



भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA
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RBI/2011-12/12

Master Circular No. 12/2011-12

July 1, 2011

To,

All Authorised Dealers - Category I Banks

Madam / Sir,

Master Circular on Risk Management and Inter-Bank Dealings

Foreign Exchange Derivative Contracts, Overseas Commodity & Freight Hedging, Rupee Accounts of Non-Resident Banks, Inter-Bank Foreign Exchange Dealings, etc. are governed by the provisions in [Notification No. FEMA 1/2000-RB](#), Regulation 4(2) of [Notification No. FEMA 3/RB-2000](#) and [Notification No. FEMA 25/RB-2000 dated May 3, 2000](#) and subsequent amendments thereto.

2. This Master Circular consolidates the existing instructions on the subject of "**Risk Management and Inter-Bank Dealings**" at one place. The list of underlying circulars/notifications is set out in Appendix.

3. This Master Circular is issued with a sunset clause of one year. This circular will stand withdrawn on July 1, 2012 and would be replaced by an updated Master Circular on the subject.

Yours faithfully,

(Meena Hemchandra)
Chief General Manager- in- Charge

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PART – A

RISK MANAGEMENT

SECTION I

Facilities for Persons Resident in India other than Authorised Dealers Category-I

The facilities for persons resident in India (other than AD Category I banks) are elaborated under paragraphs A and B. **Paragraph A** describes the products and operational guidelines for the respective product. In addition to the operational guidelines under A, the general instructions that are applicable across all products for residents (other than AD Category I banks) are detailed under **Paragraph B**.

A. Products and Operational Guidelines

The product/purpose-wise facilities for persons resident in India (other than AD Category I banks) are detailed under the following subheads:

- 1) Contracted Exposure
- 2) Probable Exposure
- 3) Special Dispensation

1) Contracted Exposures

AD Category I banks have to evidence the underlying documents so that the existence of underlying foreign currency exposure can be clearly established. AD Category I banks, through verification of documentary evidence, should be satisfied about the genuineness of the underlying exposure, irrespective of the transaction being a current or a capital account. Full particulars of the contracts should be marked on the original documents under proper authentication and retained for verification. However, in cases where the submission of original documents is not possible, a copy of the original documents, duly certified by an authorized official of the user, may be obtained. In either of the cases, before offering the contract, the AD Category I banks should obtain an undertaking from the customer and also quarterly certificates from the statutory auditor (for details refer para B (b) for General Instructions). While details of the underlying

have to be recorded at the time of booking the contract, in the view of logistic issues, a maximum period of 15 days may be allowed for production of the documents. If the documents are not submitted by the customer within 15 days, the contract may be cancelled, and the exchange gain, if any, should not be passed on to the customer. In the event of non-submission of the documents by the customer within 15 days on more than three occasions in a financial year, booking of permissible derivative contracts in future may be allowed only against production of the underlying documents, at the time of booking the contract.

The products available under this facility are as follows:

i) Forward Foreign Exchange Contracts

Participants

Market-makers - AD Category I banks

Users - Persons resident in India

Purpose

- a) To hedge exchange rate risk in respect of transactions for which sale and /or purchase of foreign exchange is permitted under the FEMA 1999, or in terms of the rules/ regulations/directions/orders made or issued there under.
- b) To hedge exchange rate risk in respect of the market value of overseas direct investments (in equity and loan).
 - i) Contracts covering overseas direct investment (ODI) can be cancelled or rolled over on due dates. However, AD Category I banks may permit rebooking only to the extent of 50 per cent of the cancelled contracts.
 - ii) If a hedge becomes naked in part or full owing to contraction (due to price movement/impairment) of the market value of the ODI, the hedge may be allowed to continue until maturity, if the customer so desires. Rollovers on due date shall be permitted up to the extent of the market value as on that date.
- c) To hedge exchange rate risk of transactions denominated in foreign currency but settled in INR, including hedging the economic (currency indexed) exposure of importers in respect of customs duty payable on imports.
 - i) Forward foreign exchange contracts covering such transactions will

be settled in cash on maturity.

- ii) These contracts once cancelled, are not eligible to be rebooked.
- iii) In the event of any change in the rate(s) of customs duties, due to Government notifications subsequent to the date of the forward contracts, importers may be allowed to cancel and/or rebook the contracts before maturity.

Operational Guidelines, Terms and Conditions

General principles to be observed for forward foreign exchange contracts.

- a) The maturity of the hedge should not exceed the maturity of the underlying transaction. The currency of hedge and tenor, subject to the above restrictions, are left to the customer. Where the currency of hedge is different from the currency of the underlying exposure, the risk management policy of the corporate, approved by the Board of the Directors, should permit such type of hedging.
- b) Where the exact amount of the underlying transaction is not ascertainable, the contract may be booked on the basis of reasonable estimates. However, there should be periodical review of the estimates.
- c) Foreign currency loans/bonds will be eligible for hedge only after final approval is accorded by the Reserve Bank, where such approval is necessary or Loan Registration Number is allotted by the Reserve Bank.
- d) Global Depository Receipts (GDRs)/American Depository Receipts (ADRs) will be eligible for hedge only after the issue price has been finalized.
- e) Balances in the Exchange Earner's Foreign Currency (EEFC) accounts sold forward by the account holders shall remain earmarked for delivery and such contracts shall not be cancelled. They are, however, eligible for rollover, on maturity.
- f) All non-INR forward contracts can be rebooked on cancellation subject to condition (h) below. Forward contracts, involving the Rupee as one of the currencies, booked by residents to hedge current account transactions, regardless of the tenor, and to hedge capital account transactions, falling due within one year, may be allowed to be cancelled and rebooked subject to condition (h) below. This relaxation of cancellation and rebooking will not be available to forward contracts booked on past performance basis without

documents as also forward contracts booked to hedge transactions denominated (or indexed) in foreign currency but settled in INR.

- g) The facility of cancellation and rebooking is not permitted for forward contracts, involving Rupee as one of the currencies, booked by residents to hedge capital account transactions for tenor greater than one year. These forward contract(s) if cancelled with one AD Category I bank can be rebooked with another AD Category I bank, subject to the following conditions:
- (i) the switch is warranted by competitive rates on offer, termination of banking relationship with the AD Category I bank with whom the contract was originally booked;
 - (ii) the cancellation and rebooking are done simultaneously on the maturity date of the contract; and
 - (iii) the responsibility of ensuring that the original contract has been cancelled rests with the AD Category I bank who undertakes rebooking of the contract.
- h) The facility of rebooking should not be permitted unless the corporate has submitted the exposure information as prescribed in Annex V.
- i) Substitution of contracts for hedging trade transactions may be permitted by an AD Category I bank on being satisfied with the circumstances under which such substitution has become necessary. The AD Category I bank may also verify the amount and tenor of the underlying substituted.

ii) Cross Currency Options (not involving Rupee)

Participants

Market-makers - AD Category I banks as approved for this purpose by the Reserve Bank

Users – Persons resident in India

Purpose

- a) To hedge exchange rate risk arising out of trade transactions.
- b) To hedge the contingent foreign exchange exposure arising out of submission of a tender bid in foreign exchange.

Operational Guidelines, Terms and Conditions

- a) AD Category I banks can only offer plain vanilla European options¹.
- b) Customers can buy call or put options.
- c) These transactions may be freely booked and/ or cancelled subject to verification of the underlying.
- d) All guidelines applicable for cross currency forward contracts are applicable to cross currency option contracts also.
- e) Cross currency options should be written by AD Category I banks on a fully covered back-to-back basis. The cover transaction may be undertaken with a bank outside India, an Off-shore Banking Unit situated in a Special Economic Zone or an internationally recognized option exchange or another AD Category I bank in India. AD Category I banks desirous of writing options, should obtain a one-time approval from the Chief General Manager, Reserve Bank of India, Foreign Exchange Department, Forex Markets Division, Central Office, Amar Building 5th Floor, Mumbai, 400001, before undertaking the business.

iii) Foreign Currency - INR Options

Participants

Market-makers - AD Category I banks, as approved for this purpose by the Reserve Bank.

Users – Persons resident in India

Purpose

- a) To hedge foreign currency exposures in accordance with Schedule I of Notification No. FEMA 25/2000-RB dated May 3, 2000, as amended from time to time.
- b) To hedge the contingent foreign exchange exposure arising out of submission of a tender bid in foreign exchange.

Operational Guidelines, Terms and Conditions

- a) AD Category I banks having a minimum CRAR of 9 per cent, can offer foreign currency– INR options on a back-to-back basis.
- b) For the present, AD category I banks can offer only plain vanilla European

¹ A European option may be exercised only at the expiry date of the option, i.e. at a single pre-defined point in time.

options.

- c) Customers can buy call or put options.
- d) All guidelines applicable for foreign currency-INR foreign exchange forward contracts are applicable to foreign currency-INR option contracts also.
- e) AD Category I banks having adequate internal control, risk monitoring/ management systems, mark to market mechanism, etc. are permitted to run a foreign currency– INR options book on prior approval from the Reserve Bank, subject to conditions. AD Category I banks desirous of running a foreign currency-INR options book and fulfilling minimum eligibility criteria listed below, may apply to the Reserve Bank with copies of approval from the competent authority (Board/ Risk Committee/ ALCO), detailed memorandum in this regard, specific approval of the Board for the type of option writing and permissible limits. The memorandum put up to the Board should clearly mention the downside risks, among other matters.

Minimum Eligibility Criteria:

- i. Net worth not less than Rs 300 crore
- ii. CRAR of 10 per cent
- iii. Net NPAs not exceeding 3 per cent of the net advances
- iv. Continuous profitability for at least three years

The Reserve Bank will consider the application and accord a one-time approval at its discretion. AD Category I banks are expected to manage the option portfolio within the Reserve Bank approved risk management limits.

- f) AD banks may quote the option premium in Rupees or as a percentage of the Rupee/foreign currency notional.
- g) Option contracts may be settled on maturity either by delivery on spot basis or by net cash settlement in Rupees on spot basis as specified in the contract. In case of unwinding of a transaction prior to the maturity, the contract may be cash settled based on market value of an identical off-setting option.
- h) Market makers are allowed to hedge the 'Delta' of their option portfolio by accessing the spot and forward markets. Other 'Greeks' may be hedged by entering into option transactions in the inter-bank market.
- i) The 'Delta' of the option contract would form part of the overnight open

position.

- j) The 'Delta' equivalent as at the end of each maturity shall be taken into account for the purpose of AGL. The residual maturity (life) of each outstanding option contract can be taken as the basis for the purpose of grouping under various maturity buckets
- k) AD banks running an option book are permitted to initiate plain vanilla cross currency option positions to cover risks arising out of market making in foreign currency-INR options.
- l) Banks should put in place necessary systems for marking to market the portfolio on a daily basis. FEDAI will publish daily a matrix of polled implied volatility estimates, which market participants can use for marking to market their portfolio.
- m) The accounting framework for option contracts will be as per FEDAI circular No.SPL-24/FC-Rupee Options/2003 dated May 29, 2003.

iv) Foreign Currency-INR Swaps

Participants

Market-makers – AD Category I banks in India.

Users –

- i. Residents having a foreign currency liability and undertaking a foreign currency-INR swap to move from a foreign currency liability to a Rupee liability.
- ii. Incorporated resident entities having a rupee liability and undertaking an INR – foreign currency swap to move from rupee liability to a foreign currency liability, subject to certain minimum prudential requirements, such as risk management systems and natural hedges or economic exposures. In the absence of natural hedges or economic exposures, the INR-foreign currency swap (to move from rupee liability to a foreign currency liability) may be restricted to listed companies **or** unlisted companies with a minimum net worth of Rs 200 crore. Further, the AD Category I bank is required to examine the suitability and appropriateness of the swap and be satisfied about the financial soundness of the corporate.

Purpose

To hedge exchange rate and/or interest rate risk exposure for those having long-term foreign currency borrowing or to transform long-term INR borrowing into foreign currency liability.

