The Asian Clearing Union

Background

The Asian Clearing Union (ACU) is the only clearing facility of its kind in Asia. It was established as the result of a United Nations initiative in 1974 and has its headquarters in Tehran. It is an independent multilateral organisation and not part of the United Nations. Its main stated objective is to "facilitate payments among member countries for eligible transactions on a multilateral basis".

The ACU promotes trade among the nine participating countries through the use of a "netting" mechanism which minimises the use of foreign exchange reserves. It also provides a temporary credit facility for member nations. The Central Banks and the Monetary Authorities of Iran, India, Bangladesh, Bhutan, Nepal, Pakistan, Sri Lanka, Myanmar and Maldives make up the nine members of the ACU.

The list of ACU member countries is broadly similar to that of the South Asian Association for Regional Co-operation (SAARC), the only differences being that the latter organisation excludes Iran and Myanmar but includes Afghanistan. There have been many discussions over the years about integration of the two groups but these do not appear to have made much progress.

The "Asian Monetary Unit" is the common unit of account of the ACU and is equivalent in value to one US dollar. The Asian Monetary Unit is also referred to as the "ACU dollar".

Which Countries Make the Most Use of the ACU?

ACU transaction volumes are dominated by India and Iran, with trade between the two countries being by far the largest chunk of trade between ACU member countries. In 2008 it is estimated that Iran moved close to 10% of its total annual imports and exports through the ACU mechanism.

Total ACU transactions between January and May 2010, at just over USD 15 billion, were 81.5% higher than the USD 8.3 billion figure recorded during the corresponding period in 2009 – Iran and India together accounted for around USD 11.5 billion (or around 77%) of the USD 15 billion total.

The next biggest users were Bangladesh (11% share), Pakistan (7% share) and Sri Lanka (5% share). Usage of the ACU by the other 4 member nations was minimal.

How the ACU Operates

All transactions cleared through the ACU are handled by "authorised dealers in foreign exchange", which are essentially commercial banks with a treasury operation. Transactions are handled in the same manner as with other foreign exchange transactions by these banks. Banks in ACU member countries may freely enter into correspondent arrangements with banks in other ACU member countries – the accounts used are denominated as ACU Dollar and ACU Euro accounts.

By channelling transactions through the ACU, members settle payments for intra-regional transactions among the participating Central Banks/Monetary Authorities on a multilateral basis. Indian exporters selling goods and services to Iran (for example) are able to realize their receivables without much difficulty although it is understood to be a slow process.

The principal advantage of the ACU is that it allows member countries two months credit in settling their payments relating to trade transactions among member countries. Since the ACU's inception there has been no default by any member nation in meeting its settlement obligations.

There are majority Muslim populations in most ACU member countries but interestingly, for an entity which has its HQ in Tehran, Sharia principles have not been adopted by the ACU - interest is applied on ACU transactions. This is paid by net debtors and transferred to net creditors at the end of each settlement period.

Perceptions of the ACU

Within the global banking industry there appears to be no general industry-wide perception of the ACU, either positive or negative.

Note: this is an excerpt only. The full text of this report runs to 12 pages.