

REGULATION OF CURRENCY RISKS IN COMMERCIAL BANKS

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Abstract. Understanding and competent application of the mechanism for conducting foreign exchange transactions in the market provides banks and participants in foreign trade transactions with the opportunity to avoid unjustified losses of foreign currency and even make additional profits on speculative play and exchange rate differences on means of insurance against currency risks. Based on this, this article discusses the theoretical aspects of regulating foreign exchange transactions.

Keywords: banking system, commercial bank, banking operations, currency transactions, currency risks.

РЕГУЛИРОВАНИЕ ВАЛЮТНЫХ РИСКОВ В КОММЕРЧЕСКИХ БАНКАХ

Аннотация. Понимание и грамотное применение механизма проведения валютных операций на рынке дает банкам и участникам внешнеторговых операций возможность избежать неоправданных потерь иностранной валюты и даже получить дополнительную прибыль на спекулятивной игре и курсовой разнице по средствам. страхование от валютных рисков. Исходя из этого, в данной статье рассматриваются теоретические аспекты регулирования валютных операций.

Ключевые слова: банковская система, коммерческий банк, банковские операции, валютные операции, валютные риски.

It is necessary to understand that transactions with foreign currencies lead to an increase in the significance of currency risk in an economic entity's activities. The growth in foreign exchange transactions conducted by a company leads to increased currency risk. This constant increase in currency risk necessitates a more active study of the essence of this risk in order to manage it more effectively.

Considering that part of a commercial bank's attracted and placed funds are denominated in a foreign currency, their value is constantly changing due to exchange rate fluctuations. The implementation of currency risks, as well as other risks, can lead to a decrease in capital adequacy and, consequently, a violation of financial stability and reliability of a credit institution. Therefore, it is essential to establish a high-quality and efficient system for managing currency risks. To form the basis for managing currency risk, it is important to understand what currency risk is. Currency risks represent the danger of currency losses associated with changes in the exchange rate of one foreign currency against another during foreign economic, credit, and other currency transactions.

One of the main reasons for currency risks is the constantly "floating" exchange rates, whose behavior is difficult to predict. Therefore, currency risk is based on a change in the real value of monetary obligations over time, and all participants in the foreign exchange market are exposed to currency risks. The following types of currency risks are distinguished: commercial risks, conversion risks, translational risks, and the risks of forfeiting. Commercial risks are associated with the unwillingness or inability of a debtor (or guarantor) to fulfill its obligations.

Conversion risks are the risks of currency losses on specific transactions. These risks, in turn, are divided into economic risk, transfer risk, and transaction risk. The economic risk for a firm is that the value of its assets and liabilities may change downwards (in national currency) due to future changes or as a result of currency conversion. For the bank, investing in foreign assets will affect the size of the future flow of payments denominated in national currency. In addition, the amount of payments due on these loans will change when the value of the foreign currency of the loan is converted into the equivalent in the national currency. Transfer risk is associated with differences in accounting for assets and liabilities in foreign currencies. If there is a decrease in the exchange rate of the foreign currency in which these assets are denominated, then the value of the assets falls. With a decrease in asset value, the size of a company's or bank's share capital decreases. From an economic perspective, the most significant risk is transaction risk, which takes into account the impact of changes in exchange rates on future cash flows and, therefore, on the profitability of a firm or bank in the future. Changes and profitability of a company mean a change in its creditworthiness, and therefore, it is very important for a bank to be aware of customers' currency transactions. In a volatile environment, one way to protect against currency risk is to choose an acceptable contract currency for both parties. For exporters and lenders, it is preferable to use relatively more stable currencies. The choice of currency has a significant impact on trading and credit operations. When choosing a contract currency, factors such as the forecast of trends in exchange rates, the nature of products or services sold, prevailing market conditions, and the form of transaction (one-off, long-term, or intergovernmental) should be considered. The currency conversion risk can also be reduced by applying protective clauses, gold clauses and currency clauses. Protective clauses are contractual terms agreed upon by the parties in international economic agreements that provide for the possibility of changing or revising the original terms of a contract during its execution. Accounting risks arise when valuing assets and liabilities on the balance sheets and profit and loss accounts of foreign branches of customers and counterparties.

These risks depend, in turn, on the choice of currency for conversion, its stability, and a number of other factors. Conversion can be carried out using either the current rate method (at the exchange rate in effect on the day of conversion) or the historic rate method (using the rate on the transaction date). Correcting grammatical errors, typos, and punctuation in this English text:

Forfeiture risks arise when the forfeitor (often a bank) assumes all the risks of the exporter without the right of recourse. However, at the same time, forfeiture (a method of refinancing commercial risk) has advantages, with which the level of risk can be reduced through: simplifying balance sheet relationships for possible liabilities; improving (at least temporarily) liquidity, which makes it possible to further strengthen financial stability, etc.

Methods of managing currency risk are divided into "external" and "internal". They can be used to define strategies and develop tactical programs for banks and banking institutions. External risk management techniques include acceleration or delay of payments in a foreign currency, emergency currency transactions, diversification of operations, and monitoring by the Bank for International Settlements. Internal risk management methods include calculating a weighted credit equivalent, managing foreign exchange assets according to type of currency and term, increasing liquidity, and insuring risk. Strategically, protecting against currency risk is linked to an active pricing policy and the reliability of insurance companies. When managing currency risks, it is

important to have a well-constructed policy for foreign exchange transactions, a detailed methodological basis for these transactions, and effective distribution of responsibilities among structural units involved in them. Organization of currency risk management is also crucial.

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