Operational Guidelines, Terms and Conditions

- a) No swap transactions involving upfront payment of Rupees or its equivalent in any form shall be undertaken.
- b) The term “long-term exposure” means exposures with residual maturity of one year or more.
- c) Swap transactions may be undertaken by AD Category I banks as intermediaries by matching the requirements of corporate counterparties. While no limits are placed on the AD Category I banks for undertaking swaps to facilitate customers to hedge their foreign exchange exposures, a limit of USD 100 million is placed for net supply of foreign exchange in the market on account of swaps which facilitate customers to assume foreign currency liability. Positions arising out of cancellation of foreign currency-INR swaps by customers need not be reckoned within this cap.
- d) With reference to the specified limits for swap transactions facilitating customers to assume a foreign currency liability, the limit will be reinstated on account of cancellation/ maturity of the swap and on amortization, up to the amounts amortized.
- e) The swap transactions, once cancelled, shall not be rebooked or re-entered, by whichever mechanism or by whatever name called.
- f) AD Category I banks should not offer leveraged swap structures. Typically, in leveraged swap structures, a multiplicative factor other than unity is attached to the benchmark rate(s), which alters the payables or receivables vis-à-vis the situation in the absence of such a factor.
- g) The notional principal amount of the swap should not exceed the outstanding amount of the underlying loan.
- h) The maturity of the swap should not exceed the remaining maturity of the underlying loan.

v) Cost Reduction Structures i.e. cross currency option cost reduction structures and foreign currency –INR option cost reduction structures.

Participants

Market-makers - AD Category I banks

Users – Listed companies and their subsidiaries/joint ventures/associates having common treasury and consolidated balance sheet or unlisted companies with a minimum net worth of Rs. 200 crore

provided

- a. All such products are fair valued on each reporting date;
- b. The companies follow the Accounting Standards notified under section 211 of the Companies Act, 1956 and other applicable Guidance of the Institute of Chartered Accountants of India (ICAI) for such products/ contracts as also the principle of prudence which requires recognition of expected losses and non-recognition of unrealized gains;
- c. Disclosures are made in the financial statements as prescribed in ICAI press release dated 2nd December 2005; and
- d. The companies have a risk management policy with a specific clause in the policy that allows using the type/s of cost reduction structures.

(Note: The above accounting treatment is a transitional arrangement till AS 30 / 32 or equivalent standards are notified.)”

Purpose

To hedge exchange rate risk arising out of trade transactions and External Commercial Borrowings (ECBs).

Operational Guidelines, Terms and Conditions

- a) Writing of options by the users, on a standalone basis, is not permitted.
- b) Users can enter into option strategies of simultaneous buy and sell of plain vanilla European options, provided there is no net receipt of premium.

- c) Leveraged structures, digital options, barrier options, range accruals and any other exotic products are not permitted.
- d) The portion of the structure with the largest notional, computed over the tenor of the structure, should be reckoned for the purpose of underlying.
- e) The delta of the options should be explicitly indicated in the term sheet.
- f) AD Category I banks may, stipulate additional safeguards, such as, continuous profitability, higher net worth, turnover, etc depending on the scale of forex operations and risk profile of the users.
- g) The maturity of the hedge should not exceed the maturity of the underlying transaction and subject to the same the users may choose the tenor of the hedge. In case of trade transactions being the underlying, the tenor of the structure shall not exceed two years.
- h) The MTM position should be intimated to the users on a periodical basis.

vi) Hedging of Borrowings in foreign exchange, which are in accordance with the provisions of Foreign Exchange Management (Borrowing and Lending in Foreign Exchange) Regulations, 2000.

Products – Interest rate swap, Cross currency swap, Coupon swap, Cross currency option, Interest rate cap or collar (purchases), Forward rate agreement (FRA)

Participants

Market-makers –

- a) AD Category I banks in India
- b) Branch outside India of an Indian bank authorized to deal in foreign exchange in India
- c) Offshore banking unit in a SEZ in India.

Users –

Persons resident in India who have borrowed foreign exchange in accordance with the provisions of Foreign Exchange Management (Borrowing and Lending in Foreign Exchange) Regulations, 2000.

Purpose

For hedging interest rate risk and currency risk on loan exposure and unwinding from such hedges

Operational Guidelines, Terms and Conditions

- a) The products, as detailed above should not involve the rupee under any circumstances.
- b) Final approval has been accorded or Loan Registration Number allotted by the Reserve Bank for borrowing in foreign currency.
- c) The notional principal amount of the product should not exceed the outstanding amount of the foreign currency loan.
- d) The maturity of the product should not exceed the unexpired maturity of the underlying loan.
- e) The contracts may be cancelled and rebooked freely.

2) Probable exposures based on past performance

Participants

Market-makers – AD Category I banks in India.

Users – Importers and exporters of goods and services

Purpose

To hedge currency risk on the basis of a declaration of an exposure and based on past performance up to the average of the previous three financial years' (April to March) actual import/export turnover or the previous year's actual import/export turnover, whichever is higher. Probable exposure based on past performance can be hedged only in respect of trades in merchandise goods as well as services.

Products

Forward foreign exchange contracts, cross currency options (not involving the rupee), foreign currency-INR options and cost reduction structures [as mentioned in section B para I 1(v)].

Operational Guidelines, Terms and Conditions

- a) Corporates having a minimum net worth of Rs 200 crores and an annual export and import turnover exceeding Rs 1000 crores and satisfying all other

conditions as stipulated in section B para I 1(v) may be allowed to use cost reduction structures.

b) The contracts booked during the current financial year (April-March) and the outstanding contracts at any point of time should not exceed the eligible limit i.e. the average of the previous three financial years' actual import/export turnover or the previous year's actual import/export turnover, whichever is higher.

c) Contracts booked in excess of 75 per cent of the eligible limit will be on deliverable basis and cannot be cancelled.

d) These limits shall be computed separately for import/export transactions.

e) Higher limits will be permitted on a case-by-case basis on application to the Foreign Exchange Department, Central Office, Reserve Bank of India. The additional limits, if sanctioned, shall be on a deliverable basis.

f) Any contract booked without producing documentary evidence will be marked off against this limit. These contracts once cancelled, are not eligible to be rebooked. Rollovers are also not permitted.

g) AD banks should permit their clients to use the past performance facility only after satisfying themselves that the following conditions are complied with:

- i. An undertaking may be taken from the customer that supporting documentary evidence will be produced before the maturity of all the contracts booked.
- ii. Importers and exporters should furnish a quarterly declaration to the AD Category I banks, duly certified by the Statutory Auditor, regarding amounts booked with other AD Category I banks under this facility, as per Annex VI.
- iii. For an exporter customer to be eligible for this facility, the aggregate of overdue bills shall not exceed 10 per cent of the turnover.
- iv. Aggregate outstanding contracts in excess of 50 per cent of the eligible limit may be permitted by the AD Category I bank on being satisfied about the genuine requirements of their customers after examination of the following documents:
 - A certificate from the Statutory Auditor of the customer that all guidelines have been adhered to while utilizing this facility.

- A certificate of import/export turnover of the customer during the past three years duly certified by their Statutory Auditor in the format given in Annex VII.
- h) The past performance limits once utilised are not to be reinstated either on cancellation or on maturity of the contracts.
- i) AD Category I banks must arrive at the past performance limits at the beginning of every financial year. The drawing up of the audited figures (previous year) may require some time at the commencement of the financial year. However, if the statements are not submitted within three months from the last date of the financial year, the facility should not be provided until submission of the audited figures.
- j) AD Category I banks must institute appropriate systems for validating the past performance limits at pre-deal stage. In addition to the customer declarations, AD Category I banks should also assess the past transactions with the customers, turnover, etc.
- k) AD Category I banks are required to submit a monthly report (as on the last Friday of every month) on the limits granted and utilised by their constituents under this facility as prescribed in Annex X.

3) Special Dispensation

i) Small and Medium Enterprises (SMEs)

Participants

Market-makers – AD Category I.

Users – Small and Medium Enterprises (SMEs) ²

Purpose

To hedge direct and / or indirect exposures of SMEs to foreign exchange risk

Product

Forward foreign exchange contracts

Operational Guidelines: Small and Medium Enterprises (SMEs) having direct and / or indirect exposures to foreign exchange risk are permitted to book / cancel /

² SME as defined by the Rural Planning and Credit Department, Reserve Bank of India vide circular [RPCD.PLNS. BC.No.63/06.02.31/2006-07 dated April 4, 2007](#).

rebook/ roll over forward contracts without production of underlying documents to manage their exposures effectively, subject to the following conditions:

- a) Such contracts may be booked through AD Category I banks with whom the SMEs have credit facilities and the total forward contracts booked should be in alignment with the credit facilities availed by them for their foreign exchange requirements or their working capital requirements or capital expenditure.
- b) AD Category I bank should carry out due diligence regarding “*user appropriateness*” and “*suitability*” of the forward contracts to the SME customers as per Para 8.3 of 'Comprehensive Guidelines on Derivatives' issued vide [DBOD.No.BP.BC. 86/21.04.157/2006-07 dated April 20, 2007](#).
- c) The SMEs availing this facility should furnish a declaration to the AD Category I bank regarding the amounts of forward contracts already booked, if any, with other AD Category I banks under this facility.

ii) Resident Individuals

Participants

Market-makers – AD Category I banks

Users: Resident Individuals

Purpose

To hedge their foreign exchange exposures arising out of actual or anticipated remittances, both inward and outward, can book forward contracts, without production of underlying documents, up to a limit of USD 100,000, based on self declaration.

Product

Forward foreign exchange contracts

Operational Guidelines, Terms and Conditions

- a) The contracts booked under this facility would normally be on a deliverable basis. However, in case of mismatches in cash flows or other exigencies, the contracts booked under this facility may be allowed to be cancelled and re-booked. The notional value of the outstanding contracts should not exceed USD 100,000 at any time.
- b) The contracts may be permitted to be booked up to tenors of one year only.

- c) Such contracts may be booked through AD Category I banks with whom the resident individual has banking relationship, on the basis of an application-cum-declaration in the format given in Annex XIV. The AD Category I banks should satisfy themselves that the resident individuals understand the nature of risk inherent in booking of forward contracts and should carry out due diligence regarding “*user appropriateness*” and “*suitability*” of the forward contracts to such customer.

B. General Instructions for OTC forex derivative contracts entered by Residents in India

While the guidelines indicated above govern specific foreign exchange derivatives, certain general principles and safeguards for prudential considerations that are applicable across the OTC foreign exchange derivatives, are detailed below. In addition to the guidelines under the specific foreign exchange derivative product, the general instructions should be followed scrupulously by the users (residents in India other than AD Category I banks) and the market makers (AD Category I banks).

- a) In case of all forex derivative transactions [except INR- foreign currency swaps i.e. moving from INR liability to foreign currency liability as in section B para I(1)(iv)] is undertaken, AD Category I banks must take a declaration from the clients that the exposure is unhedged and has not been hedged with another AD Category I bank. The corporates should provide an annual certificate to the AD Category I bank certifying that the derivative transactions are authorized and that the Board (or the equivalent forum in case of partnership or proprietary firms) is aware of the same.
- b) In the case of **contracted exposure**, AD Category I banks must obtain:
- i) An undertaking from the customer that the same underlying exposure has not been covered with any other AD Category I bank/s. Where hedging of the same exposure is undertaken in parts, with more than one AD Category I bank, the details of amounts already booked with other AD Category I bank/s should be clearly indicated in the declaration. This undertaking can also be obtained as a part of the deal confirmation.

