Foreign Exchange Risk Management Policy, 2025
(2nd Edition)

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Chapter 1: Policy

All financial activities involve a certain degree of risk. Financial institutions like Janata Bank PLC engage in complex financial operations requiring meticulous attention to detail. Risk is defined as an event that can cause financial, physical, or reputational loss or commit the bank to an uncertain future.

The success of Janata Bank PLC's foreign exchange trading business depends on effectively identifying and managing risks encountered in the trading environment. Organizational policies and processes must evolve to ensure controlled risk management.

Janata Bank PLC understands that risk is an inherent aspect of all financial operations. Particularly in foreign exchange (FX) trading, the ability to identify, measure, manage, and mitigate various risk categories is critical to the bank's financial resilience and stability. The following outlines the key policy components in alignment with Chapter 1 of the Bangladesh Bank's 2025 updated FX Risk Management Guidelines.

Key risk areas (not limited to) include:
a) Market Risk
b) Liquidity Risk
c) Credit Risk
d) Operational Risk
e) Legal, Regulatory, and Compliance Risk
f) Reputational Risk
g) Strategic Risk

Janata Bank PLC faces risks between FX trade execution and final settlement, varying by pre-settlement and settlement arrangements. Settlement risks include principal risk, replacement cost risk, and liquidity risk. Operational and legal risks also arise during this period.

Risk management involves:

- Risk identification
- Risk measurement
- Application of risk management tools
- Ongoing risk management

1.1 Market Risk

The esteemed Board of Directors of Janata Bank PLC would determine an overall risk appetite and exposure limit in relation to its market risk strategy. Based on these tolerances, senior management should establish appropriate risk limits. Risk limits for business units should be compatible with the institution's strategies, risk management systems, and risk tolerance. The limits should be approved and periodically reviewed by the Board of Directors and/or independent risk management function, with changes in market conditions or resources prompting a reassessment of limits.

Institutions need to ensure consistency between the different types of limits. Some commonly used market risk limits are:

- **Gap or Maturity Limits**: These limits are put in place to monitor and manage exposures arising from the differences in maturity dates or re-pricing dates. For example, there may be a maturity gap for each band of 3 months, 6 months, 9 months, 12 months, etc., to avoid maturities concentrating in a particular maturity band. Such limits can be used to reduce the volatility by staggering the maturity and/or repricing, thereby smoothing the effect of changes in market factors affecting price. Maturity limits are required to monitor and manage the liquidity risks as well as repricing risks.
- **Notional or Volume Trigger**: A trigger that needs to be monitored based on the notional amount of the total outstanding FX contracts. This helps to guard against any unusual transaction patterns in the dealing room. This trigger does not capture any price risk or market volatility risks.
- **Stop Loss Limits**: These limits are established to avoid unrealized loss in a position from exceeding a specified level. When these limits are reached, the position must either be liquidated or hedged. Typical stop loss limits include those relating to accumulated unrealized losses for a day, a week, or a month. This limit can be given to individual dealers or to a trading desk as a whole.
- **Value at Risk Limits (VAR)**: VAR is a widely accepted tool for measuring market risk inherent in trading portfolios. It follows the concept that reasonable expectations of loss can be deduced by evaluating market rates, prices, observed volatility, and correlation. VAR summarizes the predicted maximum loss (or worst loss) over a target horizon within a given confidence level.

Generally, there are three ways of computing VAR:

- **Parametric Method or Variance-Covariance Approach**
- **Historical Simulation**
- **Monte Carlo Method**

Janata Bank PLC needs to set limits, including operational limits, for the different trading desks and/or traders who may trade different products or instruments. Limits need to be clearly understood, and any changes should be clearly communicated to all relevant parties. Risk-taking units must have procedures that monitor activity to ensure that they remain within approved limits at all times.

Limit breaches or exceptions should be made known to appropriate senior management without delay. There should be explicit policy as to how such breaches are to be reported to top management and the actions to be taken.

1.2 Liquidity Risk

Liquidity risk is considered a major risk for any financial institution, including banks. It is a risk of a financial institution not being able to meet its funding obligations (including in foreign exchange) when due, either from its own sources, wholesale market sources, or from the sources of the lender of the last resort.

The condition of funding from the wholesale market depends upon liquidity in the market. Accordingly, an institution short of liquidity may have to undertake transactions at heavy costs, resulting in a loss of earnings, or in the worst-case scenario, the liquidity risk could result in the bankruptcy of the institution if it is unable to undertake transactions even at current market prices. Given this, banks should put in place appropriate liquidity limits, which the board or management or the independent risk management department considers appropriate based on various market conditions and forecasts.

The prerequisites of effective liquidity risk management include an informed board, capable management, staff with relevant expertise, and efficient systems and procedures. It is primarily the duty of the Board of Directors (BoD) to understand the liquidity risk profile of Janata Bank PLC and the tools used to manage liquidity risk. The board needs to ensure that Janata Bank PLC has the necessary liquidity risk management framework and that the bank is capable of managing any uncertain liquidity scenarios.

Generally, the board of Janata Bank PLC is responsible for:

- Positioning the bank’s strategic direction and tolerance level for liquidity risk.
- Appointing senior managers with the ability to manage liquidity risks and delegating the required authorities to accomplish the job.
- Continuously monitoring the bank's performance and overall liquidity risk profile.
- Ensuring that liquidity risks are identified, measured, monitored, and controlled.

At the basic level, Janata Bank PLC may utilize flow measures to determine future funding requirements, including in foreign exchange. A cash flow projection estimates the bank’s inflows and outflows, and thus net deficit or surplus (GAP) over a time horizon. This will help the bank to better position itself even in crisis situations.

1.3 Compliance Risk

Compliance risk is the current and prospective risk to earnings or capital arising from violations of, or nonconformance with, laws, rules, regulations, prescribed practices, internal policies, and procedures, or ethical standards. Compliance risk also arises in situations where the laws or rules governing certain bank products or activities of Janata Bank PLC’s clients may be ambiguous or untested. This risk exposes the institution to fines, payment of damages, the voiding of contracts, etc. Compliance risk can lead to diminished reputation, reduced franchise value, limited business opportunities, reduced expansion potential, and an inability to enforce contracts.

All banks should be fully conversant with compliance regulations relevant to their foreign exchange business. All audit recommendations arising from internal and external audits or from regulators must be regularly reviewed by departmental executives to ensure that recommendations covering their area of operations have been implemented and maintained.

The following indicators should be used when assessing the quality of compliance risk management:

Strong	Management fully understands all aspects of compliance risk and exhibits a clear commitment to compliance. The commitment is communicated throughout the institution.
	Authority and accountability for compliance are clearly defined and enforced.
	Management anticipates and responds well to changes of a market, technological, or regulatory nature.
	Compliance considerations are incorporated into product and system development and modification processes, including changes made by outside service providers or vendors.
	When deficiencies are identified, Management promptly implements meaningful corrective action.
	Appropriate controls and systems are implemented to identify compliance problems and assess performance.
	Training programs are effective, and the necessary resources have been provided to ensure compliance.
	Compliance management process and information systems are sound, and the Bank has a strong control culture that has proven effective.
	The Bank privacy policies fully consider legal and litigation concerns.
	Management reasonably understands the key aspects of compliance risk. Its commitment to compliance is reasonable and satisfactorily communicated.

Satisfactory	Authority and accountability are defined, although some refinements may be needed.
	Management adequately responds to changes of a market, technological, or regulatory nature.
	While compliance may not be formally considered when developing products and systems, issue are typically addressed before they are fully implemented
	Problems can be corrected in the normal course of business without a significant investment of money or management attention. Management is responsive when deficiencies are identified.
	No shortcomings of significance are evident in controls or systems. The probability of serious future violations or noncompliance is within acceptable tolerance.
	Management provides adequate resources and training given the complexity of products and operations.
	Compliance management process and information systems are adequate to avoid significant or frequent violations or noncompliance.
	Bank privacy policies adequately consider legal and litigation concerns.
Weak	Management does not understand, or has chosen to ignore, key aspects of compliance risk. The importance of compliance is not emphasized or communicated throughout the organization.
	Management has not established or enforced accountability for compliance performance.

	Management does not anticipate or take timely or appropriate actions in response to changes of a market, technological, or regulatory nature.
	Compliance considerations are not incorporated into product and system development.
	Errors are often not detected internally, corrective action is often ineffective, or Management is unresponsive.
	The likelihood of continued violations or noncompliance is high because a corrective action program does not exist, or extended time is needed to implement such a program.
	Management has not provided adequate resources or training.
	Compliance management processes and information systems are deficient.
	Bank privacy policies are non-existent or do not consider legal and litigation concerns.

1.4 Reputational and Fraud Risk

Reputational risk should be regarded as a generic term embracing the risks, from any source, that can negatively impact the reputation of the organization, and not as a category of risk in its own right. Regulatory noncompliance, loss of customer data, unethical employee behavior, or an unexpected profit warning can all damage the reputation and stakeholder confidence, which may eventually result in a credit downgrade as well. These risks should be managed as well.

1.5 Credit Risk

Credit risk arises from an obligor's failure to perform as agreed. An investor is at risk if a borrower defaults on a financial obligation. Janata Bank PLC should have clear guidelines regarding the selection of counterparties to minimize credit risk. The bank can use the ratings of independent credit rating agencies or use its important financial ratios to judge the creditworthiness of counterparties to ensure the safety of funds.

1.6 Operational Risk

Operational Risk is defined as the risk of losses resulting from inadequate or failed internal processes, people and systems, or from external events. Operational Risk can arise from both internal and external factors, some of which are as follows:

Internal Risks:

- Operational errors
- Non-compliance with banking regulations, legal requirements, etc.
- Non-compliance with internal guidelines
- Infrastructure failure, including technological failures
- Launching new products without adequate operational support
- Late or incorrect payments
- Staff fraud
- Inadequate or incorrect documentation, etc.

External Risks:

- Adverse legal judgments
- Deliberate external fraud attempts against the bank
- Money laundering
- Outsourced activities
- Natural disasters, fire, theft, etc.

Janata Bank PLC must properly identify, assess, monitor, and control its operational risks. The bank should ensure that its systems support appropriate risk management controls and have sufficient capacity, scalability, and resiliency to handle FX volumes under normal and stressed conditions.

1.6.1 Key Considerations

- **Operational Risk Framework**: Janata Bank PLC should ensure that its operational risks are appropriately represented in the bank's operational risk management framework and confirm trades in a timely manner, using electronic methods and standard settlement instructions, where practicable.
- **Capacity Management**: The bank should have a robust capacity management plan to ensure that its systems have sufficient capacity and scalability to handle increasing and high-stress FX trading volumes. This plan should include the timely monitoring of trading volumes and capacity utilization of key systems to prevent them from approaching critical levels. Janata Bank PLC should also have robust business resiliency and continuity plans to manage its operational risks and complete its FX settlement obligations.

1.6.2 Operational Risk Management Framework

- **Framework for Assessing and Managing Risks**: Janata Bank PLC should establish an operational risk management framework that identifies, assesses, monitors, and controls the bank's operational risks. This framework should address the accuracy, capacity, and resiliency of the bank's operational processes and systems for FX settlement.
- **Reassessment of Risks**: The bank should periodically reassess its operational risks, including risks that stem from changes in its FX portfolio (e.g., new products or market conditions).

- **Managing Operational Delays and Errors**: Operational risks can lead to delays or errors in trading data or confirmation of FX trades. These risks can cause losses resulting from the bank's failure to meet obligations on time and can exacerbate other risks (e.g., liquidity risk and reputational risk). The bank should have an appropriate plan to minimize these risks.

1.6.3 Capacity

- **Capacity Management Plan**: Janata Bank PLC should have a robust capacity management plan for its FX systems, including trading, credit monitoring, operations, and settlement systems. When assessing capacity needs, the bank should consider the sufficiency of FX systems and operational personnel to manage high volumes and avoid operational bottlenecks.
- **Ensuring Flexibility and Scalability**: The bank should ensure its FX systems are designed appropriately for the scale of its current and expected FX business activity. Further, the systems should accommodate potential large trading spikes in stress situations, and they should be flexible enough to meet changing operational needs.
- **Timely Monitoring**: The capacity plan should include timely monitoring of trading volumes and capacity utilization of key systems. The bank should monitor trading volumes regularly to prevent them from reaching critical levels and assess the potential for large FX trading spikes.

1.6.4 Contingency Planning

Janata Bank PLC should develop and test its business resiliency and continuity plans to ensure continued operations following a disruption. The bank should identify and address various plausible events that could lead to disruptions in their FX-related operations. Appropriate systems, backup procedures, and staffing plans should be in place to mitigate such disruptions.

Business continuity plans should be documented and periodically reviewed, updated, and tested by the proper authority.

1.7 Settlement Risk

Foreign exchange settlement risk arises when a bank in a foreign exchange transaction pays the currency it sold but does not receive the currency it bought. This risk may arise due to counterparty default, operational problems, market liquidity constraints, or other factors, involving both credit risk and liquidity risk.

The risk may be more significant if there is an adverse price fluctuation between the contract price and the market price. From a credit risk perspective, if Janata Bank PLC cannot make the payment of the currency it sold, conditional upon its final receipt of the currency it bought, it may face the possibility of losing the primary value of the transaction.

The bank may also face liquidity risk if unsettled funds are required to meet obligations to other parties. This may be severe if the unsettled amount is large or the alternative source of funds cannot be accessed quickly in an unresponsive market. A critical aspect of foreign exchange settlement risk is the **systemic risk**, which relates to the size of the bank's foreign exchange exposures and its capital. Failure by one counterparty could lead to the insolvency of the bank.

1.7.1 Managing Settlement Risk

Janata Bank PLC's procedures for managing foreign exchange settlement risk should align with the range and scope of its activities. FX settlement risk management should be initiated from the highest levels of the organization, with a policy from the bank's **Board of Directors** that is an integral part of the bank's overall policy towards counterparty risk.

- **Counterparty Limits**: Janata Bank PLC must have prudent counterparty limits for foreign exchange settlement exposures. The FX settlement limit should be established for each counterparty, i.e., the maximum exposure the bank is willing to take with a particular counterparty. The limit structure will depend on the bank's credit risk policies as well as its target market criteria. Limits set by the bank should strictly be followed in case of foreign exchange settlement risk exposures for each counterparty.
- **Excess Settlement Limits**: In case of any planned excess of settlement limits, prior approval from appropriate credit management personnel is required. Exposure measures should be updated promptly as new deals are struck or when exposures from existing trades last longer than expected.
- **Real-Time Monitoring**: The bank should develop an effective monitoring system that enables it to observe developments in real-time to ensure settlement limits are not exceeded, especially for large exposures. If there are repeated failures to meet settlement obligations, the bank should take necessary corrective actions.

