Exchange Control
December 2002

1. Indian Direct Investment in SAARC Countries and Myanmar

As a part of further liberalisation the existing ceiling for Indian investment in Myanmar and SAARC countries (excluding Pakistan) under the automatic route has been enhanced to USD 150 million or its equivalent, against the earlier limit of USD 100 million. The earlier limit of Rs.350 crores for rupee investment in Nepal and Bhutan has also been raised to Rs.700 crores.

2. "Write-off" of Unrealised Export Bills-Surrender of Export Incentives

With a view to ensuring that exporters invariably surrender the export incentives in respect of export bills for which they seek "write off", authorised dealers have been advised to obtain document/s evidencing surrender of the export incentives availed of by them before permitting the relevant outstanding bills to be written off. The authorised dealers have also been advised to put in place a system under which their internal inspectors or auditors (including external auditors appointed by authorised dealers) carry out random sample check/percentage check of outstanding export bills written off.

3. Exchange Earners' Foreign Currency (EEFC) Account Scheme

The payments received in foreign exchange by a unit in Domestic Tariff Area (DTA) for supply of goods to a unit in Special Economic Zone (SEZ) out of its foreign currency account are to be treated as eligible foreign exchange earnings for the purpose of credit to the EEFC Account. Authorised dealer have, therefore, been advised that it will be in order for them to credit such payments received in foreign exchange by a unit in DTA to its EEFC Account.

4. Risk Management and Inter Bank Dealings

(i) *Foreign Currency-Rupee Swaps*

The limit of USD 25 million put on the swap allowed by authorised dealer to facilitate their customers to hedge their foreign exchange exposures has been removed. Authorised dealers are now free to offer such swaps to customers subject to overall prudential and risk management guidelines. The specified limits would, however, continue for swap transactions facilitating customers to assume a foreign exchange liability, thereby resulting in supply in the market. Positions arising out of cancellation of swaps by customers need not be reckoned within the cap.

(ii) *Investments in Overseas Market*

Authorised dealers have been advised that banks have been allowed to invest their unimpaired Tier I Capital in overseas money market or debt instruments without any percentage or absolute limit subject to approval by their Board of Directors.

(iii) *Booking of Forward Contracts based on Past Performance*

Authorised dealers have been allowed to permit their customers to book forward contracts upto the eligible limit, subject to the condition that forward contracts outstanding at any point of time shall not exceed 25 per cent of the eligible limit, within the cap of USD100 million to be computed separately for import and export transactions.

(iv) *Booking and Cancelling of Forward Contracts*

The cap of USD100 million per financial year for a customer has been withdrawn and authorised dealers have been advised that they are free to offer this facility of rebooking of cancelled contracts to all foreign exchange exposures falling due within one year subject to the condition that the customers submit details of exposure to the authorised dealers in the revised format perscribed. Forward contracts booked to cover exposures falling due beyond one year and long term foreign currency-rupee swaps, once cancelled, cannot be rebooked. Authorised dealers have been allowed to continue to offer this facility without any restrictions in respect of export transactions.

(v) *Hedging of Capital of Foreign Banks*

The restriction put on the foreign bank in India for allowing them to hedge their Tier I capital in Indian books, that the hedge transactions should spread over a period of six months, has been removed.

(vi) *Forward Cover for Foreign Direct Investments*

General permission has been accorded to authorised dealers to offer forward contracts to persons resident outside India to hedge the investments made by them in India since January 1, 1993. Authorised dealers are now free to offer forward contracts to persons resident outside India subject to verification of their exposure in India. These forward contracts once cancelled are not eligible to be rebooked.