

Risk Management and Inter Bank Dealings
A.P.(DIR Series) Circular No.63 (December 21, 2002)

Reserve Bank of India
Exchange Control Department
Central Office
Mumbai-400 001

December 21, 2002

A.P.(DIR Series) Circular No.63

To
All Authorised Dealers in Foreign Exchange

Madam/Sir,

Risk Management and Inter Bank Dealings

Attention of Authorised dealers is invited to A.P.(DIR Series) Circular No.19 dated January 24, 2002 and subsequent amendments referred to in the following paragraphs. It has been decided to permit the following further relaxations:

1. Foreign currency-rupee swaps

In terms of our circular EC.CO.FMD/447/02.03.75/2000-2001 dated November 25, 2001, Authorised dealers are permitted to offer foreign currency rupee swaps to a person resident in India to hedge long term exposures subject to the condition that the market access by Authorised dealers on account of such swaps shall not exceed USD 25 million. Thereafter, on specific requests, certain banks were permitted higher limits.

It has been decided that such specified limits will not be applicable to swaps offered to facilitate customers to hedge their foreign exchange exposures. Accordingly, authorised dealers are free to offer such swaps to customers subject to overall prudential and risk management guidelines. **The specified limits would, however, continue for swap transactions facilitating customers to assume a foreign exchange liability, thereby resulting in supply in the market.** Positions arising out of cancellation of swaps by customers need not be reckoned within the cap.

2. Investments in Overseas Market

In terms of A.P.(DIR Series) Circular No.48 dated November 16, 2002, Authorised dealers were permitted to invest upto 50 per cent of their unimpaired Tier I capital or USD 25 million, whichever is higher, in overseas money market and/or debt instruments.

It has been decided to withdraw the above caps. Accordingly, Authorised dealers are now free to undertake investments in overseas markets subject to the limits approved by the banks' Board of Directors. All other existing instructions on the subject remain unchanged.

3. Booking of forward contracts based on past performance

In terms of our circular No.EC.CO.FMD/453/02.03.75/2001-02 dated December 1, 2001, Authorised dealers are permitted to offer forward contracts to their exporter/importer customers upto the limit/s worked out on the basis of last 3 years' average import/export performance. This is subject to the condition that at any point of time forward contracts so booked and outstanding shall not exceed 25 per cent of the eligible limit, within a cap of USD 50 million.

It has been decided to enhance the cap to USD 100 million. Accordingly, Authorised dealers may permit their customers to book forward contracts upto the eligible limit, subject to the condition that forward contracts outstanding at any point of time shall not exceed 25 per cent of the eligible limit, within the cap of USD 100 million. It may be noted that the eligible limits are to be computed separately for import and export transactions. All other conditions remain unchanged.

4. Booking and cancelling of forward contracts

Authorised dealers were permitted, vide circulars EC.CO.FMD.790/ 02.03.75/2001-02 dated March 26, 2002 and EC.CO.FMD.2/02.03.75/2002-03 dated July 31, 2002, to allow resident entities to rebook cancelled contracts covering all transactions subject to certain conditions. While detailed instructions were issued for calculating the eligible limit, it was indicated that irrespective of the eligibility, there would be a cap of USD 100 million per financial year for a customer.

It has been decided to withdraw this cap. Accordingly, Authorised dealers are free to offer this facility of rebooking of cancelled contracts **to all foreign exchange exposures falling due within one year. However, this facility may be made available only to customers who submit details of exposure to the authorised dealers as per the revised format enclosed.**

Forward contracts booked to cover exposures falling due beyond one year and long term foreign currency-rupee swaps, once cancelled, cannot be rebooked. Authorised dealers may continue to offer this facility without any restrictions in respect of export transactions.

5 Hedging of capital of foreign banks

In terms of our circular No.EC.CO.FMD.6/02.03.75/2002-03 dated November 20, 2002, foreign banks operating in India are permitted to hedge their Tier I capital held in Indian books, subject, inter-alia, to the condition that the hedge transactions are spread over a period of six months.

It has been decided to withdraw this restriction and banks are now free to make their own decision as regards the timing of the hedge transactions. All other conditions remain unchanged.

6. Forward cover for foreign direct investments

In terms of paragraph 3 of Schedule II to Notification No.FEMA.25/RB-2000 dated May 3, 2002, Reserve Bank may allow a person resident outside India to book forward contract to hedge the investments made in India since January 1, 1993. It has been decided to accord

general permission to Authorised dealers to offer such forward contracts to persons resident outside India. Accordingly, Authorised dealers are free to offer forward contracts to persons resident outside India subject to verification of the exposure in India. **These forward contracts once cancelled are not eligible to be rebooked.**

7. **All the above facilities would be available upto March 31, 2003, subject to review.**
8. Necessary amendments to the Foreign Exchange Management Regulations, 2000 are being issued separately.
9. Authorised dealers may bring the contents of this circular to the notice of their concerned constituents.
10. The directions contained in this circular have been issued under Section 10(4) and Section 11(1) of the Foreign Exchange Management Act, 1999 (42 of 1999).

Yours faithfully,

G. Padmanabhan
Officer-in-Charge

Annexure

[A.P.(DIR Series) Circular No.63
dated December 21, 2002]

Information relating to exposures in foreign currency as on 1st April

Name of the corporate:

		Amount in USD million equivalent	Of col.(1) amounts already hedged
		(1)	(2)
i)	Import transactions due within the year	@	£
ii)	Non-trade payments falling due within one year	£	£
iii)	Non-trade payments falling due beyond one year	£	£

Note

Authorised dealers may consolidate the above data for the bank as a whole for individual corporate and forward a report to Chief General Manager, Exchange Control Department, Reserve Bank of India, Central Office, Forex Markets Division, Mumbai-400 001 (copy to Chief General Manager, Department of External Investments and Operations, Reserve Bank of India, Central Office, Data Cell, Mumbai -400 001) before 30th June every year.

@ Calculated on the basis of last three years' average, duly factoring in subsequent major changes, if any.

£ Based on actuals.