

ANNEX
[Annex to A.P (DIR Series) Circular No.32
dated December 28, 2010]

Comprehensive Guidelines on Foreign Exchange Derivatives and Overseas Hedging of Commodity Price and Freight Risks

The Comprehensive Guidelines on OTC Foreign Exchange Derivatives and Overseas Hedging of Commodity Price Risk and Freight Risk for the reference of the Authorised Dealers and the users of the foreign exchange derivatives are given in this document. The document is divided into the following sections:

- I. Section A - Overview of the guidelines
- II. Section B - Guidelines for persons resident in India (other than AD Category I banks)
- III. Section C - Guidelines for persons resident outside India
- IV. Section D - Guidelines for Authorised Dealers Category I
- V. Section E - Guidelines for Commodity Derivatives
- VI. Section F - Guidelines for Freight Derivatives
- VII. Section G - Reports to the Reserve Bank

Section A

I. Overview

Given below is the description of the categories of persons who are permitted to access the OTC foreign exchange market in India for managing exchange rate and interest rate risks as also the menu of permitted products that can be used for hedging different categories of foreign exchange rate exposures. Additionally, the facilities for residents to hedge commodity price and freight risks overseas have been described under sections E and F below.

II. Persons resident in India (other than AD Category I banks)

1) Contracted Exposures – The following products are permitted to be used:

- i) Forward Foreign Exchange Contracts
- ii) Cross Currency Options (not involving the Rupee)
- iii) Foreign Currency-INR Options
- iv) Foreign Currency-INR Swaps
- v) Cost Reduction Structures
- vi) Cross currency swap, Interest Rate Swap, Coupon Swap, Interest Rate Cap or Collar(purchases), Forward Rate Agreement

2) Probable Exposures based on Past Performance - The following products are permitted to be used:

- i) Forward Foreign Exchange Contracts
- ii) Cross Currency Options (not involving the Rupee)
- iii) Foreign Currency-INR Options
- iv) Cost Reduction Structures

3) Special Dispensation – The following categories are permitted under special dispensation:

- i) **Small and Medium Enterprises (SMEs)¹** - Permitted to book forward foreign exchange contracts without production of underlying documents for hedging their direct /indirect exposure to foreign exchange risk.
 - Product : Forward Foreign Exchange Contracts
- ii) **Resident Individuals** - To hedge their foreign exchange exposures arising out of actual or anticipated remittances, both inward and outward,

¹ SME as defined by the Rural Planning and Credit Department, Reserve Bank of India vide circular [RPCD.PLNS. BC.No.63/06.02.31/2006-07 dated April 4, 2007.](#)

without production of underlying documents, up to a limit of USD 100,000, based on self declaration.

- Product : Forward Foreign Exchange Contracts

III. Persons resident outside India – The following categories are permitted to hedge their contracted foreign exchange exposures:

- i) Foreign Institutional Investors (FIIs)
- ii) Persons having Foreign Direct Investment (FDI) in India
- iii) Non-resident Indians (NRIs)

For these categories, subject to terms and conditions enumerated later, the following products are permitted:

- a) Forward Foreign Exchange Contracts
- b) Foreign Currency-INR Options

IV. Authorised Dealers Category I (AD Category I) - Hedging can be undertaken for the following purposes:

- i) Management of Assets and Liabilities
- ii) Hedging of Gold Price Risk
- iii) Hedging of currency risk on Capital

The products and terms and conditions for each of the purposes are enumerated later.

V. Commodity Derivatives

Residents are permitted to use OTC and exchange-traded commodity derivatives in international markets for hedging their exposures to commodity price risk subject to conditions specified under the relevant para. Applications for commodity hedging by companies/ firms, which are not covered by the delegated authority of AD Category I banks or on behalf of customers who are exposed to systemic international price risk, may be forwarded to the Reserve Bank through the AD Category I bank for permission.

VI. Freight Derivatives

Domestic oil refining and shipping companies are permitted to use OTC and exchange traded freight derivatives in international markets for hedging their exposures to freight risk, subject to conditions specified under the relevant para.

Other companies exposed to freight risk can seek prior permission from the Reserve Bank through their AD Category I banks.

VII. Reports

AD Category I banks are required to submit reports on derivative products, as per the details given in this section.

Section B

Products for Persons Resident in India – Other than Authorised Dealers Category I

The facilities for persons resident in India (other than AD Category I banks) are elaborated under paragraphs B I and B II. **Paragraph B I** describes the products and operational guidelines for the respective product. In addition to the operational guidelines under B I, the general instructions that are applicable across all products for residents (other than AD Category I banks) are detailed under **paragraph B II**.

B I. Products and Operational Guidelines

The product/purpose- wise facilities for persons resident in India (other than AD Category I banks) are detailed under the following subheads:

- 1) Contracted Exposure
- 2) Probable Exposure
- 3) Special Dispensation

1) Contracted Exposures

AD Category I banks have to evidence the underlying documents so that the existence of underlying foreign currency exposure can be clearly established. AD Category I banks, through verification of documentary evidence, should be satisfied about the genuineness of the underlying exposure, irrespective of the transaction being a current or a capital account. Full particulars of the contracts should be marked on the original documents under proper authentication and retained for verification. However, in cases where the submission of original documents is not possible, a copy of the original documents, duly certified by an authorized official of the user, may be obtained. In either of the cases, before offering the contract, the AD Category I banks should obtain an undertaking from the customer and also quarterly certificates from the statutory auditor (for details refer section B para II (b) for General Instructions). While details of the underlying have to be recorded at the time of booking the contract, in the view of logistic issues, a maximum period of 15 days may be allowed for production of the documents. If the documents are not submitted by the customer within 15 days, the contract may be cancelled, and the exchange gain, if any, should not be passed on to the customer. In the event of non-submission of the documents by the customer within 15 days on more than three occasions in a financial year, booking of permissible derivative contracts in future may be allowed only against production of the underlying documents, at the time of booking the contract.

The products available under this facility are as follows:

i) Forward Foreign Exchange Contracts

Participants

Market-makers - AD Category I banks

Users - Persons resident in India

Purpose

- a) To hedge exchange rate risk in respect of transactions for which sale and /or purchase of foreign exchange is permitted under the FEMA 1999, or in terms of the rules/ regulations/directions/orders made or issued there under.
- b) To hedge exchange rate risk in respect of the market value of overseas direct investments (in equity and loan).
 - i) Contracts covering overseas direct investment (ODI) can be cancelled or rolled over on due dates. However, AD Category I banks may permit rebooking only to the extent of 50 per cent of the cancelled contracts.
 - ii) If a hedge becomes naked in part or full owing to contraction (due to price movement/impairment) of the market value of the ODI, the hedge may be allowed to continue until maturity, if the customer so desires. Rollovers on due date shall be permitted up to the extent of the market value as on that date.
- c) To hedge exchange rate risk of transactions denominated in foreign currency but settled in INR, including hedging the economic (currency indexed) exposure of importers in respect of customs duty payable on imports.
 - i) Forward foreign exchange contracts covering such transactions will be settled in cash on maturity.
 - ii) These contracts once cancelled, are not eligible to be rebooked.
 - iii) In the event of any change in the rate(s) of customs duties, due to Government notifications subsequent to the date of the forward contracts, importers may be allowed to cancel and/or rebook the contracts before maturity.

Operational Guidelines, Terms and Conditions

General principles to be observed for forward foreign exchange contracts.

- a) The maturity of the hedge should not exceed the maturity of the underlying transaction. The currency of hedge and tenor, subject to the above restrictions, are left to the customer. Where the currency of hedge is different

from the currency of the underlying exposure, the risk management policy of the corporate, approved by the Board of the Directors, should permit such type of hedging.

