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The Daily Star

Best with the views

China agrees to buy 6 submarines from Russia

HONG KONG, Mar 5: China has agreed to buy six submarines from Russia to boost its naval arsenal, the South China Morning Post reported Saturday, says Reuter.

The People's Liberation Army (PLA) has also ended preliminary discussions to buy another 12 Russian submarines later this decade, the newspaper said quoting unidentified diplomatic sources in Beijing.

The six kilo class attack vessels Beijing had agreed to buy were worth between 200 million US dollars to 250 million US dollars each, it said.

The submarines are in addition to the four which Moscow admitted last month it had sold to China, the Post added

, 'The report quoted a military source was saying Beijing was willing to buy so many expensive submarines because it was interested in technology transfer, and the Russians would only agree to part with technology if it meant bulk sales and huge profits.

Benazir to visit Singapore to attract traders

SINGAPORE, Mar 5: Pakistan's Prime Minister Banazir Bhutto's first official visit to Singapore on Tuesday will be aimed at attracting investments, officials said today, reports AFP.

Bhutto, accompanied by a 26-member government team. will hold talks with premier Goh Chok Tong and other senior Singaporean leaders. She will deliver a keynote address. Wednesday to 150 businessmen at an international business conference, the Fortune Global Forum. The trip comes at Goh's invitation.

Bhutto will also witness the signing of an investment guarantee pact between the two governments and meet top foreign and local businessmen here, the officials said.

Among those accompanying Bhutto on the three-day trip are her husband Asif Ali Zardari, a member of the Pakistan National Assembly. Foreign Minister Sardar Asset Ahmad Ali, Chief of Naval Staff Mansurul Haque and Minister of State for Finance Makhdoom Shahabuddin.

Pakistan, is Singapore's 40th trading partner. Total trade last year amounted to 574.1 million dollars (382.73 million US).

Singapore's exports to Pakistan, mainly synthetic fabrics. medicinal products, computers, disinfectants and crude rubber, grew by 11.4 per cent ' last year.

Call money rate

Money rates in the call money market during the week ended on March 1 from 1.70 per cent to 5.50 per cent, a Bangladesh Bank press release said, reports BSS.

During the same week interest rates offered by the bank on certificate of deposits varied from 3.00 per cent to 8.25 per cent. The bank rate. however, remained unchanged at 5.50 per cent. Barings bank - the oldest and most esteemed of British

lion British pounds.

Lack of control causes Barings collapse: Singapore PM

SINGAPORE, Mar 5: The collapse of British investment bank Barings was caused by internal problems, Prime Minister Goh Chok Tong said Sunday, reports AP.

Goh said it was "essentially an internal problem within the Baring group, a lack of control.

His first public comment on the financial flasco was made at a joint news conference with Australian Prime Minister Paul Keating, who visited Singapore on his way to Germany and the Netherlands.

no impact on this wealthy city-"The stock market is up,

Goh said Barings' crash had

SIMEX is trading," he said. Goh's view mirrored those of investigators from SIMEX.

the Singapore International

Monetary Exchange, who said the bank was warned as early as 1992 of potential problems.

They told a news conference on Saturday that Barings was again told seven months ago that futures trader Nick Leeson wielded too much power and was inadequately supervised.

Barings has said it first learned of the problem on February 23 the day Leeson left Singapore for neighbouring Malaysia. He was detained by police at Frankfurt airport when he arrived there Thursday.

Singapore is seeking Leeson's extradition, a process that could take months since Leeson said he opposes it.

Goh made no mention of Leeson or other aspects of the complicated case in which Barings went bust after losing

He and Keating expressed fresh support for the Asia Pacific Economic Cooperation forum, an 18-member group that seeks to expand trade and investment around the Pacific

Keating told reporters that Australia and Singapore were determined to "get on with making Osaka a success."

APEC's next summit meet ing is scheduled for Osaka. Japan in November. At the last summit in Bogor, Indonesia, APEC leaders agreed to remove trade barriers among them by the year 2020.

AFP says from Tokyo: The stockbroking unit of Britain's collapsed merchant bank Barings PLC may have used bonds borrowed from another financial institution to trade stock futures, a report said

Saturday. The Jiji Press report said that the bonds, from an unspecified Japanese institution lent to Barings Securities, were believed to be worth some 10 billion yen (105 million dollars).

There is a strong possibility that the bonds will not be returned to the lender as they may be used to cover huge losses Baring Securities has incurred in derivatives trading. Jiji said.

Britain's oldest merchant bank 233-year-old Barings collapsed last weekend after suffering around one billion dollars in losses through derivative trading from its Singapore office.

Nick Leeson fined for indecency!

