

**RBI/2006-07/
A. P. (DIR Series) Circular No.**

June 1, 2007

To,

All Authorised Dealer Category - I banks

Madam / Sir

Draft Circular on Booking of Forward Contracts - Liberalisation

Attention of Authorised Dealer Category - I (AD Category - I) banks is invited to A. P. (DIR Series) Circular No.19 dated January 24, 2002, A. P. (DIR Series) Circular No. 63 dated December 21, 2002, A. P. (DIR Series) Circular No. 26 dated November 1, 2004, A. P. (DIR Series) Circular No. 22 dated December 13, 2006 and A. P. (DIR Series) Circular No. 52 dated May 8, 2007, in terms of which persons resident in India have been allowed to enter into forward contracts on the basis of underlying exposures. Further, exporters and importers have also been allowed to book forward contracts on the basis of declaration of exposures and based on past performances, subject to specified conditions.

2. As announced in the Annual Policy Statement for the Year 2007-08 (paras 142 and 143), with a view to provide greater flexibility to exporters and importers in the Small and Medium Enterprises (SME) sector and resident individuals, it has been decided to further liberalise the scope and range of forward contracts to facilitate such entities to hedge their exposures on a dynamic basis.

Small and Medium Enterprises (SMEs) (para 142)

3. SMEs have already been permitted to book forward contracts in respect of transactions denominated in foreign currency but settled in Indian Rupees. Similarly, importers including SMEs are permitted to book forward contracts for the customs duty component of import. It has also been decided to permit domestic producers / users to hedge their price risk on aluminum, copper, lead, nickel and zinc in international commodity exchanges based on their underlying economic exposures.

4. In order to enable Small and Medium Enterprises (SMEs), which are in the export and import business, to better manage their foreign exchange exposures effectively, it has been decided to allow AD Category – I banks to permit such entities to book / cancel / rebook forward contracts based on their foreign exchange or economic exposures, subject to the following:

(i) Such contracts may be allowed to be booked after ensuring that the entity qualifies as 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.

(ii) Such contracts may be booked through AD Category – I banks with whom the SMEs have credit facilities and / or banking relationship and the total forward contracts booked should be in alignment with the credit facilities made available to them and their business turnover exposed to the currency risk.

(iii) AD Category – I banks may satisfy itself with the existence of a foreign exchange or economic exposure for the SME at the time of booking/re-booking such contracts.

(iv) 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.

5. The AD Category – I banks may allow the facility only after being satisfied about the genuine requirements of their SME constituents. The SME constituents should be sensitised about the risks associated with the hedging without genuine exposures and the need for sound risk management policies and procedures before availing of this facility. It would be desirable that SMEs gain adequate experience of the foreign exchange markets and understand the risks associated with forward contracts and options before using this facility. AD Category – I bank should carry out proper due diligence regarding “*user appropriateness*” and “*suitability*” of the forward contracts to the SME customers.

6. It may be noted that under this facility, and in terms of A.P. (DIR Series) Circular No.108 dated June 21, 2003, SMEs would be permitted to use forward contracts as well as foreign currency rupee options for hedging their genuine exposures.

Resident Individuals (para 143)

7. Currently, resident individuals are permitted to remit up to USD 100,000 per financial year for any permitted current or capital account transaction or a combination of both under the Liberalised Remittance Scheme (LRS). In order to enable resident individuals to manage / hedge their foreign exchange exposures arising out of such actual or anticipated remittances, it has been decided to permit them to book forward contracts without production of underlying documents, up to a limit of USD 100,000 in a financial year (April- March), based on self declaration basis. The contracts booked under this facility would normally be on a deliverable. 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. Further, the contracts may be permitted to be booked up to tenors of one year only. The facility would be extended only to resident individuals and not to corporates, partnership firms, HUF, Trusts, etc.

8. In order to avail the facility, the resident individual is required to approach the branch of an AD Category I bank designated by him under the LRS and furnish an application-cum-declaration, in the format annexed. The AD Category – I banks should satisfy themselves that the resident individuals have genuine exposures and that they understand the nature of risk inherent in booking of forward contracts and should carry out proper due diligence regarding “*user appropriateness*” and “*suitability*” of the forward contracts to such customers.

9. Necessary amendments to Notification No. 25/2000-RB dated 3rd May 2000 [Foreign Exchange Management (Foreign Exchange derivative Contracts) Regulations, 2000] are being issued separately.

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

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

Yours faithfully,

(Salim Gangadharan)
Chief General Manager

[Annex to A. P. (DIR Series) Circular No. dated June , 2007]

**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. Details of the forward contracts booked during the financial year (April- March)
200...**

1.

Sr. No.	Currency pair	Amount

2. Notional value of forward contracts outstanding as on date

IV. Details of underlying / anticipated exposures

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 during the financial year as per item No. III of the Application 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 during this period. 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