- b) Where the exact amount of the underlying transaction is not ascertainable, the contract may be booked on the basis of reasonable estimates. However, there should be periodical review of the estimates.
- c) Foreign currency loans/bonds will be eligible for hedge only after final approval is accorded by the Reserve Bank, where such approval is necessary or Loan Registration Number is allotted by the Reserve Bank.
- d) Global Depository Receipts (GDRs)/American Depository Receipts (ADRs) will be eligible for hedge only after the issue price has been finalized.
- e) Balances in the Exchange Earner's Foreign Currency (EEFC) accounts sold forward by the account holders shall remain earmarked for delivery and such contracts shall not be cancelled. They are, however, eligible for rollover, on maturity.
- f) All non-INR forward contracts can be rebooked on cancellation subject to condition (h) below. Forward contracts, involving the Rupee as one of the currencies, booked by residents to hedge current account transactions, regardless of the tenor, and to hedge capital account transactions, falling due within one year, may be allowed to be cancelled and rebooked subject to condition (h) below. This relaxation of cancellation and rebooking will not be available to forward contracts booked on past performance basis without documents as also forward contracts booked to hedge transactions denominated (or indexed) in foreign currency but settled in INR.
- g) The facility of cancellation and rebooking is not permitted for forward contracts, involving Rupee as one of the currencies, booked by residents to hedge capital account transactions for tenor greater than one year. These forward contract(s) if cancelled with one AD Category I bank can be rebooked with another AD Category I bank, subject to the following conditions:
 - (i) the switch is warranted by competitive rates on offer, termination of banking relationship with the AD Category I bank with whom the contract was originally booked;
 - (ii) the cancellation and rebooking are done simultaneously on the maturity date of the contract; and
 - (iii) the responsibility of ensuring that the original contract has been

cancelled rests with the AD Category I bank who undertakes rebooking of the contract.

- h) The facility of rebooking should not be permitted unless the corporate has submitted the exposure information as prescribed in Appendix B.
- i) Substitution of contracts for hedging trade transactions may be permitted by an AD Category I bank on being satisfied with the circumstances under which such substitution has become necessary. The AD Category I bank may also verify the amount and tenor of the underlying substituted.

ii) Cross Currency Options (not involving Rupee)

Participants

Market-makers - AD Category I banks as approved for this purpose by the Reserve Bank

Users – Persons resident in India

Purpose

- a) To hedge exchange rate risk arising out of trade transactions.
- b) To hedge the contingent foreign exchange exposure arising out of submission of a tender bid in foreign exchange.

Operational Guidelines, Terms and Conditions

- a) AD Category I banks can only offer plain vanilla European options².
- b) Customers can buy call or put options.
- c) These transactions may be freely booked and/ or cancelled subject to verification of the underlying.
- d) All guidelines applicable for cross currency forward contracts are applicable to cross currency option contracts also.
- e) Cross currency options should be written by AD Category I banks on a fully covered back-to-back basis. The cover transaction may be undertaken with a bank outside India, an Off-shore Banking Unit situated in a Special Economic Zone or an internationally recognized option exchange or another AD Category I bank in India. AD Category I banks desirous of writing options, should obtain a one-time approval from the Chief General Manager, Reserve Bank of India, Foreign Exchange Department, Forex Markets Division, Central Office, Amar Building 5th Floor, Mumbai, 400001, before undertaking the business.

² A European option may be exercised only at the expiry date of the option, i.e. at a single pre-defined point in time.

iii) Foreign Currency - INR Options

Participants

Market-makers - AD Category I banks, as approved for this purpose by the Reserve Bank.

Users – Persons resident in India

Purpose

- a) To hedge foreign currency exposures in accordance with Schedule I of Notification No. FEMA 25/2000-RB dated May 3, 2000, as amended from time to time.
- b) To hedge the contingent foreign exchange exposure arising out of submission of a tender bid in foreign exchange.

Operational Guidelines, Terms and Conditions

- a) AD Category I banks having a minimum CRAR of 9 per cent, can offer foreign currency– INR options on a back-to-back basis.
- b) For the present, AD category I banks can offer only plain vanilla European options.
- c) Customers can buy call or put options.
- d) All guidelines applicable for foreign currency-INR foreign exchange forward contracts are applicable to foreign currency-INR option contracts also.
- e) AD Category I banks having adequate internal control, risk monitoring/management systems, mark to market mechanism, etc. are permitted to run a foreign currency– INR options book on prior approval from the Reserve Bank, subject to conditions. AD Category I banks desirous of running a foreign currency-INR options book and fulfilling minimum eligibility criteria listed below, may apply to the Reserve Bank with copies of approval from the competent authority (Board/ Risk Committee/ ALCO), detailed memorandum in this regard, specific approval of the Board for the type of option writing and permissible limits. The memorandum put up to the Board should clearly mention the downside risks, among other matters.

Minimum Eligibility Criteria:

- i. Net worth not less than Rs 300 crore
- ii. CRAR of 10 per cent
- iii. Net NPAs not exceeding 3 per cent of the net advances
- iv. Continuous profitability for at least three years

The Reserve Bank will consider the application and accord a one-time approval at its discretion. AD Category I banks are expected to manage the

- option portfolio within the Reserve Bank approved risk management limits.
- f) AD banks may quote the option premium in Rupees or as a percentage of the Rupee/foreign currency notional.
 - g) Option contracts may be settled on maturity either by delivery on spot basis or by net cash settlement in Rupees on spot basis as specified in the contract. In case of unwinding of a transaction prior to the maturity, the contract may be cash settled based on market value of an identical off-setting option.
 - h) Market makers are allowed to hedge the 'Delta' of their option portfolio by accessing the spot and forward markets. Other 'Greeks' may be hedged by entering into option transactions in the inter-bank market.
 - i) The 'Delta' of the option contract would form part of the overnight open position.
 - j) The 'Delta' equivalent as at the end of each maturity shall be taken into account for the purpose of AGL. The residual maturity (life) of each outstanding option contract can be taken as the basis for the purpose of grouping under various maturity buckets
 - k) AD banks running an option book are permitted to initiate plain vanilla cross currency option positions to cover risks arising out of market making in foreign currency-INR options.
 - l) Banks should put in place necessary systems for marking to market the portfolio on a daily basis. FEDAI will publish daily a matrix of polled implied volatility estimates, which market participants can use for marking to market their portfolio.
 - m) The accounting framework for option contracts will be as per FEDAI circular No.SPL-24/FC-Rupee Options/2003 dated May 29, 2003.

iv) Foreign Currency-INR Swaps

Participants

Market-makers – AD Category I banks in India.

Users –

- i. Residents having a foreign currency liability and undertaking a foreign currency-INR swap to move from a foreign currency liability to a Rupee liability.
- ii. Incorporated resident entities having a rupee liability and undertaking a INR –foreign currency swap to move from rupee liability to a foreign currency liability, subject to certain minimum prudential requirements,

such as risk management systems and natural hedges or economic exposures. In the absence of natural hedges or economic exposures, the INR-foreign currency swap (to move from rupee liability to a foreign currency liability) may be restricted to listed companies or unlisted companies with a minimum net worth of Rs 200 crore. Further, the AD Category I bank is required to examine the suitability and appropriateness of the swap and be satisfied about the financial soundness of the corporate.

Purpose

To hedge exchange rate and/or interest rate risk exposure for those having long-term foreign currency borrowing or to transform long-term INR borrowing into foreign currency liability.

Operational Guidelines, Terms and Conditions

- a) No swap transactions involving upfront payment of Rupees or its equivalent in any form shall be undertaken.
- b) The term “long-term exposure” means exposures with residual maturity of one year or more.
- c) Swap transactions may be undertaken by AD Category I banks as intermediaries by matching the requirements of corporate counterparties. While no limits are placed on the AD Category I banks for undertaking swaps to facilitate customers to hedge their foreign exchange exposures, a limit of USD 100 million is placed for net supply of foreign exchange in the market on account of swaps which facilitate customers to assume foreign currency liability. Positions arising out of cancellation of foreign currency-INR swaps by customers need not be reckoned within this cap.
- d) With reference to the specified limits for swap transactions facilitating customers to assume a foreign currency liability, the limit will be reinstated on account of cancellation/ maturity of the swap and on amortization, up to the amounts amortized.
- e) The swap transactions, once cancelled, shall not be rebooked or re-entered, by whichever mechanism or by whatever name called.
- f) AD Category I banks should not offer leveraged swap structures. Typically, in leveraged swap structures, a multiplicative factor other than unity is attached to the benchmark rate(s), which alters the payables or receivables vis-à-vis the situation in the absence of such a factor.
- g) The notional principal amount of the swap should not exceed the outstanding amount of the underlying loan.

h) The maturity of the swap should not exceed the remaining maturity of the underlying loan.

v) Cost Reduction Structures i.e. cross currency option cost reduction structures and foreign currency –INR option cost reduction structures.