- ii) Quarterly certificates from the statutory auditors of the users, that the contracts outstanding at any point of time with all AD Category I banks during the quarter did not exceed the value of the underlying exposures.
- c) Derived foreign exchange exposures are not permitted to be hedged. However, in case of INR- foreign currency swaps, at the inception, the user can enter into one time plain vanilla cross currency option (not involving Rupee) to cap the currency risk.
- d) In any derivative contract, the notional amount should not exceed the actual underlying exposure at any point in time. Similarly, the tenor of the derivative contracts should not exceed the tenor of the underlying exposure. The notional amount for the entire transaction over its complete tenor must be calculated and the underlying exposure being hedged must be commensurate with the notional amount of the derivative contract.
- e) Only one hedge transaction can be booked against a particular exposure/ part thereof for a given time period.
- f) The term sheet for the derivative transactions (except forward contracts) should also necessarily and clearly mention the following:
 - i) the purpose for the transaction detailing how the product and each of its components help the client in hedging;
 - ii) the spot rate prevailing at the time of executing the transaction; and
 - iii) quantified maximum loss/ worst downside in various scenarios.
- g) AD Category I banks can offer only those products that they can price independently. This is also applicable to the products offered even on back to back basis. The pricing of all forex derivative products should be locally demonstrable at all times.
- h) The market-makers should carry out proper due diligence regarding 'user appropriateness' and 'suitability' of products before offering derivative products (except forward contracts) to users as detailed in [DBOD.No.BP.BC. 86/21.04.157/2006-07 dated April 20, 2007](#).
- i) AD Category I may share with the user the various scenario analysis encompassing both the possible upside as well as the downsides and sensitivity analysis identifying the various market parameters that affect the product.

- j) The provisions of comprehensive guidelines on Derivatives issued vide [DBOD.No.BP.BC. 86/21.04.157/2006-07 dated April 20, 2007](#) and as amended from time to time are also applicable to forex derivatives.
- k) Sharing of information on derivatives between banks is mandatory and as detailed vide circular DBOD.No.BP.BC.46/08.12.001/2008-09 dated September 19, 2008 and [DBOD.No. BP. BC. 94/ 08.12.001/ 2008-09](#) dated December 8, 2008.

4. Currency Futures on recognised Stock /New Exchanges

As part of further developing the derivatives market in India and adding to the existing menu of foreign exchange hedging tools available to the residents, currency futures contracts have been permitted to be traded in recognized stock exchanges or new exchanges, recognized by the Securities and Exchange Board of India (SEBI) in the country. The currency futures market would function subject to the directions, guidelines, instructions issued by the Reserve Bank and the SEBI, from time to time.

Persons resident in India are permitted to participate in the currency futures market in India subject to directions contained in the Currency Futures (Reserve Bank) Directions, 2008 [Notification No.FED.1/DG(SG)-2008 dated August 6, 2008] (Directions) and Notification No.FED. 2 / ED (HRK)-2009 dated January 19, 2010 issued by the Reserve Bank of India, which have been issued under Section 45W of the Reserve Bank of India Act, 1934.

Currency futures are subject to following conditions:

Permission

- (i) Currency futures are permitted in US Dollar (USD) - Indian Rupee (INR), Euro (EUR)-INR, Japanese Yen (JPY)-INR and Pound Sterling (GBP)-INR.
- (ii) Only 'persons resident in India' may purchase or sell currency futures contracts to hedge an exposure to foreign exchange rate risk or otherwise.

Features of currency futures

Standardized currency futures shall have the following features:

- a. USD-INR, EUR-INR, GBP-INR and JPY-INR contracts are allowed to be traded.
- b. The size of each contract shall be USD 1000 for USD-INR contracts, Euro 1000 for Euro-INR contracts, GBP 1000 for GBP-INR contracts and JPY 100,000 for JPY-INR contracts.
- c. The contracts shall be quoted and settled in Indian Rupees.
- d. The maturity of the contracts shall not exceed 12 months.
- e. The settlement price for USD-INR and Euro-INR contracts shall be the Reserve Bank's Reference Rates and for GBP-INR and JPY-INR contracts shall be the

exchange rates published by the Reserve Bank in its press release on the last trading day.

Membership

(i) The membership of the currency futures market of a recognised stock exchange shall be separate from the membership of the equity derivative segment or the cash segment. Membership for both trading and clearing, in the currency futures market shall be subject to the guidelines issued by the SEBI.

(ii) Banks authorized by the Reserve Bank under section 10 of the Foreign Exchange Management Act, 1999 as 'AD Category - I bank' are permitted to become trading and clearing members of the currency futures market of the recognized stock exchanges, on their own account and on behalf of their clients, subject to fulfilling the minimum prudential requirements.

(iii) AD Category - I banks which do not meet the above minimum prudential requirements and AD Category - I banks which are Urban Co-operative banks or State Co-operative banks can participate in the currency futures market only as clients, subject to approval therefore from the respective regulatory Departments of the Reserve Bank.

Position limits

i. The position limits for various classes of participants in the currency futures market shall be subject to the guidelines issued by the SEBI.

ii. The AD Category - I banks, shall operate within prudential limits, such as Net Open Position (NOP) and Aggregate Gap (AG) limits. The exposure of the banks, on their own account, in the currency futures market shall form part of their NOP and AG limits.

Risk Management measures

The trading of currency futures shall be subject to maintaining initial, extreme loss and calendar spread margins and the Clearing Corporations / Clearing Houses of the exchanges should ensure maintenance of such margins by the participants on the basis of the guidelines issued by the SEBI from time to time.

Surveillance and disclosures

The surveillance and disclosures of transactions in the currency futures market shall be carried out in accordance with the guidelines issued by the SEBI.

Authorisation to Currency Futures Exchanges / Clearing Corporations

Recognized stock exchanges and their respective Clearing Corporations / Clearing Houses shall not deal in or otherwise undertake the business relating to currency futures unless they hold an authorization issued by the Reserve Bank under section 10(1) of the Foreign Exchange Management Act, 1999.

5. Currency Options on recognised Stock /New Exchanges

In order to expand the existing menu of exchange traded hedging tools available to the residents, plain vanilla currency options contracts have been permitted to be traded in recognized stock exchanges or new exchanges, recognized by the Securities and Exchange Board of India (SEBI) in the country.

Exchange traded Currency options are subject to following conditions:

Permission

- (i) Exchange traded Currency option contracts are permitted in US Dollar (USD) - Indian Rupee (INR).
- (ii) Only 'persons resident in India' may purchase or sell exchange traded currency options contracts to hedge an exposure to foreign exchange rate risk or otherwise.

Features of exchange traded currency options

Standardized exchange traded currency options shall have the following features:

- a) The underlying for the currency option shall be US Dollar – Indian Rupee (USD-INR) spot rate.
- b) The options shall be premium styled European call and put options.
- c) The size of each contract shall be USD 1000.
- d) The premium shall be quoted in Rupee terms. The outstanding position shall be in USD.
- e) The maturity of the contracts shall not exceed twelve months.
- f) The contracts shall be settled in cash in Indian Rupees.
- g) The settlement price shall be the Reserve Bank's Reference Rate on the date of expiry of the contracts.

Membership

- i) Members registered with the SEBI for trading in currency futures market shall be eligible to trade in the exchange traded currency options market of a recognised stock exchange. Membership for both trading and clearing, in the exchange traded currency options market shall be subject to the guidelines issued by the SEBI.
- ii) Banks authorized by the Reserve Bank under section 10 of the Foreign Exchange Management Act, 1999 as 'AD Category - I bank' are permitted to

become trading and clearing members of the exchange traded currency options market of the recognized stock exchanges, on their own account and on behalf of their clients, subject to fulfilling the following minimum prudential requirements:

- a) Minimum net worth of Rs. 500 crores.
- b) Minimum CRAR of 10 per cent.
- c) Net NPA should not exceed 3 per cent.
- d) Made net profit for last 3 years.

The AD Category - I banks, which fulfil the prudential requirements, should lay down detailed guidelines with the approval of their Boards for trading and clearing of the exchange traded currency options contracts and management of risks.

iii) AD Category - I banks, which do not meet the above minimum prudential requirements and AD Category - I banks, which are Urban Co-operative banks or State Co-operative banks, can participate in the exchange traded currency options market only as clients, subject to approval therefor from the respective regulatory Departments of the Reserve Bank.

Position limits

- i) The position limits for various classes of participants for the currency options shall be subject to the guidelines issued by the SEBI.
- ii) The AD Category - I banks shall operate within prudential limits, such as Net Open Position (NOP) and Aggregate Gap (AG) limits. The option position of the banks, on their own account, in the exchange traded currency options shall form part of their NOP and AG limits.

Risk Management measures

The trading of exchange traded currency options shall be subject to maintaining initial, extreme loss and calendar spread margins and the Clearing Corporations / Clearing Houses of the exchanges should ensure maintenance of such margins by the participants on the basis of the guidelines issued by the SEBI from time to time.

Surveillance and disclosures

The surveillance and disclosures of transactions, in the exchange traded currency options market, shall be carried out in accordance with the guidelines issued by the SEBI.

Authorisation to the Exchanges / the Clearing Corporations for dealing in Currency Options

Recognized stock exchanges and their respective Clearing Corporations / Clearing Houses shall not deal in or otherwise undertake the business relating to the exchange traded currency options unless they hold an authorisation issued by the Reserve Bank under section 10 (1) of the Foreign Exchange Management Act, 1999.

6. Commodity Hedging

Residents in India, engaged in import and export trade or as otherwise approved by the Reserve Bank from time to time, are permitted to hedge the price risk of permitted commodities in the international commodity exchanges/ markets. This facility must not be used in conjunction with any other derivative product. It may be noted that the role of Authorized Dealer banks here is primarily to provide facilities for remitting foreign currency amounts towards margin requirements from time to time, subject to verification of the underlying exposure. In lieu of making a direct remittance towards payment obligations arising out of commodity derivative transactions entered into by customers with overseas counterparties, AD Category I banks may issue guarantees/standby letters of credit to cover these specific payment obligations related to commodity derivatives, subject to the conditions/guidelines in Annex XV. It is clarified that the term Board, wherever used refers to Board of Directors or the equivalent forum in case of partnership or proprietary firms. The facility is divided into following categories:

I) Delegated Route

a. Hedging of price risk on actual Import/Export of commodities

Participants

Users: Companies in India listed on a recognized stock exchange engaged in import and export of commodities

Facilitators: AD Category I banks specifically authorized by the Reserve Bank in this regard.

Purpose: To hedge price risk of the imported/exported commodity

Products: Standard exchange traded futures and options (purchases only) in international commodity exchanges. If risk profile warrants –may use OTC contracts overseas.

Operational Guidelines

AD Category I banks satisfying certain minimum norms, and authorized by the Reserve Bank may grant permission to companies listed on a recognized stock exchange to hedge price risk on import/ export in respect of any commodity(except gold, silver, platinum) in the international commodity exchanges/ markets. The guidelines are given in Annex XI (A & B).

b. Hedging of anticipated imports of crude oil

Participants

Users: Domestic companies engaged in refining crude oil.

Facilitators: AD Category I banks specifically authorized by the Reserve Bank in this regard.

Purpose: To hedge the price risk on crude oil imports on the basis of past performance.

Products: Standard exchange traded futures and options (purchases only) in international commodity exchanges. If risk profile warrants – may use OTC contracts overseas.

Operational Guidelines:

a) Hedging to be permitted up to 50 per cent of the volume of actual imports during the previous year or 50 per cent of the average volume of imports during the previous three financial years, whichever is higher.

b) Contracts booked under this facility will have to be regularized by production of supporting import orders during the currency of the hedge. An undertaking may be obtained from the companies to this effect.

c) All other conditions and guidelines as per Annex XI should be complied with.

c. Hedging of price risk on domestic purchase and sales

(i) Select Metals

Participants

Users: Domestic producers/ users of aluminium, copper, lead, nickel and zinc listed on a recognized stock exchange.

Facilitators: AD Category I banks specifically authorized by the Reserve Bank in this regard

Purpose: To hedge the price risk on aluminium, copper, lead, nickel and zinc based on their underlying economic exposures

Products: Standard exchange traded futures and options (purchases only) in international commodity exchanges.

Operational Guidelines:

- a) Hedging may be permitted up to the average of previous three financial years' (April to March) actual purchases / sales or the previous year's actual purchases / sales turnover, whichever is higher, of the above commodities.
- b) AD Category I banks would require the user to submit a Board resolution certifying Board approved policies which define the overall framework within which derivatives activities should be conducted and the risks controlled.
- c) All other conditions and guidelines as per Annex XI (A & B) should be complied with.

(ii) ATF (Aviation Turbine Fuel)

Participants

Users: Actual domestic users of ATF.

Facilitators: AD Category I banks specifically authorized by the Reserve Bank in this regard.

