Annex I

[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