Participants

Market-makers - AD Category I banks

Users – Listed companies or unlisted companies with a minimum net worth of Rs. 100 crore (subsidiaries or affiliates of listed companies which follow AS 30/32, having common treasuries and consolidate the accounts with parent companies are exempted from the minimum net worth criteria), which are complying with the following:

- Adoption of Accounting Standards 30 and 32. Companies which are not complying fully with AS 30 and 32 should follow the accounting treatment and disclosure standards on derivative contracts, as envisaged under AS 30/32.
- Having a risk management policy and a specific clause in the policy that allows using the type/s of cost reduction structures.

Purpose

To hedge exchange rate risk arising out of trade transactions and External Commercial Borrowings (ECBs).

Operational Guidelines, Terms and Conditions

- a) Writing of options by the users, on a standalone basis, is not permitted.
- b) Users can enter into option strategies of simultaneous buy and sell of plain vanilla European options, provided there is no net receipt of premium.
- c) Leveraged structures, digital options, barrier options, range accruals and any other exotic products are not permitted.
- d) The portion of the structure with the largest notional, computed over the tenor of the structure, should be reckoned for the purpose of underlying.
- e) The delta of the options should be explicitly indicated in the term sheet.

- f) AD Category I banks may, stipulate additional safeguards, such as, continuous profitability, higher net worth, turnover, etc depending on the scale of forex operations and risk profile of the users.
- g) The maturity of the hedge should not exceed the maturity of the underlying transaction and subject to the same the users may choose the tenor of the hedge. In case of trade transactions being the underlying, the tenor of the structure shall not exceed two years.
- h) The MTM position should be intimated to the users on a periodical basis.

vi) Hedging of Borrowings in foreign exchange, which are in accordance with the provisions of Foreign Exchange Management (Borrowing and Lending in Foreign Exchange) Regulations, 2000.

Products – Interest rate swap, Cross currency swap, Coupon swap, Cross currency option, Interest rate cap or collar (purchases), Forward rate agreement (FRA)

Participants

Market-makers –

- a) AD Category I banks in India
- b) Branch outside India of an Indian bank authorized to deal in foreign exchange in India
- c) Offshore banking unit in a SEZ in India.

Users –

Persons resident in India who have borrowed foreign exchange in accordance with the provisions of Foreign Exchange Management (Borrowing and Lending in Foreign Exchange) Regulations, 2000

Purpose

For hedging interest rate risk and currency risk on loan exposure and unwinding from such hedges

Operational Guidelines, Terms and Conditions

- a) The products, as detailed above should not involve the rupee under any circumstances.
- b) Final approval has been accorded or Loan Registration Number allotted by the Reserve Bank for borrowing in foreign currency.
- c) The notional principal amount of the product should not exceed the outstanding amount of the foreign currency loan.

- d) The maturity of the product should not exceed the unexpired maturity of the underlying loan.
- e) The contracts may be cancelled and rebooked freely.

2) Probable exposures based on past performance

Participants

Market-makers – AD Category I banks in India.

Users – Importers and exporters of goods and services

Purpose

To hedge currency risk on the basis of a declaration of an exposure and based on past performance up to the average of the previous three financial years' (April to March) actual import/export turnover or the previous year's actual import/export turnover, whichever is higher. Probable exposure based on past performance can be hedged only in respect of trades in merchandise goods as well as services.

Products

Forward foreign exchange contracts, cross currency options (not involving the rupee), foreign currency-INR options and cost reduction structures [as mentioned in section B para I 1(v)].

Operational Guidelines, Terms and Conditions

- a) Corporates having a minimum net worth of Rs 200 crores and an annual export and import turnover exceeding Rs 1000 crores and satisfying all other conditions as stipulated in section B para I 1(v) may be allowed to use cost reduction structures.
- b) The contracts booked during the current financial year (April-March) and the outstanding contracts at any point of time should not exceed the eligible limit i.e. the average of the previous three financial years' actual import/export turnover or the previous year's actual import/export turnover, whichever is higher.
- c) Contracts booked in excess of 75 per cent of the eligible limit will be on deliverable basis and cannot be cancelled.
- d) These limits shall be computed separately for import/export transactions.
- e) Higher limits will be permitted on a case-by-case basis on application to the Foreign Exchange Department, Central Office, Reserve Bank of India. The additional limits, if sanctioned, shall be on a deliverable basis.
- f) Any contract booked without producing documentary evidence will be marked

off against this limit. These contracts once cancelled, are not eligible to be rebooked. Rollovers are also not permitted.

g) AD banks should permit their clients to use the past performance facility only after satisfying themselves that the following conditions are complied with:

- i. An undertaking may be taken from the customer that supporting documentary evidence will be produced before the maturity of all the contracts booked.
- ii. Importers and exporters should furnish a quarterly declaration to the AD Category I banks, duly certified by the Statutory Auditor, regarding amounts booked with other AD Category I banks under this facility, as per Appendix M.
- iii. For an exporter customer to be eligible for this facility, the aggregate of overdue bills shall not exceed 10 per cent of the turnover.
- iv. Aggregate outstanding contracts in excess of 50 per cent of the eligible limit may be permitted by the AD Category I bank on being satisfied about the genuine requirements of their customers after examination of the following documents:
 - A certificate from the Statutory Auditor of the customer that all guidelines have been adhered to while utilizing this facility.
 - A certificate of import/export turnover of the customer during the past three years duly certified by their Statutory Auditor in the format given in Appendix K.

h) The past performance limits once utilised are not to be reinstated either on cancellation or on maturity of the contracts.

i) AD Category I banks must arrive at the past performance limits at the beginning of every financial year. The drawing up of the audited figures (previous year) may require some time at the commencement of the financial year. However, if the statements are not submitted within three months from the last date of the financial year, the facility should not be provided until submission of the audited figures.

j) AD Category I banks must institute appropriate systems for validating the past performance limits at pre-deal stage. In addition to the customer declarations, AD Category I banks should also assess the past transactions with the customers, turnover, etc.

k) AD Category I banks are required to submit a monthly report (as on the last Friday of every month) on the limits granted and utilised by their constituents

under this facility as prescribed in Appendix J.

3) Special Dispensation

i) Small and Medium Enterprises (SMEs)

Participants

Market-makers – AD Category I.

Users – Small and Medium Enterprises (SMEs)³

Purpose

To hedge direct and / or indirect exposures of SMEs to foreign exchange risk

Product

Forward foreign exchange contracts

Operational Guidelines: Small and Medium Enterprises (SMEs) having direct and / or indirect exposures to foreign exchange risk are permitted to book / cancel / rebook/ roll over forward contracts without production of underlying documents to manage their exposures effectively, subject to the following conditions:

- a) Such contracts may be booked through AD Category I banks with whom the SMEs have credit facilities and the total forward contracts booked should be in alignment with the credit facilities availed by them for their foreign exchange requirements or their working capital requirements or capital expenditure.
- b) AD Category I bank should carry out due diligence regarding “*user appropriateness*” and “*suitability*” of the forward contracts to the SME customers as per Para 8.3 of 'Comprehensive Guidelines on Derivatives' issued vide DBOD.No.BP.BC. 86/21.04.157/2006-07 dated April 20, 2007.
- c) The SMEs availing this facility should furnish a declaration to the AD Category I bank regarding the amounts of forward contracts already booked, if any, with other AD Category I banks under this facility.

ii) Resident Individuals

Participants

Market-makers – AD Category I banks

Users: Resident Individuals

Purpose

To hedge their foreign exchange exposures arising out of actual or anticipated

³ [SME as defined by the Rural Planning and Credit Department, Reserve Bank of India vide circular RPCD.PLNS. BC.No.63/06.02.31/2006-07 dated April 4, 2007.](#)

remittances, both inward and outward, can book forward contracts, without production of underlying documents, up to a limit of USD 100,000, based on self declaration.

Product

Forward foreign exchange contracts

Operational Guidelines, Terms and Conditions

- a) The contracts booked under this facility would normally be on a deliverable basis. However, in case of mismatches in cash flows or other exigencies, the contracts booked under this facility may be allowed to be cancelled and re-booked. The notional value of the outstanding contracts should not exceed USD 100,000 at any time.
- b) The contracts may be permitted to be booked up to tenors of one year only.
- c) Such contracts may be booked through AD Category I banks with whom the resident individual has banking relationship, on the basis of an application-cum-declaration in the format given in Appendix G. The AD Category I banks should satisfy themselves that the resident individuals understand the nature of risk inherent in booking of forward contracts and should carry out due diligence regarding “*user appropriateness*” and “*suitability*” of the forward contracts to such customer.

