भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA
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RBI/2012-13/302
DBOD.BP.BC.No. 61/21.04.103/2012-13 **November 21, 2012**

All Scheduled Commercial Banks
(excluding RRBs)

Dear Sir,

Second Quarter Review of Monetary Policy 2012-13 –
Unhedged Foreign Currency Exposure of Corporates

Please refer to paragraphs 95 and 96 of the Second Quarter Review of Monetary Policy 2012-13 (extract enclosed) announced on October 30, 2012 on 'Monitoring of Unhedged Foreign Currency Exposure'.

2. In terms of our circular No. DBOD.BP.BC.37/21.04.048/2001-2002 dated October 27, 2001 on 'Unhedged Foreign Currency Exposures of Corporates', banks were advised to monitor and review on a monthly basis, through a suitable reporting system, the unhedged portion of the foreign currency exposures of those corporates whose total foreign currency exposure is relatively large (say, above US$ 25 million or its equivalent). Further, vide our circular No. DBOD.No.BP.BC.51/21.04.103/2003-2004 dated December 5, 2003 on the subject, banks were advised to extend foreign currency loans above US $ 10 million (or such lower limits as may be deemed appropriate vis-à-vis the banks' portfolios of such exposures) only on the basis of a well laid out policy of their Boards with regard to hedging of such foreign currency loans.

3. The above instructions were reiterated vide our circular No. DBOD.BP.BC.96/21.04.103/2008-09 dated December 10, 2008 on 'Unhedged Foreign Exchange Exposure of Clients – Monitoring by Banks' and banks were advised that their Board policy should cover unhedged foreign currency exposure of all their clients including Small and Medium Enterprises (SMEs). Banks were also

advised that for arriving at the aggregate unhedged foreign currency exposure of clients, their exposure from all sources including foreign currency borrowings and External Commercial Borrowings should be taken into account and in the case of consortium / multiple banking arrangements, the lead role in monitoring the unhedged foreign currency exposure of clients, as indicated above, would have to be assumed by the consortium leader / bank having the largest exposure.

4. Banks were advised vide circular DBOD.No.BP.BC.76/21.04.103/2011-12 dated February 2, 2012 that while extending fund based and non-fund based credit facilities to corporates they should rigorously evaluate the risks arising out of unhedged foreign currency exposure of the corporates and price them in the credit risk premium and they may also consider stipulating a limit on unhedged position of corporates on the basis of bank's Board approved policy.

5. Despite all these instructions/reiterations, it is observed that unhedged forex exposure risks are not being evaluated rigorously and built into pricing of credit by banks. It is emphasized that unhedged forex exposure of corporates is a source of risk to the corporates as well as to the financing bank and the financial system. Further, it is observed that large unhedged forex exposures of corporates have resulted in some accounts turning non-performing. Banks are therefore advised that in accordance with the guidelines of February 2012 they should put in place a proper mechanism to rigorously evaluate the risks arising out of unhedged foreign currency exposure of corporates and price them in the credit risk premium. They should also consider stipulating a limit on the unhedged position of corporates on the basis of banks' Board-approved policy.

6. Banks are advised to furnish compliance/action taken reports on the subject to us before end-December 2012 after obtaining the approval of their Board of Directors. A copy of the same may also be sent to the Chief General Manager–in-Charge, Department of Banking Supervision, Central Office, Reserve Bank of India, World Trade Center, Cuffe Parade, Mumbai.

Yours faithfully,

(Rajesh Verma)
Chief General Manager

Extract from Second Quarter Review of Monetary Policy 2012 - 13 announced on October 30, 2012

Monitoring of Unhedged Foreign Currency Exposure

95. Unhedged forex exposure of corporates is a source of risk to them as well as to the financing banks and the financial system. Large unhedged forex exposures have resulted in accounts becoming NPAs in some cases. Banks were, therefore, advised in February 2012 that they should rigorously evaluate the risks arising out of unhedged foreign currency exposure of the corporates and price them in the credit risk premium while extending fund-based and non fund-based credit facilities. Further, banks were also advised to consider stipulating a limit on unhedged position of corporates on the basis of banks' Board-approved policy. Despite these instructions, these risks are not being evaluated rigorously and built into pricing of credit. It is, therefore, expected that:

- banks should, in accordance with the guidelines of February 2012, put in place a proper mechanism to rigorously evaluate the risks arising out of unhedged foreign currency exposure of corporates and price them in the credit risk premium, and also consider stipulating a limit on the unhedged position of corporates on the basis of banks' Board-approved policy. Banks should furnish compliance/action taken reports to the Reserve Bank before end-December 2012 after obtaining the approval of their Board of Directors.

96. Detailed guidelines in this regard are being issued separately.