1.7.2 Operational and Legal Risk Management Relating to Settlement

Janata Bank PLC may also face FX settlement-related risks caused by weaknesses in its own operations or in the legal enforceability of contractual terms and the governing law applicable to its transactions. If the bank has inadequate operational capabilities or there are weaknesses in the legal basis for pre-settlement and settlement arrangements, it could face increased principal risk, replacement cost risk, and liquidity risk due to counterparty failure.

Legal risk arises when a counterparty's contractual FX obligations are non-binding, unenforceable, and subject to loss. For example, the underlying transaction documentation may be inadequate, or the counterparty may lack the requisite authority or be subject to legal restrictions.

To mitigate settlement risk, fraud, and legal issues, banks are advised to use authenticated electronic trading platforms (such as **SWIFT**, **Bloomberg**, etc.) for settlement of foreign exchange-related transactions (such as LC issuing, LC advising, LC amendment, etc.).

Settlement Risk Arisen from UNSC Sanction:

As a member of the United Nations, Bangladesh is obliged to comply with the instructions of the resolutions adopted by the Security Council under Chapter-VII of UN Charter. The instructions contained in the United Nations Security Council Resolution 1288(1999) and its subsequent resolutions and other resolutions have to be complied and if any account/transaction operated in the name of the person(s) or institution(s) listed in those resolutions or in the name of institution(s) owned or controlled directly or indirectly by them; the account(s) have to be frozen without delay and the same have to be reported to Bangladesh Financial Intelligence Unit. Any transaction operated in the name of the person(s) or institution(s) listed in ‗Resolutions relating to the prevention, suppression and disruption of proliferation of weapons of mass destruction and its financing', adopted by the Security Council under United Nations Charter-VII, or in the name of institution(s) owned or controlled directly or indirectly by them; the account(s) have to be frozen without delay. Necessary measures have to be taken by collecting the list prepared under those resolutions proactively from the UN website (http://www.un.org/sc/committees/index.shtml). Banks will not engage in any dealing or transaction with the following:

- Parties on the Domestic Sanctions List as prescribed by BFIU. The list is known as Domestic Sanctions List of Bangladesh available in Bangladesh FIU website.
- Importing any goods, those are restricted in Import Policy Order (IPO),produced in restricted/sanctioned countries and/or goods carried in the flag vessels of those countries. All visible and invisible items from those restricted/sanctioned countries will be included as well.
- Banks will not open or operate account of any gambling or betting sites or establishments of any restricted Assets Service Providers in any segment. In applicable case, the necessary transactions will be reported as STR to BFIU.

1.8 Strategic Risk

Strategic Risk arises from adverse business decisions or improper implementation of them. These risks could lead to financial losses or reduced opportunities for business growth if not effectively managed. Strategic risk can emerge from poor decision-making, failure to execute business strategies correctly, or an unfavorable shift in the business environment that undermines the effectiveness of existing strategies.

Chapter 2: Functions and Organizational Setup

2.1 Functions

The treasury at Janata Bank PLC is responsible for managing a wide range of financial activities aimed at optimizing risk, managing liquidity, and ensuring regulatory compliance. These functions are divided into several key categories, which include:

- **Foreign Exchange/Currency Management**
- **Money Market Operations**
- **Asset Liability Management (ALM)**
- **Fixed Income**
- **Derivatives**
- **Other Investments**

Some of the key products and transactions that fall under these functions, which may require prior approval from the Foreign Exchange Policy Department (FEPD) of Bangladesh Bank, include:

- Cash/Tom/Spot Foreign Exchange
- Forward Foreign Exchange
- FX Swaps, Currency Swaps (Plain Vanilla, Cross Currency Swap, etc.), Interest Rate Swaps (Plain Vanilla, Collar, Cap, Cap Spread, etc.)
- Forward Rate Agreements
- Non-Deliverable Forwards
- FX Options (Plain Vanilla, Seagull, Range Forward, etc.)
- Overnight Deposits
- Term Deposits
- Structured Deposits
- Coupon Securities
- Discounted Securities
- Commodity Trading and Hedging (Swap, Collar, Put, Cap, Put Spread, etc.)

The treasury functions at Janata Bank PLC are carried out through three main offices: the front office, back office, and mid-office, each playing distinct roles. These offices must be located within the geographical boundaries of Bangladesh, and their functions are divided as follows:

2.1.1 Functions of Treasury Front Office

The Treasury Front Office is the heart of the trading function at Janata Bank PLC. It is primarily responsible for executing deals and managing the bank's exposure to foreign exchange and money market risks. The functions of the front office include:

1. Statutory management of foreign exchange operations.
2. Optimization of risk-return profiles through specialization and risk management.
3. Efficient management of the balance sheet at optimal prices.

4. Proposing interest rate matrices to the Asset-Liability Committee (ALCO).
5. Proposing various investment options to ALCO.
6. Analyzing economic trends and proposing balance sheet strategies to ALCO.
7. Quoting foreign exchange and interest rates to customers, corresponding banks, and exchange houses.
8. Dealing in foreign exchange for position covering and for proprietary trading.
9. Engaging in various funding activities using derivatives.
10. Providing structured treasury solutions to customers.
11. Identifying arbitrage opportunities in the market.
12. Engaging in marketing activities for future business growth.
13. Estimating daily P&L and resolving discrepancies with the reporting unit.
14. Recording and maintaining all foreign exchange and money market positions and checking for discrepancies with back-office reports.
15. Sending dealing information to the back office through deal slips (for manual deals).
16. Performing money market activities, including spot and term deposits.
17. Trading in securities and fixed income products (if applicable).
18. Managing the Net Open Position (NOP).

2.1.2 Functions of Treasury Mid Office

The Treasury Mid Office plays a key role in risk management and compliance. It monitors the limits, ensures adherence to internal and regulatory policies, and manages balance sheet gaps. The functions of the mid office include:

1. Monitoring and managing limits assigned to the treasury.
2. Ensuring adherence to internal and regulatory policies.
3. Minimizing risk exposure and reporting any issues.
4. Monitoring and reporting foreign exchange and money market positions.
5. Monitoring and reporting cash flows and cash positions.
6. Proposing and renewing various internal limits.
7. Ensuring traders adhere to internal, regulatory, and counterparty limits.
8. Managing and monitoring balance sheet gaps.
9. Reporting any breach of limits.
10. Performing internal and regulatory reporting functions.
11. Verifying the appropriateness of rates for all confirmed deals.

2.1.3 Functions of Treasury Back Office

The Treasury Back Office is responsible for the settlement, reconciliation, and reporting of all treasury deals. The functions of the back office include:

1. Inputting, verifying, and settling deals.
2. Receiving and sending deal confirmation certificates.
3. Preparing currency positions for the previous day and reporting to traders.
4. Reconciling foreign exchange positions.

5. Revaluating foreign exchange positions periodically.
6. Managing discrepancies and disputes related to treasury transactions.
7. Ensuring adherence to statutory maintenance requirements.
8. Reconciliation of nostro and vostro accounts.
9. Handling claims and payments for good value date effects of late settlements.
10. Preparing and reporting daily exchange positions.

2.2 Organization Setup

The organizational structure for treasury functions should be tailored to the nature and size of the financial institution. However, regardless of the bank's size, it is crucial to maintain clear demarcations between the front office (dealing activities) and the back office (settlement and support functions). The treasury support unit, commonly known as the back office, handles all related support activities such as settlement, reporting, and reconciliation, while the front office focuses solely on dealing.

In addition to these functions, Janata Bank PLC must set up a **Treasury Mid Office** to monitor and manage risks associated with treasury activities in a more detailed manner. This unit should be based in Bangladesh to maintain a comprehensive risk management framework.

2.3 Centralized Foreign Exchange and Money Market Activities

At Janata Bank PLC, foreign exchange and money market activities are centralized under one department for efficiency and to manage the interdependencies between the two markets. These activities are crucial for maintaining balance sheet stability, and centralized management ensures that gaps and mismatches are managed effectively.

The **Head of Treasury** oversees the foreign exchange and money market functions, ensuring that all activities are carried out under a unified framework.

2.4 Separate Trading and Risk Management Units

To ensure proper risk management, Janata Bank PLC operates separate trading and risk management units. These units work closely together but have distinct responsibilities:

2.4.1 Traders/Risk-Taking Units

- Maintain compliance with market risk limit policies.
- Ensure no limit breaches and seek pre-approval for higher limit requirements.
- Inform the risk management unit of any changes in strategy or product mix.
- Seek approval from the risk management unit before engaging in new products.

2.4.2 Market Risk Management

- Review and update risk policies annually.

- Identify relevant market risks for each risk-taking unit.
- Develop proposals for market risk limits and triggers.
- Independently monitor compliance with market risk limits.
- Review and approve limit frameworks and changes.

2.5 Organization Chart

The organizational structure for Janata Bank PLC's treasury is designed to separate responsibilities for dealing, settlement, and risk management. The front office, mid office, and back office all report independently, ensuring strong controls and transparency. A sample organizational chart is provided in **Annexure V**.

2.6 Job Descriptions

2.6.1 Treasury Front Office

The front office is responsible for all trading activities, including market analysis, managing positions, and executing deals. Key roles include:

2.1.1 Treasury Front Office

2.1.1.1 Head of Treasury

- Overall responsibility of all treasury front office activities and ensure required oversight on dealersand managers.
- Responsible for the treasury financial plan
- Determine overall treasury business and risk strategy within internal and regulatory limits
- Set individual trader dealing limits from limits approved by management
- Monitor all traders' positions and ensure traders adhere to all internal, regulatory as well as trader specific limits
- Decide on particular positions during adverse situations
- Continuous development of systems, processes, business strategies, etc.
- Member Secretary in the ALCO
- Propose overall balance sheet strategy to the ALCO
- Ensures a robust control environment for the treasury functions including dealers code of conduct, Chinese wall between the private and public side
- Responsible for FX price risks and FCY liquidity management
- Direct control over all FCY inflow& outflow including remittance business.
- Clearance before making any foreign currency commitment.

2.1.1.2 Cross Currency Trader

- Forming Market Views
- Monitoring exchange positions
- Monitoring of counterparty limits

- Collating all the cross-currency positions
- Remaining within all given internal and regulatory limits
- Remaining within all counterparty limits at all times
- Trading/squaring the positions within approved limits

2.1.1.3 USD/BDT Trader

- Trading spot and forward positions arising from import/export/remittances, etc.
- Collating the whole Bank's USD/BDT positions
- Remaining within all given internal and regulatory limits
- Remaining within all counterparty limits at all times
- Trading/squaring the positions within approved limits

2.1.1.4 Securities and Statutory Management Trader

- Investment in securities Portfolio as appropriate
- Policy Rate (Repo rate), SDF
- Propose to the ALCO (through the head of treasury) of statutory investments

2.1.1.5 LCY & FCY Money Market Trader

- Overnight/Call money activities
- Term market activities
- Maintenance of CRR and SLR
- Policy Rate (Repo rate), SDF
- Currency swaps
- FCY placements
- MM pricing of FCY
- Nostro funding
- Spot any arbitrage opportunities and take advantage
- Remaining within all counterparty limits at all times
- Operating within all given balance sheet gap limits
- Profitably trading/ squaring the positions

2.1.1.6 Balance Sheet Manager

- Managing all balance sheet gaps
- Monitoring of market factors
- Interest rate and market forecasts
- Analysis of risk reports for presentation to ALCO
- Daily reports to senior management

2.1.1.7 Corporate Dealer/Sales Manager

- Managing Client Relationships
- Checking Dealing Appropriateness
- Ensuring all appropriate documentation in place before dealing
- Preparing FX and IR Rate sheets

- Ensuring compliance with Credit/Risk Limits

2.1.1.8 Fixed Income Trader

- Take positions in Securities
- Quote price to clients
- Manage the trading portfolio of securities
- Ensure compliance with Regulations
- Manage client purchase/sale, both local and foreign, in T-bonds/bills

2.1.1.9 FX Remittance- Dealers

- FX deal with all correspondents
- Bank will lay down the process.

2.1.2 Treasury Back-Office

2.1.2.1 Head of Back Office

- Overall responsibility of all treasury back-office activities
- Responsible for all relevant regulatory reporting
- Ensure compliance with Regulatory limits and escalate any excesses
- Escalate reconciliation related issues
- Discuss Treasury Risk issues with the Management
- Responsible for accuracy and timeliness of all back-office reports and MIS

2.1.2.2 Manager-Local Currency Reconciliation

- Reconcile all local currency accounts on a day-to-day basis
- Immediately advise money market trader and balance sheet manager of any discrepancy
- Track reconciliation of any unmatched item
- Claim or arrange payment of good value date effects for any late settlements
- Send chasers for any unsettled items until it is settled

2.1.2.3 Manager-Nostro Reconciliation

- Reconcile all nostro accounts on a day-to-day basis
- Immediately advise USD/BDT or cross currency trader of any discrepancy
- Track reconciliation of any unmatched item
- Claim or arrange payment of good value date effects for any late settlements
- Send chasers for any unsettled items until it is settled

2.1.2.4 Manager-Vostro Reconciliation

- Reconcile all vostro accounts on a day-to-day basis
- Immediately advise money market trader and balance sheet manager of any discrepancy
- Track for reconcilement of any unmatched item
- Claim or arrange payment of good value date effects for any late settlements

- Send chasers for any unsettled items until it is settled

2.1.2.5 Manager-Foreign Currency Position Reconciliation

- Receive copies of USD/BDT and cross currency traders‘ position blotters
- Reconcile all foreign currency positions between accounted for records and USD/BDT & cross currency traders‘ blotters on a day-to-day basis
- Immediately advise USD/BDT or cross currency trader of any position discrepancy
- Investigate and match un-reconciled amounts
- Advise USD/BDT and cross currency traders of correct currency positions prior to commencement of day‘s dealing activities

2.1.2.6 Manager-Local Currency Position Reconciliation

- Receive copies of position blotters from money market trader
- Reconcile all local currency positions between accounted for records and money market traders‘ blotters on a day-to-day basis
- Immediately advise money market trader of any position discrepancy
- Investigate and match unmatched amounts
- Advise money market trader of correct positions prior to commencement of day‘s dealing activities

2.1.2.7 Manager-Foreign Currency Settlements

- Settle for all foreign currency deals done by USD/BDT, cross currency and the FCY money market traders
- Send and receive confirmations of all deals done by USD/BDT, cross currency and FCY money market traders
- Check nostro statements for settlements of major items
- Advise traders of any discrepancy in settlement for the prior dealing day
- All related accounting entries
- Generate various MIS

2.1.2.8 Manager-Local Currency Settlements

- Settle for all local currency deals done by LCY money market traders
- Send and receive confirmations of all deals done by LCY money market traders
- Check local currency statements for settlements of major items
- Advise traders of any discrepancy in settlement for the prior dealing day
- All related accounting entries
- Generate various MIS

2.1.2.9 Manager-Vostro Settlements

- Settle for all vostro transaction
- Check vostro statements for settlements of major items
- Advise dealers of any discrepancy in settlement for the prior dealing day
- All related accounting entries

- Generate various MIS

2.1.2.10 Manager-Regulatory reporting:

- Send all required regulatory reports as per reporting schedule and as specifically required by the regulators
- Respond to various queries from regulators regarding reports
- Coordinate with other departments in receiving required information for reporting purpose
- Create awareness among various related departments of the importance of effective and accurate reporting.