B II. General Instructions for forex derivative contracts entered by Residents in India

While the guidelines indicated above govern specific foreign exchange derivatives, certain general principles and safeguards for prudential considerations that are applicable across the OTC foreign exchange derivatives, are detailed below. In addition to the guidelines under the specific foreign exchange derivative product, the general instructions should be followed scrupulously by the users (residents in India other than AD Category I banks) and the market makers (AD Category I banks).

- a) In case of all forex derivative transactions [except INR- foreign currency swaps i.e. moving from INR liability to foreign currency liability as in section B para I(1)(iv)] is undertaken, AD Category I banks must take a declaration from the clients that the exposure is unhedged and has not been hedged with another AD Category I bank. The corporates should provide an annual certificate to the AD Category I bank certifying that the derivative transactions are authorized and that the Board (or the equivalent forum in case of partnership or proprietary firms) is aware of the same.

- b) In the case of **contracted exposure**, AD Category I banks must obtain:
- i) An undertaking from the customer that the same underlying exposure has not been covered with any other AD Category I bank/s. Where hedging of the same exposure is undertaken in parts, with more than one AD Category I bank, the details of amounts already booked with other AD Category I bank/s should be clearly indicated in the declaration. This undertaking can also be obtained as a part of the deal confirmation.
 - ii) Quarterly certificates from the statutory auditors of the users, that the contracts outstanding at any point of time with all AD Category I banks during the quarter did not exceed the value of the underlying exposures.
- c) Derived foreign exchange exposures are not permitted to be hedged. However, in case of INR- foreign currency swaps, at the inception, the user can enter into one time plain vanilla cross currency option (not involving Rupee) to cap the currency risk.
- d) In any derivative contract, the notional amount should not exceed the actual underlying exposure at any point in time. Similarly, the tenor of the derivative contracts should not exceed the tenor of the underlying exposure. The notional amount for the entire transaction over its complete tenor must be calculated and the underlying exposure being hedged must be commensurate with the notional amount of the derivative contract.
- e) Only one hedge transaction can be booked against a particular exposure/ part thereof for a given time period.
- f) The term sheet for the derivative transactions (except forward contracts) should also necessarily and clearly mention the following:
- i) the purpose for the transaction detailing how the product and each of its components help the client in hedging;
 - ii) the spot rate prevailing at the time of executing the transaction; and
 - iii) quantified maximum loss/ worst downside in various scenarios.
- g) AD Category I banks can offer only those products that they can price independently. This is also applicable to the products offered even on back to back basis. The pricing of all forex derivative products should be locally demonstrable at all times.
- h) The market-makers should carry out proper due diligence regarding 'user appropriateness' and 'suitability' of products before offering derivative products (except forward contracts) to users as detailed in DBOD.No.BP.BC.

86/21.04.157/2006-07 dated April 20, 2007.

- i) AD Category I may share with the user the various scenario analysis encompassing both the possible upside as well as the downsides and sensitivity analysis identifying the various market parameters that affect the product.
- j) The provisions of comprehensive guidelines on Derivatives issued vide DBOD.No.BP.BC. 86/21.04.157/2006-07 dated April 20, 2007 and as amended from time to time are also applicable to forex derivatives.
- k) Sharing of information on derivatives between banks is mandatory and as detailed vide circular DBOD.No.BP.BC.46/08.12.001/2008-09 dated September 19, 2008 and DBOD.No. BP. BC. 94/ 08.12.001/ 2008-09 dated December 8, 2008.

Section C

Facilities for Persons Resident outside India

For persons resident outside India, only capital account transactions as enumerated hereunder, subject to verification of underlying exposure, are permitted to be hedged. Transactions arising out of trade in merchandise goods as well as services with residents or non residents are not permitted to be hedged.

Participants

Market-makers – In respect of FIIs, designated branches of AD Category I banks maintaining accounts of FIIs. In all other cases, AD Category I banks.

Users – Foreign Institutional Investors (FII), Investors having Foreign Direct Investments (FDI) and Non Resident Indians (NRIs).

The purpose, products and operational guidelines of each of the users is detailed below:

i) FII related

Purpose

To hedge currency risk on the market value of entire investment in equity and/or debt in India as on a particular date.

Products

Forward foreign exchange contracts with rupee as one of the currencies and foreign currency-INR options.

Operational Guidelines, Terms and Conditions

- a) The eligibility for cover may be determined on the basis of the declaration of the FII.
- b) AD Category I banks may undertake periodic reviews, at least at quarterly intervals, on the basis of market price movements, fresh inflows, amounts repatriated and other relevant parameters to ensure that the forward cover outstanding is supported by underlying exposures.
- c) If a hedge becomes naked in part or in full owing to contraction of the market value of the portfolio, for reasons other than sale of securities, the hedge may be allowed to continue till the original maturity, if so desired.
- d) The contracts, once cancelled cannot be rebooked except to the extent of 2 per cent of the market value of the portfolio as at the beginning of the financial year. The forward contracts may, however, be rolled over on or before maturity.
- e) The cost of hedge should be met out of repatriable funds and /or inward remittance through normal banking channel.

- f) All outward remittances incidental to the hedge are net of applicable taxes.

ii) FDI related

Purpose

- i) To hedge exchange rate risk on the market value of investments made in India since January 1, 1993, subject to verification of the exposure in India
- ii) To hedge exchange rate risk on dividend receivable on the investments in Indian companies
- iii) To hedge exchange rate risk on proposed investment in India

Products

Forward foreign exchange contracts with rupee as one of the currencies and foreign currency-INR options.

Operational Guidelines, Terms and Conditions

- a) In respect of contracts to hedge exchange rate risk on the market value of investments made in India, contracts once cancelled are not eligible to be rebooked. The contracts may, however, be rolled over.
- b) In respect of proposed foreign direct investments, following conditions would apply:
 - (i) Contracts to hedge exchange rate risk arising out of proposed investment in Indian companies may be allowed to be booked only after ensuring that the overseas entities have completed all the necessary formalities and obtained necessary approvals (wherever applicable) for the investment.
 - (ii) The tenor of the contracts should not exceed six months at a time beyond which permission of the Reserve Bank would be required to continue with the contract.
 - (iii) These contracts, if cancelled, shall not be eligible to be rebooked for the same inflows.
 - (iv) Exchange gains, if any, on cancellation shall not be passed on to the overseas investor.

iii) NRI related

Purpose

- a) To hedge the exchange rate risk on the market value of investment made under the portfolio scheme in accordance with provisions of FERA, 1973 or under notifications issued there under or in accordance with provisions of FEMA, 1999.

- b) To hedge the exchange rate risk on the amount of dividend due on shares held in Indian companies.
- c) To hedge the exchange rate risk on the amounts held in FCNR (B) deposits.
- d) To hedge the exchange rate risk on balances held in NRE account.

Products

- a) Forward foreign exchange contracts with rupee as one of the currencies, and foreign currency-INR options.
- b) Additionally, for balances in FCNR (B) accounts – Cross currency (not involving the rupee) forward contracts to convert the balances in one foreign currency to other foreign currencies in which FCNR (B) deposits are permitted to be maintained.

Operational Guidelines, Terms and Conditions

The operational guidelines as outlined for FIIs would be applicable, with the exception of the provision relating to rebooking of cancelled contracts. All foreign exchange derivative contracts permissible for a resident outside India other than a FII, once cancelled, are not eligible to be rebooked.

Section D

Facilities for Authorised Dealers Category I

i) Management of Assets and Liabilities

Users – AD Category I banks

Purpose - Hedging of interest rate and currency risks of foreign exchange asset-liability portfolio

Products - Interest Rate Swap, Interest Rate Cap/Collar, Currency Swap, Forward Rate Agreement. AD banks may also purchase call or put options to hedge their cross currency proprietary trading positions.

