1. What are the pre-conditions for the FCNR (B) deposits mobilised by a bank for being eligible to be swapped with RBI under the swap window?

Only fresh FCNR (B) deposits mobilized in any of the permitted currencies after September 6, 2013 with a minimum three years maturity and having a lock in period of one year are permissible deposits under the swap window.

Banks are free to mobilise other types of permitted FCNR (B) deposits as specified in the RBI Master Circular on Interest Rates on FCNR (B) Deposits dated July 1, 2013 read with Circular DBOD.Dir.BC. 38/13.03.00/2013-14 dated August 14, 2013. However, such deposits will not qualify as eligible deposit for the purpose of swap with RBI. Banks are advised to maintain separate ledgers for FCNR (B) deposits mobilised under both the schemes along with proper audit trail of transactions.

2. What is the nature of swap offered by RBI?

The swap is in the nature of a simple buy/sell foreign exchange swap from the RBI side covering just the principal portion of the deposits and not the interest component.

3. Can the maturing FCNR (B) deposits be renewed and construed as fresh deposits for the purpose of swap?

Yes. However, only such deposits which are renewed on maturity for a minimum tenor of three years and having a lock in period of one year would qualify as eligible deposits for undertaking swap with RBI.

4. How will the swap cost of 3.5 per cent be computed?

The swap cost of 3.5 per cent will be compounded semi-annually for the tenor of the swap.

5. When can a bank approach RBI for the swap?

As and when the bank mobilizes USD one million or more of FCNR (B) deposits, it may approach RBI. Normally, banks may enter into swap transactions with RBI once in a week in consultation with the Financial Markets Department of RBI.

6. How will the tenor of the swap be arrived at?

The tenor of the swap will be for three years or more in line with the tenor of the underlying FCNR (B) deposits. Bank desirous of availing the swap window may approach RBI for the swap, indicating the tenor in number of days.

7. Is it necessary to pass on the benefit arising out of the swap to the depositor?

Banks would be free to price the deposit within the overall ceiling as per the extant guidelines issued by RBI (c.f. RBI Circular DBOD.Dir.BC. 38/13.03.00/2013-14 dated August 14, 2013).

8. In case of premature withdrawal of deposit, is it necessary for the bank to approach RBI for cancellation of the swap?

Yes, banks have to necessarily approach RBI for cancellation of the swap if the underlying FCNR (B) deposit has been prematurely withdrawn. For the sake of operational and mutual convenience of both RBI and the bank, the cancellation of the swap may be undertaken once a threshold amount of deposits have been prematurely withdrawn. The threshold amount will be decided by RBI and conveyed to the bank at the time of bank approaching the RBI for cancellation of swap.

9. How would the swap be re-priced once a bank approaches RBI for cancellation of the swap subsequent to premature withdrawal of the underlying FCNR (B) deposits?

The re-pricing of the swap would be done as given in the illustration at the end of the FAQ.

10. Can a bank approach RBI for termination of the swap even if the underlying FCNR (B) deposit(s) has not been prematurely withdrawn?

No.

11. How will the FCNR (B) deposits mobilised in currencies other than US Dollars be taken into account for the purpose of entering into swap with RBI?

For FCNR (B) deposits mobilized in permissible foreign currencies other than US Dollar, banks may arrive at the equivalent dollar amount eligible to be swapped by converting the same at the prevailing market rates on the day of the swap deal. Banks may follow a consistent policy as far as conversion is concerned and should maintain a proper documentation (audit trails) of the procedure followed for such conversions.

12. On premature withdrawal, banks will have a US Dollar outflow. Can banks meet these dollar demands using any other available source of foreign currency funding?

As stated earlier, banks have to necessarily approach RBI for unwinding of the swap in case of premature withdrawal of deposits. However, banks may arrange funds from other permitted sources pending unwinding of the swap with RBI.

13. Will the banks be required to enter into ISDA agreement with RBI for undertaking swaps?

Banks are not required to enter into any ISDA agreement with RBI.

14. Can a bank enter into a swap with RBI if the original tenor of the fresh FCNR (B) deposits mobilized is more than three years but at the time of availing of the swap facility with RBI, the residual maturity is less than three years?

Since the swap with RBI will be undertaken in multiples of USD one million, it is possible that a bank may have to wait before it mobilises a minimum amount of USD one million. In such a case, the banks will be allowed to undertake swaps for tenors of marginally less than three years provided they have mobilised fresh eligible FCNR (B) for minimum original tenor of three years with one year lock in period.

15. The swap with RBI will entail very large risk limit consumption (since it would be an off-market, in-the-money swap for banks). This will impact capital requirements substantially. Are such exposures on RBI exempted from capital adequacy requirements?

Yes.

16. Can a bank offer loan abroad to the account holder and can the lending institution mark lien on such deposits?

Please refer to the FAQ (updated as on September 13, 2013) on “Features of various Deposit Schemes available for Non-Resident Indians” available on the RBI website (link: http://www.rbi.org.in/scripts/FAQView.aspx?Id=69). Banks are permitted to extend loans to the FCNR (B) account holders and mark lien on such deposits.

Illustration

(Please refer to the answer to the Question No. 8 above)

<table>
<tr><td colspan="3">A. At the time of entering into a sell/buy swap with RBI

A bank enters into a swap deal with RBI for a swap tenor for 1235 days on 19 September 2013.</td></tr>
<tr><td colspan="2">Near/Spot leg</td><td>23 Sep 2013</td></tr>
<tr><td colspan="2">Far Leg (Spot leg plus tenor of 1235 days)</td><td>09 Feb 2017</td></tr>
<tr><td></td><td>Near leg (Buy for RBI)</td><td>Far Leg (Sell for RBI)</td></tr>
<tr><td>Value Dates</td><td>23 Sep 2013</td><td>09 Feb 2017</td></tr>
<tr><td>Swap Amount (Principal)</td><td>USD 1 million</td><td>USD 1 million</td></tr>
<tr><td>USD-INR Rates</td><td>62.6390</td><td>70.4419*</td></tr>
<tr><td colspan="3">* Computed by compounding the near leg rate of 62.6390 at 3.5 per cent semi-annually for the tenor of the swap, i.e. 1235 days.</td></tr>
</table>

Transaction with RBI: On September 19, 2013, the bank will enter into a sell/buy swap with RBI for USD one million at 62.6390/70.4419. The sell leg is undertaken at that day's RBI reference rate.

B. At the time of cancellation/ termination of the swap consequent upon premature withdrawal of the underlying FCNR (B) deposits

If the swap is terminated after 756 days, the residual tenor of the swap would stand at 479 days. The swap cost would be re-fixed as under:

Revised swap cost to be applied for the completed tenor of the swap (756 days) would be equal to 14.9 % (3.5%+4.0%+7.4%). It is assumed that the prevailing USDINR swap rate for residual tenor of 469 days at the time of cancellation is 7.4%.

The revised swap cost would be adjusted in the first leg of the new swap transaction (buy/sell) to be undertaken by the bank with RBI.

New Swap to be undertaken at the time of cancellation of existing swap	Near leg (Sell for RBI)	Far Leg (Buy for RBI)
Value Dates	19 Oct 2015	09 Feb 2017
Rates	84.3561	70.4419

Transaction with RBI: On October 15, 2015, the bank will enter into a buy/sell swap with RBI for USD one million at 84.3561/70.4419.