SOS POLITICAL SCIENCE AND PUBLIC ADMINISTRATION
MBA FA 406(A)
SUBJECT NAME: INTERNATIONAL FINANCIAL MANAGEMNT

TOPIC NAME: FOREX REGULATION & CONTROL

FOREIGN EXCHANGE REGULATION:

- Foreign exchange regulation is a form of financial regulation specifically aimed at the Forex market that is decentralized and operates with no central exchange or clearing house. Due to its decentralized and global nature, the foreign exchange market has been more prone to foreign exchange fraud and has been less regulated than other financial markets.
- However, some countries do regulate forex brokers through governmental and independent supervisory bodies, for example, the National Futures Association and the Commodity Futures Trading Commission in the US, the Australian Securities and Investments Commission in Australia, and the Financial Conduct Authority in the UK. These bodies act as watchdogs for their respective markets and provide financial licenses to organizations that comply with local regulations.

OBJECTIVES:

- The objective of regulation is to ensure fair and ethical business behavior. In their turn all foreign exchange brokers, investment banks and signal sellers have to operate in compliance with the rules and standards laid down by the Forex regulators. Typically they must be registered and licensed in the country where their operations are based. Licensed brokers may be subject to recurrent audits, reviews and evaluations to check that they meet the industry standards. Foreign exchange brokers may have capital requirements which require them to hold a sufficient amount of funds to be able to execute and complete foreign exchange contracts concluded by their clients and also to return clients' funds intact in case of bankruptcy.
- Each Forex regulator operates within its own jurisdiction and regulation and enforcement varies significantly from country to country. In the European Union a license from one member state covers the whole continent under the Mifid regulation and has resulted in regulatory arbitrage where companies select the EU country that imposes the least controls such as CySEC in Cyprus. Not all foreign exchange brokers are regulated and many will register in jurisdictions that impose low-regulatory environments such as tax havens and corporate havens that form part of offshore banking

FOREIGN EXCHANGE CONTROLS:

- Foreign Exchange control is a system in which the government of the country intervenes not only to maintain a rate of exchange which is quite different from what would have prevailed without such control and to require the home buyers and sellers of foreign currencies to dispose of their foreign funds in particular ways.
- Foreign Exchange Control is a method of state intervention in the imports and exports of the country, so that the adverse balance of payments may be corrected. Here the government restricts the free play of inflow and outflow of capital and the exchange rate of currencies.

Common foreign exchange controls include:

- banning the use of foreign currency within the country
- banning locals from possessing foreign currency
- restricting currency exchange to government-approved exchangers
- fixed exchange rates
- restricting the amount of currency that may be imported or exported

Today, countries with foreign exchange controls are known as "Article 14 countries", after the provision in the International Monetary Fund's Articles of Agreement, which allows exchange controls only for "transitional economies".

Foreign exchange controls used to be common in most countries. For example, many western European countries implemented exchange controls in the years immediately following World War II. The measures were gradually phased out, however, as the post-war economies on the continent steadily strengthened; the United Kingdom, for example, removed the last of its restrictions in October 1979. By the 1990s, there was a trend toward free trade and globalization and economic liberalization.

