

December 13, 2006

To

All Category - I Authorised Dealer Banks

Madam/Sir,

**Booking of Forward Contracts Based on Past Performance**

Attention of Authorised Dealer Category - I (AD Category - I) banks is invited to A.P.(DIR Series) Circular No.19 dated January 24, 2002, A.P.(DIR Series) Circular No.63 dated December 21, 2002 and A.P. (DIR Series) Circular No.26 dated November 1, 2004. At present, AD Category - I banks may allow importers and exporters to book forward contracts on the basis of a declaration of an exposure and based on past performance upto 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, subject to the specified conditions. Forward contracts booked in excess of 25 per cent of the eligible limit shall be on a deliverable basis and cannot be cancelled. The aggregate forward contracts booked during the year and outstanding at any point of time should not exceed the eligible limit. Further, the eligible limits are to be computed separately for import and export transactions.

2. As announced in the Mid-term Review of Annual Policy for the Year 2006-07 (para 105), with a view to providing greater flexibility to importers and exporters it has been decided to further liberalise the above facility. Accordingly, the forward contracts booked on the basis of declaration of exposures by importers/exporters and based on past performances in excess of 50 per cent of the eligible limit shall be on a deliverable basis and cannot be cancelled. All other conditions and reporting requirements prescribed for this facility will remain unchanged.

3. AD Category - I banks may bring the contents of this circular to the notice of their constituents and customers.

4. The direction contained in this circular has been issued under sections 10(4) and 11(1) of the Foreign Exchange Management Act 1999 (42 of 1999) and is without prejudice to permissions/approvals, if any, required under any other law.

Yours faithfully,

(Salim Gangadharan)  
Chief General Manager-In-Charge

## Master Circular

A 2. AD banks may also allow importers and exporters to book forward contracts on the basis of a declaration of an exposure and based on past performance upto 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, subject to the following conditions:

- a) The forward contracts booked in the aggregate during the year and outstanding at any point of time should not exceed the eligible limit i.e 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. Contracts booked in excess of 25 per cent of the eligible limit will be on deliverable basis and cannot be cancelled. These limits shall be computed separately for import/export transactions.
- b) Any forward contract booked without producing documentary evidence will be marked off against this limit.
- c) Importers and exporters should furnish a declaration to the AD banks regarding amounts booked with other authorised dealers category-I under this facility.
- d) An undertaking may be taken from the customer to produce supporting documentary evidence before the maturity of the forward contract.
- e) Outstanding forward contracts higher than 50 per cent of the eligible limit may be permitted by the AD bank on being satisfied about the genuine requirements of their constituents after examination of the following documents:
  - I. A certificate from the Chartered Accountant of the customer that all guidelines have been adhered to while utilizing this facility.
  - II. A certificate of import/export turnover of the customer during the past three years duly certified by their Chartered Accountant/bank in the format given in Annex-VI.
- f) In the case of an exporter, the amount of overdue bills should not be in excess of 10 per cent of the turnover, to avail the above facility.
- g) AD 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 this facility in the format given in Annex-IX. The report may be forwarded to The Chief General Manager, Reserve Bank of India, Foreign Exchange Department, Forex Markets Division, Central Office, Mumbai-400 001.

NOTE: Limits specified in paragraph A.2 pertain to forward contracts booked on the basis of declaration of an exposure. When forward contracts are booked by the AD bank after verification of documentary evidence, these limits are not applicable and such contracts may be booked up to the extent of the underlying.

### **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:

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#### 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.

(Also Refer A.P.(DIR Series) Circular No.93 dt 05-04-03)

#### 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.

**Risk Management and Inter-Bank Dealings**

Attention of authorised dealers is invited to the Reserve Bank Notification No. FEMA/25/2000-RB dated May 3, 2000.

2. Directions relating to forward exchange cover and other derivative products, Rupee Accounts of non-resident banks and inter-bank dealings, are contained in the enclosure. These directions supercede the existing instructions, namely, :

- i. Chapter 3 (Part C & D and Annexure II) of ECM,
- ii. Chapter 5 (Part A & B and Annexure) of ECM,
- iii. Instructions contained in A.D.(M.A. Series) Circular No.1 dated January 19, 2000.

3. Detailed guidelines contained in Part B and C of the enclosure are being issued as required under Regulation 6 of the Reserve Bank Notification No. FEMA/5/2000-RB dated May 3, 2000, which permits authorised dealers to keep deposits with his branch, head office or correspondent outside India and also to accept deposit kept by a branch or correspondent outside India of an authorised dealer and hold in its books in India.

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**PART – A**  
**RISK MANAGEMENT**  
**Section I**

**Facilities for Residents other than authorised dealers:****Forward Exchange Contracts**

A.1 (i) Authorised dealers may enter into forward contracts with residents in accordance with the provisions contained in paragraph 1 of Schedule I to Reserve Bank Notification No. FEMA.25/RB-2000 dated 3<sup>rd</sup> May 2000.

(ii) While booking contracts for their constituents, authorised dealers should verify suitable documentary evidence, irrespective of the underlying transaction being a current account transaction or a capital account transaction, to ensure that an exposure exists, to the extent of the amount of cover sought. Full particulars of contract should be marked on such documents under proper authentication and copies thereof retained for verification.

A.2 Authorised dealers may also allow importers and exporters to book forward contract on the basis of a declaration of an exposure and based on past performance subject to the conditions prescribed by Reserve Bank of India in this regard.

A.3 A forward contract cancelled with one authorised dealer can be rebooked with another authorised dealer subject to the following conditions:

- a. the switch is warranted by competitive rates on offer, termination of banking relationship with the authorised dealer with whom the contract was originally booked, etc.
- b. the cancellation and rebooking are done simultaneously on the maturity date of the contract
- c. the responsibility of ensuring that the original contract which has been cancelled rests with the authorised dealer who undertakes rebooking of the contract.

**Contracts other than Forward contracts**

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**Booking of Forward Contracts Based on Past Performance**

Attention of authorised dealers is invited to circular No. EC.CO.FMD/453/02.03.75/2001-02 dated December 1, 2001 and paragraph 3 of A.P.(DIR Series) Circular No.63 dated December 21, 2002 on the captioned subject. Authorised dealers are permitted to offer forward contracts to their importer/exporter constituents on the basis of last 3 years average import/export performance subject to 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.

2. In order to facilitate large corporates with proven track record and large import/export turnover to effectively and actively manage currency risks arising out of genuine exposures, Reserve Bank on application would consider permitting higher limits for booking forward contracts on the basis of past performance without submission of documentary evidence. Such forward contracts, booked under the enhanced limit, will be on a deliverable basis.

3. Corporates desirous of availing of higher limits may forward their applications, through an authorised dealer, to the Chief General Manager, Reserve Bank of India, Exchange Control Department, Forex Markets Division, Central Office, Mumbai-400 001 (Fax No. 22611427, e-mail [ecdcofmd@rbi.org.in](mailto:ecdcofmd@rbi.org.in)) justifying the need for the higher limits. Details of the import/export turnover of the past three years, delayed realisations/payments during these years and existing limits, duly authenticated by the authorised dealer, may also be furnished in the enclosed format.