SINGAPORE, Mar 5: Nick Leeson, the vanished futures trader at the heart of the Barings financial collapse, was fined for indecent exposure last year, the Business Times reported Wednesday, says Reuter.

Leeson "dropped his pants in front of a group of women at a Singapore discotheque about five months ago, the newspaper said.

"When they asked him to apologise, he dared the women to report the matter to the police and handed them his handphone." Business Times said." The women promptly phoned the police and Leeson subsequently found himself before a magistrate and was fined 200 dollars (140 US dollars) for indecent expo-

Iraq doesn't hope for easing UN ban soon

NICOSIA, Mar 5: Iraq said Saturday it does not expect the UN Security Council to ease a four and a half years old embargo at its next review, reports AP.

Deputy Prime Minister Tariq Aziz "ruled out the possibility that the Security Council will adopt any tangible step towards lifting or easing the embargo" at its March 13 meeting, the official Iraqi News Agency said.

Aziz made the remarks before leaving for Amman. Jordan, en route to attend the meeting in New York, said INA, which is monitored in Cyprus.

The White House said Thursday it had canvassed "solid support" in the Council for a renewal of the embargo after an international tour by Washington's UN ambassador.

Madeleine Albright.

Although an extension is widely expected, Aziz said the meeting is nonetheless important because it will influence the outcome of a crucial sanctions review in April.

Security Council members France and Russia favour some sanctions being lifted. But the United States and Britain favour continued strong sanctions until Iraq complies with all UN resolutions.

Aziz predicted that Iraq would become another Cuba, in that not everyone will follow Washington's lead in boycotting the country.

The US has been imposing an embargo against Cuba since the 1960s, but other countries have not joined Washington and are dealing with Cuba normally," Aziz said.

Li puts price hike target at 15 pc He urged government offi-

BELJING, Mar 5: China must end corruption and bring down inflation. Premier Li Peng said in his annual report Sunday, touching on the two big areas of discontent among China's 1.2 billion people, reports AP. in a departure from past

practice. Li referred to senior leader Deng Xiaoping only three times in his address to the opening session of the national legislature at the Great Hall of the People. In his 100-minute speech.

Li reminded the 2,811 delegates who attended the session that the power in our hands is given by the people.

"We should only use it to work in the interests of the people and must on no account abuse it for personal gain or small group interests," the premier said

The delegates applauded Li just nine times, mostly toward the end of the speech when Li mentioned nationalist themes. These included recovering control of Hong Kong in 1997. eventual peaceful reunification with Taiwan, and China's foreign policy, which Li said would not accommodate foreign interference.

Both corruption and inflation are particularly sensitive issues for the ruling Communist party leadership. In 1989 more than 1 million ordinary Beijing residents joined student demonstrators in street protests for clean

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government and lower prices. Corruption has worsened dramatically in recent years. Many Chinese now say that even the Nationalists, who ruled China in the early part of the century and lost a civil war to the Communists in 1949 in part because of notorious corruption, now compare favor-

Li called the anti-correption fight "a matter of life and deathfor our nation."

ctals not to lose touch with the people's views and to set good examples to honest govern-Inflation is another explo-

Li put the target for price hikes at 15 per cent. Last year he put it at 10 per cent, but

retail prices rose 21.7 per Some inflation was unavoidable because of price reforms,

he said, but he also blamed government mistakes at all "All this has aroused great

resentment in the masses." Li warned. Economic growth must be

slowed in order to bring down inflation. China's growth rate was 13 per cent in 1992 and 1993 and just under 12 per cent last year. Li set this year's growth

rate target at 8-9 per cent. As with inflation, that is likely to be too low. The target last year also was 9 per cent.

Vietnam's emerging oil industry enters critical phase

development with Brazilian subsidiary Autolatina, VW will expand its commercial vehicle range.

Premiere in Hanover: For the first time Volkswagen introduces a transporter in the 7.5 tonne class. With the L 80, a joint

HO CHI MINH CITY, Mar 5: Several new oil wells must prove they hold rich reserves or Vietnam's petroleum industry risks loosing some of its luster for foreign exploration

companies, reports AP. Difficult drilling conditions, a shortage of large, proven oil fields and global competition for scarce investment mean Vietnam has entered a critical phase for developing its oil re-

sources, industry officials say. "It will take about two more years before we can tell if this is just another hydrocarbon province or something really big." said Peter Behrenbruch, a technology manager for

Australia's BHP Petroleum. He spoke at a three day petroleum industry conference and trade show that brought together government officials and representatives of more than 200 companies. Many were trying to sell their wares, while others were merely seeking to keep abreast of the latest developments in Victionia.

