



# Introduction to the Asian Clearing Union (ACU)

*ACU Secretariat*

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## I. Introduction

- A clearing union can be defined as a multilateral payments arrangement that periodically offsets the debits and credits accumulated by each member against the other members in the process of trade and other transactions.
- Multilateral clearing or payments arrangements facilitate the use of national currencies, and thus serve to relax the foreign exchange constraints of the members.

## II. History

- The need for the formation of clearing unions was felt as early as in the 1930s due to,
  - (1) foreign exchange shortages;
  - (2) the breakdown of the gold standard; and

(3) the collapse of the international capital markets forcing the governments to introduce controls on foreign exchange and foreign trade on the one hand and to sign bilateral trade and payments agreements on the other.

- In 1960s, the European countries made an arrangements named "European Payments Union (EPU)". In this system, at the end of each settlement period, the balance (the amount which has not been cleared in the system) settled by US Dollar. Success of EPU encouraged developing countries to set up similar Clearing Unions in Africa, Latin America as well as in Asia and Pacific region.
- The agreement which gave birth to the ACU, after a considerable period of efforts and discussions sponsored by the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP), was signed by the central banks and monetary authorities of India, Islamic Republic of Iran, Nepal, Pakistan and Sri Lanka in December 1974. Bangladesh and Myanmar were the sixth and seventh signatories to this agreement. Bhutan signed the agreement in 1999 and the number of the ACU participants reached eight.
- The ACU started its operations in November 1975 with its headquarters in Tehran.

### **III. Objectives**

- To facilitate settlement, on a multilateral basis, of payments for current international transactions;
- To promote the use of participants' currencies in current transactions;
- To promote monetary co-operation among the participants and closer relations among the banking systems so as to expand trade and economic activity among the countries of the ESCAP Region; and
- To provide for currency swap arrangement among the participants.

#### **IV. ACU Organization**

- Each participant appoints 1 Director and 1 Alternate Director to represent it on the Board of Directors. Each Director has 1 vote.
- The Board elects a Chairman from among its members to serve for a period of 1 year, and a Vice-Chairman to serve in the absence or inability of the Chairman during the same period.
- The Secretary General is appointed by the Board to conduct the business of the ACU.
- The Board of Directors makes arrangements with a participant to provide the necessary services and facilities for the operation of the clearing facility. The Islamic Republic of Iran acts as agent for the Union.
- The official language of the ACU is English.

#### **V. ACU Operations**

- Membership
- Composition
- Relations with other organizations and clearing arrangements
- Currency SWAP arrangement
- ACU mechanism
- Settlement period
- Units of accounts
- Eligible payments and transfers
- Instruments of payment
- Clearing operations
- Interest
- Exchange rate

##### **a) Membership**

Membership in the ACU is open to the central bank or monetary authority of each regional member and associate member of the ESCAP located in the geographical area defined in the ESCAP's terms of reference. A central

bank or monetary authority that is eligible to participate may apply to the Board to become a participant if the Board so decides.

**b) Composition**

At present, the ACU enjoys the membership of the following 8 participants:

- Bangladesh Bank,
- Royal Monetary Authority of Bhutan,
- Reserve Bank of India,
- Central Bank of the Islamic Republic of Iran,
- Central Bank of Myanmar,
- Nepal Rastra Bank,
- State Bank of Pakistan, and
- Central Bank of Sri Lanka.

