



**RESERVE BANK OF INDIA
Mumbai - 400 001**

RBI/2015-16/232

A.P. (DIR Series) Circular No. 28

November 5, 2015

To,

All Authorised Dealer Category – I banks
Madam / Sir,

Risk Management & Inter-Bank Dealings: Relaxation of facilities for residents for hedging of foreign currency borrowings

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. 32 dated December 28, 2010](#) containing Comprehensive Guidelines on Over the Counter (OTC) Foreign Exchange Derivatives and Overseas Hedging of Commodity Price and Freight Risks, as amended from time to time.

2. Under the existing guidelines, residents having a long term foreign currency liability in terms of Foreign Exchange Management (Borrowing or Lending in Foreign Exchange) Regulations, 2000, [FEMA 3/2000-RB, dated May 3, 2000](#), as amended from time to time and rules, regulations and directions issued thereunder, are permitted to hedge exchange rate and/or interest rate risk exposure thereof by undertaking a foreign currency-INR swap to move from a foreign currency liability to a rupee liability with an AD Cat-I bank subject to the operational guidelines, terms and conditions as mentioned in the above circular.

3. With a view to facilitating hedging of long term foreign currency borrowings by residents, it has been decided to permit them to enter in to FCY-INR swaps with Multilateral or International Financial Institutions (MFI/IFI) in which Government of India is a shareholding member subject to the following terms and conditions:

(i) Such swap transactions shall be undertaken by the MFI / IFI concerned on a back-to-back basis with an AD Category-I bank in India.

(ii) AD Category-I banks shall face, for the purpose of the swap, only those Multilateral Financial Institutions (MFIs) and International Financial Institutions (IFIs) in which Government of India is a shareholding member.

(iii) The FCY-INR swaps shall have a minimum tenor of three years. All other operational guidelines, terms and conditions relating to FCY-INR swaps as laid down in [A.P. \(DIR Series\) Circular No. 32 dated December 28, 2010](#), as amended from time to time, shall apply, mutatis mutandis.

(iv) In the event of a default by the resident borrower on its swap obligations, the MFI / IFI concerned shall bring in foreign currency funds to meet its corresponding liabilities to the counterparty AD Cat-I bank in India.

(v) AD Category-I bank shall report the FCY-INR swaps transactions entered into with the MFIs / IFIs on a back-to-back basis to CCIL reporting platform, including details of the foreign currency borrower, in terms of Reserve Bank [circular no. FMD.MSRG.No. 94/02.05.002/2013-14 dated December 4, 2013](#) on the reporting platform for OTC Foreign Exchange and Interest Rate Derivatives.

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

5. The directions contained in this circular have been issued under Section 10(4) and Section 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,

(R Subramanian)
Chief General Manager