Merchant bankers, was forced into receivership on February

26. after the Bank of England failed to put together a rescue

operation to help cover share trading losses of over 500 mil-

will be forced to default on a series of huge derivatives con-

tracts in Singapore and Tokyo. The deals were carried out by

a single trader (28 years old - Nick Lesson) in Barings

market for derivatives - a treasury or financial instruments

which effectively involve "betting" against changes in the fi-

nancial markets. Companies buy them to insure themselves

against changes in interest rates currency movements, for ex-

ample. But they are also used as tools for speculation on their

own account. Huge fortunes are to be made, if traders call the

risks well. But if they call the markets wrong; the potential

stock brokers to make more money in a year than big indus-

trialists make in a decade. However, this quick money making

by the stock brokers and profit increase parade by commer-

cial banks pushed the banks also to loose 30 billion Indian

rupees in a row. Question may arise what went wrong while

everyone was keen on fortune making in Bombay Stock ex-

lack exploited by government-owned and foreign banks.

Neither was the scam swindle master-minded by a few."

profit, for the sake of personal image, institutional image we

hide actual position and compromise with controls and that

push the banks and institutions to collapse. Barings failure

again proved it. All the analysts attribute commercial banks

failure in 1992's India or 1995's Barings PLC towards lack of

Internal control. Even Federal Reserve Bank's Governor Alan

Greenspan attributed Barings failure to internal risk control.

He said "Barings episode suggests that further improvements

to internal risk management systems are needed, in some

risks, counterparty bank limits, lack of internal control, as-

While in 1992's India - It was the case of settlement

"It was no system failure. There were simply no systems, a

It is always the cause of loose control. For the sake of

Likewise a financial scam in 1992's India-allowed a few

losses are far greater than the initial investment.

change or merchant banking.

("SCAM" written by D Basu and S Dalal).

cases very significant improvements."

Like every other major Banks, Barings has leapt into the

Singapore office and are under investigation by local police.

The failure to effect a rescue means that Baring Brothers

BHP, which leads a consortium operating at the Dai Hung (Big Bear) offshore field, is the first foreign company to produce oil in Vietnam. It began pumping last fall and now produces more than 30,000 bar-

rels of crude a day. Vietnam's general isolation from the non-Communist world until the late 1980s stunted the growth of its oil industry. Vietnam had limited access to modern drilling technology due to a 19-year U.S economic embargo, and a Vietnamese Russian joint venture was the only company exploring for oil here until

The state-run Vietnam Oil and Gas Oil Corp, signed its first foreign exploration contract that year, with an Indian company. It has signed 27 others since then, including five with partners from the United States after the U.S. émbargo ended in February

Yet the bulk of its production, 150,000 barrels a day.

continues to come from Bach Ho (White Tiger), a field first drilled by Mobil Corp during the Vietnam War.

Two discoveries last summer by Mitsubishi of Japan and Malaysia's Petronas Carigali buoyed hopes at a time when many drillers had almost despaired of finding new commercial deposits. South Korea's Pedco announced another encouraging find, and the Dai Hung and Rong (Dragon) fields began producing in the fall. British Petroleum and France's Total both made promising discoveries this year but don't know yet if they are commercially worth tapping.

"We have to wait another six months or one year to see if these discoveries are confirmed by additional wells and see how big these reserves are," said Total's chief representative in Southeast Asia, Melchior de Matharel.

Vietnam produced 7.7 million tons of oil in 1994.

Tehran plans to boost fishing industry

- IN photo

TEHRAN, Mar 5: Iran plans to build 23 ports and jetties to promote the fishing industry in the next five years, a highranking government official said here yesterday, reports

Gholam Reza Fouruzesh, Minister of Construction Jihdad, said that 300 billion rials (about 171 million US dollars) would be spent on the project during the second fiveyear development plan (1995-Fouruzesh said his ministry

has allocated 50 billion rials (28.6 million dollars) for building ports and jetties throughout the country during the new fiscal year to start March 21. During the first develop-

ment plan (1989-1994), he said, 10 ports and jetties were

He said Iran's annual fishing catch was 100,000 tons before the first development plan, while by the end of that period it climbed to an impressive 320,000 tons.



Futures trader Elizabeth Buttrose signals an order at the Sydney Futures Exchange Wednesday after the release of the balance of payments figures for January. The seasonally adjusted deficit of 1.7 billion US dollars was above most market forecasts and was affected by higher interest payments on Australia's foreign debt. -AFP UNB photo

Country Limit.

back-up.

Scam in India, panic in the Pacific

The need for better treasury control

by M Mamun-ur-Rashid control this risk following limits should be in place, a)

(even from top management) and lack of efficiency of the back office people. It is told, in 1992's India and 1995's Barings - senior management were given warnings of poor internal control - but nobody paid any heed. What happened !! - Indian banking system lost one billion US dollars and Barings lost almost 800 million US dollars.

