Chapter 5

Financial resources

5

5.16 Foreign exchange requirement

5.16.1 R

(1)A *firm's* **foreign exchange requirement** is determined by calculating the excess of its **foreign exchange position** (FEP) above 2 per cent of its own funds and multiplying this excess by 8 per cent.

(2)The FEP is the greater of:

(a)the total in the **reporting currency** of the net short positions in each currency other than the **reporting currency**; and

(b)the total in the **reporting currency** of the net long positions in each currency other than the **reporting currency**;

where the conversion to the **reporting currency** is performed using spot rates.

NoteFor this purpose, long and short positions in the same currency can be netted to produce the net position.

(3)In calculating the FEP, a *firm* must include relevant foreign exchange items.

EXCHANGE POSITION FOR HEDGING PURPOSES

Any positions which the *firm* has taken in order to hedge against the adverse effect of exchange rates on an item already deducted in the calculation of **liquid capital** may not be excluded from the calculation of net open currency positions.