



RBI/2014-15/526

A.P.(DIR Series) Circular No. 90

March 31, 2015

To All Category - I Authorised Dealer banks

Madam / Sir,

Risk Management and Inter-bank Dealings: Revised Guidelines relating to participation of Residents in the Exchange Traded Currency Derivatives (ETCD) market

Attention of Authorized Dealers Category – I (AD Category – I) banks is invited to the Foreign Exchange Management (Foreign Exchange Derivative Contracts) Regulations, 2000 dated May 3, 2000 ([Notification No. FEMA. 25/RB-2000 dated May 3, 2000](#)), as amended from time to time and [A.P. \(DIR Series\) Circular No. 147 dated June 20, 2014](#) relating to participation of residents in the ETCD market.

Increase in position limits not requiring establishment of underlying exposure

2. Presently, domestic participants are allowed to take a long (bought) as well as short (sold) position upto USD 10 million per exchange. As a measure of further liberalisation, it has now been decided to increase the limit (long as well as short) in USD-INR pair upto USD 15 million per exchange. In addition, domestic participants shall be allowed to take long as well as short positions in EUR-INR, GBP-INR and JPY-INR pairs, all put together, upto USD 5 million equivalent per exchange. These limits shall be monitored by the exchanges and breaches, if any, may be reported. For the convenience of monitoring, exchanges may prescribe fixed limits for the contracts in currencies other than USD such that these limits are within the equivalent of USD 5 million.

Rationalisation of documentation requirements for both Importers and Exporters

4. At present, in terms of paragraphs (2) (b) (iii) and (2) (b) (v) respectively, of the above circular, market participants have to produce a certificate from the statutory auditors as indicated therein. As a measure of liberalisation in the ETCD market, it has now been decided that, instead of the statutory auditor's certificate, a signed undertaking to the same effect from the Chief Financial Officer (CFO) or the senior most functionary responsible for company's finance and accounts and the Company Secretary (CS) may be produced. In the absence of a CS, the Chief Executive Officer (CEO) or the Chief Operating Officer (COO) shall co-sign the undertaking along with the CFO.

Increase in eligible limit for Importers hedging contracted exposure

5. At present, importers are permitted to hedge their contracted exposures in the ETCD market upto 50 per cent of their eligible limit as defined in para (2)(b)(i) of the above circular. With a view to bringing at par both exporters and importers, it has now been decided to allow importers to take appropriate hedging positions up to 100 per cent of the eligible limit.

6. All other operational guidelines, terms and conditions including the requirement of certificate(s) from the Statutory Auditor regarding the eligible limit up to which domestic participants can take appropriate hedging positions in the ETCD market and the necessary undertaking from the CFO or senior most functionary responsible for company's finance and accounts as indicated in para (2)(b)(ii) of the above circular remain unchanged.

7. A matrix indicating the existing and the revised positions is enclosed for easy reference.

8. 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

(R Subramanian)
Chief General Manager

Encls: As above

Annex to A.P. (DIR Series) Circular No. 90 dated March 31, 2015

Paragraph no.	Existing provision in terms of A.P. (DIR Series) No. 147 dated June 20, 2014	Amended provision in terms of A.P. (DIR Series) Circular No. <u>90</u> dated March 31, 2015
(2)(a)	Domestic participants shall be allowed to take a long (bought) as well as short (sold) position <u>upto USD 10 million per exchange.</u>	Domestic participants shall be allowed to take a long (bought) as well as short (sold) position <u>in USD-INR pair upto USD 15 million per exchange. In addition, participants shall be allowed to take long as well as short positions in EUR-INR, GBP-INR and JPY-INR pairs, all put together, upto USD 5 million equivalent per exchange. These limits shall be monitored by the exchanges and breaches, if any, may be reported.</u>
(2) (b) (i)	For participants who are exporters or importers of goods and services, the eligible limit up to which they can take appropriate hedging positions in ETCDs will be determined as <u>(a) higher of the (I) average of the last three years' export turnover, or (II) previous year's export turnover, in case they are exporters and (b) fifty per cent of the higher of the (I) average of their last three years' imports turnover or (II) the previous year's turnover, in case they are importers.</u>	For participants who are exporters or importers of goods and services, the eligible limit up to which they can take appropriate hedging positions in ETCDs will be determined as <u>higher of the (I) average of the last three years' export or import turnover, or (II) previous year's export or import turnover</u>
(2) (b) (iii)	Based on the above certificate, a trading member can book ETCD contracts upto fifty per cent of the eligible limit [as at paragraph (2)(b)(i)] on behalf of the concerned customer. If a participant wishes to take position beyond the fifty per cent of the eligible limit in the	Based on the above certificate, a trading member can book ETCD contracts upto fifty per cent of the eligible limit [as at paragraph (2)(b)(i)] on behalf of the concerned customer. If a participant wishes to take position beyond the fifty per cent of the eligible limit in the ETCD, it has to produce <u>a signed undertaking from the Chief Financial</u>

	<p>ETCD, it has to produce a <u>certificate from the statutory auditors</u> certifying that the sum total of the outstanding OTC derivative contracts and outstanding ETCD contracts has generally been in correspondence with the eligible limits.</p>	<p><u>Officer (CFO) or the senior most functionary responsible for company's finance and accounts and the Company Secretary (CS) to the effect</u> that the sum total of the outstanding OTC derivative contracts and outstanding ETCD contracts has been in correspondence with the eligible limits. <u>In the absence of a CS, the Chief Executive Officer (CEO) or the Chief Operating Officer (COO) shall co-sign the undertaking along with the CFO or the senior most functionary responsible for company's finance and accounts.</u></p>
(2) (b) (v)	<p>All participants in the ETCD market, except those covered by paragraph (2)(b)(iv), will be required to submit to the concerned trading member of the exchange a half-yearly <u>certificate from their statutory auditors</u> as on March 31st and September 30th, within fifteen days from the said dates, to the effect that during the preceding six months, the derivative contracts entered into by the participant in the OTC and the ETCD markets put together did not exceed the actual exposure.</p>	<p>All participants in the ETCD market, except those covered by paragraph (2)(b)(iv), will be required to submit to the concerned trading member of the exchange a half-yearly <u>signed undertaking from the Chief Financial Officer (CFO) or the senior most functionary responsible for company's finance and accounts and the Company Secretary (CS)</u> as on March 31st and September 30th, within fifteen days from the said dates, to the effect that during the preceding six months, the derivative contracts entered into by the participant in the OTC and the ETCD markets put together did not exceed the actual exposure. <u>In the absence of a CS, the Chief Executive Officer (CEO) or the Chief Operating Officer (COO) shall co-sign the undertaking along with the CFO or the senior most functionary responsible for company's finance and accounts.</u></p>