Purpose: To hedge economic exposures in respect of ATF based on domestic purchases.

Products: Standard exchange traded futures and options (purchases only) in international commodity exchanges. If risk profile warrants – may use OTC contracts overseas.

Operational Guidelines:

a) AD Category I banks should ensure that permission for hedging ATF is granted only against firm orders.

b) AD Category I banks should retain necessary documentary evidence.

c) AD Category I banks would require the user to submit a Board resolution certifying Board approved policies which define the overall framework within which derivatives activities should be conducted and the risks controlled.

d) All other conditions and guidelines as per Annex XI (A & B) should be complied with.

(iii) Domestic purchases of crude oil and sales of petro-products

Participants

Users: Domestic crude oil refining companies.

Facilitators: AD Category I banks specifically authorized by the Reserve Bank in this regard.

Purpose: To hedge commodity price risk on domestic purchases of crude oil and domestic sales of petroleum products, which are linked to international prices.

Products: Standard exchange traded futures and options (purchases only) in international commodity exchanges. If risk profile warrants – may use OTC contracts overseas.

Operational Guidelines:

- a) The hedging will be allowed strictly on the basis of underlying contracts.
- b) AD Category I banks should retain necessary documentary evidence.
- c) All other conditions and guidelines as per Annex XI (A & B) should be complied with.

d. Hedging of price risk on Inventory

Participants

Users: Domestic oil marketing and refining companies.

Facilitators: AD Category I banks specifically authorized by the Reserve Bank in this regard.

Purpose: To hedge commodity price risk on Inventory.

Products: Over-the-counter (OTC) / exchange traded derivatives overseas with tenor restricted to a maximum of one-year forward.

Operational Guidelines:

- a) Hedge is allowed to the extent of 50 per cent of their inventory based on the volumes in the quarter proceeding the previous quarter.
- b) All other conditions and guidelines as per Annex XI (A & B) should be complied with.

II) Approval Route

Participants

Users: Residents in India, other than companies listed on recognized stock exchanges, engaged in import and export of commodities or customers who are exposed to systemic international price risk.

Facilitators: AD Category I banks

Purpose: To hedge price risk of the imported/exported commodity and systemic international price risk

Products: Standard exchange traded futures and options (purchases only) in international commodity exchanges. If risk profile warrants – may use OTC contracts overseas.

Operational Guidelines:

Applications of companies/ firms which are not covered by the delegated authority of AD Category I may be forwarded to the Reserve Bank for consideration through the International Banking Division of an AD Category I bank concerned along with the latter's specific recommendations. The details of the application are given in Annex XII.

III) Entities in Special Economic Zones (SEZ)

Participants

Users: Entities in Special Economic Zones (SEZ)

Facilitators: AD Category I banks

Purpose: To hedge price risk of the imported/exported commodity

Products: Standard exchange traded futures and options (purchases only) in international commodity exchanges. If risk profile warrants – may use OTC contracts overseas.

Operational Guidelines:

AD banks may allow entities in the Special Economic Zones (SEZ) to undertake hedging transactions in the overseas commodity exchanges/markets to hedge their commodity prices on export/import, subject to the condition that such contract is entered into on a stand-alone basis. (The term "standalone" means the unit in SEZ is completely isolated from financial contacts with its parent or subsidiary in

the mainland or within the SEZs as far as its import/export transactions are concerned.)

NOTE: The detailed guidelines in respect of Delegated Route and Approval Route are given in the Annex XI and XII respectively.

7. Freight hedging

Domestic oil refining companies and shipping companies exposed to freight risk, are permitted to hedge their freight risk by the AD Category I banks authorized by the Reserve Bank. Other companies exposed to freight risk can seek prior permission from the Reserve Bank through their AD Category I bank.

It may be noted that the role of Authorized Dealer banks here is primarily to provide facilities for remitting foreign currency amounts towards margin requirements from time to time, subject to verification of the underlying exposure. This facility must not be used in conjunction with any other derivative product. The facility is divided into following categories:

I) Delegated Route

Participant:

Users: Domestic oil-refining companies and shipping companies.

Facilitators: AD Category I banks, specifically authorized by the Reserve Bank i.e. those who have been delegated the authority to grant permission to listed companies to hedge commodity price risk in the international commodity exchanges / markets, subject to the conditions mentioned therein.

Purpose: To hedge freight risk.

Products: Plain vanilla Over the Counter (OTC) or exchange traded products in the international market / exchange.

Operational Guidelines:

- i) The maximum tenor permissible will be one year forward.
- ii) The exchanges on which the products are purchased must be a regulated entity in the host country.

- iii) AD Category I banks should ensure that the entities hedging their freight exposures have Board Resolutions which certify that the Board approved Risk Management policies, defines the overall framework within which derivative transactions should be undertaken and the risks contained therein.

AD Category I banks should approve this facility only after ensuring that the sanction of the company's Board has been obtained for the specific activity and also for dealing in overseas exchanges / markets. The Board approval must include explicitly the authority/ies permitted to undertake the transactions, the mark-to-market policy, the counterparties permitted for OTC derivatives, etc. and a list of transactions undertaken should be put up to the Board on a half-yearly basis.

- iv) The AD Category I bank must obtain a copy of a Board resolution that certifies that the corporate has a Risk Management Policy, incorporating the above details at the time of permitting the transaction itself and as and when changes made therein.
- v) The underlying exposure for the users is detailed under (a) and (b) below:

(a) For Domestic oil refining companies:

- (i) The freight hedging will be on the basis of underlying contracts i.e., import/export orders for crude oil/petroleum products.
- (ii) Additionally, domestic oil refining companies may hedge their freight risk on anticipated imports of crude oil on the basis of their past performance up to 50 per cent of the volume of actual imports of crude oil during the previous year or 50 per cent of the average volume of imports during the previous three financial years, whichever is higher.
- (iii) Contracts booked under the past performance facility will have to be regularized by production of underlying documents during the currency of the hedge. An undertaking may be obtained from the company to this effect.

(b) For shipping companies:

- (i) The hedging will be on the basis of owned / controlled ships of the shipping company which have no committed employment. The quantum of hedge will be determined by the number and capacity of these ships. The same may be certified by the statutory auditor and submitted to the AD Category I bank.
- (ii) Contracts booked will have to be regularized by production of underlying documents i.e. employment of the ship during the currency of the hedge. An undertaking may be obtained from the company to this effect.
- (iii) AD Category I banks may also ensure that the freight derivatives being entered into by the shipping companies are reflective of the underlying business of the shipping companies.

II) Approval Route

Participants

Users: Companies (other than domestic oil-refining companies and shipping companies) who are exposed to freight risk

Facilitators: AD Category I banks

Purpose: To hedge freight risk

Products: Plain vanilla Over the Counter (OTC) or exchange traded products in the international market / exchange.

Operational Guidelines

- a) The maximum tenor permissible will be one year forward.
- b) The exchanges on which the products are purchased must be a regulated entity in the host country.
- c) Applications of companies/ firms which are not covered by the delegated authority of AD Category I may be forwarded to the Reserve Bank for consideration through the International Banking Division of their AD Category I bank concerned along with the latter's specific recommendations.

SECTION II

Facilities for Persons Resident outside India

For persons resident outside India, only capital account transactions as enumerated hereunder, subject to verification of underlying exposure, are permitted to be hedged. Transactions arising out of trade in merchandise goods as well as services with residents or non residents are not permitted to be hedged.

Participants

Market-makers – In respect of FIIs, designated branches of AD Category I banks maintaining accounts of FIIs. In all other cases, AD Category I banks.

Users – Foreign Institutional Investors (FII), Investors having Foreign Direct Investments (FDI) and Non Resident Indians (NRIs).

The purpose, products and operational guidelines of each of the users is detailed below:

1. Facilities for Foreign Institutional Investors (FIIs)

Purpose

- i) To hedge currency risk on the market value of entire investment in equity and/or debt in India as on a particular date.
- ii) To hedge Initial Public Offers (IPO) related transient capital flows under the Application Supported by Blocked Amount (ASBA) mechanism.

Products

Forward foreign exchange contracts with rupee as one of the currencies and foreign currency-INR options. Foreign Currency – INR swaps for IPO related flows.

Operational Guidelines, Terms and Conditions

- a) The eligibility for cover may be determined on the basis of the declaration of the FII.
- b) AD Category I banks may undertake periodic reviews, at least at quarterly intervals, on the basis of market price movements, fresh inflows, amounts repatriated and other relevant parameters to ensure that the forward cover outstanding is supported by underlying exposures.
- c) If a hedge becomes naked in part or in full owing to contraction of the market value of the portfolio, for reasons other than sale of securities,

the hedge may be allowed to continue till the original maturity, if so desired.

- d) The contracts, once cancelled cannot be rebooked except to the extent of 10 per cent of the market value of the portfolio as at the beginning of the financial year. The forward contracts may, however, be rolled over on or before maturity.
- e) The cost of hedge should be met out of repatriable funds and /or inward remittance through normal banking channel.
- f) All outward remittances incidental to the hedge are net of applicable taxes.
- g) For IPO related transient capital flows
 - i. FIIs can undertake foreign currency- rupee swaps only for hedging the flows relating to the IPO under the ASBA mechanism.
 - ii. The amount of the swap should not exceed the amount proposed to be invested in the IPO.
 - iii. The tenor of the swap should not exceed 30 days.
 - iv. The contracts, once cancelled, cannot be rebooked. Rollovers under this scheme will also not be permitted.

2. Facilities for Non-resident Indians (NRIs)

Purpose

- a) To hedge the exchange rate risk on the market value of investment made under the portfolio scheme in accordance with provisions of FERA, 1973 or under notifications issued there under or in accordance with provisions of FEMA, 1999.
- b) To hedge the exchange rate risk on the amount of dividend due on shares held in Indian companies.
- c) To hedge the exchange rate risk on the amounts held in FCNR (B) deposits.
- d) To hedge the exchange rate risk on balances held in NRE account.

Products

- a) Forward foreign exchange contracts with rupee as one of the currencies, and foreign currency-INR options.

- b) Additionally, for balances in FCNR (B) accounts – Cross currency (not involving the rupee) forward contracts to convert the balances in one foreign currency to other foreign currencies in which FCNR (B) deposits are permitted to be maintained.

3. Facilities for Hedging Foreign Direct Investment in India

Purpose

- i) To hedge exchange rate risk on the market value of investments made in India since January 1, 1993, subject to verification of the exposure in India
- ii) To hedge exchange rate risk on dividend receivable on the investments in Indian companies
- iii) To hedge exchange rate risk on proposed investment in India

Products

Forward foreign exchange contracts with rupee as one of the currencies and foreign currency-INR options.

Operational Guidelines, Terms and Conditions

- a) In respect of contracts to hedge exchange rate risk on the market value of investments made in India, contracts once cancelled are not eligible to be rebooked. The contracts may, however, be rolled over.
- b) In respect of proposed foreign direct investments, following conditions would apply:
 - (i) Contracts to hedge exchange rate risk arising out of proposed investment in Indian companies may be allowed to be booked only after ensuring that the overseas entities have completed all the necessary formalities and obtained necessary approvals (wherever applicable) for the investment.
 - (ii) The tenor of the contracts should not exceed six months at a time beyond which permission of the Reserve Bank would be required to continue with the contract.
 - (iii) These contracts, if cancelled, shall not be eligible to be rebooked for the same inflows.
 - (iv) Exchange gains, if any, on cancellation shall not be passed on to the overseas investor.

Operational Guidelines, Terms and Conditions The operational guidelines as outlined for FIIs would be applicable, with the exception of the provision relating to rebooking of cancelled contracts. All foreign exchange derivative contracts permissible for a resident outside India other than a FII, once cancelled, are not eligible to be rebooked.

SECTION III

Facilities for Authorised Dealers Category-I

1. Management of Banks' Assets-Liabilities

Users – AD Category I banks

Purpose - Hedging of interest rate and currency risks of foreign exchange asset-liability portfolio

Products - Interest Rate Swap, Interest Rate Cap/Collar, Currency Swap, Forward Rate Agreement. AD banks may also purchase call or put options to hedge their cross currency proprietary trading positions.