2.1.3 Treasury Mid-Office

2.1.3.1 Head of Mid Office

- Overall responsibility of all treasury Mid office activities Responsible for all relevant Risk reporting
- Measure for compliance with Regulatory/Internal limits and escalate any irregularities
- Escalate regulatory and internal policy breaches by Front and back office
- Monitor Treasury Risk issues (both front and back office) with Management
- Responsible for accuracy and timeliness of all reports as well as MIS

2.1.3.2 Manager-Risk Reporting

- Monitor limit utilizations against all internal and regulatory risk limits, reporting of limit excesses, etc.
- Stop loss/ cumulative loss limits monitoring and reporting
- Monitoring of daily P&L
- Measuring the of balance sheet gaps
- Measuring the mark to market gain/loss
- Identify and escalate cancelled/amended deals
- Identify and escalate rate exceptions against off market rates
- Generate various MIS

2.1.3.3 Manager-Risk Management

- Monitor Key risk indicators of front and back office
- Identify future risk and design solutions as necessary
- Confirm risk management capabilities of the bank prior to introducing any new treasury product
  Ensure compliance with all action plans
- Prepare report detailing the risk management strategy for Treasury
- Responsible for accuracy and timeliness of all MIS

2.7 Individual Trader Dealing Mandate

Each trader at Janata Bank PLC must have a dealing mandate approved by management. This mandate specifies the products the trader is authorized to deal in, along with the limits and conditions under which they can operate. The mandates are reviewed annually or as needed.

2.8 Restrictions

To maintain proper control and prevent conflicts of interest, certain activities are restricted for traders, back-office, and mid-office staff:

2.1.4 Treasury Front-Office Staffs are restricted from

- Deal processing
  - ➢ Accounting entries
  - ➢ Sending/ receiving deal confirmations
  - ➢ Issuing/ receiving any cheques
  - ➢ Sending settlement instructions
- Generating revaluation rates
- Running the revaluation process
- Regulatory reporting
  Involvement in raising rate appropriateness
- Setting up/approving counterparty credit limits
- Setting up/approving market risk limits

2.1.5 Treasury Back-Office Staff are restricted from

- Dealing activities
  - ✓ Decide on exchange rates/ quoting prices
  - ✓ Striking deals with counterparties
  - ✓ Raising deal slips
  - ✓ Altering deal details
- Updating position blotters
- Deciding on nostro funding
- Approving counterparty credit limits
- Approving market risk limits

2.1.6 Treasury Mid-Office Staffs are restricted from

- Dealing activities
  - ✓ Decide on exchange rates/ quoting prices
  - ✓ Striking deals with counterparties
  - ✓ Raising deal slips
  - ✓ Altering deal details
- Updating position blotters
- Deciding on nostro funding

Chapter 3: Process

3.1 Dealing Room

The trading environment at Janata Bank PLC operates with a well-defined structure to ensure efficiency and control. Traders have access to live market prices through various communication tools, which enables them to make swift decisions in a fast-paced environment. To protect sensitive information and ensure operational integrity, traders are housed in a restricted area known as the "dealing room." Access to the dealing room is controlled through an electronic access control system, ensuring that only authorized personnel can enter.

3.2 Taped Conversations

Since many deals are concluded over the phone, especially in the local market where traders may be familiar with each other, Janata Bank PLC requires that all telephonic conversations taking place in the dealing room are taped. This serves as an important safeguard for resolving any potential disputes. The telephone lines, whether direct lines or PABX connections, must be taped. Mobile phone dealings are restricted, unless specifically authorized by management, with a proper justification provided and the conversation being documented and recorded. In jurisdictions where it is required, all parties should be informed in advance that their conversation is being taped.

3.3 Deal Recording

The nature of trading requires quick decision-making, and in such a fast-moving environment, there is a risk of forgetting or incorrectly recording deal details. To minimize this risk, traders must record each deal immediately after it is concluded.

- **Position Blotter**: The trader must record the deal on the position blotter right after the transaction. This helps the trader stay aware of their current position and enables immediate reactions to market changes. For banks using automated or integrated systems, the blotter is maintained electronically.
- **Deal Slip**: A deal slip must be completed as soon as possible after a trade, containing key details such as payment instructions, counterparty, value date, currencies, amounts, and rates. For automated systems, these slips are electronically captured and passed on to the treasury back office. Deal slips must be pre-numbered for control purposes, and any canceled deal slips should also be forwarded to the back office for proper record-keeping.

3.4 Deal Delay

In environments without integrated systems, where manual deal tickets are generated, deals must be entered within 30 minutes. However, for banks with integrated systems, where deals flow automatically from the front office into the back-office settlement system, traders must ensure that deals are entered into the system within 10 minutes. Delays exceeding these timeframes undermine the efficiency of the process, and any such delays should be flagged for review and action.

3.5 Counterparty Limits

To manage credit risk, Janata Bank PLC establishes counterparty limits, which define the maximum exposure the bank is willing to take with a particular counterparty. This is crucial to prevent defaults on foreign exchange contracts. The counterparty limits apply to products like FX, FX swaps, foreign currency placements, and Nostro funding. These limits are monitored to ensure that the bank is not overexposed to any single counterpart.

3.6 Triggers

A trigger is a predefined threshold that, when exceeded, requires the management to be notified. Triggers could be based on position value, trading volume, or other relevant metrics. Once a trigger is hit, the management will typically monitor the situation more closely. In case of a loss trigger, the threshold will generally be set lower than the stop loss limit, signaling an early alert to prevent further losses.

3.7 Stop Loss Orders

To manage the inherent risks of forex trading, Janata Bank PLC employs stop-loss orders, which are instructions to buy or sell once a currency reaches a certain price. This strategy is essential for limiting potential losses in volatile market conditions. Traders set stop-loss orders at a predefined level, which may vary depending on the risk tolerance of the bank or individual trader. Some traders may be comfortable incurring a larger loss, while others prefer to set stricter limits. This flexibility ensures that the bank manages risk appropriately according to its trading strategy.

3.8 Appropriateness of Dealing

Traders at Janata Bank PLC must assess whether the counterparty is dealing appropriately before concluding any transactions. This includes ensuring that the counterparty's transaction volume and product types are suitable for their business needs and that they fully understand the risks involved in the transactions. The trader must also verify that the counterparty is authorized to engage in the transaction, both internally and from a regulatory perspective.

To address this, it is good practice for Janata Bank PLC to obtain an "appropriateness agreement" from clients, or a board resolution that outlines authorized products and personnel for transactions. This ensures that the client is fully aware of the risks and responsibilities associated with their dealings.

3.9 Rate Appropriateness

Janata Bank PLC's treasury mid-office is responsible for ensuring that all deals are conducted at market-based rates. If a deal is made at off-market rates, the respective trader must provide a satisfactory explanation. If the justification is deemed unacceptable, further investigation may be initiated. The bank primarily uses Reuters for pricing its FX products, and all data for independent verification should come from the same source. The treasury must follow directives from Bangladesh Bank for determining FX rates, ensuring transparency and adherence to regulatory standards.

3.10 Deals Outstanding Trigger

Monitoring the total deals outstanding is an essential task for the treasury back office. This helps identify any unusual trading volumes or discrepancies. Janata Bank PLC may set a trigger point for deals outstanding, and if this threshold is exceeded, the treasury back office must escalate the issue to the head of treasury. This trigger acts as an additional safeguard to prevent any inadvertent errors, such as a trader mistakenly executing a deal with incorrect amounts. For banks with integrated systems, the system can automatically track and flag any unusual deal volumes, reducing the need for manual oversight.

3.11 Daily Treasury Risk Report

The treasury back office or risk management unit is responsible for compiling a daily treasury risk report for senior management. This report should summarize key metrics such as outstanding positions, currency-wise exchange positions, foreign exchange forward gaps, MCO reports, interest rate exposures, counterparty credit limit usage, and the day's P&L against triggers and stop-loss limits. A sample format of the report is provided to help ensure that senior management has up-to-date and accurate information for decision-making.

3.12 Conversation Language

To ensure clarity and reduce misunderstandings, all conversations related to dealing activities must be conducted in an understandable and commonly spoken language. For dealing system communications, English is mandatory, while telephone conversations can be conducted in either Bengali or English. This ensures that all parties are on the same page and that operational clarity is maintained across all dealing-related interactions.

Chapter 4: Dealing Environment

4.1 Dealing Limits

To ensure proper risk management and adherence to regulatory requirements, Janata Bank PLC has established a set of specific limits for its dealing room. These limits are designed to control exposure, prevent excessive risk-taking, and ensure smooth operations. The following dealing limits apply:

- **Dealing Room FX Position Limit**:
  - **Individual Trader Position Limit**: Each trader is assigned a limit on the total position they can take, measured in US$ millions. The limit can be further divided by currency and tenor, as required.
  - **Individual Currency Position Limit**: Traders are given individual limits for each currency in which they can take positions, including FCY/BDT and FCY/FCY positions. These limits are further divided by:
    - **Intraday Limit**: The maximum position an individual trader can take between the opening and closing hours of the day.
    - **Overnight Limit**: The maximum position a trader can carry into the next business day.
  - **Limits by FX Product**: Different limits are set for traders based on the type of FX product they trade in, such as Spot FX, Forward FX, and FX Options.
  - **Limits by Tenor**: Position limits are also set based on the tenor of the products being traded (Intraday, Overnight, and Forward limits).
  - **Product List**: Not all FX products may be traded by all traders. The dealing mandates will specify which FX products the dealing room or individual traders are authorized to trade in.
- **FX Deal Limit**: Janata Bank PLC may limit the size of individual FX deals to control exposure. This applies to both individual traders and the overall dealing room.
- **Deal Outstanding Limit**: The bank may set an overall daily outstanding limit for FX deals, measured in equivalent USD. With integrated systems and e-platforms, the bank can monitor trade flow volume data in real-time.

4.2 Mandatory Leave and Training

Due to the sensitive and high-pressure nature of dealing functions, it is essential that traders take mandatory leave periodically to ensure transparency, prevent mistakes from going unnoticed, and ensure the smooth running of operations when traders are absent. The following procedures are in place for mandatory leave and training:

- **Mandatory Leave**: All traders are required to take continuous leave of at least two weeks per year. During this period, traders are expected not to communicate with their colleagues in the treasury department, and the bank should not contact the trader for any reason. Exceptions to this rule, including contacting a trader on block leave, require prior approval from the Treasurer.

- **Training**: Janata Bank PLC ensures that all treasury personnel undergo appropriate training. Only trained individuals are authorized to engage in treasury activities.

4.2.1 Treasury Bench Strength

To ensure that trading operations can continue smoothly in the absence of any individual trader, Janata Bank PLC has developed a backup system for all treasury positions. This ensures that when a trader is on mandatory leave, their backup can take over their responsibilities without the need for direct contact with the absent trader.

4.3 Stop Loss Limits

In recognition of the inherent risks involved in trading, Janata Bank PLC implements **Stop Loss Limits** to prevent excessive losses from adverse market movements. These limits may apply at various levels:

- **For Each Individual Deal**: A stop loss limit is set for each trade to limit potential losses.
- **For Each Individual Trader**: Limits are set for each trader for daily, weekly, or monthly losses.
- **For the Treasury Unit**: A stop loss limit is also applied to the overall treasury unit to ensure that the bank's collective risk exposure does not exceed acceptable levels.
- **Over Specific Periods**: A stop loss limit may be set over specific working periods for any treasury desk (e.g., FX, ALM, Fixed Income).

Additionally, **Management Action Triggers (MAT)** may be set at levels below the stop loss levels to alert management when the loss situation requires their immediate attention for corrective action.

4.4 Position Reconciliation

Position reconciliation is a critical process to ensure that the bank's trading records are accurate and reflect the true market position. All traders must reconcile their positions with the positions provided by the treasury back-office:

- **Daily Reconciliation**: Traders must reconcile their positions before the start of each business day and before closing at the end of the day.
- **Good Practice**: Traders should reconcile their dealing records, whether electronic or manual, prior to the close of business.
- **E-platform Trades**: Trades executed using e-platforms must be reconciled with communications from the e-platform provider by the back office to ensure accuracy.

4.5 After-hours Dealing

After-hours dealing refers to trades that are initiated outside of the bank's normal business hours. Janata Bank PLC may decide to allow its treasury to engage in after-hours trading for specific business reasons. The following guidelines apply:

- **Limitations on Risk**: The bank must have clear procedures to define the extent of risk exposure during after-hours trading.
- **Traders Authorized**: Specific traders must be authorized to deal during after-hours, and their dealing limits must be defined.
- **After-hour Deal Processing**: The bank must have processes in place for accounting and processing all after-hour trades to ensure that they are recorded and settled appropriately.

4.6 Off-premises Dealing

Off-premises dealing refers to trading activities conducted by traders who are not physically present in the dealing room. To maintain operational integrity, Janata Bank PLC has established procedures for off-premises dealing:

- **Procedures and Accountability**: The bank must have detailed guidelines on how off-premises deals will be processed and accounted for promptly.
- **Designated Traders**: Specific traders are designated to conduct off-premises dealings if required for business purposes.
- **Reporting**: The number and breakdown of off-premises deals must be reported to the Treasurer on a periodic basis.

4.7 Deal Cancel and Amendment

Occasionally, trades may need to be canceled or amended due to errors or client requests. Janata Bank PLC has implemented the following policies for deal cancellations and amendments:

- **Reasons for Amendments**: Deal amendments may occur due to information errors (e.g., price, volume, currency, settlement date), client requests, system errors, or other valid reasons.
- **Deal Cancellation Policy**: The bank must have a detailed policy regarding deal cancellations and amendments, ensuring that they are processed and documented appropriately.
- **Monthly Reporting**: The Mid/Back Office will compile a monthly report capturing the reasons for deal cancellations and amendments to ensure transparency and proper oversight.