Operational Guidelines, Terms and Conditions

The use of these instruments is subject to the following conditions:

- a) An appropriate policy in this regard is approved by the Top Management.
- b) The value and maturity of the hedge should not exceed those of the underlying.
- c) No 'stand alone' transactions can be initiated. If a hedge becomes naked, in part or full, owing to the contraction of the value of portfolio, it may be allowed to continue till the original maturity and should be marked to market at regular intervals.
- d) The net cash flows arising out of these transactions are booked as income/ expenditure and reckoned toward foreign exchange position, wherever applicable.

ii) Hedging of Gold Price Risk

Users –

- i. Banks authorised by the Reserve Bank to operate the Gold Deposit Scheme
- ii. Banks, which are allowed to enter into forward gold contracts in India in terms of the guidelines issued by the Department of Banking Operations and Development (including the positions arising out of inter-bank gold deals)

Purpose – To hedge price risk of gold

Products - Exchange-traded and over-the-counter hedging products available overseas.

Operational Guidelines, Terms and Conditions

- a) While using products involving options, it may be ensured that there is no net receipt of premium, either direct or implied.

- b) Authorised banks are permitted to enter into forward contracts with their constituents (exporters of gold products, jewellery manufacturers, trading houses, etc.) in respect of the underlying sale, purchase and loan transactions in gold with them, subject to the conditions specified by the Reserve Bank in this regard. The tenor of such contracts should not exceed six months.

iii) Hedging of currency risk on capital

Users – Foreign banks operating in India

Product – Forward foreign exchange contracts

Operational Guidelines, Terms and Conditions

- a) Tier I capital -
 - i) The capital funds should be available in India to meet local regulatory and CRAR requirements and, hence, these should not be parked in nostro accounts. Foreign currency funds accruing out of hedging should not be parked in Nostro accounts but should remain swapped with banks in India at all times.
 - ii) The forward contracts should be for tenors of one or more years and may be rolled over on maturity. Rebooking of cancelled hedges will require prior approval of the Reserve Bank.

- b) Tier II capital -
 - i) Foreign banks are permitted to hedge their Tier II capital in the form of Head Office borrowing as subordinated debt, by keeping it swapped into rupees at all times in terms of DBOD circular No.IBS.BC.65 /23.10.015/2001-02 dated February 14, 2002.
 - ii) Banks are not permitted to enter into foreign currency-INR swap transactions involving conversion of fixed rate rupee liabilities in respect of Innovative Tier I/Tier II bonds into floating rate foreign currency liabilities.

Section E

Commodity Hedging

Residents in India, engaged in import and export trade or as otherwise approved by the Reserve Bank from time to time, are permitted to hedge the price risk of permitted commodities in the international commodity exchanges/ markets. This facility must not be used in conjunction with any other derivative product. It may be noted that the role of Authorized Dealer banks here is primarily to provide facilities for remitting foreign currency amounts towards margin requirements from time to time, subject to verification of the underlying exposure. In lieu of making a direct remittance towards payment obligations arising out of commodity derivative transactions entered into by customers with overseas counterparties, AD Category I banks may issue guarantees/standby letters of credit to cover these specific payment obligations related to commodity derivatives, subject to the conditions/guidelines in Appendix L. It is clarified that the term Board, wherever used refers to Board of Directors or the equivalent forum in case of partnership or proprietary firms. The facility is divided into following categories:

I) Delegated Route

a. Hedging of price risk on actual Import/Export of commodities

Participants

Users: Companies in India listed on a recognized stock exchange engaged in import and export of commodities

Facilitators: AD Category I banks specifically authorized by the Reserve Bank in this regard.

Purpose: To hedge price risk of the imported/exported commodity

Products: Standard exchange traded futures and options (purchases only) in international commodity exchanges. If risk profile warrants –may use OTC contracts overseas.

Operational Guidelines

AD Category I banks satisfying certain minimum norms, and authorized by the Reserve Bank may grant permission to companies listed on a recognized stock exchange to hedge price risk on import/ export in respect of any commodity(except gold, silver, platinum) in the international commodity exchanges/ markets. The guidelines are given in Appendix H (A & B).

b. Hedging of anticipated imports of crude oil

Participants

Users: Domestic companies engaged in refining crude oil.

Facilitators: AD Category I banks specifically authorized by the Reserve Bank in this regard.

Purpose: To hedge the price risk on crude oil imports on the basis of past performance.

Products: Standard exchange traded futures and options (purchases only) in international commodity exchanges. If risk profile warrants – may use OTC contracts overseas.

Operational Guidelines:

- a) Hedging to be permitted up to 50 per cent of the volume of actual imports during the previous year or 50 per cent of the average volume of imports during the previous three financial years, whichever is higher.
- b) Contracts booked under this facility will have to be regularized by production of supporting import orders during the currency of the hedge. An undertaking may be obtained from the companies to this effect.
- c) All other conditions and guidelines as per Appendix H should be complied with.

c. Hedging of price risk on domestic purchase and sales

(i) Select Metals

Participants

Users: Domestic producers/ users of aluminium, copper, lead, nickel and zinc listed on a recognized stock exchange.

Facilitators: AD Category I banks specifically authorized by the Reserve Bank in this regard

Purpose: To hedge the price risk on aluminium, copper, lead, nickel and zinc based on their underlying economic exposures

Products: Standard exchange traded futures and options (purchases only) in international commodity exchanges.

Operational Guidelines:

- a) Hedging may be permitted up to the average of previous three financial years' (April to March) actual purchases / sales or the previous year's actual purchases / sales turnover, whichever is higher, of the above commodities.

- b) AD Category I banks would require the user to submit a Board resolution certifying Board approved policies which define the overall framework within which derivatives activities should be conducted and the risks controlled.
- c) All other conditions and guidelines as per Appendix H (A & B) should be complied with.

(ii) ATF (Aviation Turbine Fuel)

Participants

Users: Actual domestic users of ATF.

Facilitators: AD Category I banks specifically authorized by the Reserve Bank in this regard.

Purpose: To hedge economic exposures in respect of ATF based on domestic purchases.

Products: Standard exchange traded futures and options (purchases only) in international commodity exchanges. If risk profile warrants – may use OTC contracts overseas.

Operational Guidelines:

- a) AD Category I banks should ensure that permission for hedging ATF is granted only against firm orders.
- b) AD Category I banks should retain necessary documentary evidence.
- c) AD Category I banks would require the user to submit a Board resolution certifying Board approved policies which define the overall framework within which derivatives activities should be conducted and the risks controlled.
- d) All other conditions and guidelines as per Appendix H (A & B) should be complied with.

(iii) Domestic purchases of crude oil and sales of petro-products

Participants

Users: Domestic crude oil refining companies.

Facilitators: AD Category I banks specifically authorized by the Reserve Bank in this regard.

Purpose: To hedge commodity price risk on domestic purchases of crude oil and domestic sales of petroleum products, which are linked to international prices.

Products: Standard exchange traded futures and options (purchases only) in international commodity exchanges. If risk profile warrants – may use OTC contracts overseas.

Operational Guidelines:

- a) The hedging will be allowed strictly on the basis of underlying contracts.
- b) AD Category I banks should retain necessary documentary evidence.
- c) All other conditions and guidelines as per Appendix H (A & B) should be complied with.

d. Hedging of price risk on Inventory

Participants

Users: Domestic oil marketing and refining companies.

Facilitators: AD Category I banks specifically authorized by the Reserve Bank in this regard.

Purpose: To hedge commodity price risk on Inventory.

Products: Over-the-counter (OTC) / exchange traded derivatives overseas with tenor restricted to a maximum of one-year forward.

Operational Guidelines:

- a) Hedge is allowed to the extent of 50 per cent of their inventory based on the volumes in the quarter proceeding the previous quarter.
- b) All other conditions and guidelines as per Appendix H (A & B) should be complied with.

II) Approval Route

Participants

Users: Residents in India, other than companies listed on recognized stock exchanges, engaged in import and export of commodities or customers who are exposed to systemic international price risk.

Facilitators: AD Category I banks

Purpose: To hedge price risk of the imported/exported commodity and systemic international price risk

Products: Standard exchange traded futures and options (purchases only) in international commodity exchanges. If risk profile warrants – may use OTC contracts overseas.

Operational Guidelines:

Applications of companies/ firms which are not covered by the delegated authority of AD Category I may be forwarded to the Reserve Bank for consideration through the International Banking Division of an AD Category I bank concerned along with the latter's specific recommendations. The details of the application are given in Appendix-I.

III) Entities in Special Economic Zones (SEZ)**Participants**

Users: Entities in Special Economic Zones (SEZ)

Facilitators: AD Category I banks

Purpose: To hedge price risk of the imported/exported commodity

Products: Standard exchange traded futures and options (purchases only) in international commodity exchanges. If risk profile warrants – may use OTC contracts overseas.