Operational Guidelines, Terms and Conditions

The use of these instruments is subject to the following conditions:

- a) An appropriate policy in this regard is approved by the Top Management.
- b) The value and maturity of the hedge should not exceed those of the underlying.
- c) No 'stand alone' transactions can be initiated. If a hedge becomes naked, in part or full, owing to the contraction of the value of portfolio, it may be allowed to continue till the original maturity and should be marked to market at regular intervals.
- d) The net cash flows arising out of these transactions are booked as income/ expenditure and reckoned toward foreign exchange position, wherever applicable.

2. Hedging of Gold Prices

Users –

- i. Banks authorised by the Reserve Bank to operate the Gold Deposit Scheme
- ii. Banks, which are allowed to enter into forward gold contracts in India in terms of the guidelines issued by the Department of Banking Operations

and Development (including the positions arising out of inter-bank gold deals)

Purpose – To hedge price risk of gold

Products - Exchange-traded and over-the-counter hedging products available overseas.

Operational Guidelines, Terms and Conditions

- a) While using products involving options, it may be ensured that there is no net receipt of premium, either direct or implied.
- b) Authorised banks are permitted to enter into forward contracts with their constituents (exporters of gold products, jewellery manufacturers, trading houses, etc.) in respect of the underlying sale, purchase and loan transactions in gold with them, subject to the conditions specified by the Reserve Bank in this regard. The tenor of such contracts should not exceed six months.

3. Hedging of Capital

Users – Foreign banks operating in India

Product – Forward foreign exchange contracts

Operational Guidelines, Terms and Conditions

- a) Tier I capital -
 - i) The capital funds should be available in India to meet local regulatory and CRAR requirements and, hence, these should not be parked in nostro accounts. Foreign currency funds accruing out of hedging should not be parked in Nostro accounts but should remain swapped with banks in India at all times.
 - ii) The forward contracts should be for tenors of one or more years and may be rolled over on maturity. Rebooking of cancelled hedges will require prior approval of the Reserve Bank.

b) Tier II capital -

- i) Foreign banks are permitted to hedge their Tier II capital in the form of Head Office borrowing as subordinated debt, by keeping it swapped into rupees at all times in terms of DBOD circular No.IBS.BC.65 /23.10.015/2001-02 dated February 14, 2002.
- ii) Banks are not permitted to enter into foreign currency-INR swap transactions involving conversion of fixed rate rupee liabilities in respect of Innovative Tier I/Tier II bonds into floating rate foreign currency liabilities.

4. Participation in the currency futures market in India

Please refer to Part-A Section I, paragraph 4. In continuation of the same:

- a) AD Category I Banks may be guided by the DBOD instructions vide DBOD.No.FSD.BC. 29 /24.01.001/2008-09 dated August 6, 2008.
- b) AD Category I Banks are permitted to become trading and clearing members of the currency futures market of recognised stock exchanges, on their own account and on behalf of their clients, subject to fulfilling the following minimum prudential requirements:
 - i) Minimum net worth of Rs. 500 crores.
 - ii) Minimum CRAR of 10 per cent.
 - iii) Net NPA should not exceed 3 per cent.
 - iv) Net profit for last 3 years.

The AD Category - I banks which fulfill the prudential requirements should lay down detailed guidelines with the approval of their Boards for trading and clearing of currency futures contracts and management of risks.

(c). AD Category - I banks which do not meet the above minimum prudential requirements and AD Category - I banks which are Urban Co-operative banks or State Co-operative banks can participate in the currency futures market only as clients, subject to approval and directions from the respective regulatory Departments of the Reserve Bank.

(d) The AD Category - I banks, shall operate within prudential limits, such as Net Open Position (NOP) and Aggregate Gap (AG) limits. The exposure of the banks, on their own account, in the currency futures market shall form part of their NOP and AG limits.

5. Participation in the exchange traded currency options market in India

Please refer to Part-A Section I, paragraph 5. In continuation of the same:

a) AD Category - I banks are permitted to become trading and clearing members of the exchange traded currency options market of the recognized stock exchanges, on their own account and on behalf of their clients, subject to fulfilling the following minimum prudential requirements:

- i. Minimum net worth of Rs. 500 crores.
- ii. Minimum CRAR of 10 per cent.
- iii. Net NPA should not exceed 3 per cent.
- iv. Made net profit for last 3 years.

The AD Category - I banks, which fulfil the prudential requirements, should lay down detailed guidelines with the approval of their Boards for trading and clearing of the exchange traded currency options contracts and management of risks.

b) AD Category - I banks, which do not meet the above minimum prudential requirements and AD Category - I banks, which are Urban Co-operative banks or State Co-operative banks, can participate in the exchange traded currency options market only as clients, subject to approval therefor from the respective regulatory Departments of the Reserve Bank.

c) The AD Category - I banks shall operate within prudential limits, such as Net Open Position (NOP) and Aggregate Gap (AG) limits. The option position of the banks, on their own account, in the exchange traded currency options shall form part of their NOP and AG limits.

PART B

ACCOUNTS OF NON-RESIDENT BANKS

1. General

(i) Credit to the account of a non-resident bank is a permitted method of payment to non-residents and is, therefore, subject to the regulations applicable to transfers in foreign currency.

(ii) Debit to the account of a non-resident bank is in effect an inward remittance in foreign currency.

2. Rupee Accounts of Non-Resident Banks

AD Category I banks may open/close Rupee accounts (non-interest bearing) in the names of their overseas branches or correspondents without prior reference to the Reserve Bank. Opening of Rupee accounts in the names of branches of Pakistani banks operating outside Pakistan requires specific approval of the Reserve Bank.

3. Funding of Accounts of Non-resident Banks

(i) AD Category I banks may freely purchase foreign currency from their overseas correspondents/branches at on-going market rates to lay down funds in their accounts for meeting their bonafide needs in India.

(ii) Transactions in the accounts should be closely monitored to ensure that overseas banks do not take a speculative view on the Rupee. Any such instances should be notified to the Reserve Bank.

NOTE: Forward purchase or sale of foreign currencies against Rupees for funding is prohibited. Offer of two-way quotes in Rupees to non-resident banks is also prohibited.

4. Transfers from other Accounts

Transfer of funds between the accounts of the same bank or different banks is freely permitted.

5. Conversion of Rupees into Foreign Currencies

Balances held in Rupee accounts of non-resident banks may be freely converted into foreign currency. All such transactions should be recorded in Form A2 and the corresponding debit to the account should be in form A3 under the relevant Returns.

6. Responsibilities of Paying and Receiving Banks

In the case of credit to accounts the paying banker should ensure that all regulatory requirements are met and are correctly furnished in form A1/A2 as the case may be.

7. Refund of Rupee Remittances

Requests for cancellation or refund of inward remittances may be complied with without reference to Reserve Bank after satisfying themselves that the refunds are not being made in cover of transactions of compensatory nature.

8. Overdrafts / Loans to Overseas Branches/ Correspondents

(i) AD Category I banks may permit their overseas branches/ correspondents temporary overdrafts not exceeding Rs.500 lakhs in aggregate, for meeting normal business requirements. This limit applies to the amount outstanding against all overseas branches and correspondents in the books of all the branches of the authorised AD Category I bank in India. This facility should not be used to postpone funding of accounts. If overdrafts in excess of the above limit are not adjusted within five days a report should be submitted to the Reserve Bank of India, Foreign Exchange Department, Forex Markets Division, Central Office, Amar Building, 5th Floor, Mumbai 400001 within 15 days from the close of the month, stating the reasons thereof. Such a report is not necessary if arrangements exist for value dating.

(ii) AD Category I bank wishing to extend any other credit facility in excess of (i) above to overseas banks should seek prior approval from the Chief General Manager, Reserve Bank of India, Foreign Exchange Department, Forex Markets Division, Central Office, Amar Building, 5th Floor, Mumbai, 400001.

9. Rupee Accounts of Exchange Houses

Opening of Rupee accounts in the names of Exchange Houses for facilitating private remittances into India requires approval of the Reserve Bank. Remittances through Exchange Houses for financing trade transactions are permitted upto Rs.2,00,000 per transaction.

PART C

INTER-BANK FOREIGN EXCHANGE DEALINGS

1. General

The Board of Directors of AD Category I banks should frame an appropriate policy and fix suitable limits for various Treasury functions.

2. Position and Gaps

The net overnight open exchange position ([Annex-I](#)) and the aggregate gap limits are required to be approved by the Reserve Bank.

3. Inter-bank Transactions

Subject to compliance with the provisions of paragraphs 1 and 2, AD Category I banks may freely undertake foreign exchange transactions as under:

a) With AD Category I banks in India:

- (i) Buying/Selling/Swapping foreign currency against Rupees or another foreign currency.
- (ii) Placing/Accepting deposits and Borrowing/Lending in foreign currency.

b). With banks overseas and Off-shore Banking Units in Special Economic Zones

- (i) Buying/Selling/Swapping foreign currency against another foreign currency to cover client transactions or for adjustment of own position,
- (ii) Initiating trading positions in the overseas markets.

NOTE :

A. Funding of accounts of Non-resident banks - please refer to paragraph 3 of Part B.

B. Form A2 need not be completed for sales in the inter-bank market, but all such transactions shall be reported to Reserve Bank in R Returns.

4. Foreign Currency Accounts/ Investments in Overseas Markets

(i) Inflows into foreign currency accounts arise primarily from client-related transactions, swap deals, deposits, borrowings, etc. AD Category I banks may maintain balances in foreign currencies up to the levels approved by the Board. They are free to manage the surplus in these accounts through overnight placement and investments with their overseas branches/correspondents subject to adherence to the gap limits approved by the Reserve Bank.

(ii) AD Category I banks are free to undertake investments in overseas markets up to the limits approved by their Board. Such investments may be made in overseas money market instruments and/or debt instruments issued by a foreign state with a residual maturity of less than one year and rated at least as AA (-) by Standard & Poor / FITCH IBCA or Aa3 by Moody's. For the purpose of investments in debt instruments other than the money market instruments of any foreign state, bank's Board may lay down country ratings and country - wise limits separately wherever necessary.

NOTE: For the purpose of this clause, 'money market instrument' would include any debt instrument whose life to maturity does not exceed one year as on the date of purchase.

(iii) AD Category I banks may also invest the un-deployed FCNR (B) funds in overseas markets in long-term fixed income securities subject to the condition that the maturity of the securities invested in do not exceed the maturity of the underlying FCNR (B) deposits.

(iv) Foreign currency funds representing surpluses in the nostro accounts may be utilised for:

a) making loans to resident constituents for meeting their foreign exchange requirements or for the Rupee working capital/capital expenditure needs subject to the prudential/interest-rate norms, credit discipline and credit monitoring guidelines in force.

b) extending credit facilities to Indian wholly owned subsidiaries/ joint ventures abroad in which at least 51 per cent equity is held by a resident company, subject to the guidelines issued by Reserve Bank (Department of Banking Operations & Development).

(v) AD Category I banks may write-off/transfer to unclaimed balances account, un-reconciled debit/credit entries as per instructions issued by Department of Banking Operations and Development, from time to time.