Chapter 5: Code of Conduct

5.1 Introduction

Due to the specialized and sensitive nature of their work, traders at Janata Bank PLC are expected to adhere to the highest standards of professionalism and ethics. The behavior and actions of the dealing room staff have a direct impact on the integrity of the bank's operations and its reputation in the market. As such, it is essential for all employees in the dealing room to act with honesty, integrity, and in compliance with all relevant rules and regulations.

The principles that constitute the ethical conduct for traders are outlined in **Annexure IX**. These principles serve as a framework for the daily operations and decision-making processes within the dealing room.

5.2 Dealers Code of Conduct

Janata Bank PLC has established a **Dealers Code of Conduct** that guides the professional behavior of its dealing room staff. The code covers a wide range of areas that are crucial for maintaining ethical standards and ensuring the proper functioning of the trading activities. The key areas addressed in the code include, but are not limited to, the following:

- **Business Ethics**:
    - Traders must always act in the best interest of the bank and its customers.
    - They should refrain from any form of market manipulation, insider trading, or any other unethical behavior that could undermine market integrity.
    - All trading activities should be conducted in a manner that complies with applicable laws, regulations, and internal policies.
- **Interaction with the Market**:
    - Traders should conduct themselves with respect and professionalism in all interactions with the market.
    - They must avoid conflicts of interest and ensure that their actions do not unfairly influence market conditions.
    - All dealings must be transparent and based on fair and accurate information.
- **Risk Management**:
    - Traders are required to follow the bank's risk management policies and adhere to all prescribed risk limits.
    - They should act prudently when making decisions, taking into account both the potential rewards and risks involved in each transaction.
    - Any trade that is likely to result in a risk breach should be escalated immediately according to the bank's risk escalation procedures.
- **Exception Escalation Process**:
    - Any deviations from the established procedures or the Code of Conduct must be reported to management without delay.
    - The dealing room staff must be familiar with the escalation process and take immediate action if there is a deviation from the prescribed norms.

  - Management must be informed of any issues or concerns, ensuring that corrective measures can be taken in a timely manner.

5.3 Compliance with the Code of Conduct

Compliance with the Dealers Code of Conduct is essential for maintaining the integrity and professionalism of Janata Bank PLC's operations. Any deviations from the code should be reported immediately to the management, who will review the situation and take appropriate corrective actions. Disciplinary measures may be taken in cases of non-compliance, including but not limited to suspension, termination, or legal action, depending on the severity of the violation.

Chapter 6: Electronic System and Data Safeguards - Janata Bank PLC

6.1 Electronic Systems for Data Management and Protection

At Janata Bank PLC, traders use various systems, including spreadsheets, to manage their daily business activities. To ensure the safety of the data and maintain discipline, all systems employed for these purposes must be password-protected. The following measures are crucial for safeguarding electronic data:

- **Periodic Review of System Access**: The Treasurer should periodically review the system access granted to traders to ensure that the access rights align with the traders' job descriptions and mandates. If redundant access rights are found, they should be promptly removed.
- **Password Protection for Files**: Traders must password-protect generic files (e.g., Excel files for daily rate sheets or for pricing forwards) and these files should be designed according to a standard format endorsed by the Treasurer. The IT department of the bank may assist in securing specific cells within files, particularly those containing formulas. Additionally, any updates or changes to these files should be logged for audit purposes.
- **Maintaining Authorized Email List**: An updated list of authorized entities for email communication should be maintained, especially when using common e-communication platforms like Yahoo Mail, Hotmail, or Gmail. This list, however, does not apply to communications with regulators like BAFEDA.
- **Confidential Information Handling**: Confidential information must never be sent to third parties over common email platforms without proper prior authorization.
- **Preventing Data Leakage**: Dealing rooms that handle sensitive information, such as private bond issues, IPOs, or capital market issues, must set up procedures to prevent data leakage, both physically and electronically.
- **Compliance with Regulations**: The bank must adhere to all applicable laws and regulations concerning data sharing, outsourcing, and storage.

6.2 Dealing Room Access Log

Dealing rooms at Janata Bank PLC are high-security areas where access must be controlled to prevent unauthorized persons from entering. To maintain the security of these areas, the bank should install electronic swipe card access or other security technologies. Access rights must be reviewed and updated periodically to ensure that only authorized personnel are allowed entry.

6.3 Risk Limit Management

The Risk Unit at Janata Bank PLC provides various risk limits for the dealing room, which are in line with the bank's internal policies, regulations, and risk appetite. These limits are approved by the management and monitored closely to ensure that they are not exceeded. The bank has a comprehensive policy that covers compliance with these limits and includes procedures for escalation when necessary. The risk exposure is calculated daily by the Middle Office, Risk Unit, and Finance team, and the results are communicated to management for review.

Types of Risk Limits:

- **PV01 Limit**: This limit is based on the price value of a basis point, which refers to the profit or loss resulting from a 1 basis point movement in the price of a product. The PV01 limit is particularly useful for evaluating FX forward positions. The dealing room is assigned an overall PV01 limit and individual PV01 limits for each currency in which the room is authorized to trade in FX forwards. The net open forward position must remain within the prescribed PV01 and the bank's Net Open Position (NOP) limit.
- **Value at Risk (VaR) Limit**: Value at Risk is a statistical measure that estimates the worst probable loss on a position or portfolio over a specified period of time, with a given confidence level. Janata Bank PLC uses this metric to evaluate the risk of its positions in foreign exchange.
- **Straddle Gap/MCO Limit**: This limit refers to the bank's ability to manage its foreign exchange exposure over various time periods. The bank may limit its FX forward exposure depending on its annual inflow/outflow and balance sheet strength. For example, Janata Bank PLC may allow up to US$ 30 million in exposure for 3 months, but limit it to US$ 20 million for one year.
- **Out of Market Rate (OMR) Tolerance Limit**: The bank sets a tolerance limit on daily deal rate deviations from the market rate. For instance, if the bank sets the OMR tolerance limit at 1% of the daily market range, any deal rate crossing this threshold should be reported to management, with an explanation provided by the dealing room.
- **Net Open Position (NOP) Limit**: As prescribed by Bangladesh Bank, Janata Bank PLC is required to adhere to limits on its open foreign exchange position. The bank must ensure that its internal NOP limits are in line with the regulatory limits set by Bangladesh Bank. In the event of a breach, the treasury must notify the Managing Director, CEO, or the Board of Directors. Janata Bank PLC must also ensure that adequate capital is maintained in accordance with the risk exposure, as outlined in the Guidelines on Risk-Based Capital Adequacy, 2014.

Chapter 7: ALM/CFT Risk Management in Foreign Exchange

7.1 AML Compliance During Transactions

In order to ensure compliance with Anti-Money Laundering (AML) and Counter Financing of Terrorism (CFT) regulations, Janata Bank PLC must guarantee that all foreign exchange transactions are conducted only with customers whose identities have been appropriately verified. This verification process must involve conducting due diligence to assess the risk profile of the client in line with the guidelines provided by the Bangladesh Financial Intelligence Unit (BFIU).

Janata Bank PLC must not engage in any transactions for individuals or entities that are listed under the United Nations Security Council Resolutions (UNSCRs), or those who have been proscribed or enlisted by the Bangladesh Government for suspected involvement in terrorism or terrorist financing activities. These lists, including individuals and entities listed under UNSCRs, can be accessed via UN Security Council List, while the Bangladesh Government's list is available under the schedule of the Anti-Terrorism Act, 2009.

To ensure that these individuals and entities do not access formal financial channels, Janata Bank PLC is required to implement an automated screening system. This system will help detect any listed individuals or entities before any relationship is established. The bank needs to emphasize the importance of this screening mechanism particularly during account opening and any foreign exchange transaction to ensure no prohibited entities are able to use the bank's services.

7.2 AML Compliance During Establishing and Maintaining Nostro & Vostro Accounts

When establishing Cross Border Correspondent Banking relationships, Janata Bank PLC must first conduct thorough due diligence to ensure it understands the nature of the correspondent or respondent bank's business. This process should follow the guidelines issued by the BFIU. Approval from senior management is also required before establishing or maintaining any correspondent relationship.

The bank must ensure that the foreign bank has adequate supervision by the relevant regulatory authority. Janata Bank PLC must avoid establishing or maintaining relationships with shell banks and those correspondent or respondent banks that either maintain accounts with shell banks or provide services to them.

Special attention must be paid when establishing or maintaining relationships with correspondent banks in jurisdictions that do not meet or have significant deficiencies in complying with international standards for preventing money laundering and terrorist financing. These countries are listed under the High-Risk and Non-Cooperative Jurisdictions in the Financial Action Task Force (FATF) Public Statement.

For such correspondent relationships, detailed information on the beneficial ownership of these banks and their policies and procedures for preventing money laundering and terrorist financing must be obtained. Additionally, if the respondent bank allows its customers to transact business through "payable through accounts" (accounts used by third parties to conduct business on their behalf), Janata Bank PLC must ensure that appropriate Customer Due Diligence (CDD) has been performed by the respondent bank. Moreover, it must be possible for Janata Bank PLC to request and collect CDD information from the respondent bank as necessary.

7.3 AML Compliance During Wire Transfers

Janata Bank PLC must comply with all regulations concerning cross-border wire transfers, ensuring that full and accurate originator information is collected and preserved for wire transfers exceeding the prescribed threshold. This information must be transmitted to the intermediary and beneficiary banks as part of the transaction process.

In addition to the originator’s details, full and accurate beneficiary information must also be preserved and transmitted to the beneficiary bank. In cases where multiple individual wire transfers from a single originator are bundled into a batch for transmission, the batch file must contain all the required and accurate originator and beneficiary information, in accordance with the guidelines issued by the Bangladesh Financial Intelligence Unit (BFIU).

By maintaining these stringent measures, Janata Bank PLC ensures compliance with AML/CFT regulations and safeguards its operations against illicit activities such as money laundering and terrorist financing.

Chapter 8: Nostro Account Reconciliation

8.1 Nostro Account Reconciliation

In order to facilitate international operations, Janata Bank PLC maintains a variety of nostro accounts to conduct transactions in multiple currencies, including Bangladeshi Taka (BDT). The senior operations manager of the bank establishes limits for handling transactions in these accounts, which include time limits for settlements and the time and amount limits for items that require immediate attention upon receipt of account statements.

When determining these limits, the bank takes into account the transit and processing times of different types of transactions. If the time and amount limits are exceeded, the operations manager must be consulted to take appropriate action.

To ensure independence and accuracy, individuals who are tasked with reconciling nostro accounts must not be involved in originating, authorizing, or booking transactions. Moreover, these individuals should not perform reconciliations on the same accounts for more than twelve consecutive months. After this period, they may be reassigned to the same duties, provided that at least one reconciliation cycle is skipped.

Every time a statement is received, it is essential that the open items are matched accurately, ensuring that dates, amounts, and transaction identities align perfectly. All matches should be cross-referenced between “our accounts” and the statement. Any discrepancies or partial matches must be carefully recorded, providing a clear audit trail for future reference.

On a monthly basis, or more frequently if required, a reconciliation balancing report must be generated for each nostro account. This report should include the current balance of the nostro account, the corresponding statement balance, and a list of any open items. If any open items exceed the predetermined limits, tracers must be sent to follow up. The operations manager reviews these reports regularly to ensure that open items are resolved promptly.

A quarterly review of all nostro accounts must also be conducted by an officer independent of the transaction processing team. This ensures that the accounts are still being managed for legitimate business purposes and that all controls remain effective.

8.1.1 Operational Loss/Write-Off/Late Receipt Charge/Liquidation

The operations manager is responsible for setting time and amount limits for the liquidation of open items or differences that remain unreconciled. If these items cannot be resolved, they may be liquidated in accordance with the bank's accounting policies, ensuring that they are properly identified and corrective steps are taken to avoid recurrence.

In cases of operational issues such as a SWIFT system failure or delayed receipt of funds, Janata Bank PLC may incur losses. These losses should either be written off, if applicable, or recovered from the counterparty as soon as possible. Any charges due to delayed payments must be cleared within the year and should not be carried over. Exceptions should be escalated with detailed explanations.

The bank must have a policy in place to monitor and address these issues promptly. A detailed flowchart outlining the reconciliation process is provided in Annexure IV.

8.2 Mark-to-Market

The mark-to-market process involves valuing all outstanding positions—such as Spot and Forward contracts—at the current market rate. This process is conducted by the treasury back office, which ensures that the current market value of these positions is determined and used to assess the profitability of any outstanding contracts. Market rates are obtained from independent sources like Reuters, Bloomberg, BAFEDA, or other banks to avoid conflicts of interest.

The treasury back office is required to perform revaluation daily, and any profit or loss impacts must be adjusted accordingly. Traders must maintain their own profit and loss estimates, which are compared with the estimates provided by the treasury back office. Any discrepancies between the two must be reconciled.

8.3 Valuations

Valuation refers to the process of determining the profit or loss that would result if all positions were to be liquidated at a given time. The treasury back office carries out this function by collecting revaluation rates from independent sources to avoid any conflicts of interest. This process ensures that the organization can assess the financial impact of its positions accurately.

8.4 Model Control Policy

In banking, particularly in the treasury function, models are used to generate valuations, market risk measurements, and to assess various financial scenarios. All models used in the treasury must undergo validation and periodic reviews to ensure their accuracy and effectiveness. This process includes a thorough evaluation of the underlying assumptions, mathematical formulae, and proper implementation.

The validation process is crucial as it minimizes the risks associated with flawed models. Once validated, models are only revalidated if changes are made that affect valuations or risk measurements. Any changes to an existing model must be reported and documented, ensuring the models reside in a controlled environment.

8.5 Internal Audit

Given the complexities of the foreign exchange business, Janata Bank PLC conducts regular internal audits to evaluate the effectiveness of key controls. The internal audit process is usually carried out annually, although more frequent audits may be necessary depending on the bank's operational needs. Additionally, a concurrent audit can be conducted to ensure the treasury function is operating efficiently on a day-to-day basis.

A well-functioning Mid Office within the bank ensures that internal audits are effectively implemented. These audits include checks for adherence to limits, statutory requirements, and compliance with policies, ensuring that the treasury operations are functioning smoothly and in line with regulations.

Chapter 9: Derivatives Guideline

9.1 Introduction

A derivative is a financial instrument whose value is derived from an underlying asset such as interest rates, foreign exchange rates, credit ratings, or securities prices. The settlement of these instruments occurs at a future date. Participants in the derivatives market can be broadly classified into two categories: **market-makers** and **users**.