**c) Relations with other organizations and clearing arrangements**

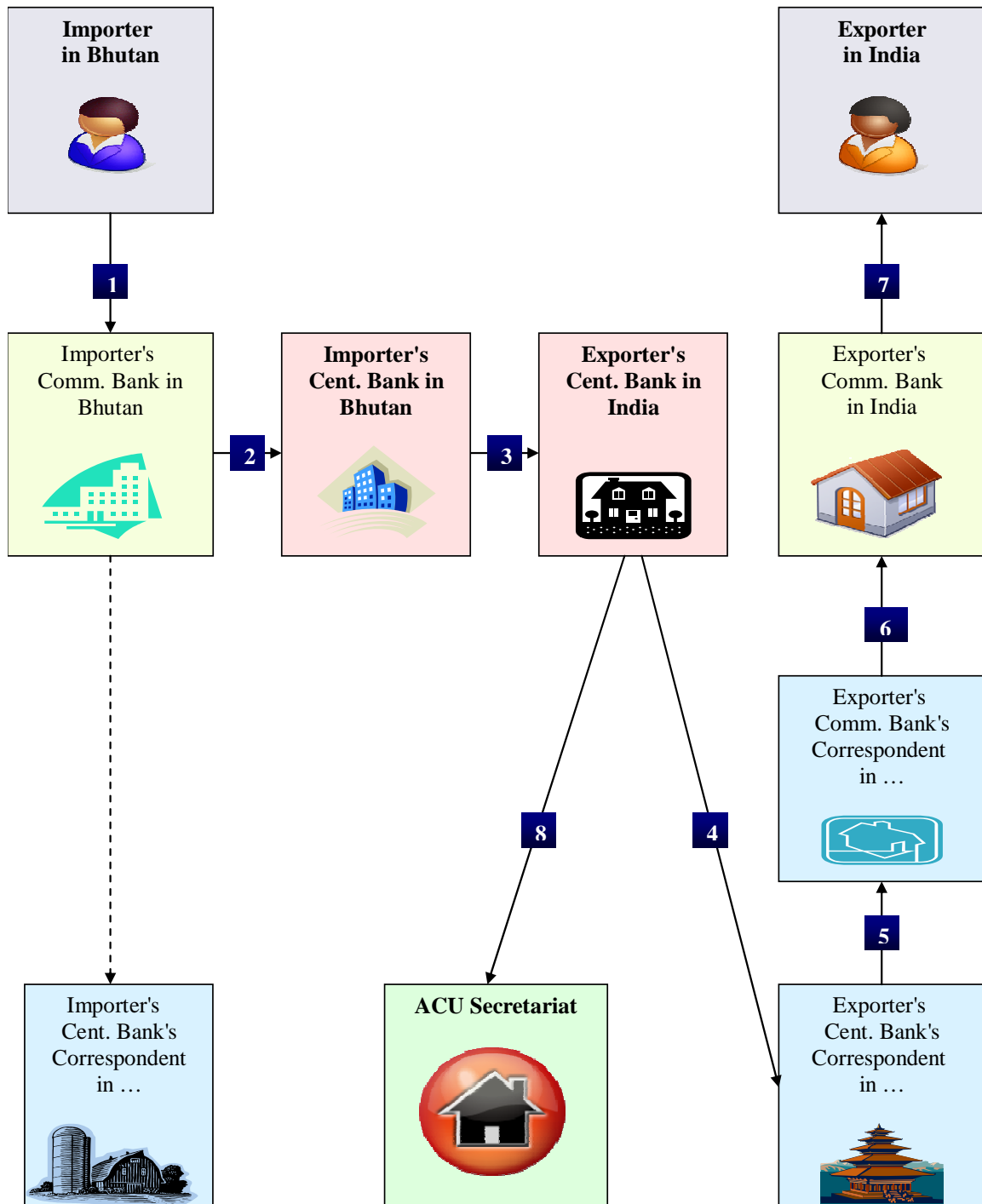
There is no prohibition for the participants to cooperate with other general, regional or sub-regional international organizations or other payment arrangements among countries within or outside the ESCAP region.

**d) Currency SWAP arrangement**

- Any participant in net deficit (ACU dollar and ACU euro accounts collectively) at the end of a settlement period is eligible to avail of the SWAP facility.
- Every eligible participant is entitled to the facility from every other participant up to 20% of the average gross payments (ACU dollar and ACU euro accounts collectively) made by it through the ACU mechanism to other participants during the three previous calendar years.
- The rate of interest chargeable on each drawal is equal to US dollar or Euro LIMEAN derived from the respective 2 months LIBOR declared by the British Bankers' Association (BBA).
- The potential benefits of this facility are:
  - (1) easy access by participants to international reserves of other participants when foreign exchange support is needed,

- (2) availability of the facility on a multilateral basis, and
- (3) the opportunity for further monetary co-operation among the member central banks.

**e) ACU mechanism**



**f) Settlement period**

Settlement of net position and accrued interest takes place at the end of each 2 monthly settlement period.

**g) Units of accounts**

The accounts of the ACU are held in "Asian Monetary Units" (viz. ACU dollar and ACU euro) which may be referred to in the abbreviated form as "AMUs". The AMUs, with effect from 01/01/2009, are denominated as ACU dollar and ACU euro which are equivalent in value to 1 USD and 1 Euro, respectively.

**h) Eligible payments and transfers**

The payments that are eligible to be made through the clearing facility are payments:

- from a resident in the territory of one participant to a resident in the territory of another participant;
- for current international transactions as defined by the Articles of Agreement of the International Monetary Fund (IMF);
- permitted by the country in which the payer resides; and
- not declared ineligible by the Board of Directors and/or a participant.

**i) Instruments of payment**

All instruments of payment denominated in AMUs (ACU dollar and ACU euro), may be used to effect payment through the clearing facility.

**j) Clearing operations**

Settlement of instruments is made by the commercial banks through operations of the accounts referred to in the following:

- The participants permit the banks in their respective countries to maintain ACU dollar and ACU euro accounts with their correspondent banks in the other participating countries. All payments other than ineligible payments are settled by the banks concerned through these accounts. The operations on these accounts shall be governed by the prevailing Exchange Control Regulations and such other directions, rules, regulations or guidelines as the participants may issue or specify from time to time.