Operational Guidelines:

AD banks may allow entities in the Special Economic Zones (SEZ) to undertake hedging transactions in the overseas commodity exchanges/markets to hedge their commodity prices on export/import, subject to the condition that such contract is entered into on a stand-alone basis. (The term "standalone" means the unit in SEZ is completely isolated from financial contacts with its parent or subsidiary in the mainland or within the SEZs as far as its import/export transactions are concerned.)

NOTE: The detailed guidelines in respect of Delegated Route and Approval Route are given in the Appendix H and I respectively.

Section F

Freight Hedging

Domestic oil refining companies and shipping companies exposed to freight risk, are permitted to hedge their freight risk by the AD Category I banks authorized by the Reserve Bank. Other companies exposed to freight risk can seek prior permission from the Reserve Bank through their AD Category I bank.

It may be noted that the role of Authorized Dealer banks here is primarily to provide facilities for remitting foreign currency amounts towards margin requirements from time to time, subject to verification of the underlying exposure. This facility must not be used in conjunction with any other derivative product. The facility is divided into following categories:

I) Delegated Route

Participant:

Users: Domestic oil-refining companies and shipping companies.

Facilitators: AD Category I banks, specifically authorized by the Reserve Bank i.e. those who have been delegated the authority to grant permission to listed companies to hedge commodity price risk in the international commodity exchanges / markets, subject to the conditions mentioned therein.

Purpose: To hedge freight risk.

Products: Plain vanilla Over the Counter (OTC) or exchange traded products in the international market / exchange.

Operational Guidelines:

- i) The maximum tenor permissible will be one year forward.
- ii) The exchanges on which the products are purchased must be a regulated entity in the host country.
- iii) AD Category I banks should ensure that the entities hedging their freight exposures have Board Resolutions which certify that the Board approved Risk Management policies, defines the overall framework within which derivative transactions should be undertaken and the risks contained therein. 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.

- iv) The AD Category I bank must obtain a copy of a Board resolution that certifies that the corporate has a Risk Management Policy, incorporating the above details at the time of permitting the transaction itself and as and when changes made therein.
- v) The underlying exposure for the users is detailed under (a) and (b) below:

(a) For Domestic 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.
- (ii) Additionally, domestic oil refining companies may 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.
- (iii) Contracts booked under the past performance facility will have to be regularized by production of underlying documents during the currency of the hedge. An undertaking may be obtained from the company to this effect.

(b) For 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 the statutory auditor and submitted to the AD Category I bank.
- (ii) Contracts booked will have to be regularized 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.

II) Approval Route

Participants

Users: Companies (other than domestic oil-refining companies and shipping companies) who are exposed to freight risk

Facilitators: AD Category I banks

Purpose: To hedge freight risk

Products: Plain vanilla Over the Counter (OTC) or exchange traded products in the international market / exchange.

Operational Guidelines

- a) The maximum tenor permissible will be one year forward.
- b) The exchanges on which the products are purchased must be a regulated entity in the host country.
- c) Applications of companies/ firms which are not covered by the delegated authority of AD Category I may be forwarded to the Reserve Bank for consideration through the International Banking Division of their AD Category I bank concerned along with the latter's specific recommendations.

Section G

Reports to the Reserve Bank

- i) Authorised Dealers Category I should consolidate the data on cross-currency derivative transactions undertaken by residents and submit half yearly reports (June and December) as per the format indicated in the Appendix A.

- ii) Authorised Dealers Category I should forward details of exposures in foreign exchange as at end of every quarter as per format indicated in Appendix B. The AD banks should submit this report based on bank's books and not based on corporate returns.

- iii) Authorised Dealers Category I should forward details of all swap transactions on a weekly basis in the format given in Appendix C.

- iv) Authorised Dealers Category I should forward details of option transactions (fcy-INR) undertaken on a weekly basis as per the format indicated in Appendix D.

- v) A monthly statement should be furnished before the 10th of the succeeding month, in respect of cover taken by FIIs, indicating the name of the FII / fund, the eligible amount of cover, the actual cover taken, etc. as per the format in Appendix E.

- vi) AD Category I banks are required to submit a quarterly report on the forward contracts booked & cancelled by SMEs and Resident Individuals within the first week of the following month, as per format given in Appendix F. In case of residents such contracts may be booked through AD Category I banks with whom the resident individual has banking relationship, on the basis of an application-cum-declaration in the format given in Appendix G.

- vii) AD Category I banks are required to submit a monthly report (as on the last Friday of every month) on the limits granted and utilized by their constituents under the past performance facility in the format given in Appendix J.

All the above mentioned reports are to be sent to the Chief General Manager, Reserve Bank of India, Foreign Exchange Department, Central Office, Forex Markets Division, Amar Building, Mumbai - 400 001.

Appendix A

[See section G para (i)]

Cross- currency derivative transactions - statement for the half-year ended....

| Product | No. of transactions | Notional principal amount in USD |
|--|---------------------|----------------------------------|
| Interest rate swaps | | |
| Currency swaps | | |
| Coupon swaps | | |
| Foreign currency option | | |
| Interest rate caps or collars (Purchases) | | |
| Forward rate agreement | | |
| Any other product as permitted by Reserve Bank from time to time | | |

Appendix B

[See section B para I 1(i)(h) and section G para (ii)]

| Information relating to exposures in Foreign Currency as on..... Name of the bank..... | | | | | | | | | | Information relating to exposures in Foreign Currency as on.....Name of the bank..... | | | | | | C. INR/FCY currency swaps based on Rupee Liability (above USD 25 million equivalent be reported) |
|---|-------------------|---------------|---------------|-----------|---------------|--------------------------------|---------------|-------------|---------------|---|--------------------|------------|-----------------|--------------------|------------|--|
| A. Exposures and Hedges based on Underlying Transactions (USD Million) | | | | | | | | | | B. Exposures and Hedges based on Past Performance (USD Million) | | | | | | |
| Sr. No. | Name of Corporate | Trade Related | | | | | | Non - Trade | | Exports | | | Imports | | | |
| | | Exports | | Imports | | Short Term Finance Outstanding | | Exposures | Amount hedged | Eligible limits | Cum. Amount hedged | Amount O/S | Eligible limits | Cum. Amount hedged | Amount O/S | |
| Exposures | Amount hedged | Exposures | Amount hedged | Exposures | Amount hedged | Exposures | Amount hedged | | | | | | | | | |
| 1 | | | | | | | | | | | | | | | | |
| 2 | | | | | | | | | | | | | | | | |
| 3 | | | | | | | | | | | | | | | | |
| 4 | | | | | | | | | | | | | | | | |
| 5 | | | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | | |
| Notes: | | | | | | | | | | | | | | | | |
| a. Export Bills purchased /discounted/negotiated not to be included | | | | | | | | | | | | | | | | |
| b. L/C s established/bills under LCs to be retired/ outstanding import collection bills to be included | | | | | | | | | | | | | | | | |
| c. Data to be submitted based on banks' books and not based on corporate's return | | | | | | | | | | | | | | | | |
| d. Short term Finance to include Trade Credit (Buyer's credit / supplier's credit) approved by the Bank /PCFC | | | | | | | | | | | | | | | | |
| e. Non trade exposures to include ECBs , FCCB cases handled by the bank/ FCNR (B) loans etc. | | | | | | | | | | | | | | | | |
| f. Corporate wise data where the exposures or the hedges undertaken are above USD 25 million or equivalent shall be reported. | | | | | | | | | | | | | | | | |
| g. All hedges with rupee as one of the legs shall be reported | | | | | | | | | | | | | | | | |
| h. In the case of option structures, the trade with highest notional amount shall be reported. | | | | | | | | | | | | | | | | |
| i. Corporate wise data where the eligible limits computed as per RBI guidelines are above USD 25 Million or equivalent shall be reported, in Part B | | | | | | | | | | | | | | | | |
| j. Under amounts hedged in Part B report the cumulative total of the hedges booked during the financial year | | | | | | | | | | | | | | | | |
| k. The amount of contracts booked during the previous year and outstanding shall not be included under the amount hedged and amount O/S in Part B. | | | | | | | | | | | | | | | | |
| l. Only the cases where the bank has sanctioned some PP limits for the corporate shall be reported in Part B | | | | | | | | | | | | | | | | |
| Please send the report in Excel format by email to 'ecdfcmd@rbi.org.in' copy to 'fedcofmd@rbi.org.in' | | | | | | | | | | | | | | | | |

Appendix C

[See section G para (iii)]

Weekly report of Long Term Foreign Currency Rupee Swaps for the week from _____ to _____

Name of the Authorized Dealer Category I bank:-

| Date of Transaction | Notional Principal-Currency and Amount | USD equivalent | Customer Name | FC to INR/ INR to FC | Amount covered in the market – Purchase/Sale | Last week's balance | Current Balance |
|----------------------------|---|-----------------------|----------------------|---------------------------------|---|----------------------------|------------------------|
| | | | | | | | |
| | | | | | | | |
| | | | | | | | |
| | | | | | | | |
| | | | | | | | |

[See section G para (iv)]

Rupee/Fcy Option transactions :

[For the week ended _____]

I. Option Transaction Report

| Sr. no | Trade date | Client / C-party Name | Notional | Option Call/ Put | Strike | Maturity | Premium | Purpose* |
|--------|------------|-----------------------|----------|------------------|--------|----------|---------|----------|
| | | | | | | | | |
| | | | | | | | | |
| | | | | | | | | |

*Mention balance sheet, trading or client related.