5. Loans/Overdrafts

a) All categories of overseas foreign currency borrowings of AD Category I banks, (except for borrowings at (c) below), including existing External Commercial Borrowings and loans/overdrafts from their Head Office, overseas branches and correspondents and overdrafts in nostro accounts (not adjusted within five days), shall not exceed 50 per cent of their unimpaired Tier I capital or USD 10 million (or its equivalent), whichever is higher. The aforesaid limit applies to the aggregate amount availed of by all the offices and branches in India from all their branches/correspondents abroad and also includes overseas borrowings in gold for funding domestic gold loans (cf. DBOD circular No. IBD.BC. 33/23.67.001/2005-06 dated September 5, 2005). If draws in excess of the above limit are not adjusted within five days, a report, as per the format in Annex-VIII, should be submitted to the Chief General Manager, Reserve Bank of India, Foreign Exchange Department, Forex Markets Division, Central Office, Mumbai 400001, within 15 days from the close of the month in which the limit was exceeded. Such a report is not necessary if arrangements exist for value dating.

b) The funds so raised may be used for purposes other than lending in foreign currency to constituents in India and repaid without reference to the Reserve Bank. As an exception to this rule, AD Category I banks are permitted to use borrowed funds as also foreign currency funds received through swaps for granting foreign currency loans for export credit in terms of IECD Circular No 12/04.02.02/2002-03 dated January 31,2003. Any fresh borrowing above this limit shall be made only with the prior approval of the Reserve Bank. Applications for fresh ECBs should be made as per the current ECB Policy.

c) The following borrowings would continue to be outside the limit of 50 per cent of unimpaired Tier I capital or USD 10 million (or its equivalent), whichever is higher:

i). Overseas borrowings by AD Category I banks for the purpose of financing export credit subject to the conditions prescribed in IECD Master Circular dated July 1, 2003 on Export Credit in foreign currency.

ii). Subordinated debt placed by head offices of foreign banks with their branches in India as Tier II capital.

iii) Capital funds raised/augmented by the issue of Innovative Perpetual Debt Instruments and Debt Capital Instruments, in foreign currency, in terms of Circulars DBOD. No. BP.BC.57/21.01.002/2005-06 dated January 25, 2006 and DBOD. No. BP.BC.23/21.01.002/2006-07 dated July 21, 2006

iv) any other overseas borrowing with the specific approval of the Reserve Bank.

d) Interest on loans/overdrafts may be remitted (net of taxes) without the prior approval of Reserve Bank.

PART D

REPORTS TO THE RESERVE BANK

i) The Head/Principal Office of each AD Category-I banks should submit daily statements of Foreign Exchange Turnover in Form FTD and Gaps, Position and Cash Balances in Form GPB through the Online Returns Filing System (ORFS) as per format given in Annex-II.

ii) The Head/Principal Office of each authorised dealer category-I should forward a statement of Nostro / Vostro Account balances on a monthly basis in the format given in Annex-III to the Director, Division of International Finance, Department of Economic Analysis and Policy, Reserve Bank of India, Central Office Building, 8th Floor, Fort, Mumbai-400 001. The data may also be transmitted by fax or e-mail at the numbers/addresses given in the format.

iii) AD Category-I banks should consolidate the data on cross currency derivative transactions undertaken by residents and submit half-yearly reports (June and December) to the Chief General Manager, Reserve Bank of India, Foreign Exchange Department, Forex Markets Division, Central Office, Amar Building, 5th Floor, Mumbai-400 001 as per the format indicated in the Annex-IV.

iv) AD Category-I banks should forward details of exposures in foreign exchange as at the end of every quarter as per the format indicated in Annex-V to the Chief General Manger, Reserve Bank of India, Foreign Exchange Department, Forex Markets Division, Central Office, Amar Building, 5th Floor, Mumbai, 400 001. Please note that details of exposures of all corporate clients who meet the prescribed criteria have to be included in the report. The AD banks should submit this report based on bank's books and not based on corporate returns.

v) Authorised Dealers Category I should forward details of option transactions (FCY-INR) undertaken on a weekly basis as per the format indicated in Annex VIII.

v) AD Category-I banks have to report their total outstanding foreign currency borrowings under all categories as on the last Friday of every month to The Chief General Manager, Reserve Bank of India, Foreign Exchange Department, Forex Markets Division, Central Office, Amar Building, 5th Floor, Mumbai-400 001, as per

the format in Annex-IX. The report should be received by the 10th of the following month.

vi) AD Category-I banks are required to submit a monthly report (as on the last Friday of every month) on the limits granted and utilized by their constituents under the facility of booking forward contracts on past performance basis, as per the format in Annex-X. The report may be forwarded to the Chief General Manager, Reserve Bank of India, Foreign Exchange Department, Forex Markets Division, Central Office, Amar Building, 5th Floor, Mumbai-400 001 and by e-mail to fedcofmd@rbi.org.in so as to reach the Department by the 10th of the following month.

vii) The Head/Principal Office of each AD Category-I banks should submit a statement in form BAL giving details of their holdings of all foreign currencies on fortnightly basis through Online Returns Filing System (ORFS) within seven calendar days from the close of the reporting period to which it relates.

viii) A monthly statement should be furnished to the Chief General Manager, Reserve Bank of India, Foreign Exchange Department, Forex Markets Division, Central Office, Amar Building, 5th Floor Mumbai-400 001, before the 10th of the succeeding month, in respect of cover taken by FIIs, indicating the name of the FII / fund, the eligible amount of cover, the actual cover taken, etc. as per the format in Annex XIII.

ix) The Head/Principal Office of each AD Category-I banks should furnish an up-to-date list (in triplicate) of all its offices/branches, which are maintaining Rupee accounts of non-resident banks as at the end of December every year giving their code numbers allotted by Reserve Bank. The list should be submitted before 15th January of the following year to the Central Office of the Reserve Bank, Foreign Exchange Department, Trade Division, Amar Building 5th Floor, Mumbai 400 001. The offices/branches should be classified according to area of jurisdiction of Reserve Bank Offices within which they are situated.

x) AD Category – I banks are required to submit a quarterly report on the forward contracts booked & cancelled by SMEs and Resident Individuals, to the Chief

General Manager, Reserve Bank of India, Foreign Exchange Department, Central Office, Forex Markets Division, Amar Building, 5th Floor, Mumbai - 400 001 within the first week of the following month, as per format given in Annex XIV.

[See Part C ,Paragraph 2]

Guidelines for Foreign Exchange Exposure Limits of Authorised Dealers Category-I

1. Coverage

For banks incorporated in India, the exposure limits fixed by the Board should be the aggregate for all branches including their overseas branches and Off-shore Banking Units. For foreign banks, the limits will cover only their branches in India.

2. Capital

Capital refers to Tier I capital as per instructions issued by Reserve Bank of India (Department of Banking Operations and Development).

3. Calculation of the Net Open Position in a Single Currency

The open position must first be measured separately for each foreign currency. The open position in a currency is the sum of (a) the net spot position, (b) the net forward position and (c) the net options position.

a) Net Spot Position

The net spot position is the difference between foreign currency assets and the liabilities in the balance sheet. This should include all accrued income/expenses.

b) Net Forward Position

This represents the net of all amounts to be received less all amounts to be paid in the future as a result of foreign exchange transactions which have been concluded. These transactions, which are recorded as off-balance sheet items in the bank's books, would include:

(i) spot transactions which are not yet settled;

(ii) forward transactions;

(iii) guarantees and similar commitments denominated in foreign currencies which are certain to be called;

(iv) net of amounts to be received/paid in respect of currency futures, and the principal on currency futures/swaps.

c) Net Options Position

The options position is the "delta-equivalent" spot currency position as reflected in the authorised dealer's options risk management system, and includes any delta hedges in place which have not already been included under 3(a) or 3(b) (i) and (ii) above.

4. Calculation of the Overall Net Open Position

This involves measurement of risks inherent in a bank's mix of long and short position in different currencies. It has been decided to adopt the "shorthand method" which is accepted internationally for arriving at the overall net open position. Banks may, therefore, calculate the overall net open position as follows:

- (i) Calculate the net open position in each currency (paragraph 3 above).
- (ii) Calculate the net open position in gold.
- (iii) Convert the net position in various currencies and gold into Rupees in terms of existing RBI / FEDAI Guidelines. All derivative transactions including forward exchange contracts should be reported on the basis of Present Value (PV) adjustment.
- (iv) Arrive at the sum of all the net short positions.
- (v) Arrive at the sum of all the net long positions.

Overall net foreign exchange position is the higher of (iv) or (v). The overall net foreign exchange position arrived at as above must be kept within the limit approved by Reserve Bank.

Note : Authorised Dealer banks should report all derivative transactions including forward exchange contracts on the basis of PV adjustment for the purpose of

calculation of the net open position. The following yield curves may be used to arrive at the discount factors:

i) In respect of Forward Exchange Contracts with tenor upto 12 months:

Applicable LIBOR rate.

ii) In respect of Forward Exchange Contracts with tenor beyond 12 months and upto 13 months:

LIBOR rates for 11 months & 12 months may be considered; the difference between these 2 months can be added to the LIBOR rate for 12 months to arrive at the 13 months LIBOR rate.

iii) In respect of Forward Exchange Contracts with tenor beyond 13 months and all other derivative contracts:

The discount factors for arriving at the net present value may be computed on the basis of the current swap curve as appearing on page ICAP 1 and SWAQ of the REUTERS screen on a consistent basis(i.e. adopting a specified time at which the same is to be determined). The methodology to be adopted/ selection of the rate/cut-off time etc. are to be a part of respective bank's laid down policy guidelines by the Management.

5. Capital Requirement

As prescribed by Reserve Bank from time to time.

[see Part D, paragraph (i)]

Reporting of Forex Turnover Data - FTD and GPB

The guidelines and formats for preparation of the FTD and GPB reports are given below. AD Category-I banks may ensure that the reports are properly compiled on the basis of these guidelines: The data for a particular date has to reach us by the close of business of the following working day.

FTD

1. SPOT - Cash and tom transactions are to be included under 'Spot' transactions.
2. SWAP - Only foreign exchange swaps between authorised dealers category-I should be reported under swap transactions. Long term swaps (both cross currency and foreign currency-Rupee swaps) should not be included in this report. Swap transactions should be reported only once and should not be included under either the 'spot' or 'forward' transactions. Buy/Sell swaps should be included in the 'Purchase' side under 'Swaps' while Sell/buy swaps should figure on the 'Sale' side.
3. Cancellation of forwards - The amount required to be reported under cancellation of forward contracts against purchases from merchants should be the aggregate of cancelled forward merchant sale contracts by authorised dealers category-I (adding to the supply in the market). On the sale side of cancelled forward contracts, aggregate of the cancelled forward purchase contracts should be indicated (adding to the demand in the market).
- 4 'FCY/FCY' transactions - Both the legs of the transactions should be reported in the respective columns. For example in a EUR/USD purchase contract, the EUR amount should be included in the purchase side while the USD amount should be included in the sale side.

5. Transactions with RBI should be included in inter-bank transactions. Transactions with financial institutions other than banks authorised to deal in foreign exchange should be included under merchant transactions.

GPB

1. Foreign Currency Balances - Cash balances and investments in all foreign currencies should be converted into US dollars and reported under this head.

2. Net open exchange position- This should indicate the overall overnight net open exchange position of the authorised dealer category-I in Rs. Crore. The net overnight open position should be calculated on the basis of the instructions given in Annex I.

3. Of the above FCY/INR- The amount to be reported is the position against the Rupee- i.e. the net overnight open exchange position less cross currency position, if any.

Formats of FTD and GPB Statements

FTD

Statement showing daily turnover of foreign exchange dated.....

		Merchant			Inter bank		
		Spot, Cash, Ready, T.T. etc.	Forwards	Cancellation of Forwards	Spot	Swap	Forwards
FCY/INR	Purchase from						
	Sales to						
FCY/FCY	Purchase from						
	Sales to						

GPB

Statement showing gaps, position and cash balances as on.....

Foreign Currency Balances (Cash Balance + All Investments)	:	IN USD MILLION
Net Open Exchange Position (Rs.)	:	O/B (+)/O/S (-) IN INR CRORE
Of the above FCY/INR	:	IN INR CRORE
AGL maintained (In USD mio)	:	VaR maintained(In INR):

FOREIGN CURRENCY MATURITY MISMATCH (IN USD MILLION)

I month	II months	III months	IV months	V months	VI months	>VI months

[see Part D ,paragraph (ii)]

Statement of Nostro/Vostro Balances for the month of

Name & address of the Authorised Dealer Category-I bank.....

Sr. No.	Currency	Net balance in Nostro Account	Net balance in Vostro Account.
1	USD		
2	EUR		
3	JPY		
4	GBP		
5	INR		
6	Other currencies (in US \$ million)		

Note: In case the variation in each item above (given at 1 to 5) exceeds 10% in a month, the reason may be given briefly, as a footnote.