The participants' commercial banks are authorized to consider payment of interest, at their discretion, on ACU dollar and ACU euro accounts maintained by the commercial banks of other ACU member countries as per mutually agreed terms and conditions.

- When a commercial bank desires to fund its ACU dollar or ACU euro account with its correspondent bank in another participating country, it may purchase the required amount of ACU dollar or ACU euro either from a local commercial bank having a surplus in that participating country or from its central bank. In the latter case, it will surrender equivalent amount of US dollars or euros or, at the option of the Central Bank, the equivalent in the local currency to its own Central Bank for remittance through the ACU mechanism. The participant receiving the amount will advise the participant in the country concerned to make available the amount in US dollars or euros to the concerned bank in that country. After making the payment, the second participant will advise the Secretary General of the ACU to credit its account by debit to the first participant's account.
- When a commercial bank desires to repatriate funds from its ACU dollar or ACU euro account with its correspondent bank in another participating country, it may sell the desired amount of ACU dollar or ACU euro either to a local commercial bank which desires to fund its ACU dollar or ACU euro account in that participating country, or to its central bank. In the latter case, it will request that bank to effect the remittance through the ACU mechanism. The correspondent bank will surrender equivalent amount of US dollars or euros to its own Central Bank for remittance. The participant receiving the amount will advise the participant in the country concerned to make available the equivalent amount to the concerned bank in that country. The Central Bank may, at its option, make the payment in US dollar or euro or in local currency. After making the payment the second participant will advise the Secretary

General of the ACU to credit its account by debit to the first participant's account.

- On receipt of the advices referred to above, the Clearing Union shall effect the necessary transfers under advice to both the participants.

**k) Interest**

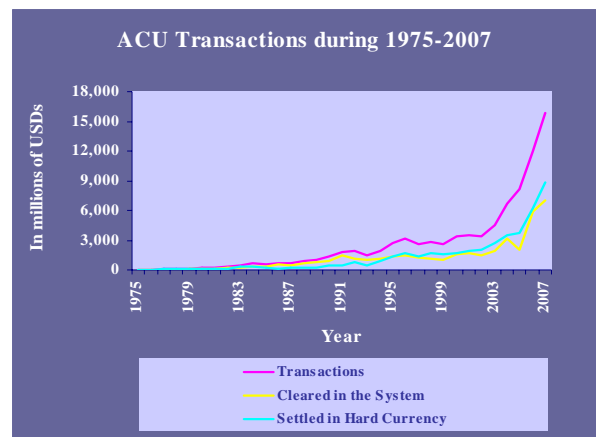
- Interest are paid by the net debtors and transferred to the net creditors at the end of each settlement period.
- Interests are calculated on the daily outstanding between settlement dates.
- The rate of interest will be the closing rate on the first working day of the last week of the previous calendar month offered by the Bank for International Settlements (BIS) for 1 month US dollar and euro deposits.

**l) Exchange rate**

The SDR cross-rates which are quoted by the IMF on a daily basis are applied as a reference rate.

**VI. ACU Transactions**

- ACU transactions experienced an upward trend since the inception of the Union (1975).
- In 2007, volume of transactions (one way plus accrued interest) amounted to USD 15,830.5 million depicting 31.4 % growth compared to the preceding year.
- On a monthly basis, the average transactions stood at USD 1,319.2 million showing an increase of 31.4 % over the last year (2006).
- India (44.6%), I.R. of Iran (31.4%), Sri Lanka (9.6%), Bangladesh (8.7%), and Pakistan (5.6%), represented the highest share in total transactions (export+import+interest), respectively.



## **VII. ACU Achievements**

- **Rapid expansion of trade:** Since the inception of the ACU, transactions have experienced a remarkable growth.
- **No default:** Under the ACU procedure rules, the debtor members should pay up their dues in convertible currencies within 4 working days of the receipt of the notice of payment from the Secretary General. There has been no default by any member so far in meeting its obligation for the settlement of its net position within the stipulated time.
- **Establishment of multi-currency settlement system:** The participants are authorized to settle transactions either in US dollar or Euro within the ACU mechanism.
- **Revision of the Agreement Establishing the ACU and Procedure Rules:** The Agreement and Rules have been amended to comply with developments and challenges ahead.

## **VIII. ACU Challenges**

- Expansion of the ACU,
- Establishment of Business Continuity Plan (BCP),
- Modifications of the ACU system to make it more efficient and effective,
- Implementation of RTGS System, and
- ...

## **VIV. ACU Publications**

- Annual Report of the ACU is published once a year with the approval of the Board of Directors.
- Monthly Newsletters are published at the beginning of the month, outlining the activities and operations of the ACU in the preceding month.

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