II. Option Positions Report

| Currency Pair | Notional Outstanding | | Net Portfolio Delta | Net Portfolio Gamma | Net Portfolio Vega |
|---------------|----------------------|------|---------------------|---------------------|--------------------|
| | calls | puts | | | |
| USD-INR | USD | USD | USD | | |
| EUR-INR | EUR | EUR | EUR | | |
| JPY-INR | JPY | JPY | JPY | | |

(Similarly for other currency pairs)

Total Net Open Options Position (INR):

The total net open options position can be arrived using the methodology prescribed in A.P. (DIR Series) Circular No. 92 dated April 4, 2003.

[See section G para (v)]

Statement – Details of Forward cover undertaken by FII clients

Month –

Part A – Details of forward cover (without rebooking) outstanding

Name of FII

Current Market Value (USD mio)

| Eligibility for Forward cover | Forward Contracts Booked | | Forward Contracts Cancelled | | Total forward cover outstanding |
|-------------------------------|--------------------------|---------------------------------|-----------------------------|---------------------------------|---------------------------------|
| | During the month | Cumulative Total – Year to Date | During the month | Cumulative total – Year to date | |
| | | | | | |
| | | | | | |
| | | | | | |

Part B – Details of transactions permitted to be cancelled and rebooked

Name of FII

Market Value as determined at start of year

| Eligibility for Forward cover | Forward Contracts Booked | | Forward Contracts Cancelled | | Total forward cover outstanding |
|-------------------------------|--------------------------|---------------------------------|-----------------------------|---------------------------------|---------------------------------|
| | During the month | Cumulative Total – Year to Date | During the month | Cumulative total – Year to date | |
| | | | | | |
| | | | | | |
| | | | | | |

Name of the AD Category I bank :

Signature of the Authorised official :

Date :

Stamp :

[See section G para (vi)]

Statement – Details of Forward contracts booked and cancelled

For the Quarter ended –

(USD million)

| Category | Forward Contracts Booked | | Forward Contracts Cancelled | |
|--------------------|--------------------------|--------------------------------|-----------------------------|---------------------------------|
| | During the Quarter | Cumulative total –Year to Date | During the Quarter | Cumulative total – Year to date |
| SMEs | | | | |
| Individuals | | | | |

Name of the AD Category – I bank :

Signature of the Authorised official :

Date :

Stamp :

[See section B para I(3)(ii)(c) and section G para (vi)]

Application cum Declaration for booking of forward contracts up to USD 100,000 by Resident Individuals

(To be completed by the applicant)

I. Details of the applicant

a. Name

b. Address.....

c. Account No.....

d. PAN No.....

II. Details of the foreign exchange forward contracts required

1. Amount (Specify currency pair)

2. Tenor

III. Notional value of forward contracts outstanding as on date

IV. Details of actual / anticipated remittances

1. Amount :

2. Remittance Schedule :

3. Purpose :

Declaration

I,(Name of the applicant), hereby declare that the total amount of foreign exchange forward contracts booked with the ----- (designated branch) of -----(bank) in India is within the limit of USD 100,000/- (US Dollar One lakh only) and certify that the forward contracts are meant for undertaking permitted current and / or capital account transactions. I also certify that I have not booked foreign exchange forward contracts with any other bank / branch. I have understood the risks inherent in booking of foreign exchange forward contracts.

Signature of the applicant

(Name)

Place:

Date:

Certificate by the Authorised Dealer Category – I bank

*This is to certify that the customer(Name of the applicant) having PAN No..... has been maintaining an account(no.) with us since * We certify that the customer meets the AML / KYC guidelines laid down by RBI and confirm having carried out requisite suitability and appropriateness test.*

Name and designation of the authorised official:

Place:

Signature:

Date: Stamp and seal

** month / year*

A. Hedging of Commodity Price Risk in the International Commodity Exchanges/Markets

1. AD category I banks, authorized by the Reserve Bank, can grant permission to companies listed on a recognized stock exchange to hedge the price risk in respect of any commodity (except gold, platinum and silver) in the international commodity exchanges/ markets. AD category I banks satisfying the minimum norms as given below and interested in extending this facility to their customers may forward the application for approval, to the Chief General Manager, Reserve Bank of India, Foreign Exchange Department, Central Office, Forex Markets Division, Amar Building, 5th Floor, Fort, Mumbai – 400 001.

2. Minimum norms which are required to be satisfied by the A D Category-I banks:

- i) Continuous profitability for at least three years
- ii) Minimum CRAR of 9%
- iii) Net NPAs at reasonable level but not more than 4 per cent of net advances
- iv) Minimum net worth of Rs 300 crore.

A D Category-I banks may grant permission to corporates only after obtaining approval from the Reserve Bank. Reserve Bank retains the right to withdraw the permission granted to the bank, if considered necessary.

3. Before permitting corporates to undertake hedge transactions, authorized dealer would require them to submit a Board resolution indicating (i) that the Board understands the risks involved in these transactions, (ii) nature of hedge transactions that the corporate would undertake during the ensuing year, and (iii) the company would undertake hedge transaction only where it is exposed to price risk. Authorised Dealers may refuse to undertake any hedge transaction if it has a doubt about the bonafides of the transaction or the corporate is not exposed to price risk. The conditions subject to which ADs would grant permission to hedge and the guidelines for monitoring of the transactions are given below. It is clarified that hedging the price risk on domestic sale/purchase transactions in the international exchanges/markets, even if the domestic price is linked to the international price of the commodity, is not permitted, except certain specified transactions as approved/may be approved by the Reserve Bank. Necessary advice may be given to the customers before they start their hedging activity.

4. Banks which have been granted permission to approve commodity hedging may submit an annual report to the Chief General Manager, Reserve Bank of India, Foreign Exchange Department, Central Office, Forex Markets Division, Amar Building, 5th Floor, Mumbai – 400 001 as on March 31 every year, within one month, giving the names of the corporates to whom they have granted permission for commodity hedging and the name of the commodity hedged.

5. Applications from customers to undertake hedge transactions not covered under the delegated authority may continue to be forwarded to the Reserve Bank by the Authorised Dealers Category I, for approval.

Conditions/ Guidelines for undertaking hedging transactions in the international commodity exchanges/ markets

1. The focus of hedge transactions shall be on risk containment. Only off-set hedge is permitted.

2. All standard exchange traded futures and options (purchases only) are permitted. If the risk profile warrants, the corporate/firm may also use OTC contracts. It is also open to the Corporate/firm to use combinations of option strategies involving a simultaneous purchase and sale of options as long as there is no net inflow of premium direct or implied, subject to the guidelines detailed in **Appendix N**. Corporates/firms are allowed to cancel an option position with an opposite transaction with the same broker.

3. The corporate/firm should open a Special Account with the authorised dealer Category-I. All payments/receipts incidental to hedging may be effected by the authorised dealer Category-I through this account without further reference to the Reserve Bank.

4. A copy of the Broker's Month-end Report(s), duly confirmed/countersigned by the corporate's Financial Controller should be verified by the bank to ensure that all off-shore positions are/were backed by physical exposures.

