



RESERVE BANK OF INDIA
Foreign Exchange Department
Central Office
Mumbai - 400 001

RBI/2011-12/115

July 21, 2011

A.P. (DIR Series) Circular No. 3

To,

All Authorised Dealer Category - I Banks

Madam / Sir,

Facilitating Rupee Trade – hedging facilities for non-resident entities

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.

2. In order to facilitate greater use of Indian Rupee in trade transactions, as announced in the Monetary Policy Statement for the year 2011-12 (para 85), it has been decided to allow non-resident importers and exporters to hedge their currency risk in respect of exports from and imports to India, invoiced in Indian Rupees, with AD Category I banks in India, as per details given in the Annex.

3. Necessary amendments to Notification No. FEMA.25/RB-2000 dated May 3, 2000 [Foreign Exchange Management (Foreign Exchange Derivatives Contracts) Regulations, 2000] are being notified separately.

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 are without prejudice to permissions/approvals, if any, required under any other law.

Yours faithfully,

Sd/-
(Sujatha Elizabeth Prasad)
Chief General Manager

Rupee Trade – Hedging Facilities for Non-Resident Entities

Purpose

To hedge the currency risk arising out of genuine trade transactions involving exports from and imports to India, **invoiced in Indian Rupees**, with AD Category I banks in India.

Products

Forward foreign exchange contracts with rupee as one of the currencies and foreign currency-INR options.

Operational Guidelines, Terms and Conditions

The AD Category I banks can opt for either Model I or Model II as given below:

Model I

Non-resident exporter / importer dealing through their overseas bank (including overseas branches of AD banks in India)

- Non-resident exporter / importer approaches his banker overseas with appropriate documents with a request for hedging their Rupee exposure arising out of a confirmed import or export order invoiced in Rupees.
- The overseas bank in turn approaches its correspondent in India (i.e. the AD bank in India) for a price to hedge the exposure of its customer along with documentation furnished by the customer that will enable the AD bank in India to satisfy itself that there is an underlying trade transaction (scanned copies would be acceptable). The following undertakings also need to be taken from the customer:

- That the same underlying exposure has not been hedged with any other AD Category I bank/s in India.
- If the underlying exposure is cancelled, the customer will cancel the hedge contract immediately.
- A certification on the end client KYC may also be taken as a one time document from the overseas bank by the AD bank in India.
- The AD bank in India based on documents **received** from the overseas correspondent should satisfy itself about the existence of the underlying trade transaction and offer a forward price (no two-way quotes should be given) to the overseas bank who, in turn, will offer the same to its customer. The AD bank, therefore, will 'not be' dealing directly with the overseas importer / exporter.
- The amount and tenor of the hedge should not exceed that of the underlying transaction and should be in consonance with the extant regulations regarding tenor of payment / realization of the proceeds.
- On due date, settlement is to be done through the correspondent bank's Vostro or the AD bank's Nostro accounts.
- The contracts, once cancelled, cannot be rebooked.
- The contracts may, however, be rolled over on or before maturity subject to maturity of the underlying exposure.
- On cancellation of the contracts, gains may be passed on to the customer subject to the customer providing a declaration that he is not going to rebook the contract or that the contract has been cancelled on account of cancellation of the underlying exposure.

- In case the underlying trade transaction is extended, rollover can be permitted once based on the extension of the underlying trade transaction for which suitable documentation is to be provided by the overseas bank and the same procedure followed as in case of the original contract.

Model II

Non-resident exporter / importer dealing directly with the AD bank in India

- The overseas exporter / importer approaches the AD bank in India with a request for forward cover in respect of underlying transaction for which he furnishes appropriate documentation (scanned copies would be acceptable), on a pre-deal basis to enable the AD bank in India to satisfy itself that there is an underlying trade transaction, and details of his overseas banker, address etc. The following undertakings also need to be taken from the customer
 - That the same underlying exposure has not been hedged with any other AD Category I bank/s in India.
 - If the underlying exposure is cancelled, the customer will cancel the hedge contract immediately.
- The AD bank may obtain certification of KYC/AML in the format appended to this Annex (Appendix A). The format can be obtained through the overseas correspondent / bank through SWIFT authenticated message. In case the AD bank has a presence outside India, the AD may take care of the KYC/AML through its bank's offshore branch.

- AD banks should evolve appropriate arrangements to mitigate credit risk. Credit limits can be granted based on the credit analysis done by self / the overseas branch.
- The amount and tenor of the hedge should not exceed that of the underlying transaction and should be in consonance with the extant regulations regarding tenor of payment / realization of the proceeds.
- On due date, settlement is to be done through the correspondent bank's Vostro or the AD bank's Nostro accounts. AD banks in India may release funds to the beneficiaries only after sighting funds in Nostro / Vostro accounts.
- The contracts, once cancelled, cannot be rebooked.
- The contracts may, however, be rolled over on or before maturity subject to maturity of the underlying exposure.
- On cancellation of the contracts, gains may be passed on to the customer subject to the customer providing a declaration that he is not going to rebook the contract or that the contract has been cancelled on account of cancellation of the underlying exposure.
- In case the underlying trade transaction is extended, rollover can be permitted once based on the extension of the underlying trade transaction for which suitable documentation is to be provided by the overseas bank and the same procedure followed as in case of the original contract.

Reporting

- i) Authorised Dealers should consolidate the data on the transactions undertaken by non-residents under the scheme and submit quarterly reports as per the format indicated in the Appendix 'B'.

- ii) Authorised Dealers should report on a quarterly basis, doubtful transactions involving frequent cancellation of hedge transactions and / or the underlying trade transactions by non-residents under the scheme as per the format indicated in the Appendix 'C'.

The reports are to be sent to the Chief General Manager, Reserve Bank of India, Foreign Exchange Department, Central Office, Forex Markets Division, Amar Building, Mumbai - 400 001.

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Appendix A

Know Your Customer (KYC) Form in respect of the non-resident exporter/importer

Registered Name of the non-resident exporter/importer (Name, if the non-resident exporter/importer is an Individual)	
Registration Number (Unique Identification Number* in case non-resident exporter/importer is an Individual)	
Registered Address (Permanent Address if non-resident exporter / importer is an Individual)	
Name of the non-resident exporter's/importer's Bank	
Non-resident exporter's / importer's Bank Account No.	
Period of banking relationship with the non-resident exporter/importer	

* Passport No., Social Security No, or any Unique No. certifying the bonafides of the non-resident exporter/importer as prevalent in the Non-resident exporter's/ importer's country

We confirm that all the information furnished above is true and accurate as provided by the overseas remitting bank of the non-resident exporter/importer.

(Signature of the Authorised
Official of the AD bank)

Date :

Place:

Stamp :

Appendix B

Reporting of Derivative transactions undertaken by non-resident importer / exporter – for the quarter ended .

Name of the AD Category I Bank –

No. of non-resident importers / exporters availing the facility.		Total amount of derivative transactions undertaken (INR crores)	
Importers	Exporters	Forwards	FCY-INR options

Appendix C

Reporting of suspicious transactions undertaken by non-resident importer / exporter – for the quarter ended .

Name of the AD Category I Bank –

Sl No	Name of the non-resident exporter / importer	Name of the overseas bank (in case of Model I)	No. of derivative transactions cancelled along with cancellation of the underlying trade transaction and amount involved	Action taken by the AD Cat I bank

Related Press Release

July 21, 2011 [Facilitating Rupee Trade – Hedging Facilities for Non-resident Entities](#)