Objectives

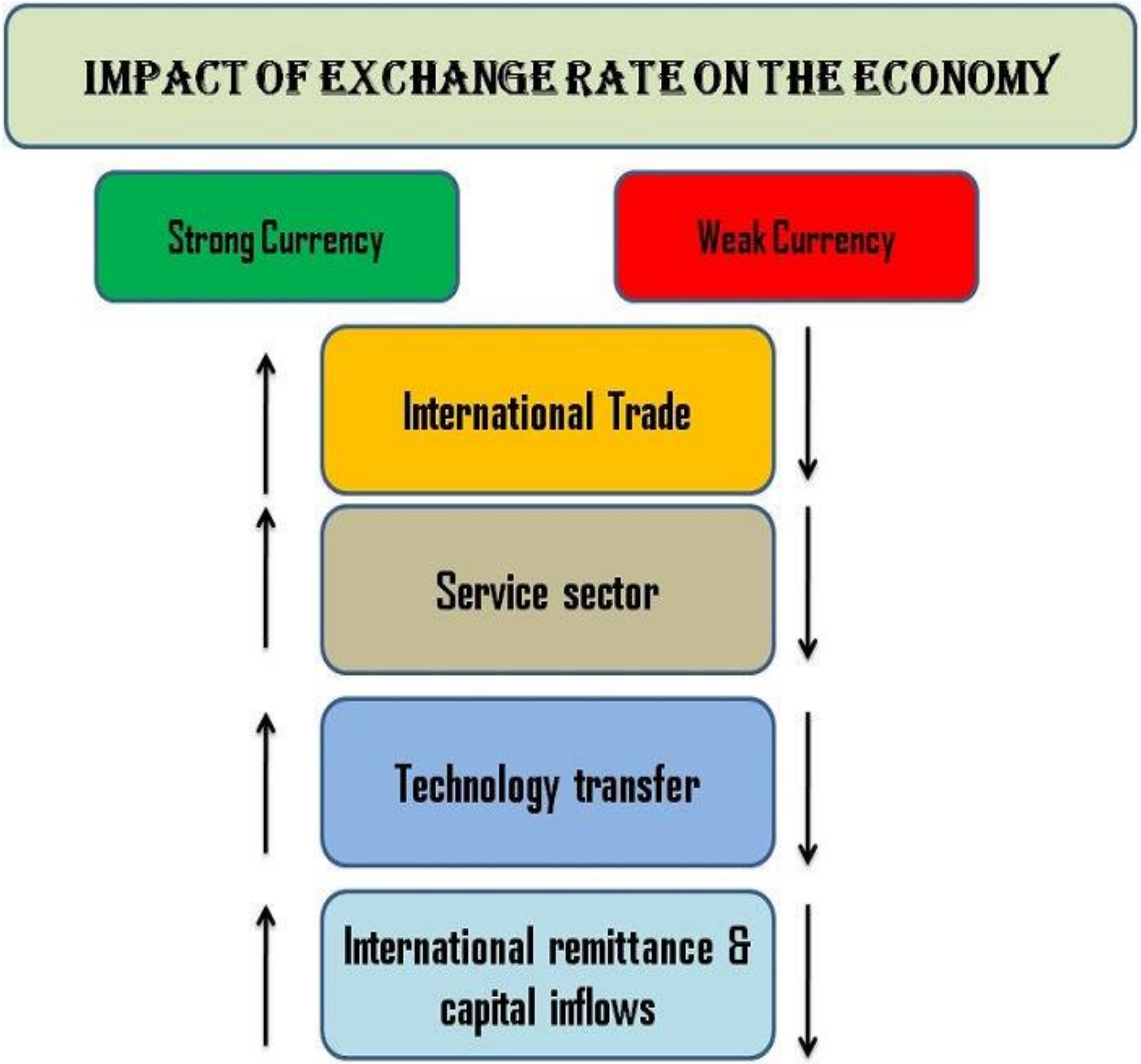
- **Correcting Balance of Payments:**
- **To Protect Domestic Industries:**
- **To Maintain an Overvalued Rate of Exchange:**
- **To Prevent Flight of Capital:**
- **Policy of Differentiation**
- To earn revenue in the form of difference between selling and purchasing rates of foreign exchange;
- (ii) To stabilise the exchange rates;
- (iii) To make imports of preferable goods possible by making the necessary foreign exchange available; and
- (iv) To pay off foreign liabilities with the help of available foreign exchange resources.