This statement should be addressed to The Director, Division of International Finance, Department of Economic Analysis and Policy, Reserve Bank of India, Central Office Building, 8th Floor, Mumbai- 400 001. Phone: 022- 2266 3791. Fax- 022 2262 2993, 2266 0792. e.mail: deapdif@rbi.org.in/ rajmal@rbi.org.in

Annex IV

[see Part D , paragraph (iii)]

Cross- currency derivative transactions - statement for the half-year ended....

Product	No. of transactions	Notional principal amount in USD
Interest rate swaps		
Currency swaps		
Coupon swaps		
Foreign currency options		
Interest rate caps or collars (Purchases)		
Forward rate agreements		
Any other product as permitted by Reserve Bank from time to time		

Annex V

[see Part D , paragraph (iv)]

Information relating to exposures in foreign currency as on

Information relating to exposures in Foreign Currency as on..... Name of the bank.....										Information relating to exposures in Foreign Currency as on.....Name of the bank.....						C. INR/FCY currency swaps based on Rupee Liability (above USD 25 million equivalent be reported)
A. Exposures and Hedges based on Underlying Transactions (USD Million)										B. Exposures and Hedges based on Past Performance (USD Million)						
Sr. No.	Name of Corporate	Trade Related				Non - Trade				Exports			Imports			
		Exposures	Amount hedged	Exposures	Amount hedged	Exposures	Amount hedged	Exposures	Amount hedged	Exposures	Cum. Amount hedged	Amount O/S	Eligible limits	Cum. Amount hedged	Amount O/S	
1																
2																
3																
4																
5																
Notes:																
a. Export Bills purchased /discounted/negotiated not to be included																
b. L/C s established/bills under LCs to be retired/ outstanding import collection bills to be included																
c. Data to be submitted based on banks' books and not based on corporate's return																
d. Short term Finance to include Trade Credit (Buyer's credit / supplier's credit) approved by the Bank /PCFC																
e. Non trade exposures to include ECBs , FCCB cases handled by the bank/ FCNR (B) loans etc.																
f. Corporate wise data where the exposures or the hedges undertaken are above USD 25 million or equivalent shall be reported.																
g. All hedges with rupee as one of the legs shall be reported																
h. In the case of option structures, the trade with highest notional amount shall be reported.																
i. Corporate wise data where the eligible limits computed as per RBI guidelines are above USD 25 Million or equivalent shall be reported, in Part B																
j. Under amounts hedged in Part B report the cumulative total of the hedges booked during the financial year																
k. The amount of contracts booked during the previous year and outstanding shall not be included under the amount hedged and amount O/S in Part B.																
l. Only the cases where the bank has sanctioned some PP limits for the corporate shall be reported in Part B																
Please send the report in Excel format by email to ' ecdcfmd@rbi.org.in ' copy to ' fedcofmd@rbi.org.in '																

Note :

Authorised dealers Category-I should consolidate the above data for the bank as a whole and forward a report in EXCEL format giving corporate-wise balances to the Chief General Manager, Foreign Exchange Department, Reserve Bank of India, Central Office, Forex Markets Division, Mumbai- 400 001.

[See Part A Section 1 paragraph 2(g)(ii)]

Format of Declaration of amounts booked/cancelled under Past Performance facility

[On letterhead of the Company]

Date :

To,
(Name and address of the Bank)

Dear Sir,

Sub : Declaration of amounts booked/cancelled under Past Performance facility

We refer to the facility of booking of Forward or Option Contracts involving Foreign Exchange, based on the past performance facility with Authorised Dealer Category I Banks (AD Category I Banks), more specifically in relation to the undertaking submitted by us to you, dated [] in this regard ("Undertaking").

In accordance with the said Undertaking, we hereby furnish a declaration regarding the amounts of the transactions booked by us with all AD Category I banks.

We are availing the past performance limit with the following AD Category I banks :

.....

Please find below the information regarding amounts booked / cancelled with all AD Category I Banks under the said past performance facility as permitted under the FEMA Regulations :

(Amount in US Dollar) Eligible limit under past performance	Aggregate amount of contracts booked with all the ADs from April till date	Amount of contracts cancelled with all ADs from April till date	Amount of contracts o/s with all ADs as on date	Amount utilised (by delivery of documents) as on date	Available limits under past performance as on date

Thanking you,
Yours faithfully,
For XXXXXX

Authorised Signatories

Annex VII

[See Part A, Section I, paragraph 2(g)(iv)]

Statement giving details of import / export turnover, overdues, etc.

Name of the constituent: _____

(Amount in USD million)

Financial Year (April-March)	Turnover		Percentage of overdue bills to turnover		Existing limit for booking of forward cover based on past performance	
	Export	Import	Export	Import	Export	Import
2006-07						
2007-08						
2008-09						

[see Part D , paragraph (v)]

FCY/Rupee Option transactions

[For the week ended _____]

I. Option Transaction Report

Sr . no	Trade date	Client/ C-party Name	Notional	Option Call/ Put	Strike	Maturity	Premium	Purpose*

*Mention balance sheet, trading or client related.

II. Option Positions Report

Currency Pair	Notional Outstanding		Net Portfolio Delta	Net Portfolio Gamma	Net Portfolio Vega
	calls	puts			
USD-INR	USD	USD	USD		
EUR-INR	EUR	EUR	EUR		
JPY-INR	JPY	JPY	JPY		

(Similarly for other currency pairs)

Total Net Open Options Position (INR):

The total net open options position can be arrived using the methodology prescribed in A. P. (DIR Series) Circular No. 92 dated April 4, 2003.

III. Change in Portfolio Delta Report

Change in USD-INR delta for a 0.25% change in spot (\$-appreciation) in INR terms =

Change in USD-INR delta for a 0.25% change in spot (\$-depreciation) in INR terms =

Similarly, Change in delta for a 0.25% change in spot (FCY appreciation & depreciation separately) in INR terms for other currency pairs, such as EUR-INR, JPY-INR etc.

IV. Strike Concentration Report

	Maturity Buckets					
<i>Strike Price</i>	<i>1 week</i>	<i>2 weeks</i>	<i>1 month</i>	<i>2 months</i>	<i>3 months</i>	<i>> 3 months</i>

This report should be prepared for a range of 150 paise around current spot level. Cumulative positions to be given.

All amounts in USD million. When the bank owns an option, the amount should be shown as positive. When the bank has sold an option, the amount should be shown as negative. **All reports may be sent via e-mail by market-makers to fedcofmd@rbi.org.in. Reports may be prepared as of every Friday and sent by the following Monday.**

Annex IX

[See Part C, paragraph 5 (a)]

Overseas foreign currency borrowings –Report as on

Amount (in equivalent USD* Million)

Bank (SWIFT code)	Unimpaired Tier-I capital as at the close of previous quarter.	Borrowings in terms of PartC para 5 (a) of Master Circular on Risk Mgmt. and Inter- Bank Dealings dated July 1, 2009	Borrowings in excess of the above limit for replenishment. of Rupee resources @	External Commercial Borrowings	Borrowings under following scheme as per IECD Master Circular on Export Credit in Foreign Currency dated July 1, 2003 & Regulation 4.2(iv) of Notification No. FEMA 3/2000-RB dated May 3, 2000	
					(a) Lines of Credit for extending Pre- Shipment Credit in Foreign Currency (PCFC)	(b) Bankers Acceptance Facility (BAF) / Loan from overseas for extending Redisctg. of Export Bills Abroad Scheme (EBR)
	A	1	2	3	4a	4b
Subord. debt in foreign currency for inclusion in Tier-II capital	Any other category (please specify here in this cell)	Total of (1+2+3+6)	Total of (1+2+3+4+6)	Borrowings under categories (1+2+3+6) expressed as a percentage of Tier-I capital at A	Borrowings under categories (1+2+3+4+6) expressed as a percentage of Tier-I capital at A	
5	6	7	8	9	10	

Note:*1. RBI reference rate and New York closing rates on the date of report may be used for conversion purpose.

@ 2. Facility since withdrawn vide para 4 of AP(DIR Series) Circular No. 81 dated March 24, 2004.

Annex X

[See Part A, Section I, paragraph 1 (ii) (g)]

Booking of forward contracts on past performance basis-

Report as on

Name of the Bank-

(in USD million)

Total Limits sanctioned during the month (1)	Cumulative sanctioned limits (2)	Amount of contracts booked (3)			Amount utilized (by delivery of documents) (4)			Amount of forward contracts cancelled (5)		
		Forward Contract	Fcy/ INR option	Cross currency option	Forward Contract	Fcy / INR option	Cross currency option	Forward Contract	Fcy / INR option	Cross currency option

Number of customers availing past performance facility as on date of report: _____

Notes:

1. The position of the bank as a whole shall be indicated.
2. Amounts in columns 2, 3, 4 and 5 should be cumulative positions over the year. Outstanding amounts at the end of each financial year shall be carried over and taken into account in the next year's limit and therefore shall be included while computing the eligible limits for the next year.

[See Part A, Section I, paragraph 5 A (i)]

A. Hedging of Commodity Price Risk in the International Commodity Exchanges/ Markets

1. AD category I banks, authorized by the Reserve Bank, can grant permission to companies listed on a recognized stock exchange to hedge the price risk in respect of any commodity (except gold, platinum and silver) in the international commodity exchanges/ markets. AD category I banks satisfying the minimum norms as given below and interested in extending this facility to their customers may forward the application for approval, to the Chief General Manager, Reserve Bank of India, Foreign Exchange Department, Central Office, Forex Markets Division, Amar Building, 5th Floor, Fort, Mumbai – 400 001.

2. Minimum norms which are required to be satisfied by the A D Category-I banks:

- i) Continuous profitability for at least three year
- ii) Minimum CRAR of 9%
- iii) Net NPAs at reasonable level but not more than 4 per cent of net advances
- iv) Minimum net worth of Rs 300 crore.

A D Category-I banks may grant permission to corporates only after obtaining approval from the Reserve Bank. Reserve Bank retains the right to withdraw the permission granted to the bank, if considered necessary.

3. Before permitting corporates to undertake hedge transactions, authorized dealer would require them to submit a Board resolution indicating (i) that the Board understands the risks involved in these transactions, (ii) nature of hedge transactions that the corporate would undertake during the ensuing year, and (iii) the company would undertake hedge transaction only where it is exposed to price risk. Authorised Dealers may refuse to undertake any hedge transaction if it has a doubt about the bonafides of the transaction or the corporate is not exposed to price risk. The conditions subject to which ADs would grant permission to hedge and the guidelines for monitoring of the transactions are given below. It is clarified that

hedging the price risk on domestic sale/purchase transactions in the international exchanges/markets, even if the domestic price is linked to the international price of the commodity, is not permitted, except certain specified transactions as approved/may be approved by the Reserve Bank. Necessary advice may be given to the customers before they start their hedging activity.

4. Banks which have been granted permission to approve commodity hedging may submit an annual report to the Chief General Manager, Reserve Bank of India, Foreign Exchange Department, Central Office, Forex Markets Division, Amar Building, 5th Floor, Mumbai – 400 001 as on March 31 every year, within one month, giving the names of the corporates to whom they have granted permission for commodity hedging and the name of the commodity hedged.

5. Applications from customers to undertake hedge transactions not covered under the delegated authority may continue to be forwarded to the Reserve Bank by the Authorised Dealers Category I, for approval.

Conditions/ Guidelines for undertaking hedging transactions in the international commodity exchanges/ markets

1. The focus of hedge transactions shall be on risk containment. Only off-set hedge is permitted.

2. All standard exchange traded futures and options (purchases only) are permitted. If the risk profile warrants, the corporate/firm may also use OTC contracts. It is also open to the Corporate/firm to use combinations of option strategies involving a simultaneous purchase and sale of options as long as there is no net inflow of premium direct or implied, subject to the guidelines detailed in Annex XVII. Corporates/firms are allowed to cancel an option position with an opposite transaction with the same broker.

3. The corporate/firm should open a Special Account with the authorised dealer Category-I. All payments/receipts incidental to hedging may be effected by the authorised dealer Category-I through this account without further reference to the Reserve Bank.

4. A copy of the Broker's Month-end Report(s), duly confirmed/countersigned by the corporate's Financial Controller should be verified by the bank to ensure that all off-shore positions are/were backed by physical exposures.

