Foreign Exchange Developments

(i) Risk Management and Inter-Bank Dealings - Commodity Hedging

Currently, residents in India are permitted to hedge their commodity price risk after obtaining specific approvals from the Reserve Bank or from select ADs which have been authorised by the Reserve Bank for the purpose. In view of the volatility in global oil prices, domestic oil refining and marketing companies have been representing to the Reserve Bank for permission to hedge commodity price risk on inventories as well in international exchanges/markets, to modulate the impact of adverse price fluctuations on their margins.

(As announced in the Mid - Term Review of Annual Policy Statement for the Year 2007-08 (para 135), it has been decided to permit domestic oil marketing and refining companies to hedge their commodity price risk to the extent of 50 per cent of their inventory based on the volumes in the quarter preceding the previous quarter. The hedging may be undertaken through AD Category - I banks, which have been authorised by Reserve Bank in this regard. The hedges may be undertaken using over-the-counter (OTC) / exchange traded derivatives overseas with the tenor restricted to a maximum of one-year forward.

AD Category - I banks should ensure that the entities hedging their exposures should have Board approved policies which define the overall framework within which derivatives activities should be undertaken and the risks contained and that Board's approval has been obtained for the specific activity (*i.e.*, hedging of inventories) and also for dealing in OTC markets. The Board approval must include explicitly the mark-to-market policy, the counterparties permitted for OTC derivatives, *etc.*

[A.P. (DIR Series) Circular No.17 dated November 6, 2007]

(ii) Direct Receipt of Import Bills / Documents - Liberalisation

In terms of the "existing provisions under FEMA, AD Category - I banks are permitted to make remittances for imports, where the import bills / documents have been received directly by the importer from the overseas supplier and the value of import bill does not exceed USD 100,000. Further, status holder exporters, as defined under the Foreign Trade Policy are permitted to receive import bills / documents directly from the overseas supplier irrespective of the value of the import.

The Gems and Jewellery Export Promotion Council (GJEPC) has represented that the restrictions placed on non-status holder exporters for direct receipt of import bills / documents, where the value exceeds USD 100,000 adds to transaction costs for small importers and have requested the Reserve Bank to consider relaxing this condition for import of rough diamonds by non-status holders.

It has, therefore, been decided, as a sector specific measure, to enhance the limit for direct receipt of import bills / documents from USD 100,000 to USD 300,000 in the case of import of rough diamonds. Accordingly, AD Category - I banks are permitted to allow remittance for imports up to USD 300,000 where the importer of rough diamonds has received the import bills / documents directly from the overseas supplier and the documentary evidence for import is submitted by the importer at the time of remittance, subject to conditions.

[A.P. (DIR Series) Circular No. 18 dated November 7,2007]