5. The periodic statements submitted by Brokers, particularly those furnishing details of transactions booked and contracts closed out and the amount due/payable in settlement should be checked by the corporate/firm. Unreconciled items should be followed up with the Broker and reconciliation completed within three months.

6. The corporate/firm should not undertake any arbitrage/speculative transactions. The responsibility of monitoring transactions in this regard will be that of the Authorised Dealer Category I.

7. An annual certificate from Statutory Auditors should be submitted by the company/firm to the authorised dealer Category I. The certificate should confirm that the prescribed terms and conditions have been complied with and that the corporate/firm's internal controls are satisfactory. These certificates may be kept on record for internal audit/inspection.

B. Hedging of commodity price risk on petroleum & petroleum Products by domestic crude oil refining companies

1. The hedging has to be undertaken only through AD Category I banks, who have been specifically authorised by the Reserve Bank in terms A. P. (DIR Series) Circular No.03 dated July 23, 2005/para D(I)(a) of this circular, subject to conditions and guidelines as also given in (a) and (b) of this Appendix.

2. While extending the above hedging facilities, AD Category I banks should ensure that the domestic crude oil refining companies hedging their exposures should comply with the following:

i. to have Board approved policies which define the overall framework within which derivatives activities are undertaken and the risks contained;

ii. sanction of the company's Board has been obtained for the specific activity and also for dealing in OTC markets;

iii. the Board approval must include explicitly the mark-to-market policy, the counterparties permitted for OTC derivatives, etc.; and

iv. domestic crude oil companies should have put up the list of OTC transactions to the Board on a half yearly basis, which must be evidenced by the AD Category I bank before permitting continuation of hedging facilities under this scheme.

3. The AD Category I banks should also ensure "*user appropriateness*" and "*suitability*" of the hedging products used by the customer as laid down in Para 8.3 of 'Comprehensive Guidelines on Derivatives' issued vide our circular DBOD No. BP.BC. 86/21.04.157/2006-07 dated April 20, 2007.

[See section E (II)]

Approval Route

Residents in India, engaged in import and export trade or as otherwise approved by Reserve Bank from time to time, may hedge the price risk of all commodities in the international commodity exchanges/markets. Applications for commodity hedging of companies/ firms which are not covered by the delegated authority of Authorised Dealers Category I may be forwarded to the Reserve Bank for consideration through the International Banking Division of an AD bank along with specific recommendation giving the following details:

1. A brief description of the hedging strategy proposed, namely:
 - a) description of business activity and nature of risk,
 - b) instruments proposed to be used for hedging,
 - c) names of commodity exchanges and brokers through whom risk is proposed to be hedged and credit lines proposed to be availed. The name and address of the regulatory authority in the country concerned may also be given,
 - d) size/average tenure of exposure and/or total turnover in a year, together with expected peak positions thereof and the basis of calculation.

2. A copy of the Board Risk Management Policy approved by the Management covering;
 - a) risk identification
 - b) risk measurements
 - c) guidelines and procedures to be followed with respect to revaluation and/or monitoring of positions
 - d) names and designations of officials authorised to undertake transactions and limits

3. Any other relevant information.

A one-time approval will be given by Reserve Bank along with the guidelines for undertaking this activity.

[See section B para I(2)(k) and section G para (vii)]

Booking of contracts on past performance basis

Report as on _____

Name of the bank –

(in USD)

| Total Limits sanctioned during the month (1) | Cumulative sanctioned limits (2) | Amount of contracts booked (3) | | | Amount utilized (by delivery of documents) (4) | | | Amount of forward contracts cancelled (5) | | |
|--|----------------------------------|--------------------------------|-----------------|-----------------------|--|------------------|-----------------------|---|------------------|-----------------------|
| | | Forward Contract | Fcy/ INR option | Cross currency option | Forward Contract | Fcy / INR option | Cross currency option | Forward Contract | Fcy / INR option | Cross currency option |
| | | | | | | | | | | |

Number of customers availing past performance facility as on date of report: -----

Notes:

1. The position of the bank as a whole shall be indicated.
2. Amounts in columns 2, 3, 4 and 5 should be cumulative positions over the year. Outstanding amounts at the end of each financial year shall be carried over and taken into account in the next year's limit and therefore shall be included while computing the eligible limits for the next year.

[See section B para I(2)(g)(iv)]

Statement giving details of import / export turnover, overdues, etc.

Name of the constituent: _____

(Amount in USD million)

| Financial Year (April-March) | Turnover | | Percentage of overdue bills to turnover | | Existing limit for booking of forward cover based on past performance | |
|---------------------------------|----------|--------|---|--------|---|--------|
| | Export | Import | Export | Import | Export | Import |
| Year 1 | | | | | | |
| Year 2 | | | | | | |
| Year 3 | | | | | | |

Conditions / Guidelines for issuance of standby letter of credit /bank guarantee - commodity hedging transactions

1. AD Category I banks may issue guarantees/standby letters of credit only where the remittance is covered under the delegated authority or under the specific approval granted for overseas commodity hedging by Reserve Bank.
2. The issuing bank shall have a Board approved policy on the nature and extent of exposures that the bank can take for such transactions and should be part of the credit exposure of the customers. The exposure should also be assigned risk weights, for capital adequacy purposes as per the extant provisions.
3. The standby letter of credit / bank guarantee may be issued for the specific purpose of payment of margin money in respect of approved commodity hedging activities of the company.
4. The standby letter of credit / bank guarantee may be issued for an amount not exceeding the margin payments made to the specific counterparty during the previous financial year.
5. The standby letter of credit / bank guarantee may be issued for a maximum period of one year, after marking a lien on the non-funded facility available to the customer (letter of credit / bank guarantee limit).
6. The bank shall ensure that the guidelines for overseas commodity hedging have been duly complied with.
7. The bank shall ensure that broker's month-end reports duly confirmed /countersigned by corporate's financial controller have been submitted.
8. Brokers' month end reports shall be regularly verified by the bank to ensure that all off-shore positions are / were backed by physical exposures.

[See Section B para I(2)(g)(ii)]

Format of Declaration of amounts booked/cancelled under Past Performance facility

[On letterhead of the Company]

Date :

To,
(Name and address of the Bank)

Dear Sir,

Sub : Declaration of amounts booked/cancelled under Past Performance facility

We refer to the facility of booking of Forward or Option Contracts involving Foreign Exchange, based on the past performance facility with Authorised Dealer Category I Banks (AD Category I Banks), more specifically in relation to the undertaking submitted by us to you, dated [] in this regard ("Undertaking").

In accordance with the said Undertaking, we hereby furnish a declaration regarding the amounts of the transactions booked by us with all AD Category I banks.

We are availing the past performance limit with the following AD Category I banks :

.....

Please find below the information regarding amounts booked / cancelled with all AD Category I Banks under the said past performance facility as permitted under the FEMA Regulations :

(Amount in US Dollar)

| Eligible limit under past performance | Aggregate amount of contracts booked with all the ADs from April till date | Amount of contracts cancelled with all ADs from April till date | Amount of contracts o/s with all ADs as on date | Amount utilised (by delivery of documents) as on date | Available limits under past performance as on date |
|---------------------------------------|--|---|---|---|--|
| | | | | | |
| | | | | | |

Thanking you,
Yours faithfully,

For XXXXXX

Authorised Signatories

Appendix N

(See Appendix H para A)

Conditions for allowing users to enter into a combination of OTC option strategies involving a simultaneous purchase and sale of options for overseas Commodity hedging

Users –Listed companies or unlisted companies with a minimum networth of Rs. 100 crore, which comply with the following:

- Adoption of Accounting Standards 30 and 32 (for companies not complying – those companies which follow the accounting treatment and disclosure standards on derivative contracts, as envisaged under AS 30/32.
- Having a risk management policy and a specific clause in the policy that allows using the above mentioned combination of OTC option strategies.

Operational Guidelines, Terms and Conditions

- a. Writing of options by the users, on a stand alone basis is not permitted. Users can however, write options as part of cost reduction structures, provided, there is no net receipt of premium.
- b. Leveraged structures, Digital options, Barrier options and any other exotic products are not permitted.
- c. The delta of the options should be explicitly indicated in the term sheet.
- d. The portion of the structure with the largest notional should be reckoned for the purpose of underlying.
- e. AD Category I banks may, stipulate additional safeguards, such as continuous profitability, etc. depending on the scale of operations and risk profile of the users.

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