

Foreign Exchange Developments

February 2009

(i) Hedging of Freight Risk by Domestic Oil-refining, Shipping Companies and other Companies

As announced in the Mid-term review of Annual Policy Statement for the Year 2008-09 (Para 146), powers were delegated to AD Category - I banks, which have been granted permission by the Reserve Bank to approve commodity hedging, to allow hedging of freight risk by domestic oil-refining companies and shipping companies on the following terms and conditions:

- i) The hedging can be undertaken as plain vanilla Over the Counter (OTC) or exchange traded products in the international market / exchange.
- ii) The exchanges on which the products are purchased must be a regulated entity.
- iii) The maximum tenor permissible will be one year forward.
- iv) The basis of underlying exposure is as follows:
 - (a) In the case of oil refining companies –
 - (i) The freight hedging will be on the basis of underlying contracts *i.e.*, import/export orders for crude oil/petroleum products. Additionally, AD Category - I banks may permit domestic oil refining companies to hedge their freight risk on anticipated imports of crude oil on the basis of their past performance up to 50 per cent of the volume of actual imports of crude oil during the previous year or 50 per cent of the average volume of imports during the previous three financial years, whichever is higher.
 - (ii) Contracts booked under the past performance facility will have to be

regularised by production of underlying documents during the currency of the hedge. An undertaking may be obtained from the company to this effect.

- (b) In the case of shipping companies :-
- (i) The hedging will be on the basis of owned/controlled ships of the shipping company which have no committed employment. The quantum of hedge will be determined by the number and capacity of these ships. The same may be certified by a Chartered Accountant to the AD Category - I bank.
 - (ii) Contracts booked will have to be regularised by production of underlying documents, *i.e.*, employment of the ship during the currency of the hedge. An undertaking may be obtained from the company to this effect.
 - (iii) AD Category - I banks may also ensure that the freight derivatives being entered into by the shipping companies are reflective of the underlying business of the shipping companies.
 - v) AD Category – I banks should ensure that the entities hedging their freight exposures should have Board approved Risk Management policies which define the overall framework within which derivative transactions should be undertaken and the risks contained. AD Category - I banks should approve this facility only after ensuring that the sanction of the company's Board has been obtained for the

specific activity and also for dealing in overseas exchanges/ markets. The Board approval must include explicitly the authority/ies permitted to undertake the transactions, the mark-to-market policy, the counterparties permitted for OTC derivatives, *etc.* and a list of transactions undertaken should be put up to the Board on a half-yearly basis. The AD Category - I bank must obtain a copy of Risk Management Policy from the company incorporating the above details at the time of permitting the transaction itself and as and when changes made therein.

3. In the case of other companies which are exposed to freight risk, AD Category - I banks may approach the Reserve Bank for prior permission.

[A. P. (DIR Series) Circular No. 50 dated February 4, 2009]

(ii) Opening of Diamond Dollar Accounts (DDA) – Liberalisation

With a view to liberalising the procedure, powers were delegated to AD Category – I banks to permit such firms and companies to open and maintain DDA with AD Category – I banks, subject to the following terms and conditions:

- a. The exporter should comply with the eligibility criteria stipulated in the Foreign Trade Policy of the Government of India, issued from time to time.
- b. The DDA shall be opened in the name of the exporter and maintained in US Dollars only.

- c. The account shall only be in the form of current account and no interest should be paid on the balance held in the account.
- d. No intra-account transfer should be allowed between the DDAs maintained by the account holder.
- e. An exporter firm/company shall be permitted to open and maintain not more than 5 DDAs.
- f. The balances held in the accounts shall be subject to Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR) requirements.
- g. Exporter firms and companies maintaining foreign currency accounts, excluding EEFC accounts, with banks in India or abroad, are not eligible to open Diamond Dollar Accounts.
- h. The transactions in the DDA would be subject to permissible credits and debits.

[A. P. (DIR Series) Circular No. 51 dated February 13, 2009]

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

The rupee value of the special currency basket has been fixed at Rs.65.0272 with effect from February 6, 2009.

[A. P. (DIR Series) Circular No. 52 dated February 19, 2009]

(iv) **Exim Bank's Line of Credit of USD 20 million to the Government of the Republic of Niger**

Export-Import Bank of India (Exim Bank) has concluded an Agreement dated

October 11, 2008 with the Government of the Republic of Niger making available to the latter, a Line of Credit (LOC) of USD 20 million (USD twenty million) for financing eligible goods and services, including consultancy services from India, for (i) Rehabilitation and Reinforcement of six power stations, (ii) Purchase of three power transformers, and (iii) Rehabilitation as well as erection of power lines between various places in the Republic of Niger.

[A. P. (DIR Series) Circular No. 53 dated February 19, 2009]

(v) **Exim Bank's Line of Credit of USD 14.50 million to the Government of the Gabonese Republic**

Export-Import Bank of India (Exim Bank) has concluded an Agreement dated January 18, 2008 with the Government of the Gabonese Republic, making available to the latter, a Line of Credit (LOC) of USD 14.50 million (USD fourteen million five hundred thousand) for financing export of goods from India in connection with housing project to be set up in the Gabonese Republic.

[A. P. (DIR Series) Circular No. 54 dated February 26, 2009]

(vi) **Exim Bank's Line of Credit of USD 15 million to the Government of Sierra Leone**

Export-Import Bank of India (Exim Bank) has concluded an Agreement dated November 14, 2008 with the Government of Sierra Leone making available to the latter, a Line of Credit (LOC) of USD 15 million (USD fifteen million) for financing export of goods from India for development of commercial agriculture which envisages procurement of tractors and connected implements, harvesters, rice threshers, rice

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mills, maize shellers and pesticide spray equipments, etc. in Sierra Leone

[A. P. (DIR Series) Circular No. 55 dated
February 26, 2009]

(vii) Exim Bank's Line of Credit of USD
10 million to the Government of
the Republic of Gambia

Export-Import Bank of India (Exim
Bank) has concluded an Agreement dated

August 8, 2008 with the Government of the
Republic of Gambia making available to
the latter, a Line of Credit (LOC) of USD
10 million (USD ten million) for
financing export of goods from India for
financing construction of National
Assembly Building Complex in the
Republic of Gambia.

[A. P. (DIR Series) Circular No. 56 dated
February 26, 2009]