



# GFT

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## TOMORROW NEXT DAY PROCEDURES

In the foreign exchange market, each transaction carries an assigned value date. This value date is the date in which the buying or selling actions will realize their value and demand a settlement of payment. This value date typically falls 2 business days after the transaction was executed. The profits or losses produced by the buying and selling actions will then settle into the specific cash account.

What this means is that when you take a position in a currency, it is implied that you will take actual delivery of the currency in two days. However, the majorities of individuals that trade the foreign currency market are speculating and have no intention of taking delivery on the currency. This is where the Tomorrow Next Day procedures come into play.

If a trader opens and closes a position during the same business day, the value dates will be the same for each transaction and the trader will not experience his positions being carried over into the next day. This is due to the fact that the payment for his purchase or receipt for his payment has already been transacted and will settle on the same value date.

However, if a trader holds his position past the close of the current business day, the position must be covered and carried over into the next day unless actual delivery of the currency is desired. Tomorrow Next Day (Tom Next) procedures allow the trader to do this. The position that the client holds is closed out at a predetermined closing rate, and reestablished at a new opening rate. This action assigns the newly opened position a new value date and allows the client to hold this position another day without taking delivery of the currency. The rates used to convey the new entry prices are known as 'Tomorrow Next Day' rates.

Everyday at 3:00PM (15:00 ET) a swap procedure is performed on all current open positions. All open positions are closed out at a closing rate, which is the rate that each particular market is during this time frame. During the swap procedure, all open positions are closed at the closing rate and any profits or losses that are a part of Floating P/L are moved into Unrealized P/L.

The closed position is then reestablished at a new opening rate. This rate is determined by the price the position was closed plus or minus an interest payment. This swap happens instantly and is either going to demand a small interest payment by the trader or a small interest payment paid to the trader, dependant upon which currency the trader is holding. Remember, you are holding the currency that you have bought and selling the opposite side, and you are borrowing the currency you have sold and buying the opposite side. So, if you are long the USD/JPY, this means you have bought and are holding the USD and have sold and are borrowing the JPY. If you are holding the currency with the higher rate of interest, then you will receive an interest payment. If you are holding the currency with the lower rate of interest, you will pay an interest payment. These payments are paid or received during the establishment of the new opening rate in the form of a better or worse new price after the swap has taken place.

Let's look at an example of this process:

Trader A buys 100,000 USD/JPY at a price of 121.90 on June 12th. This means that the trader bought 100,000 USD and sold 100,000 US Dollars worth of Japanese Yen, which at a price of 121.90 is 12,190,000 Japanese Yen.

### Foreign Exchange Confirmations

Date	Time	Type	B/S	Base Currency	Value Date	Currency Pair	Counter Amount	Rate	Trans#
6/12/2001	5:38:16 PM	D/L	B	100,000.00 CR	6/14/2001	USD/JPY	12,190,000.00 DB	121.900000	851691

### Foreign Exchange Open Positions

Date	Time	Type	B/S	Base Currency	Value Date	Currency Pair	Counter Amount	Rate	Trans#	Market Value
6/12/2001	5:38:16 PM	D/L	B	100,000.00 CR	6/14/2001	USD/JPY	12,190,000.00 DB	121.900000	851691	
Net				100,000.00 CR			12,190,000.00 DB			83.00 CR

The value date for this transaction is June 14th. This means that on June 14th, Trader A's account would receive, or be credited, 100,000 US Dollars since he bought US Dollars and sold or debited 12,190,000 Japanese Yen.

A problem arises at this point if the trader does not want to exit his position on the same day. The trader has bought 100,000 USD and must have the same amount of USD available in the account to pay for the 100,000 USD that was bought.



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If the trader exits the position before the end of the day, the necessary amount of USD will be in the account to pay for the 100,000 USD that was originally bought. This is because both sides of the transaction would have occurred on the same business day, hence the same value date. Thus, the trader would have 100,000 USD that was sold at a particular rate to pay for the buy transaction of 100,000 USD that took place earlier in the day. If the trader does not choose to exit the position before the day ends, the trader would not have any funds available in his account to pay for the 100,000 USD he bought.