- **Users** of derivatives utilize them primarily to hedge against risks or transform existing risk exposures. They may also hedge a homogeneous group of assets and liabilities, provided the individual assets and liabilities are eligible for hedging.
- **Market-makers**, such as Authorized Dealers (AD Banks) and their overseas offices, act as counterparties to users in derivative transactions and may trade amongst themselves with prior approval from Bangladesh Bank if necessary.

The key derivatives products that can be traded under Janata Bank PLC's guidelines include **Foreign Exchange Forward**, **Foreign Exchange Swaps**, **Cross Currency Swaps**, and others as permitted by Bangladesh Bank. Any derivative transactions that are not specifically mentioned, such as **Foreign Exchange Options** and **Interest Rate Swaps**, may only be undertaken with prior permission from Bangladesh Bank, and subject to specific conditions detailed in the following sections.

Janata Bank PLC is committed to ensuring that derivatives activities are an integral part of its overall risk management framework. The board of directors, senior management, and customers must fully understand the risks inherent in derivatives activities. The bank has a responsibility to establish a **Suitability and Appropriateness Policy** to ensure proper risk management when offering derivatives products to users.

9.2 Risk Management Aspects in Derivatives and New Product Transactions

This section outlines the key principles of a prudent risk management system for derivatives and new product activities at Janata Bank PLC:

- **a) Oversight by Senior Management**: Janata Bank PLC's board and senior management must ensure that new derivatives/products are properly understood and that appropriate controls are in place before launching them.
- **b) Risk Management Process**: The bank will maintain a sound risk management process, including risk limits, measurement systems, continuous monitoring, and regular management reporting.
- **c) Internal Controls and Audit Procedures**: Comprehensive internal controls and audit procedures are essential to ensure compliance and manage risk effectively.

The bank's foreign exchange risk management systems must adhere to the guidelines provided by Bangladesh Bank's Risk Management Guidelines for Banks (2018). In line with these guidelines, Janata Bank PLC will ensure full compliance and proper risk management practices.

9.2.1 Governance Activities

- It is vital, while dealing with hedging products, such as derivatives that the board/senior management should understand the nature of the business which the bank is undertaking.
- The board of directors and senior management also need to demonstrate through their actions that they have a strong commitment to an effective control

environment throughout the organization.

- The board and senior management, in addition to advocating prudent risk management, should encourage more stable and durable return performance and discourage high, but volatile returns.
- The board of directors and senior management should ensure that the organization of the bank is conducive to managing risk. It is necessary to ensure that clear lines of responsibility and accountability are established for all business activities, including new derivative activities.
- The central risk control function at the head office should also ensure that there is sufficient awareness of the risks and the size of exposure of the trading activities in new derivatives & new product operations. The compliance risks in all new products and processes should be thoroughly analyzed and appropriate risk mitigants by way of necessary checks and balances should be put in place before the launching of products. The Chief Compliance Officer must be involved in the mechanism for approval. The Compliance Officer should also review all the existing products in light of these guidelines.

9.2.2 Board and Senior Management Oversight

Janata Bank PLC's board must approve written policies that define the overall framework for derivatives activities, including risk control and the evaluation of new product transactions. The policy framework should address the following key aspects:

- To establish the institution's overall risk appetite, risk limit/threshold and ensure that it is consistent with its strategic objectives, capital strength and management capability to hedge or transfer risk effectively, efficiently and expeditiously.
- To define the approved derivatives products and their likes and the authorized derivatives & new product activities.
- To detail requirements for the evaluation and approval of new products or activities.
- To provide for sufficient staff resources and other resources to enable the approved derivatives and new products activities to be conducted in a prudent manner;
- To ensure appropriate structure and staffing for the key risk control functions, including internal audit;
- To establish management responsibilities;
- To identify the various types of risk faced by the bank and establish a clear and comprehensive set of limits to control these;
- To establish risk measurement methodologies which are consistent with the nature and scale of the derivatives and new product activities; and
- To detail the type and frequency of reports which are to be made to the board (or concerned committee(s) of the board). The type of reports to be received by the board

should include those which indicate the levels of risk being undertaken by the institution, the degree of compliance with policies, procedures and limits, and the financial performance of the various derivatives and trading activities. Internal and external audit reports should be reviewed by a board-level audit committee and significant issues of concern should be drawn to the attention of the board.

9.2.3 Checklist for Transacting Derivatives

The **Suitability and Appropriateness Policy** is crucial for ensuring that derivatives transactions are carried out responsibly. The market-maker (Janata Bank PLC) must ensure that it is offering derivatives products that are appropriate for the users. The following key actions must be taken:

The rapid growth of the derivatives market, especially structured derivatives has increased the focus on ‗suitability' and ‗appropriateness' of derivative products being offered by market- makers to customers (users) as also customer appropriateness. Market-makers should undertake derivative transactions, particularly with users with a sense of responsibility and circumspection that would avoid, among other things, mis-selling. Inadequate understanding of the risks and future obligations under the contracts by the users, in the initial stage, may lead to potential disputes and thus cause damage to the reputation of market-makers.

The market-makers may also be exposed to credit risk if the counterparty fails to meet his financial obligations under the contract. The market-makers should carry out proper due diligence regarding ‗user appropriateness' and ‗suitability' of products before offering derivative products to users. Each market-maker should adopt a board-approved ‗Customer Appropriateness & Suitability Policy' for derivatives business. The objective of the policy is prudential in nature: to protect the market-maker against the credit, reputation and litigation risks that may arise from a user's inadequate understanding of the nature and risks of the derivatives transaction. Annexure-XI exhibits a Sample Suitability checklist.

Capability Checking of the Users:

In general, market-makers should not undertake derivative transactions with or sell structured products to users that do not have properly documented risk management policies that include, among other things, risk limits for various risk exposures. Furthermore, structured products should be sold only to those users which follow prudent accounting and disclosure norms and are capable of ascertaining the mark to market position of these products on an on-going basis.

Documented Records:

While undertaking derivative transactions with or selling structured derivative products to a user, a market-maker should document how the pricing has been done and how periodic valuations will be done. In the case of structured products, this document should contain a dissection of the product into its generic components to demonstrate its permissibility, on the one hand, and to explain its price and periodic valuation principles, on the other. The following information may be shared with the user:

a) Description of the transaction
b) Building blocks of the transaction
c) Rationale along with appropriate risk disclosures
d) Sensitivity analysis identifying the various market parameters that affect the product.
e) Scenario Analysis encompassing both the possible upside as well as the downsides and analyze the expected impact of the proposed derivatives transaction on the user;
f) Inform the customer of its opinion, where the market-maker considers that a proposed derivatives transaction is inappropriate for a customer. If the customer nonetheless wishes to proceed, the market-maker should document its analysis and its discussions with the customer in its files to lessen the chances of litigation in case the transaction proves unprofitable to the customer. The approval for such transactions should be escalated to highest level of authority at the market-maker as also for the user,
g) Ensure the terms of the contract are properly documented, disclosing the inherent risks in the proposed transaction to the customer in the form of a Risk Disclosure Statement which should include a detailed scenario analysis (both positive and negative) and payouts in quantitative terms under different combination of underlying market variables such as interest rates and currency rates, etc., assumptions made for the scenario analysis and obtaining a written acknowledgement from the counterparty for having read and understood the Risk Disclosure Statement.
h) Guard against the possibility of misunderstandings all significant communications between the market-maker and user should be in writing or recorded in meeting notes.

Authority Check:

Market maker will ascertain whether a user has the appropriate authority to enter into derivative transactions and whether there are any limitations on the use of specific types of derivatives in terms of the former‘s board memorandum/policy, level at which derivative transactions are approved, the involvement of senior management in decision-making and monitoring derivatives activity undertaken by it.

Exposure Check:

Market maker will identify whether the proposed transaction is consistent with the user's policies and procedures with respect to derivatives transactions, as they are known to the market-maker.

Terms of the Contract:

Market maker ensure that the terms of the contract are clear and assess whether the user is capable of understanding the terms of the contract and of fulfilling its obligations under the contract. A term sheet detailing all the information related to trade should be signed by the client before executing any trades.

Dispute Handling:

Market maker should establish internal procedures for handling customer disputes and complaints. They should be investigated thoroughly and handled fairly and promptly. Senior management and the Compliance Department/Officer should be informed of all customer disputes and complaints at a regular interval. It may also be noted that the responsibility of

‗Customer Appropriateness and Suitability' review is on the market-maker.

Documentation Requirement:

Market participants are advised to ensure that the documentation requirements in respect of derivative contracts are complete in all respects. For the sake of uniformity and standardization in respect of all derivative contracts, participants may use ISDA documentation, with suitable modifications for continuing ongoing relationships. Counterparties are free to modify the ISDA

Master Agreement by inserting suitable clauses in the schedule to the ISDA Master Agreement to reflect the terms that the counterparties may agree to, including the manner of settlement of transactions and choice of governing law of the Agreement.

The Identification of Risk:

Market-makers should identify the various types of risk to which they are exposed in their derivatives activities. The main types of risk are and discussed in earlier sections:

- Credit Risk
- Market Risk
- Liquidity Risk
- Operational Risk
- Legal Risk

9.3 Product Guidelines

Janata Bank PLC follows clear guidelines for the various derivative products offered to customers. Below are the specific product guidelines:

9.1.1Spot Foreign Exchange

A foreign exchange spot transaction, also known as FX spot, is an agreement between two parties to buy one currency against selling another currency at an agreed price for settlement on the spot date. The exchange rate at which the transaction is done is called the spot exchange rate.

9.1.2Forward Foreign Exchange

An FX forward contract or is a non-standardized contract between two parties to buy or sell a currency against another at a specified future time at a price agreed upon today. The party agreeing to buy the underlying currency in the future assumes a long position, and the party agreeing to sell the currency in the future assumes a short position. The price agreed upon is called the forward rate, which is agreed at the time when the contract is entered into.

The forward price of such a contract is commonly contrasted with the spot price, which is the price at which the asset changes hands on the spot date. The difference between the spot and the forward price is the forward premium or forward discount.

Forwards, like other derivative securities, can be used to hedge risk (typically currency or exchange rate risk).

9.1.3Forex Options

A foreign-exchange option (commonly shortened to just FX option or currency option) is a financial derivative instrument that gives the owner the right but not the obligation to exchange money denominated in one currency into another currency at a pre-agreed exchange rate on a specified date. To hedge bonafide transactions, banks can exercise foreign exchange option only with prior permission from Bangladesh Bank in case-to-case basis.

Relevant Guidelines

- Banks can only offer plain vanilla options and its simple variations only.
- These transactions may be freely booked and/ or cancelled subject to verification of the underlying.
- All guidelines applicable for FX forward contracts are applicable to cross currency option contracts also.
- Cross currency options should be written by banks on a fully covered back-to-

back basis. The cover transaction may be undertaken with a bank outside or inside Bangladesh or an internationally recognized option exchange. Any banks desirous of writing options (i.e. not back-to-back), should obtain a one-time approval from Foreign Exchange Policy department of Bangladesh Bank before undertaking the business. They should clearly explain the booking, processing, risk mitigates (i.e. option greeks like Delta hedging strategy) covering the transactions and scenario analysis of profit/loss of customer in details while seeking the approval.

- Banks have to go through a robust suitability process before commencing any options related transactions with the clients.
- The term sheet for the derivative transactions should also necessarily and clearly mention the following: a) The purpose for the transaction detailing how the product and each of its components help the client in hedging; b) The spot rate prevailing at the time of executing the transaction; and quantified maximum loss/ worst downside in various scenarios.
- The pricing of all forex derivative products should be locally demonstrable at all times.

9.1.4Forex Swaps

Clients having a foreign currency liability and undertaking a foreign currency vs BDT swap to move from a foreign currency liability to a BDT liability or vice versa is allowed given AD banks is able to examine the suitability and appropriateness of the swap and be satisfied about the financial soundness of the client.

Purpose of this is to hedge exchange rate and/or interest rate risk exposure for those having long or short-term foreign currency borrowing or to transform long or short-term BDT borrowing into foreign currency liability.

Guidelines:

- The term ―long-term exposure‖ means exposures with residual maturity of one year or more. ―Short term exposure‖ meaning less than one-year exposures.
- The swap transactions, once cancelled, shall not be rebooked or re-entered, by whichever mechanism or by whatever name called.
- AD banks should not offer any swap structures other than vanilla, i.e. leveraged swap.
- The notional principal amount of the swap should not exceed the outstanding amount of the underlying exposure.
- The maturity of the swap should not exceed the remaining maturity of the underlying exposure.
- Banks should carry out due diligence regarding ―user appropriateness‖ and ―suitability‖ of the swap transaction.
- The term sheet for the derivative transactions should also necessarily and clearly

mention the following: a) The purpose for the transaction detailing how the product and each of its components help the client in hedging; b) The spot rate prevailing at the time of executing the transaction. C) Quantified maximum loss/ worst downside in various scenarios.

- The pricing of all forex derivative products should be locally demonstrable at all times.
- Buying/Selling/Swapping foreign currency against BDT or another foreign currency is allowed between resident interbank counterparties and Buying/Selling/Swapping foreign currency against another foreign currency to cover client transactions or for adjustment of own position is allowed with banks abroad. It is also allowed for AD banks to initiate trading positions with the overseas market‘s banks.

9.1.5Cross Currency Swaps

Cross Currency Swap (CCS) or Currency Swap is an agreement between two parties to exchange interest payments and principals denominated in two different currencies. Purpose is to hedge FCY borrowing or lending related interest rate and exchange rate exposure and unwinding from such hedges.

Guidelines:

- The notional principal amount of the product should not exceed the outstanding amount of the foreign currency loan.
- The maturity of the product should not exceed the unexpired maturity of the underlying loan.
- The contracts may be cancelled and rebooked freely.
- Banks should carry out due diligence regarding ―user appropriateness‖ and
―suitability‖ of the swap transaction.
- The term sheet for the derivative transaction should also necessarily and clearly mention the following:
    i. The purpose for the transaction detailing how the product and each of its components help the client in hedging;
    ii. The spot rate prevailing at the time of executing the transaction.
    iii. Quantified maximum loss/worst downside in various scenarios.
- The pricing of all forex derivative products should be locally demonstrable at all times.

