross-border funds
Fedwire RTGS	United States (Federal Reserve)	Real-time gross settlement for high-value USD transactions

Practical Case Framework 2 (Interbank Forex Transaction Settlement Typologies Matrix): Compare transaction type, settlement date ($T+N$), execution mechanism, and market usage.

Forex Transaction Settlement Classification Table:

Transaction Classification	Settlement Value Date	Market Operational Use
Value Today (TOD)	Same Day ($T+0$)	Urgent same-day foreign currency liquidity needs
SPOT Transaction	Second Business Day ($T+2$)	Standard international benchmark currency trade
Forward Contract	Fixed Future Date ($>T+2$)	Hedging future export receipts / import payables
Non-Deliverable Forward (NDF)	Future Date (Net USD cash)	Offshore hedging for restricted currency capital controls