5. The periodic statements submitted by Brokers, particularly those furnishing details of transactions booked and contracts closed out and the amount due/payable in settlement should be checked by the corporate/firm. Un-reconciled items should be followed up with the Broker and reconciliation completed within three months.

6. The corporate/firm should not undertake any arbitrage/speculative transactions. The responsibility of monitoring transactions in this regard will be that of the Authorised Dealer Category I.

7. An annual certificate from Statutory Auditors should be submitted by the company/firm to the Authorised Dealer Category I. The certificate should confirm that the prescribed terms and conditions have been complied with and that the corporate/firm's internal controls are satisfactory. These certificates may be kept on record for internal audit/inspection.

B. Hedging of commodity price risk on petroleum & petroleum Products by domestic crude oil refining companies

1. The hedging has to be undertaken only through AD Category I banks, who have been specifically authorised by the Reserve Bank in terms A. P. (DIR Series) Circular No.03 dated July 23, 2005, subject to conditions and guidelines as also given in (a) and (b) of this Annex.

2. While extending the above hedging facilities, AD Category I banks should ensure that the domestic crude oil refining companies hedging their exposures should comply with the following:

to have Board approved policies which define the overall framework within which derivatives activities are undertaken and the risks contained;

sanction of the company's Board has been obtained for the specific activity and also for dealing in OTC markets;

the Board approval must include explicitly the mark-to-market policy, the counterparties permitted for OTC derivatives, etc.; and

domestic crude oil companies should have put up the list of OTC transactions to the Board on a half yearly basis, which must be evidenced by the AD Category I bank before permitting continuation of hedging facilities under this scheme.

3. The AD Category I banks should also ensure “user appropriateness” and “suitability” of the hedging products used by the customer as laid down in Para 8.3 of 'Comprehensive Guidelines on Derivatives' issued vide our circular DBOD No. BP.BC. 86/21.04.157/2006-07 dated April 20, 2007.

Approval Route

Residents in India, engaged in import and export trade or as otherwise approved by Reserve Bank from time to time, may hedge the price risk of all commodities in the international commodity exchanges/markets. Applications for commodity hedging of companies/ firms which are not covered by the delegated authority of Authorised Dealers Category I may be forwarded to the Reserve Bank for consideration through the International Banking Division of an AD bank along with specific recommendation giving the following details:

1. A brief description of the hedging strategy proposed, namely:
description of business activity and nature of risk,
instruments proposed to be used for hedging,
names of commodity exchanges and brokers through whom risk is proposed to be hedged and credit lines proposed to be availed. The name and address of the regulatory authority in the country concerned may also be given,
size/average tenure of exposure and/or total turnover in a year, together with expected peak positions thereof and the basis of calculation.
2. A copy of the Board Risk Management Policy approved by the Management covering;
risk identification
risk measurements
guidelines and procedures to be followed with respect to revaluation and/or monitoring of positions
names and designations of officials authorised to undertake transactions and limits
3. Any other relevant information.

A one-time approval will be given by Reserve Bank along with the guidelines for undertaking this activity.

[see Part A ,Section II, paragraph 1]

Statement – Details of Forward cover undertaken by FII clients

Month –

Part A – Details of forward cover (without rebooking) outstanding

Name of FII

Current Market Value (USD mio)

Eligibility for Forward cover	Forward Booked		Contracts Cancelled		Total forward cover outstanding
	During the month	Cumulative Total – Year to Date	During the month	Cumulative total – Year to date	

Part B – Details of transactions permitted to be cancelled and rebooked

Name of FII

Market Value as determined at start of year (USD mio)

Eligibility for Forward cover	Forward Booked		Contracts Cancelled		Total forward cover outstanding
	During the month	Cumulative Total – Year to Date	During the month	Cumulative total – Year to date	

Name of the AD Category – I bank:

Signature of the Authorised official:

Date :

Stamp :

[see Part D, paragraph (x)]

Statement – Details of Forward contracts booked and cancelled

For the Quarter ended –

(USD million)

Category	Forward Contracts Booked		Forward Contracts Cancelled	
	During the Quarter	Cumulative total –Year to Date	During the Quarter	Cumulative total – Year to date
SMEs				
Individuals				

Name of the AD Category – I bank :

Signature of the Authorised official :

Date :

Stamp :

[A. P. (DIR Series) Circular No. 15, dated October 29, 2007]
[see Part A, Section I, para 1(iv)(d)]

Application cum Declaration for booking of forward contracts up to USD 100,000 by Resident Individuals

(To be completed by the applicant)

I. Details of the applicant

- a. Name
- b. Address.....
- c. Account No.....
- d. PAN No.....

II. Details of the foreign exchange forward contracts required

- 1. Amount (Specify currency pair)
- 2. Tenor

III. Notional value of forward contracts outstanding as on date

IV. Details of actual / anticipated remittances

- 1. Amount :
- 2. Remittance Schedule :
- 3. Purpose :

Declaration

I,(Name of the applicant), hereby declare that the total amount of foreign exchange forward contracts booked with the ----- (designated branch) of -----(bank) in India is within the limit of USD 100,000/- (US Dollar One lakh only) and certify that the forward contracts are meant for undertaking permitted current and / or capital account transactions. I also certify that I have not booked foreign exchange forward contracts with any other bank / branch. I have understood the risks inherent in booking of foreign exchange forward contracts.

Signature of the applicant

(Name)

Place:

Date:

Certificate by the Authorised Dealer Category – I bank

This is to certify that the customer(Name of the applicant) having PAN No..... has been maintaining an account(no.) with us since We certify that the customer meets the AML / KYC guidelines laid down by RBI and confirm having carried out requisite suitability and appropriateness test.*

Name and designation of the authorised official:

Place:

Signature:

Date: Stamp and seal

** month / year*

[A. P. (DIR Series) Circular No. 35, dated November 10, 2008]
[see Part A, Section I, paragraph 5]

Conditions / Guidelines for issuance of standby letter of credit /bank guarantee - commodity hedging transactions

1. AD Category I banks may issue guarantees/standby letters of credit only where the remittance is covered under the delegated authority or under the specific approval granted for overseas commodity hedging by Reserve Bank.
2. The issuing bank shall have a Board approved policy on the nature and extent of exposures that the bank can take for such transactions and should be part of the credit exposure of the customers. The exposure should also be assigned risk weights, for capital adequacy purposes as per the extant provisions.
3. The standby letter of credit / bank guarantee may be issued for the specific purpose of payment of margin money in respect of approved commodity hedging activities of the company.
4. The standby letter of credit / bank guarantee may be issued for an amount not exceeding the margin payments made to the specific counterparty during the previous financial year.
5. The standby letter of credit / bank guarantee may be issued for a maximum period of one year, after marking a lien on the non-funded facility available to the customer (letter of credit / bank guarantee limit).
6. The bank shall ensure that the guidelines for overseas commodity hedging have been duly complied with.
7. The bank shall ensure that broker's month-end reports duly confirmed /countersigned by corporate's financial controller have been submitted.
8. Brokers' month end reports shall be regularly verified by the bank to ensure that all off-shore positions are / were backed by physical exposures.

Conditions for allowing users to enter into a combination of OTC option strategies involving a simultaneous purchase and sale of options for overseas Commodity hedging

Users – Listed companies and their subsidiaries/joint ventures/associates having common treasury and consolidated balance sheet or unlisted companies with a minimum net worth of Rs. 200 crore

provided

- a. All such products are fair valued on each reporting date;
- b. The companies follow the Accounting Standards notified under section 211 of the Companies Act, 1956 and other applicable Guidance of the Institute of Chartered Accountants of India (ICAI) for such products/ contracts as also the principle of prudence which requires recognition of expected losses and non-recognition of unrealized gains;
- c. Disclosures are made in the financial statements as prescribed in ICAI press release dated 2nd December 2005; and
- d. The companies have a risk management policy with a specific clause in the policy that allows using the type/s of cost reduction structures.

(Note: The above accounting treatment is a transitional arrangement till AS 30 / 32 or equivalent standards are notified.)”

Operational Guidelines, Terms and Conditions

- a. Writing of options by the users, on a standalone basis is not permitted. Users can however, write options as part of cost reduction structures, provided, there is no net receipt of premium.
- b. Leveraged structures, Digital options, Barrier options and any other exotic products are not permitted.
- c. The delta of the options should be explicitly indicated in the term sheet.

- d. The portion of the structure with the largest notional should be reckoned for the purpose of underlying.
- e. AD Category I banks may, stipulate additional safeguards, such as continuous profitability, etc. depending on the scale of operations and risk profile of the users.

Appendix

List of Circulars/Notifications which have been consolidated in the Master Circular on Risk Management and Inter-Bank Dealings

Sr. No.	Notification / Circular	Date
1.	Notification No. FEMA 25/2000-RB	May 3, 2000
2.	Notification No. FEMA 101/2003-RB	October 3, 2003
3.	Notification No. FEMA 104/2003-RB	October 21, 2003
4.	Notification No. FEMA 105/2003-RB	October 21, 2003
5.	Notification No. FEMA 127/2005-RB	January 5, 2005
6.	Notification No. FEMA 143/ 2005-RB	December 19, 2005
7.	Notification No. FEMA 147/ 2006-RB	March 16, 2006
8.	Notification No. FEMA 148/ 2006-RB	March 16, 2006
1.	A.P (DIR Series) Circular No. 92	April 4, 2003
2.	A.P (DIR Series) Circular No. 93	April 5, 2003
3.	A.P (DIR Series) Circular No. 98	April 29, 2003
4.	A.P (DIR Series) Circular No.108	June 21, 2003
5.	A.P.(DIR Series) Circular No. 28	October 17, 2003
6.	A.P.(DIR Series) Circular No. 46	December 9, 2003
7.	A.P.(DIR Series) Circular No. 47	December 12, 2003
8.	A.P.(DIR Series) Circular No. 81	March 24, 2004.
9.	A.P.(DIR Series) Circular No 26	November 1, 2004
10.	A.P.(DIR Series) Circular No 47	June 23, 2005
11.	A.P.(DIR Series) Circular No 03	July 23, 2005
12.	A.P.(DIR Series) Circular No 25	March 6, 2006
13.	EC.CO.FMD. No.8 /02.03.75/2002-03	February 4, 2003
14.	EC.CO.FMD. No.14 /02.03.75/2002-03	May 9, 2003
15.	EC.CO.FMD.No. 345/02.03.129(Policy)/2003-04	November 5, 2003
16.	FE.CO.FMD.1072/02.03.89/2004-05	February 8, 2005
17.	FE.CO.FMD. 2/02.03.129(Policy)/2005-06	November 7, 2005
18.	FE.CO.FMD 21921/02.03.75/2005-06	April 17, 2006
19	A.P.(DIR Series) Circular No.21	December 13, 2006
20	A.P.(DIR Series) Circular No.22	December 13, 2006
21	A.P.(DIR Series) Circular No.32	February 8, 2007
22	A.P.(DIR Series) Circular No.52	May 08, 2007
23	A.P.(DIR Series) Circular No.66	May 31, 2007
24	A.P.(DIR Series) Circular No.76	June 19,2007
25	A.P.(DIR Series) Circular No.15	October 29 ,2007

26	A.P.(DIR Series) Circular No.17	November 6, 2007
27	A.P.(DIR Series) Circular No.47	June 3, 2008
28	A. P. (DIR Series) Circular No. 05	August 6, 2008
29	A.P.(DIR Series) Circular No.23	October 15, 2008
30	A. P. (DIR Series) Circular No.35	November 10, 2008
31	A.P.(DIR Series) Circular No.50	February 4, 2009
32	A.P.(DIR Series) Circular No.27	January 19, 2010
33	A.P.(DIR Series) Circular No.05	July 30, 2010
34	A.P.(DIR Series) Circular No.32	December 28, 2010
35	A.P.(DIR Series) Circular No.60	May 16, 2011
36	A.P.(DIR Series) Circular No.67	May 20, 2011
37	A.P.(DIR Series) Circular No.68	May 20, 2011

This circular should be read in conjunction with FEMA, 1999 and the Rules/ Regulations / Directions / Orders/ Notifications issued thereunder.