Now what we learnt! nothing like control. A better control - a prudent control. To put with Greenspan "sound risk management by firms meant more than just being able to measure risk. It should include institution wide limits on risk taking and internal controls that ensure all positions are recorded and are within the set limit." Now what we do to ensure better financial and treasury

control? How we do it in an emerging market like Bangladesh

- where more and more banks and institutions are getting attached to global market operations. The type and degree of risk to which a bank is exposed by its Fx and Money Market (MM) activities depends upon the nature and volume of business undertaken. A successful establishment and development of a full fledged Fx and MM trading operation presupposes the adoption and use of tight controls and monitoring thereof. Fx dealing activity can be effectively managed so long as all risks are identified, measured

and necessary controls are instituted. Such risks arise from (1) Open Position which is controlled by setting (a) Intra-Day Limits and (b) Overnight Outright Limits; (2) Maturity Mismatch -which is controlled by instituting Maximum Cumulative Cash Outflow Limits; (3) Credit Risk - which is controlled by establishing Counterparty Credit Limits; (4) Overtrading - which is controlled by setting up Aggregate Contract Limits and (5) Sovereign Risk or Country Risk which is controlled by instituting Country Limits.

Open Position Risk

A bank's open position arises both at the close of business and also during the day time i.e. trading time. In order to

Dealers' Limits: Individual dealer should be allocated his trading limits based on experience, type of business, type of currency, etc. and the dealer is expected to keep himself within the delegated authority at all time. b) Intra-Day Limits: During the Fx trading, a time gap (however small it may be) is always prevalent between the position taken and making the covering deal. Intra-day Limit is to cover such time gap. c) Foreign Exchange Overnight/Outright Limit: Fx trading is carried out in different currencies. At the end of each day non-marketable tiny balances are left in the accounts and these constitute the overnight position. Total aggregate as well as currency-wise maximum limits should be set up to keep control over this position. For obvious reasons of movement in rates due to political or economic event of major importance till the start of business next day this limit should be kept as small as possible within the workable minimum. d) Stop Loss Limits: A dealer takes position with the hope of making profits but due to major changes in the political and economic situation in a country, its currency may continuously move adversely. The dealer having position in this currency should cover himself with a small loss in case of need and a Stop Loss limit should be adopted to cover such loss and also for all other dealing/trading limits.

Maturity Mismatch Risk or Liquidity Risk

Although a bank may have a small open position, it may run a significant mismatching in respect of maturity date. Liquidity risk occurs because cash flows are not matched and when liabilities and contracts to sell currencies mature earlier than the corresponding assets. This risk is more where market is thin, tight and controlled to some extent.

As with other credit transactions a bank is exposed to the risk that a counterparty in a foreign exchange contract may be unable to fulfil its obligations. Such risks are:

a) Future obligations: If counterparty goes out of business before contract matures, the bank is forced to cover its obligations at the current market rate. b) Clean risk at liquidation:

This risk aries when according to market practice, bank pays out in one centre before receiving counter value at another centre because of time zone difference. Banks endeavour to control these risks by setting up i) Spot Limit and ii)

Aggregate forward contracts limit. **Risk of Overtrading**

This usually happens when a trader takes a position with initial judgement of making profit but is suffering a loss due to averse movement in rate. So, he takes a double position in the hope that the profits on large position will outweigh earlier losses and leave him with profits. This risk is controlled by setting up an Aggregate Contract Limit for all unliquidated contracts at any given time.

Sovereign Risk or Country Risk

A bank carrying out foreign exchange and money market operations in various countries is to set up a limit called

Business Risks Over and above the risks discussed above, there are business risks where a less honest trader may involve the bank in a loss or an over - aggressive trader will commit the bank beyond authorized limits. Last but not the least is operating risks. Risks of non-receipt of confirmation from counterparty (particularly where deals are concluded over telephone) wrong recording of contracts, risks of delivering wrong amounts, risks of payment on wrong dates resulting in unexpected overdraft and consequent interest payments etc. These risks are common to all business and can only be avoided by ever vigilant management and sound operational

Transparency in Reporting

Everyday Treasury position must be reported to top management through senior management with their inputs, so that everyone can contribute towards better control.

In a volatile world of currency and risk management of which Bangladesh is gradually becoming a part, we should all be aware of risks involved in various financial transactions and try to 'zero-in' those risks well in time through adoption of better practised mechanism. Better control is the only way to say 'good bye' to prospects of events like scam in India and Barings failure.

. (The writer is the Treasurer of Standard Chartered Bank, Dhaka).

sets valuation etc; In 1995's Barings it was overtrading, lack in the application of discretionary limits, supervisory failure