

A.P. (DIR Series) CIRCULAR NO 32/RBI.

Dated: December 28, 2010

Comprehensive Guidelines on Over the Counter (OTC) Foreign Exchange Derivatives and Overseas Hedging of Commodity Price and Freight Risks

Attention of the Authorised Dealer Category - I (AD Category - I) banks is invited to Notification No. FEMA 25/2000-RB dated May 3, 2000, as amended from time to time, which delineates the rules governing foreign exchange derivative contracts. Further, attention is also invited to the Comprehensive Guidelines on Derivatives issued by the Department of Banking Operations and Development (DBOD), Reserve Bank of India, vide their circular DBOD.No.BP.BC. 86/21.04.157/2006-07 dated April 20, 2007 which, among others, covers the broad principles to be followed for undertaking derivative transactions, appropriateness of the user, suitability of the product and risk management practices to be followed.

2. In the light of developments in the domestic and international financial markets, the extant guidelines on OTC foreign exchange derivatives, commodity price and freight risks have been revised in consultation with the banks, corporates and other stake holders. The Comprehensive Guidelines on Foreign Exchange Derivatives and Overseas Hedging of Commodity Price and Freight Risks are furnished in the Annex. The revised guidelines would be effective from February 01, 2011.

3. All the guidelines given in the Comprehensive Guidelines on Derivatives issued vide Circular DBOD.No.BP.BC. 86/21.04.157/2006-07 dated April 20, 2007 and subsequent amendments thereto would also apply, mutatis mutandis, to the foreign exchange derivatives.

4. The necessary amendments to Notification No. FEMA.25/RB-2000 dated May 3, 2000 [Foreign Exchange Management (Foreign Exchange Derivatives Contracts) Regulations, 2000] are being notified separately.

5. AD Category - I banks may bring the contents of this circular to the notice of their constituents and customers concerned.

6. The directions contained in this circular have been issued under Sections 10(4) and 11(1) of the Foreign Exchange Management Act, 1999 (42 of 1999) and are without prejudice to permissions /approvals, if any, required under any other law.

RBI/2010-11/338

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