



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

RBI/2013-14/540

March 27, 2014

A.P. (DIR Series) Circular No.114

To

All Category – I Authorised Dealer Banks

Madam / Sir,

Risk Management and Inter Bank Dealings

Attention of Authorised 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. 58 dated December 15, 2011](#).

2. Under extant guidelines relating to hedging of currency risk of probable exposures based on past performance by residents,
 - a. Exporters are allowed to hedge currency risk on the basis of a declaration of an exposure up to an eligible limit computed as the average of the previous three financial years' (April to March) actual export turnover or the previous year's actual export turnover, whichever is higher.
 - b. Importers are allowed to hedge up to an eligible limit computed as 25 percent of the average of the previous three financial years' actual import turnover or the previous year's actual import turnover, whichever is higher.
 - c. All forward contracts booked under this facility by both exporters and importers are required to be on fully deliverable basis. In case of cancellation, exchange gain, if any, should not be passed on to the customer.

3. In order to provide greater operational flexibility, it has been decided to relax the restriction at paragraph 2(c) above. Henceforth, contracts booked up to 75 percent of the eligible limit mentioned at paragraph 2(a) and 2(b) above may be cancelled with the exporter/importer bearing/being entitled to the loss or gain as the case may be. Contracts booked in excess of 75 percent of the eligible limit mentioned at paragraph 2(a) and 2(b) above shall be on a deliverable basis and cannot be cancelled, implying that in the event of cancellation, the exporter/importer shall have to bear the loss but will not be entitled to receive the gain.

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

(Rudra Narayan Kar)
Chief General Manager-In-Charge