The trader must have these funds available in the account to pay for the transaction that occurred. If the trader does not choose to exit the position, then the party holding the transaction must do it for him. Remember, even if you sold USD, that means you bought JPY and would need the necessary amount of USD on deposit to pay for the JPY buy.

The mismatch occurs on June 14th when the 100,000 US Dollars that were bought on June 12th are credited to traders account and the trader does not yet have the 100,000 US Dollars to pay for it because he has yet to buy back the 100,000 USD he originally sold.

The holding party, GFT, takes all transactions that are left open for the day and closes the transaction out at a closing price. This is defined by RCL on your statement. This is the amount that will be in your account on the same value date as your original transaction to pay for the amount bought.

As you can see below, the transaction defined by RCL was to sell 100,000 USD at a price of 121.88, which means that the trader bought 12,188,000 Japanese Yen. This also means that the trader who originally bought 100,000 USD at a price of 121.90, subsequently selling 12,190,000 JPY has just sold 100,000 USD at a price of 121.88, subsequently buying 12,188,000 JPY. In this example, since the trader sold 12,190,000 Japanese Yen and bought back only 12,188,000 Japanese Yen, he has lost 2,000 Japanese Yen. When these two transactions arrive at their value date, the trader will sell 12,190,000 Japanese Yen and receive only 12,188,000 Japanese Yen.

#### Foreign Exchange Confirmations

Date	Time	Type	B/S	Base Currency	Value Date	Currency Pair	Counter Amount	Rate	Trans#
6/12/2001	6:59:42 PM	RCL	S	100,000.00 DB	6/14/2001	USD/JPY	12,188,000.00 CR	121.880000	853484
6/12/2001	6:59:42 PM	RCP	B	100,000.00 CR	6/15/2001	USD/JPY	12,187,100.00 DB	121.871000	853485
6/12/2001	6:18:35 PM	MKT	S	100,000.00 DB	6/15/2001	USD/JPY	12,163,000.00 CR	121.530000	866717

Now, as mentioned above, the trader decides to remain in the position. So, once the original transaction has been closed out for the day to pay for the original buy, it must be placed back into the market. This replacing the transaction back into the market is defined by ROP, or Roll Open, and has a new value date of June 15th. The swap rate that determines the new reentry price is called a Tom Next rate. These are rates that represent a small interest payment that the trader will either pay to hold the transaction over into the new day, or receive for holding the transaction over into the new day. The paying or receiving of interest is determined by which currency you are holding or which currency you are long (bought). If you are holding the currency that has the higher rate of interest, you will receive a discount in the form of a certain number of pips. If you are holding the currency that has the lower rate of interest, you will pay a premium in the form of a certain number of pips.

In this case, since Trader A was holding or had bought the USD, they were holding the currency with the higher rate of interest, and thus received a discount. This can be seen in the price that the transaction was closed out, 121.88, and where it was reentered, 121.871. If we go back over the transaction, we can see that the trader originally entered the position at 121.90, was closed out at 121.88, and re opened in the original direction, long, at 121.871. He received a discount in this case by being placed back into the market at a better price than he was taken out at, selling at 121.88 and buying back at 121.871.

On June 15th, the trader will have 100,000 USD credited back into his account, which he bought at a price of 121.871, meaning he sold 12,187,100 Japanese Yen. This swap process will take place again if the trader chooses not to exit the position before the end of the day. In this case, the trader exits the market via a market order, selling 100,000 USD at a price of 121.63, thus buys 12,163,000. The trader now has the 100,000 USD in the account to pay for the 100,000 USD that was bought for him at 121.871. Since he sold 12,187,100 Japanese Yen and only received back 12,163,000 Japanese Yen, he lost 23,900 Japanese Yen.

It is important to remember that if you choose to hold any positions open past the close of the business day, which occurs daily at 3:00 PM ET, those positions must first be closed out and any profits credited or losses debited to your account. Your position will then be reopened at the exact price you were closed out, plus or minus a small premium paid by you or a small discount paid to you. The direction and volume will be the same as it was when you entered the positions - the only difference is that you have realized any profits or losses up to that closing rate and are back in the market at the new open price.