9.1.6Interest Rate Swaps

An Interest Rate Swap is a financial contract between two parties exchanging or swapping a stream of interest payments for a `notional principal‘ amount on multiple occasions during a specified period. Such contracts generally involve exchange of a `fixed to floating‘ or `floating to floating‘ rates of interest. Accordingly, on each payment date - that occurs during the swap period - cash payments based on fixed/ floating and floating rates, are made by the parties to one another. Purpose is to hedge FCY borrowing or lending related interest rates exposure and unwinding from such hedges.

Guidelines:

- The notional principal amount of the product should not exceed the outstanding amount of the foreign currency loan.
- The maturity of the product should not exceed the unexpired maturity of the underlying loan.
- The contracts may be cancelled and rebooked freely as per specific predetermined policy guidelines.
- Banks should carry out due diligence regarding ―user appropriateness‖ and ―suitability‖ of the swap transaction.
- The pricing of all forex derivative products should be locally demonstrable at all times.

9.1.7Interest Rate Cap and Collar

An interest rate cap is an interest rate option in which payments are made when the reference rate exceeds the strike rate. Analogously, an interest rate floor is an interest rate option in which payments are made when the reference rate falls below the strike rate. Purpose is to hedge FCY borrowing or lending related interest rate exposure and unwinding from such hedges.

Guidelines:

- The notional principal amount of the product should not exceed the outstanding amount of the foreign currency loan.
- The maturity of the product should not exceed the unexpired maturity of the underlying loan.
- The contracts may be cancelled and rebooked freely.
- Banks should carry out due diligence regarding ―user appropriateness‖ and

—suitability‖ of the Cap and Collar.

- AD banks can offer only those products that they can price independently. This is also applicable to the products offered even on back-to-back basis. The pricing of all forex derivative products should be locally demonstrable at all times.

9.1.8Commodity Hedging

For Clients with Underlying Exposure (less than 1 year):
AD banks may facilitate Commodity Swaps, Caps, Floors, and Collars with prior approval from Bangladesh Bank. Contracts must be non-speculative and have underlying exposure (e.g., import LC). AD banks must keep copies of valid underlying documents for inspection by Bangladesh Bank. AD banks must complete Appropriateness and Suitability assessment (GFET Annex). All other conditions of GFET Chapter 4, para 14 on hedging will apply.

General Regulations:

Commodity derivatives are only for hedging genuine price risks (monitored by ADs).Residents can hedge permitted commodities on international exchanges through banks operating in Bangladesh.AD banks can make margin payments or issue guarantees/standby letters of credit.

*** For any other products other than mentioned above will require approval from Bangladesh Bank on case-to-case basis before transacting. Please update the sample product approval format (*Please use appendix Nine for Product approval format*) and send it along with application letter to Director, Foreign Exchange PolicyDepartment.

Chapter 10: Foreign Exchange Risk Management for Off-Shore Banking Operations

- Bank should have a clear policy regarding funding combination of OBU Business. Ideally OBU book needs to have a combination of short-term and long-term liabilities to weather any liquidity stress.
- Bank should have policy in place to limit the Short-term liability in OBU book. The funding arranged from DBU also needs to be assessed in line with liability profile of DBU.

Note: Currently Janata Bank PLC does not have any OBU operation.

Chapter 11: Conclusion

The preceding sections have detailed the highly demanding nature of a trader's job and the critical role of the treasury back-office staff in managing the financial risks and operations of Janata Bank PLC. Traders are not only responsible for the risk management of the bank’s balance sheet, but also for managing capital—a task requiring exceptional skill, knowledge, and the ability to make split-second decisions in a fast-paced environment. Given the strategic importance of these roles, it is essential that Janata Bank PLC appoints and maintains a highly skilled and well-trained team to ensure the effective management of its treasury functions.

11.1 Importance of Skilled Personnel

Traders at Janata Bank PLC are tasked with significant responsibilities that include managing complex risks and making high-stakes decisions in real-time. Their role is crucial to the bank’s success and stability in the volatile financial markets. Similarly, key positions in the treasury back-office also demand specialized skills and expertise to support the smooth operation of the bank’s treasury activities.

It is essential that Janata Bank PLC’s senior management ensures the recruitment of highly competent and deserving individuals for treasury and back-office positions. Additionally, the management must continuously assess and address the training and development needs of traders and other treasury personnel. By investing in the professional growth of its staff, Janata Bank PLC can maintain a highly skilled workforce capable of responding effectively to the evolving challenges in the financial markets.

11.2 Trading Policies and Risk Limits

To ensure efficient risk management and sound decision-making, the senior management of Janata Bank PLC should establish and regularly review an overall trading policy for the treasury. This policy should clearly define the scope of treasury activities, risk limits, and control mechanisms. It should also outline the process for reviewing individual trader mandates to ensure that each trader’s responsibilities and limits are aligned with the bank’s risk appetite and strategic goals.

The trading policy should serve as a comprehensive guide for traders, ensuring that they operate within the predefined limits and in accordance with the bank’s risk management objectives. Regular reviews and updates of the trading policy will ensure that the treasury is well-equipped to adapt to changing market conditions.

11.3 Stress and Challenges in a Trader’s Job

A trader’s job at Janata Bank PLC is not only highly demanding but also stressful. The continuous need for concentration, quick decision-making, and risk management requires traders to remain alert and focused at all times. Moreover, the global nature of treasury operations often means that traders must work extended hours, including unsocial hours and holidays. In particular, Janata

Bank PLC’s dealing room may be required to operate on Fridays, which is the local weekly holiday, to cater to international market requirements.

Given these challenges, Janata Bank PLC recognizes the importance of supporting its traders. Advanced dealing rooms often compensate traders for the extra stress and work hours by offering special allowances, and Janata Bank PLC should ensure that its traders are adequately compensated for their dedication and commitment to the bank’s success.

11.4 Adapting to an Ever-Changing Environment

The financial markets are dynamic, with new products, market conditions, and risks emerging continuously. This requires Janata Bank PLC’s treasury function to be adaptable, responsive, and forward-thinking. The management must establish robust internal policies and structures that are capable of identifying new risks and control areas as they arise. By implementing these control mechanisms before taking on significant risks, Janata Bank PLC can mitigate potential threats to its operations and ensure the ongoing stability of its treasury activities.

The nature of the treasury environment is constantly evolving, and Janata Bank PLC must be proactive in recognizing and addressing emerging risks. Through regular training, policy updates, and the establishment of effective risk control mechanisms, the bank will be well-positioned to navigate the challenges of the ever-changing financial landscape.

Annexure-I

Definitions

Following are the definitions of some terminologies used in this document:

a) **Counter-party**: The other entity/bank or party with whom a transaction is concluded.

b) **Exchange Position**: Exchange position refers to the position of foreign currency (FCY) to be reported as per prescribed format of Bangladesh Bank which indicates the total FX assets and liabilities and differences thereof.

c) **Inter-bank Transactions**: Inter-bank Transactions refer to transactions between counterparties (banks and/ or other financial institutions) which participate in the inter-bank market.

d) **Limit and Sub-Limit**: Limit and Sub-Limit express the approved aggregate value for particular currency (currency limit) either booked as asset or as liability.

e) **Merchant Transaction**: Merchant Transaction indicates those transactions which involves in-house customers e.g. exporter, importer and remitter of the Bank. These are often termed as flow transactions or internal flows.

f) **Open Position Limit**: Open Position Limit indicates the limit approved by Bangladesh Bank for maximum long and short aggregate currency position in equivalent USD.

h) **Position Taking**: Position Taking refers to the transactions for which dealers enter into buy/ sell transaction in a particular currency with a view to making profit.

i) **Revaluation**: Through this process, the LCY equivalent of the FCY assets and liabilities of the balance sheet (book value) are valued at market price using the prevailing exchange rate and any difference is accounted for.

j) **Ready/Cash Deals**: Deals where the Transaction date and the Settlement date is same.

k) **Value TOM**: Deals where the Settlement date is one working day after the Transaction date i.e. the settlement of the transaction is T + 1 working day. The term ―TOM‖ here is used in a short form for ―tomorrow‖.

l) **Value Spot:** Deals where the Settlement date is two working days after the Transaction date i.e. the settlement of the transaction is T + 2 working days, except USD/CAD where spot is T+1

m) **After Hour's Dealings**: Deals concluded by the dealers at a time that is after the bank‘s internally approved dealing hour.

n) **Off Premises dealing:** Deals concluded by dealers from outside the dealing room i.e. when the dealer is not physically located inside the dealing room.

o) **Stop loss limit**: A limit set by the independent market risk management department or risk management unit which a dealer must not exceed when managing and/or closing an adverse position or portfolio.

p) **Mark to Market**: A process through which all outstanding FX positions and portfolios are valued at the current market rate to determine the current market value.

q) **Deal Blotter**: A listing of all the Deals that are executed over a trading day.

r) **Deal Slip**: The Primary document where a dealer records all the information related to an executed deal. Banks with automated front office systems writes and passes their deal slips electronically while banks without automated systems hand over a physical slip to their back office for further processing of the transaction.

s) **Currency Pair:** The two currencies in a foreign exchange transaction.

t) **Spread:** The difference between the buying and selling price for foreign currency.

t) **Overbought/Long:** If the F.C(s) purchased/FX asset(s) is/are more than the F.C(s) sold/FX liability(s), the Bank is said to have Overbought/Long position.

u) **Oversold/Short:** If the F.C(s) sold/FX liability(s) is/are more than the F.C(s) bought/FX asset(s), the Bank is said to have Oversold/short position.

v) **Square:** If the F.C(s) Purchase/FX Asset(s) are equal to F.C(s) Sales/FX liability(s), then the position is square.

w) **Net Open Position (NOP):** The Net Open Position (NOP) is the residual balance of total F.C assets minus liabilities/ aggregate F.C purchase minus aggregate F.C sales.

x) **Daylight/Intraday Limit:** The Daylight/Intraday Limit is the maximum position allowed by the management that can be taken during the course of the trading session by the dealers in a particular trading day.

y) **Money market:** The Money Market refers to the marketplace where short term resources with maturity of funds ranging from one day to one year are raised and/ or deployed.

z) **Treasury Bills:** Treasury bills refer to short-term negotiable debt obligations issued by the government of Bangladesh and backed by its full faith and credit with a maturity of up to one year.

aa) **Policy Rate/Repo:** Repo or Repurchase Agreement refers to sale of securities with a commitment to repurchase the same securities at a pre-agreed date in the future. Presently only government securities are being dealt with under repo transactions.

bb) **SLF Rate/Reverse Repo:** Reverse Repo refers to purchase of securities with a commitment to sell the same securities at a pre-agreed date in the future.

cc) **Call Money:** Call Money refers to borrowing/lending of funds which can be matured by a same day notice of either party at any given date starting from the next working day.

dd) **Overnight Money:** Refers to funds placed/borrowed that automatically mature on the following working day.

ee) **Notice Money:** Notice Money refers to placement of funds beyond overnight for periods not exceeding 14 days.

ff) **Term Money:** Term Money refers to placement or borrowing of funds for periods over 14 days.

gg) **Dealing system:** System used for conversation/dealing among the counterparts for foreign exchange dealing.

hh) **Trading spikes:** The comparatively large upward or downward movement of a price or value level in a short period.

Annexure-II

Earnings at Risk

For those portfolios that are subject to accrual accounting, the Earnings at Risk methodology should be used for measuring how much the earnings might be impacted by an adverse movement in interest rates. Interest rate risk occurs when assets and liabilities re-price at different times (gaps), when assets and liabilities are subject to administered rate pricing, or when assets and liabilities reprice on different yield curves.

Earnings at Risk measures the potential pre-tax earnings impact on the non-trading portfolios for a given time period of a specified parallel movement in interest rates. The specific rate movements are statistically derived. For a portfolio without options, the Earnings at Risk for each currency are calculated by multiplying the repricing gap by the specified rate movement.

Earnings at Risk calculations are generally done for the full life of the portfolio. By convention, since there may be assets and liabilities with indefinite maturities, the calculation of full life earnings at risk is normally truncated at 5 years. The first step in calculating earnings at risk for a balance sheet without options is to construct gap schedules based on asset and liability re- pricings for each month and each year. Some assets and liabilities do not have contractual repricing dates or maturities, e.g. demand deposit accounts and overdraft loans: in these cases, assumptions need to be made and approved.

All profit and loss items which have interest rate sensitivity, i.e. those revenues or expenses which vary with interest rate changes, must be included in the Earnings at Risk calculations. To calculate possible impact of rate changes on such positions, it is necessary to estimate the time it would take to eliminate the risk and close the gap, the defeasance period. This will obviously depend on the nature of the assets and liabilities and the availability of suitable hedging facilities. The level of change in interest rates will be determined by the length of the defeasance period. The longer it takes to rebalance the positions the greater the possible movement in interest rates.

The impact of the specified parallel shift of the yield curve is calculated for each year. The results for each year of the full life calculation are then discounted using the appropriate swap rate and are added together to provide the total change in the earnings of the portfolio.

Earnings at risk limits are to be set for all accrual portfolios, for the full life of the portfolio. Generally, the aggregate earnings at risk is limited to a percentage of annual budgeted earnings. The utilization of the earnings at risk against the set limits should be measured at least weekly, but procedures must be in place to ensure that the limits are not exceeded on a daily basis.

Annexure-III

Calculation of VAR

Value at Risk (VAR)

Value at Risk, commonly referred to by its acronym VAR, is a statistical measure of the worst probable loss on a position or portfolio of positions that can be expected over a specified period of time to a given level of confidence. The calculation of VAR requires a number of inputs:

- Market value of the position
- Daily volatility of the currencies
- Holding period - Level of confidence

Market Value of Position:

The market value of position, expressed in US Dollars, is the base point from which expected losses are calculated. In other words, adding or subtracting (depending on whether the position is long or short) the VAR on a position to the market value will give the worst probable market value of the position.

Daily Volatility:

Foreign Exchange volatility is calculated from the daily movements in the foreign exchange rate over a specified historic time period. A key assumption in the calculation of historic volatility is that recent events play a more significant role in determining likely rate movements in the future than events, say that took place a year ago. As a result, recent rate movements are usually given higher weightage in the calculation of volatility. An alternative method commonly used in the market is to limit the historic period used to calculate volatility, and not apply any weighting. A third method is to use implied volatility i.e. the actual volatility traded in the market.

Whatever method is used, the risk manager should be aware of the difference between implied and historic. If the difference is significant, might be necessary to tune the calculation of historic volatility to bring it in line with implied.

Historic volatility is calculated by simply taking the Standard Deviation of the daily changes in the rates for the historic time period selected. To compare historic to implied volatility, the daily volatility needs to be converted to an annualized basis. This is done by multiplying the daily volatility by the square root of the number of trading days in a year (say 290).

