

May 08, 2007

To,

All Authorised Dealer Category - I 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, A. P. (DIR Series) Circular No. 26 dated November 1, 2004 and A. P. (DIR Series) Circular No. 22 dated December 13, 2006.

2. At present, AD Category - I banks are permitted to allow importers and exporters to book forward contracts 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, subject to specified conditions. Further, forward contracts booked in excess of 50 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. The eligible limits are to be computed separately for import / export transactions.

3. As announced in the Annual Policy Statement for the year 2007-08 (para 140), with a view to facilitate dynamic hedging of foreign exchange exposures of exporters and importers, it has been decided to further liberalise the above facility by raising the eligible limit of 50 per cent to 75 per cent. Accordingly, forward contracts booked on the basis of declaration of an exposure by importers / exporters and based on past performance in excess of 75 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.

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

5. The directions contained in this circular have 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