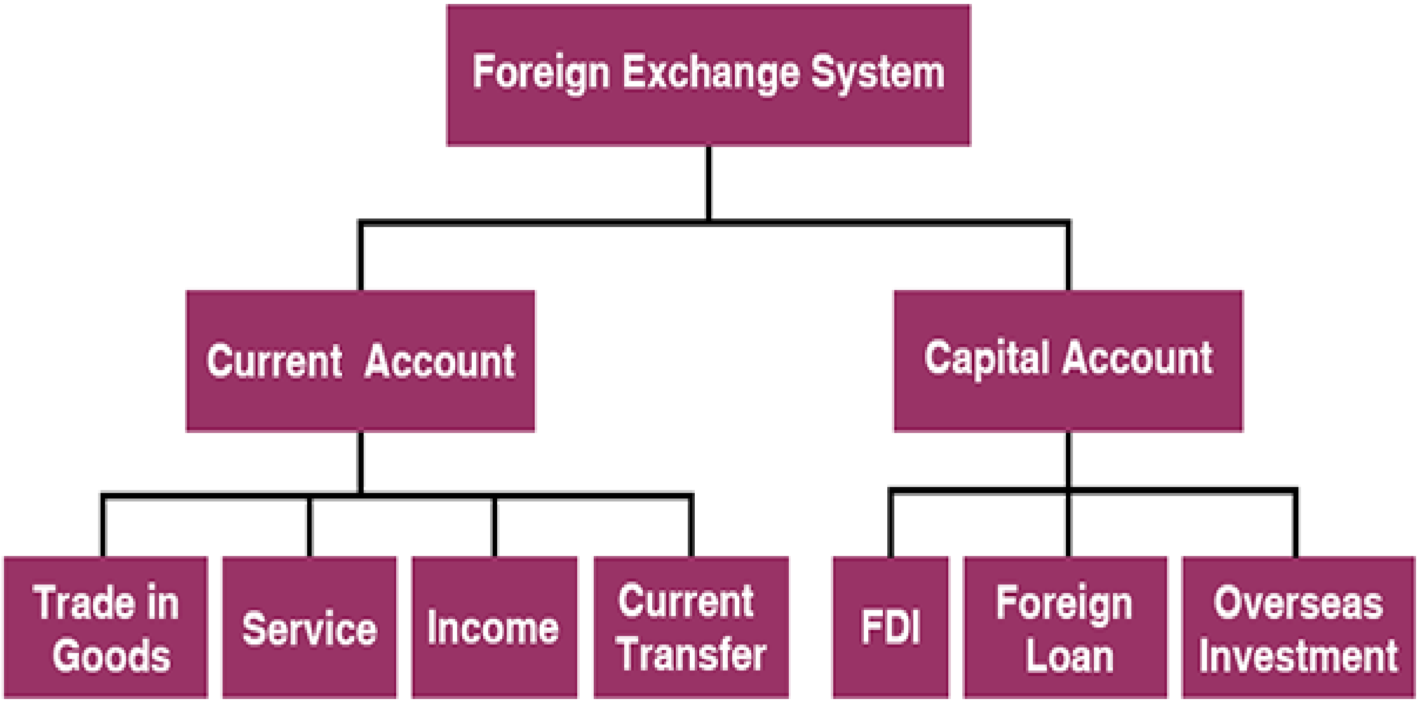
TYPES OF FOREIGN EXCHANGE CONTROL:

- Mild System of Exchange Control:
- Full Fledged System of Exchange Control
- Compensating Arrangement
- Clearing Agreement:
- Payments Arrangements

HOW IS FOREX REGULATED:

- Forex is the largest, most liquid market on the planet. That size and scope creates unique challenges regarding market regulation.
- How do you regulate a market that is trading 24 hours a day, all over the world?
- There is no centralized body governing the currency trading market; instead, several governmental and independent bodies supervise forex trading around the world. Some of these include, but are not limited to.
- The global supervisory bodies regulate forex by setting standards which all brokers under their jurisdiction must comply with. These standards include being registered and licensed with the regulatory body, undergoing regular audits, communicating certain changes of service to their clients, and more. This helps ensure that currency trading is ethical and fair for all involved.
- FOREX.com is proud to be financially transparent and secure and adheres to the standards of its regulatory bodies. We are regulated in seven jurisdictions worldwide, supporting over 200,000 traders in over 180 countries. Our parent company, GAIN Capital Holdings, is a publicly traded company meeting the highest standards of corporate governance, financial reporting and disclosure.


IMPACT OF EXCHANGE RATE ON THE ECONOMY
Strong Currency
Weak Currency
International Trade
Service sector
Technology transfer
International remittance & capital inflows


Foreign Exchange System
Current Account
Capital Account
Trade in Goods
Service
Income
Current Transfer
FDI
Foreign Loan
Overseas Investment