Holding Period:

The holding period for VAR refers to the liquidity of the position i.e. how long it will take to liquidate the position in terms of number of trading days. The majority of positions (regardless of size) in freely floating currencies should be able to be liquidated within a twenty-four hour period. For these currencies, the holding period will therefore be set to one day. However, positions in currency that is not liquid may take several days to unwind, which may depend on the size of the position or general market conditions. In these cases, the holding period should be extended appropriately.

Level of Confidence:

The level of confidence selected determines the probability and frequency that there will be a rate movement in excess of the predicted (i.e. VAR) amount.

Market volatility is quoted to one standard deviation, thereby inferring that once in every five trading days the calculated worst probable loss will be exceeded. At two standard deviations, this raised to one in every forty trading days. At three standard deviations this is increased to once in every two hundred days.

Based on the normal distribution of rate changes, the percentage of the distribution, defined by the number of Standard Deviation ( ), Level of Confidence will define the probability of a rate movement occurring outside the worst probable rate. The approximate relationship between Confidence Level and Standard Deviation is as follows:
1σ = 90% Confidence Level
2σ = 95% Confidence Level
3σ = 99% Confidence Level

However, since the concern is only with the half of the distribution that may cause a loss on a position, the Confidence Levels are raised as follows:

1σ = 90% Confidence Level
2σ = 99.5% Confidence Level
3σ = 99.5% Confidence Level

These Confidence Levels in turn can be expressed as frequency of occurrence (how frequently our expectation of worst probable rate movement will be exceeded in terms of number of trading days).
90% Confidence Level = 1 in 5 days
99.5% Confidence Level = 1 in 10 days
99.5% Confidence Level = 1 in 200 days

Market volatility is quoted to one standard deviation, thereby inferring that once in every five trading days the calculated worst probable loss will be exceeded. At two standard deviations, this raised to one in every forty trading days. At three standard deviations this is increased to once in every two hundred days.

Calculation of Foreign Exchange VAR:

Gross VAR:

Gross VAR is calculated as follows, using the inputs discussed above:
Gross VAR = Market value of the position X Daily Volatility X Level of confidence X $\sqrt{\text{Holding Period}}$

Net VAR:

Net VAR reduces the Gross VAR calculated on a portfolio of positions by taking into account the way foreign exchange rates move in relation to each other. As with volatility, this Portfolio Effect (using the Markowitz's Portfolio Theory) or Correlation is also calculated from the same historic period. Correlations range from +1 to -1. A +1 correlation indicates that two currencies move identically to each other against the US dollar. A -1 correlation indicates that two currencies move in diametrically opposite directions to each other against the US dollar. A zero correlation means there is no relationship between the ways the currencies move.

For example, studies reveal that there is positive correlation between Euro and Swiss Franc, which indicates that a long Euro position is hedged by the short CHF position. The Gross VAR calculated on each position can therefore be reduced proportionately. Just as the loss is limited, so is the profit potential in EUR/CHF position is limited.

The following table shows how positive and negative correlations between currencies affect Net VAR calculation:

Position A (Any currency)	Position B (Any currency)	Correlation	Correlation term sign (Effect on Net Var)
Short (+)	Short (+)	Negative (-)	Negative (-)
Long (-)	Long (-)	Negative (-)	Negative (-)
Short (+)	Long (-)	Positive (+)	Negative (-)
Long (-)	Short (+)	Positive (+)	Negative (-)
Short (+)	Short (+)	Positive (+)	Positive (+)
Long (-)	Long (-)	Positive (+)	Positive (+)
Short (+)	Long (-)	Negative (-)	Positive (+)
Long (-)	Short (+)	Negative (-)	Positive (+)

The correlation term sign indicates whether the portfolio effect will be added or subtracted in the Net VAR calculation. It should be noted that the Net VAR calculation cannot increase the aggregate of the Gross VAR on each position, rather reduces it to the extent of the correlation.

It should also be noted that a zero correlation does not mean that Net VAR will equal aggregate Gross VAR. There will be a reduction in Gross VAR on the basis that even a random movement between currency rates may to some extent reduce risk.

Calculation of Net VAR for Two Currencies:

$$Net\ VaR = \sqrt{\left(VaR_{x,a}^2 + VaR_{x,b}^2 + VaR_{y,a}^2 + VaR_{y,b}^2\right) + 2r_{x,y}\begin{bmatrix}\left(VaR_{x,a} \times VaR_{y,a}\right) + \left(VaR_{x,a} \times VaR_{y,b}\right) + \\ \left(VaR_{x,b} \times VaR_{y,a}\right) + \left(VaR_{x,b} \times VaR_{y,b}\right)\end{bmatrix}}$$

Where,

VARx,a = Gross VAR of currency 'x' in case of short position

VARx,b = Gross VAR of currency 'x' in case of long position

VARy,a = Gross VAR of currency 'y' in case of short position

VARy,b = Gross VAR of currency 'y' in case of long position

rx.y = Coefficient of Correlation between currencies 'x' and 'y'

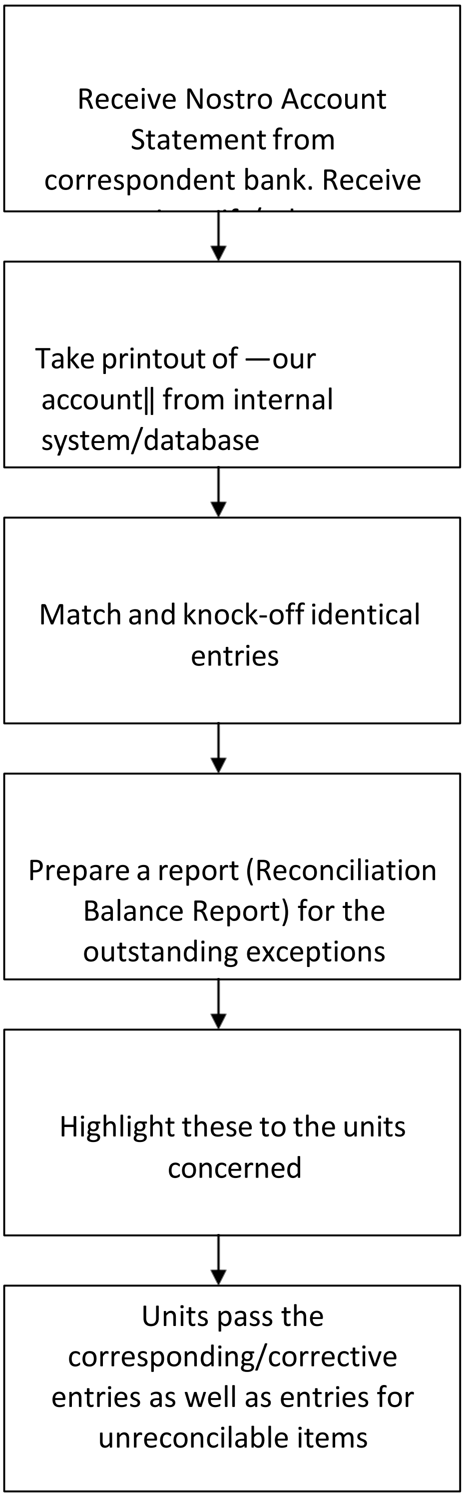
Calculation of Net VAR for Four Currencies:

$$Net\ VaR_{w,x,y,z} = \sqrt{\begin{aligned}&(VaR_{w,a}^2 + VaR_{w,b}^2 + VaR_{x,a}^2 + VaR_{x,b}^2 + VaR_{y,a}^2 + VaR_{y,b}^2 + VaR_{z,a}^2 + VaR_{z,b}^2) + \\ &2r_{w,x}[(VaR_{w,a} \times VaR_{x,a}) + (VaR_{w,a} \times VaR_{x,b}) + (VaR_{w,b} \times VaR_{x,a}) + (VaR_{w,b} \times VaR_{x,b})] + \\ &2r_{w,y}[(VaR_{w,a} \times VaR_{y,a}) + (VaR_{w,a} \times VaR_{y,b}) + (VaR_{w,b} \times VaR_{y,a}) + (VaR_{w,b} \times VaR_{y,b})] + \\ &2r_{w,z}[(VaR_{w,a} \times VaR_{z,a}) + (VaR_{w,a} \times VaR_{z,b}) + (VaR_{w,b} \times VaR_{z,a}) + (VaR_{w,b} \times VaR_{z,b})] + \\ &2r_{x,y}[(VaR_{x,a} \times VaR_{y,a}) + (VaR_{x,a} \times VaR_{y,b}) + (VaR_{x,b} \times VaR_{y,a}) + (VaR_{x,b} \times VaR_{y,b})] + \\ &2r_{x,z}[(VaR_{x,a} \times VaR_{z,a}) + (VaR_{x,a} \times VaR_{z,b}) + (VaR_{x,b} \times VaR_{z,a}) + (VaR_{x,b} \times VaR_{z,b})] + \\ &2r_{y,z}[(VaR_{y,a} \times VaR_{z,a}) + (VaR_{y,a} \times VaR_{z,b}) + (VaR_{y,b} \times VaR_{z,a}) + (VaR_{y,b} \times VaR_{z,b})]\end{aligned}}$$

Where,
VARw,a = Gross VAR of currency _w‘ in case of short position
VARw,b = Gross VAR of currency _w‘ in case of long position
VARx,a = Gross VAR of currency _x‘ in case of short position
VARx,b = Gross VAR of currency _x‘ in case of long position
VARy,a = Gross VAR of currency _y‘ in case of short position
VARy,b = Gross VAR of currency _y‘ in case of long position
VARz,a = Gross VAR of currency _z‘ in case of short position
VARz,b = Gross VAR of currency _z‘ in case of long position
rw.x = Coefficient of Correlation between currencies _w‘ and _x‘ rw.y = Coefficient of Correlation between currencies _w‘ and _y‘ rw.z = Coefficient of Correlation between currencies _w‘ and _z‘ rx.y = Coefficient of Correlation between currencies _x‘ and _y‘ rx.z = Coefficient of Correlation between currencies _x‘ and _z‘ ry.z = Coefficient of Correlation between currencies _y‘ and _z‘

