

## **Exchange Control - April 2003**

### **1. Guidelines for prepayment of Foreign Currency Convertible Bond (FCCB) issue by Indian companies**

Government of India has since decided to allow Indian companies to prepay the existing FCCBs and accordingly, authorised dealers have been advised to allow Indian companies to prepay the existing FCCBs subject to the conditions stipulated in the Government Press Note dated February 5, 2003 issued in this regard. The facility is available till September 30, 2003.

### **2. Deferred Payments Protocols dated 30.4.1981 and 23.12.1985 between the Government of India and erstwhile USSR**

The rupee value of the special currency basket has been fixed at Rs. 57.5227 effective from March 11, 2003.

### **3. Risk Management and Inter Bank Dealings**

The relaxations/facilities in respect of risk management and inter-bank foreign exchange dealings earlier extended to authorised dealers upto March 31, 2003 have been continued till further instructions.

These instructions pertaining to forward exchange cover, other derivative products, rupee accounts of Non-resident banks and inter-bank forex dealings etc. were subsequently consolidated and issued, superseding the existing instructions.

### **4. Facilities to Units in Special Economic Zones (SEZs)**

#### *i) Realisation of export proceeds*

The stipulation of twelve months or extended period thereof for realisation of export proceeds has been removed. Accordingly, there is no prescription of any time limit for realisation of exports made by units in SEZs.

#### *ii) Job work abroad*

In order to promote international operations, units in SEZs have been permitted to undertake job work abroad and export goods from that country itself, subject to certain conditions.

#### *iii) Receipts of payment in precious metals for EOUs and units in SEZs*

Gems and Jewellery units in SEZs and EOUs have been allowed to receive payment for exports in the form of precious metals i.e. Gold/Silver/Platinum equivalent to the value of jewellery exported on the condition that the sale contract provides for the same and the approximate value of the precious metal is indicated in the relevant GR/SDF/PP forms.

#### *iv) 'Netting off' of export receivables against import payments*

Authorised dealers have been permitted to accede to the proposals received from exporters for 'netting off' of export receivables against import payments in respect of units located in SEZs, subject to stipulated conditions.

v) *Capitalisation of import payables*

Units in SEZs have been permitted to issue equity shares to non-residents against import of capital goods, subject to certain conditions.

## **5. Booking of Forward Contracts Based on Past Performance**

In order to facilitate large corporates with proven track record and having large import/export turnover to effectively and actively manage the currency risks arising out of genuine exposures, the Bank, on applications routed through authorised dealers, would consider permitting higher limits for booking forward contracts on the basis of past performance without submission of documentary evidence. Such forward contracts, booked under the enhanced limit, will be on a deliverable basis.

## **6. Export of goods on promotional grounds-**

Powers have been delegated to authorised dealers to consider proposals received from recognised and well established exporters for export of goods free of cost for export promotion, up to 2 per cent of average annual exports of the applicant during the preceding three years, subject to a ceiling of Rs. 5 lakhs. The proposals which do not conform to the above guidelines would, however, continue to be referred to the regional offices of the Reserve Bank for consideration.

## **7. Providing housing loan in rupees to NRIs/ PIOs**

Authorised dealers/housing finance institutions in India approved by the National Housing Bank may grant loans to NRIs/Persons of Indian Origin (PIOs) for purpose of repairs/ renovation/improvement of residential accommodation owned by them in India.

## **8. Overseas Investment**

i) *Investment by Mutual Funds*

Mutual Funds were earlier allowed to invest in ADRs/GDRs of Indian companies and rated foreign debt instruments/equity within an overall cap of US \$ 1 (one) billion with the permission of SEBI and RBI. In order to facilitate expeditious processing of investment proposals, it has been decided to dispense with the requirement of obtaining separate permission from the Reserve Bank under FEMA 1999. Accordingly, Mutual Funds desirous of availing of this facility and having the approval from SEBI for undertaking such investments, need not obtain separate approval from the Reserve Bank.

ii) *Investment by Indian Corporates/ Individuals in Rated Bonds/Fixed Income Securities*

Indian corporates and resident individuals have been permitted to invest within the monetary ceiling applicable to them in bonds/fixed income securities also, besides in

equity of listed companies, subject to stipulated conditions that include rating requirements.

## **9. Booking of Forward Contract**

### *i) Forward Cover for inflows under Foreign Direct Investment*

In order to provide greater flexibility to overseas investors and encourage inflow of FDI, overseas investors making long-term investments have been allowed to hedge their forex exposures in India, pending investment, by entering into forward sale contracts with banks in India.

### *ii) Forward Cover for Forex Exposures where Settlement is in Rupees*

Resident entities were hitherto not allowed to book forward cover in case of transactions denominated in foreign currency but settled in rupees. Taking into consideration the exposure of these entities to exchange rate risk, such entities, which have transactions denominated in foreign currency but settled in rupees, have now been permitted to book forward contracts subject to certain specified conditions.

### *iii) Cross Currency Forward Cover for FCNR Deposits*

Non-resident Indians (NRIs) and overseas corporate bodies were earlier allowed to enter into forward contracts with rupee as one of the currencies to hedge the balances held in their FCNR (B) or NRE Accounts. However, cross currency covers were not permitted for such deposits. In order to provide better risk hedging opportunities to NRIs and OCBs, they have now been allowed to book cross currency forward contracts to convert the balances in one foreign currency to another foreign currency in which FCNR (B) deposits are permitted to be maintained, at the option of the account holder. Such contracts, once cancelled, are not eligible to be rebooked.

## **10. Non-Resident Deposits - Comprehensive Single Return**

The National Statistical Commission has recommended introduction of a computerised Comprehensive Single Return (CSR) for collection of data on Non-Resident deposits. With a view to implement the recommendation, the Reserve Bank has developed a software package captioned 'NRD-CSR', for reporting the data on nonresident deposits through floppy disks on monthly basis as indicated therein. This will replace the existing returns in forms STAT-5, 8 & 9 in due course. However, banks have been advised to continue to submit STAT-5, STAT-8 & STAT-9 returns as hitherto till further instructions.