

Proposal to ease documentation requirements on residents for hedging of currency risk arising out of trade transactions under the Contracted Exposure route

Under the extant regulatory framework under FEMA, 1999 and Regulations¹ thereunder, the various routes available to residents intending to hedge currency risk are as follows:

- i. Exposure based on underlying contracts
- ii. Probable Exposures based on Past Performance
- iii. Special Dispensation for SMEs and Individuals

Under (i), the Contracted Exposure route, clients have to submit evidence of underlying foreign currency exposure to AD Cat-I banks at the time of booking the derivative contract. For operational convenience, a maximum period of 15 days is allowed for production of such documents.

2. As announced in the [Monetary Policy statement dated September 29th, 2015](#), after a review of the documentation related requirements for hedging of currency risk under the Contracted Route in the OTC market it is proposed to permit booking of contracts based on actual underlying exposure on self-declaration basis, i.e. without verification of underlying documentary evidence by the AD Cat-I bank, subject to the operational guidelines, terms and conditions given below.

Operational Guidelines, Terms and Conditions

- i. Residents, viz. exporters and importers, may book forex derivative contracts to hedge the currency risk arising out of trade transactions under the Contracted Exposure Route on the basis of self-declaration by the authorized signatory of existence of a valid underlying in terms of currency, amount and tenor to be provided as part of the deal confirmation process.

¹ Foreign Exchange Management (Foreign Exchange Derivative Contracts) Regulations, 2000 ([Notification No.FEMA 25/2000-RB dated 3rd May 2000](#) and [Master Circular on Risk Management and Inter-bank Dealings dated July 1, 2015](#) as amended from time to time.

- ii. The onus of establishing underlying exposure and its genuineness on the basis of documentary evidence shall rest with the customer entering into the derivative contract and any contravention may invite penal action by Reserve Bank of India under FEMA, 1999.
- iii. AD Cat-I banks may ensure that the contracts booked under this facility are in line with the business activity and track record of the customer and if necessary may seek evidence of underlying exposure from the customer or if requisitioned by RBI as part of the supervisory process.
- iv. AD Cat-I banks will continue to obtain an annual certificate from the statutory auditors of the concerned client to the effect that the contracts outstanding with all AD Cat-I banks at any time did not exceed the underlying contracted exposure.
- v. AD Cat-I banks, wherever necessary, may advise and educate their clients booking contracts regarding the need to maintain proper records in respect of the underlying exposures under the liberalized framework in view of (iii) above.
- vi. Residents may continue to hedge their currency risks based on past performance as per the extant regulatory framework.
- vii. All other operational guidelines, terms and conditions as laid down in [Master Circular on Risk Management and Inter-bank Dealings dated July 1, 2015](#), as amended from time to time, will continue to apply to derivative contracts booked under Contracted Route for trade exposures.
- viii. This dispensation will be reviewed after a period of one year.
