

Foreign Exchange Developments

July 2010

Deferred Payment Protocols dated April 30, 1981 and December 23, 1985 between Government of India and erstwhile USSR

In terms of A.P. (DIR Series) Circular No.55 dated June 15, 2010 the Rupee value of the special currency basket was indicated as Rs. 63.0402 effective from May 31, 2010.

A further revision had taken place on June 21, 2010 and accordingly, the Rupee value of the special currency basket has been fixed at Rs.60.8816 with effect from June 24, 2010.

A.P. (DIR Series) Circular No.01 dated July 13, 2010

Deferred Payment Protocols dated April 30, 1981 and December 23, 1985 between Government of India and erstwhile USSR

In terms of A.P. (DIR Series) Circular No.01 dated July 13, 2010 the Rupee value of the special currency basket was indicated as Rs. 60.8816 with effect from June 24, 2010.

A further revision had taken place on July 02, 2010 and accordingly, the Rupee value of the special currency basket has been fixed at Rs.62.788607 with effect from July 07, 2010.

A.P. (DIR Series) Circular No. 02 dated July 21, 2010

Export of Goods and Software – Realisation and Repatriation of export proceeds – Liberalisation

In terms of A.P. (DIR Series) Circular No. 12 dated September 09, 2000, A.P. (DIR

Series) Circular No. 30 dated April 04, 2001, A.P. (DIR Series) Circular No. 61 dated December 14, 2002, A.P. (DIR Series) Circular No. 40 dated December 05, 2003 and A.P. (DIR Series) Circular No. 33 dated February 28, 2007, the AD Category – I banks were permitted to accede to the requests for 'write-off' made by the exporters, subject to the condition, *inter alia*, that the exporter had to surrender proportionate export incentives, if availed of, in respect of the relative shipments.

It has since been announced in the Foreign Trade Policy (FTP) 2009-14 and specified in Para. 2.25.4 of Handbook of Procedures – Vol. I (2009-2014) issued by the Department of Commerce, Ministry of Commerce and Industry that realisation of export proceeds shall not be insisted upon, under any of the Export Promotion Schemes under the Foreign Trade Policy (FTP), subject to certain conditions.

It was clarified that since the Drawback scheme is governed by the provisions of the Customs Act, 1962 and the Rules made there under, the provisions contained in para. 2.25.4 of the Handbook of Procedure – Vol. I. of the Foreign Trade Policy (FTP) (2009-2014) would not be applicable to the Duty Drawback scheme. Therefore, the drawback amount has to be recovered even if the claim is settled by the Export Credit Guarantee Corporation of India Limited (ECGC) or the write-off is allowed by the Reserve Bank. Accordingly, the AD Category – I banks were advised not to insist on the surrender of the proportionate export incentives, other than under the Duty Drawback scheme, if availed of, by the exporter under any of the Export Promotion Schemes under the FTP 2009-14,

subject to the fulfilment of conditions as stated in the Circular.

A.P. (DIR Series) Circular No. 03 dated July 22, 2010

External Commercial Borrowings (ECB) Policy – Take-out Finance

As per the extant norms, refinancing of domestic Rupee loans with ECB was not permitted. However, keeping in view the special funding needs of the infrastructure sector, it was decided to review the ECB policy and put in place a scheme of take-out finance. Accordingly, it was decided to permit take-out financing arrangement through ECB, under the approval route, for refinancing of Rupee loans availed of from the domestic banks by eligible borrowers in the sea-port and airport, roads including bridges and power sectors for the development of new projects, subject to certain conditions.

Eligible borrowers may, accordingly, apply to the Reserve Bank for necessary approval before entering into take-out finance arrangement.

All other aspects of ECB policy, such as, USD 500 million limit per company per financial year under the automatic route, eligible borrower, recognised lender, end-use, average maturity period, prepayment, refinancing of existing ECB and reporting arrangements remain unchanged.

A.P. (DIR Series) Circular No. 04 dated July 22, 2010

Guidelines on trading of Currency Options on Recognised Stock/New Exchanges

In terms of the Foreign Exchange Management (Foreign Exchange Derivative Contracts) Regulations, 2000 dated May 3, 2000 [Notification No. FEMA/25/RB-2000 dated May 3, 2000], as amended from time to time and A.P. (DIR Series) Circular No. 05 dated August 6, 2008 persons resident in India were permitted to participate in the currency futures market in India subject to directions contained in the Currency Futures (Reserve Bank) Directions, 2008.

In order to expand the existing menu of exchange-traded hedging tools, it was announced in the Monetary Policy Statement 2010-11 (para 62) that recognised stock exchanges would be permitted to introduce plain vanilla currency options on spot US Dollar/Rupee exchange rate for residents. Accordingly, it was decided to permit trading of currency options on spot USD-INR rate in the currency derivatives segment of the stock

exchanges, recognised by the Securities and Exchange Board of India (SEBI). The currency options market would function subject to the directions, guidelines, instructions, rules, *etc* issued by the Reserve Bank and the SEBI from time to time.

Persons resident in India are permitted to participate in the currency options market, subject to the directions contained in the Exchange-Traded Currency Options (Reserve Bank) Directions, 2010, [Notification No.FED.01/ED (HRK)-2010 dated July 30, 2010] (Directions) issued by the Reserve Bank of India.

Necessary amendments to Foreign Exchange Management (Foreign Exchange Derivatives Contracts) Regulations, 2000 (Notification No. FEMA.25/RB-2000 dated May 3, 2000) (Regulations) have been notified in the Official Gazette vide G.S.R. No. 635(E) dated July 27, 2010.

A.P. (DIR Series) Circular No. 05 dated July 30, 2010