Annexure-IV

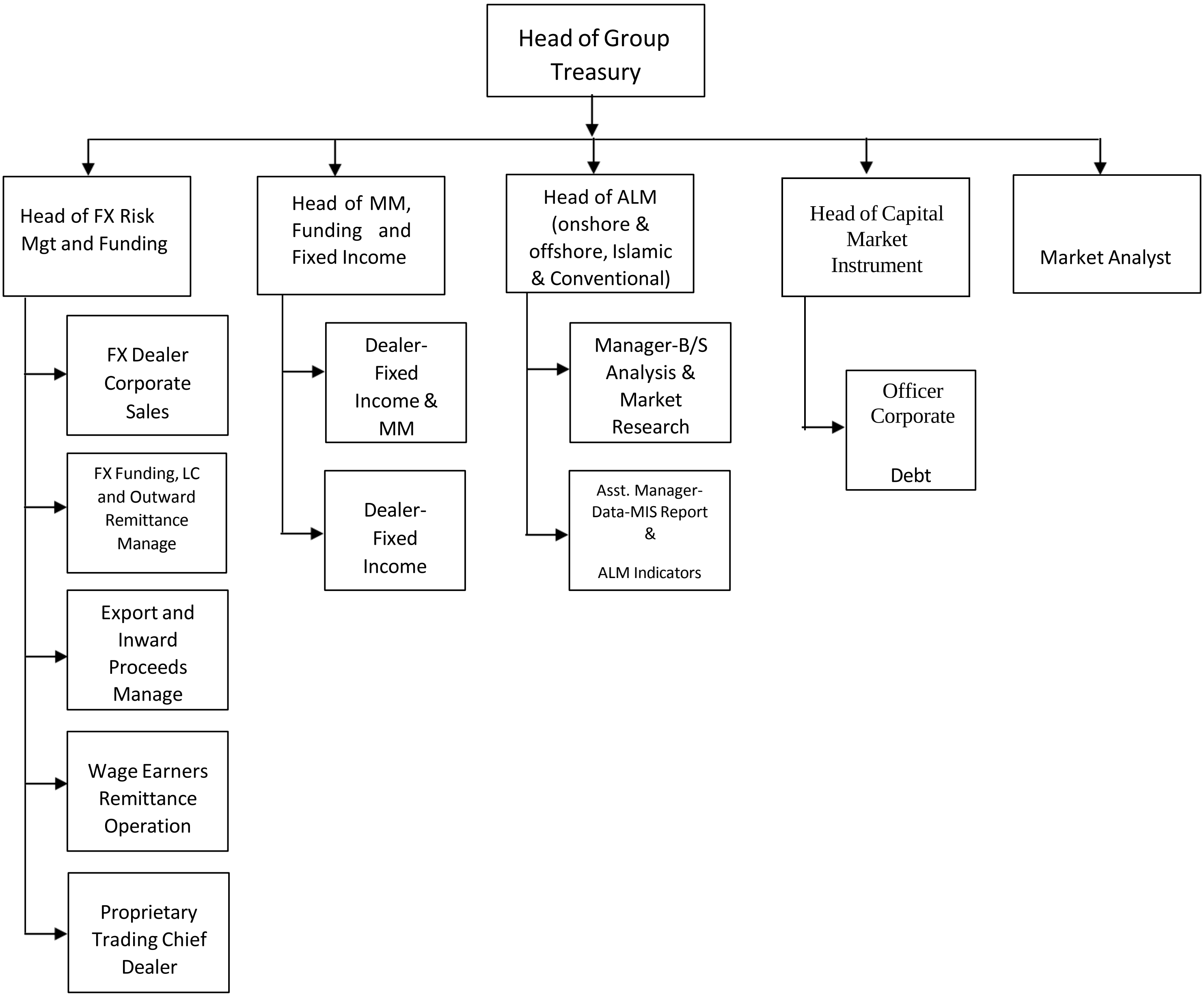
Reconciliation Flowchart



Annexure-V

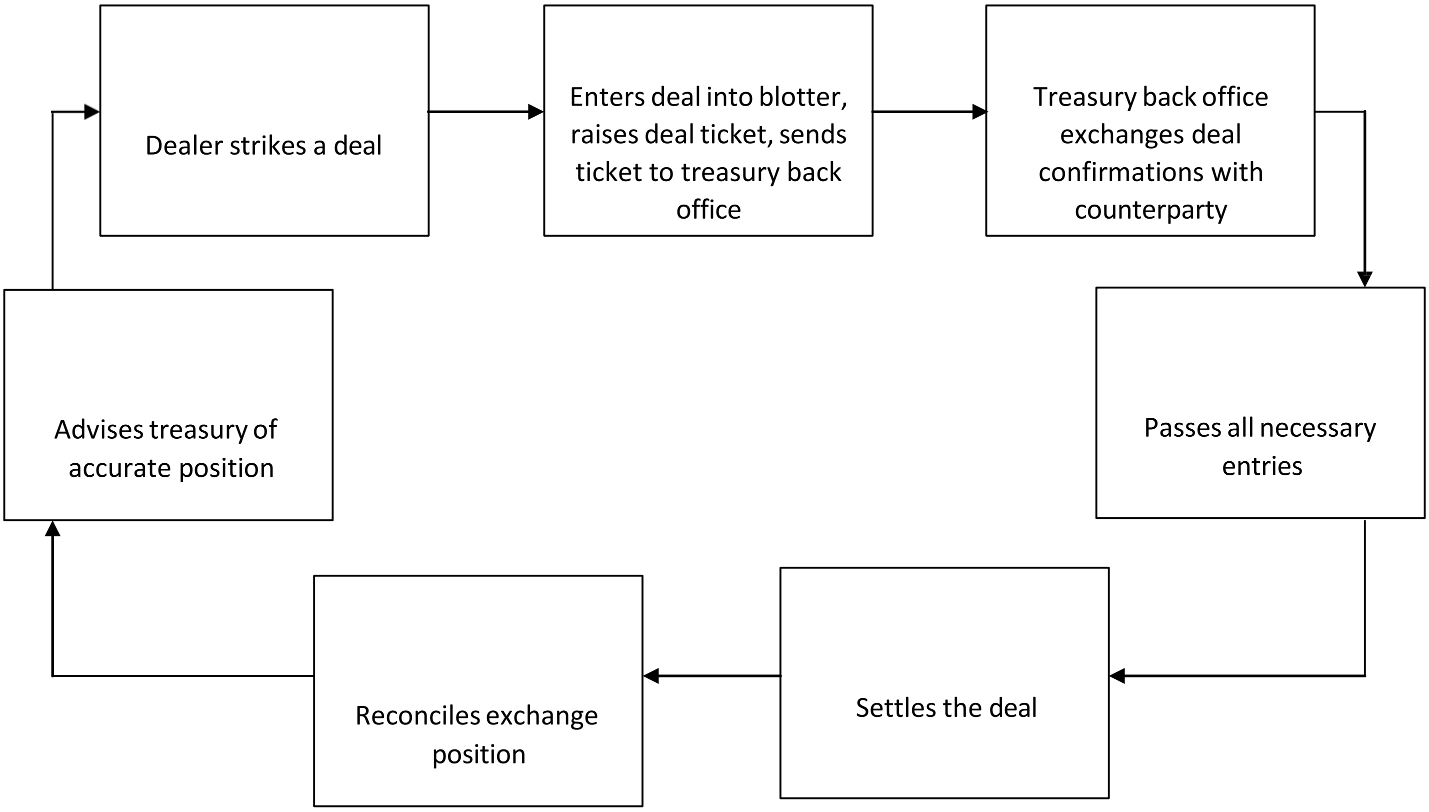
Organogram of Treasury

A suggested organogram to ensure best practice in FOREX risk management provided that the reporting/assigned official line should be aligned with the recommended Optimal Risk Management organogram stipulated in prevailing Risk Management Guideline issued by Bangladesh Bank:



Annexure-VI

The Process Flowchart



Note:

1. No manual deal ticket is raised when using e-platform/Reuters for dealing
2. For integrated system, no position reconciliation takes place between front and back office
3. As good practice, counterparty front office would reconcile deals done over phone
4. All daily deal confirmations should be sent to counterparty by end of business day
5. Back office should reconcile counterparty deal confirmation with deals to identify any discrepancies

Annexure-VII

(Front Office)

Janata Bank Limited

DATE: / / **TREASURY DEPARTMENT** USD/BDT @

DEALERS' PAD

Today's Profit: USD Equivalent to BDT.

Deal No	Initial	Bank's Name	Value Date	Rate	Bought	Sold	Adjustment	Net Profit/Loss

Profit of this month: US$	Equivalent to BDT.

Grand Total:	Equivalent to BDT.

Annexure-VIII

Janata Bank Limited

TREASURY DEPARTMENT **Date:**

DEALING ROOM

No: A-00000 **Head Office** **Time:**

110 Motijheel C/A, Dhaka-1000

DEAL SLIP

Deal No	Counter Party Bank	Value Date	Rate	Amount Bought	Amount Sold	Confir-mation	Instruc-tion	FUND		Remarks
								Debit	Credit	

Signature of the Dealer/Dealers

Annexure-IX

Code of Conduct for Foreign Exchange Dealers

General Code

1. Purpose

The aim of the code of conduct is to set out the manner and sprit in which business should be conducted, in order to ensure that the foreign exchange market and its participants enjoy a reputation for high standards of professionalism, integrity, and ethical conduct. This is addressed not only to dealers in foreign banks, but to the management of such institutions together with relevant operational support stuff, and should be well understood by each of them.

2. Responsibility of Management for Dealing Activities

Control of the activities of all personnel engaged in dealing (both dealers and the support staff) is the management‘s responsibility of such organizations. Management should therefore clearly set out, in writing, the authorities and responsibilities within which dealers and the support staff should operate. These might include:

- General dealing policy including reporting procedures;
- Persons authorized to deal;
- Instrument to deal in;
- Limits on open positions, counterparts, stop- loss limits etc…
- Confirmation and settlement procedures;
- Relationships with other foreign exchange banks, brokers, and customers; and - Other relevant guidance as considered appropriate.

3. Responsibility of Staff for Dealing Activities

All personnel engaged in dealing activities both dealers and support staff must observe the following code as their fundamental behavior in the dealing activities:

- They must keep dealing activities within the responsibilities authorized by the management, and observe the instruction given by the management for supervisors in each dealing section (dealing room and back office) concerned.
- Troubles which arose during dealing activities, and other issues, which might cause serious troubles, must immediately be reported to the management or supervisors for their instructions.
- Full compliance with all regulations at all times.

4. Use Market Terminology and Definitions

The management of banks should see if its staff use common expressionsand have knowledge of their generally accepted meanings in their dealing activities in order to avoid misunderstandings.

5. Dealing Unit and Back-Office

The organizational framework in an institution should clearly separate the dealing unit from the back office where all the administrative work (payments, global position keeping) is done and from bookkeeping department which should, among others, be responsible for a timely and swift check of all incoming confirmations. A bank should not start foreign exchange trading with less than two trained and authorized people in its room designated for dealing.

6. Recording a Deal

All the essential details of a deal must be written down in a dealing ticket which must be forwarding as soon as possible to the back-office for further processing. Alternatively, the information may be entered into the computer system.

7. Accounting

The back-office must work with the bank‘s accounting department to ensure that all transactions and violation changes are accounted for promptly. Because of two-day settlements, the value date accounting is inadequate for the monitoring of risk positions, and hence accounting must be established on a transaction‘s basis.

Code Regarding Dealing Practices

1. Opening Hours in the Foreign Exchange Market:

Opening hour should be defined.

2. Confirming Procedures

Dealers must confirm verbally or other authenticated electronic means.

After dealers‘ confirmation, it is the back-office‘s responsibility to carry outreconfirmation independently from those who initiated deals. Recommendation must be sent out as quickly as possible after a deal has been done, and should be addressed to the back-office of the counterparty bank.

All reconfirmations should include the following information as a minimum requirement:

- Date of transaction;
- By which means effected (phone, telexed. ;
- Name and location of counterpart;
- Rate amount and currency;
- Type and side of deal (buying and selling)
- Value date, maturity date, and all other relevant dates; - Standard terms/conditions applicable; and
- All other important and relevant information.

Upon receipt, all reconfirmation must immediately be thoroughly checked, and appropriate action be taken to rectify differences. If the counterpart‘s recommendation is considered incorrect, it must immediately be informed. A new reconfirmation (or written agreement to a correction) must be requested from, and provided by the bank whose original reconfirmation was incorrect.

3. Payment/Settlement Instruction

Payment/settlement instructions should be passed as quickly as possible to facilitate prompt settlement. The use of standardized payment instructions between counterparts who regularly deal with each other is recommended as their use can make a significant contribution to reducing both the incidence, and the size of differences arising from the mistaken settlement of funds.

4. Confidentiality

Confidentiality anonymity is essential to the operation of a professional foreign exchange market. Participants in the market—commercial clients as well as banks—can expect to have their interest and to ensure that its employees can readily identify information that is confidential or situations where anonymity is essential, and instruct their employees to handle such information accordingly. Whenever confidentiality is broken, management has to see that the institutions are issued swiftly to correct the conditions that permitted such a situation to occur.

The use of confidential information by tenders for their personal benefit, or in a manner that compromiser the institution in any way, should be strictly forbidden. Dealers operating in the market are responsible for maintaining confidentiality. Without disclosed or discuss any information relating to deals transacted, in the process of being arranged except to, or with the counterparts involved. A dealer should not be permitted to pass on information outside his institution, nor should he distribute information within his institution, except on explicit permission from the parties involved. Banks should have policies to ensure electronic and hard data are secure.

Ethical Rules

1. Trading for personal account

It is expected that any trader will give full attention to the employing institution‘s business activities, and not be distracted by his own financial affairs. Any bank dealer should not be allowed to deal for their own account in any instruments since it is expected that any dealer will fulfill his institutional responsibilities objectively, unbiased by his own financial position. Management has to be aware that, if traders are permitted to trade in instruments closely related to those they deal for the institution, a conflict of interest might arise that could be detrimental or embarrassing for the institution, the trader, or both. Therefore, it is the management‘s responsibility to develop a clear institutional policy on these matters.

2. Protection Against Fraud

All staff should pay great vigilance to fraud attempted particularly in the following cases:
- Deals which do not include pre-agreed standard settlement institutions;
- Deals whose payment is made in favor of a third party;
- Inability to make reconfirmation after concluding the deal; and
- Other deals which have different standards than the pre-agreed.

3. Entertainment, Gifts and Gambling

Neither management nor employees should offer inducements to conduct business, or solicit them from the personnel of other institutions. Where inducements are recognized in the normal course of the business, management should formulate policies in this area which include guidance on the provision and receipt of entertainment and gifts by staff. This should include what may or may not be offered or accepted, together with procedures for dealing with gifts judged to be excessive, but which cannot be declined without causing offenses. Similar guidelines should be established on gambling with other market participants.

Escalation Process

Banks should have an escalation process to report exceptions/deviations from the code of conduct.

Annexure-X

Nostro Account Reconciliation

The following table shows the maximum time limit after which unmatched items must be referred to the operations manager.

Type of Transaction	**Transit Time (Banking days)**
L/C payments	3 days, ACU - 9 days
Foreign exchange settlements	Nil. Immediately notify respective department if settlement does not occur on value date
Outward remittances	2 days
ACU cover funds sent through Bangladesh Bank	5 days
Credits to our accounts with insufficient details	9 days
Correspondent bank charges recoverable from our customers or otherwise	9 days
Any other credits to our accounts, where we have not passed corresponding debit entry	5 days
Any other transactions where we have debited, but they do not credit	
Any other transactions where they have debited, but we do not credit	
Any other transactions where we have credited, but they do not debit	

Annexure-XI

Derivatives Application to Central Bank Format

Applicant Bank's Name:	
Product Name:	
For which Client/s (Legal Name) :	
Level of client sophistication: Seniority of the client in the business, management awareness, level of product knowledge, understanding of pricing knowledge, used to do forward transactions and other hedging solutions.	
Back to Back with another market maker:	Yes No
If yes with which Bank?	
Target Transaction Date:	
Description of the product	
Deal flow chart (from start to end of the process)	
How many transactions required under this approval?	
Estimated volumes?	
Risk Assesment and mitigants: • System Booking capability • Tax and Legal checking • Credit Risk checking • Market Risk checking • Compliance check [any conflict with Bangladesh Bank rules and regulations]	
Board and Senior Management awareness? (For first time transaction only)	Yes No

Documentations: • ISDA required Yes No [If yes , attach sample ISDA vetted by lawyer] • Term Sheet required Yes No [If yes , attach sample TS vetted by lawyer] • Deal confirmation required Yes No [If yes , attach confirmation vetted by lawyer] • Client Suitability Yes No [If yes , attach the signed document] • Other documentations if any? Yes No [If yes , attach the document]	
Followed FX Core Risk Guideline section on Derivatives?	Yes No

Annexure-XII

List of Abbreviations

- **AD Banks**: Authorized Dealer Banks
- **ALCO**: Asset-Liability Committee
- **ALM**: Asset Liability Management
- **AML**: Anti-Money Laundering
- **BAFEDA**: Bangladesh Foreign Exchange Dealers' Association
- **BB / Bangladesh Bank**: Bangladesh Bank (The central bank of Bangladesh)
- **BFIU**: Bangladesh Financial Intelligence Unit
- **BoD**: Board of Directors
- **CCS**: Cross Currency Swap
- **CDD**: Customer Due Diligence
- **CFT**: Counter Financing of Terrorism
- **CRR**: Cash Reserve Ratio
- **DBU**: Domestic Banking Unit
- **FCY**: Foreign Currency
- **FATF**: Financial Action Task Force
- **FEPD**: Foreign Exchange Policy Department (of Bangladesh Bank)
- **FX**: Foreign Exchange
- **GAP**: The difference between inflows and outflows (in cash flow projection)
- **GFET**: Guidelines for Foreign Exchange Transactions (implied from context)
- **IPO**: Import Policy Order
- **IR**: Interest Rate
- **ISDA**: International Swaps and Derivatives Association
- **LCY**: Local Currency
- **MAT**: Management Action Triggers
- **MCO**: Maturity Gap and Concentration (report)
- **MIS**: Management Information System / System
- **MM**: Money Market
- **NOP**: Net Open Position
- **OBU**: Off-Shore Banking Unit
- **OMR**: Out of Market Rate
- **P&L**: Profit and Loss
- **PABX**: Private Automatic Branch Exchange (telephone system)
- **PLC**: Public Limited Company
- **PV01**: Price Value of a 01 basis point (or Par Value of a Basis Point)
- **SLR**: Statutory Liquidity Ratio
- **SDF**: Standing Deposit Facility
- **STR**: Suspicious Transaction Report
- **SWIFT**: Society for Worldwide Interbank Financial Telecommunication
- **UN**: United Nations
- **UNSC**: United Nations Security Council
- **UNSCR**: United Nations Security Council Resolution

- **USD/BDT**: US Dollar / Bangladeshi Taka (currency pair)
- **VaR / VAR**: Value at Risk

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