Master Circular on Risk Management and Inter-Bank Dealings

PART – A

RISK MANAGEMENT

SECTION I

Facilities for Persons Resident in India other than Authorised Dealers Category-I

The facilities for persons resident in India (other than AD Category I banks) are elaborated under paragraphs A and B. **Paragraph A** describes the products and operational guidelines for the respective product. In addition to the operational guidelines under A, the general instructions that are applicable across all products for residents (other than AD Category I banks) are detailed under **Paragraph B.**

A. Products and Operational Guidelines

The product/purpose-wise facilities for persons resident in India (other than AD Category I banks) are detailed under the following subheads:

1) Contracted Exposure
2) Probable Exposure
3) Special Dispensation

1) **Contracted Exposures**

AD Category I banks have to evidence the underlying documents so that the existence of underlying foreign currency exposure can be clearly established. AD Category I banks, through verification of documentary evidence, should be satisfied about the genuineness of the underlying exposure, irrespective of the transaction being a current or a capital account. Full particulars of the contracts should be marked on the original documents under proper authentication and retained for verification. However, in cases where the submission of original documents is not possible, a copy of the original documents, duly certified by an authorized official of the user, may be obtained. In either of the cases, before offering the contract, the AD Category I banks should obtain an undertaking from the customer and also certificates from the statutory auditor (for details refer para B (b) for General Instructions). While details of the underlying have to be recorded at the time of booking the contract, in the view of logistic issues, a maximum period of 15 days may be allowed for production of the documents. If the documents are not submitted by the customer within 15 days, the contract may be cancelled, and the exchange gain, if any, should not be passed on to the customer. In the event of non-submission of the documents by the customer within 15 days on more than three occasions in a financial year, booking of permissible derivative contracts in future may be allowed only against production of the underlying documents, at the time of booking the contract.

The products available under this facility are as follows:

i) Forward Foreign Exchange Contracts

Participants

Market-makers - AD Category I banks

Users - Persons resident in India

Purpose

a) To hedge exchange rate risk in respect of transactions for which sale and /or purchase of foreign exchange is permitted under the FEMA 1999, or in terms of the rules/ regulations/directions/orders made or issued there under.

b) To hedge exchange rate risk in respect of the market value of overseas direct investments (in equity and loan).

    i) Contracts covering overseas direct investment (ODI) can be cancelled or rolled over on due dates. If a hedge becomes naked in part or full owing to contraction (due to price movement/impairment) of the market value of the ODI, the hedge may be allowed to continue until maturity, if the customer so desires. Rollovers on due date shall be permitted up to the extent of the market value as on that date.

c) To hedge exchange rate risk of transactions denominated in foreign currency but settled in INR, including hedging the economic (currency indexed) exposure of importers in respect of customs duty payable on imports.

    i) Forward foreign exchange contracts covering such transactions will be settled in cash on maturity.

    ii) These contracts once cancelled, are not eligible to be rebooked.

    iii) In the event of any change in the rate(s) of customs duties, due to Government notifications subsequent to the date of the forward contracts, importers may be allowed to cancel and/or rebook the contracts before maturity.

Operational Guidelines, Terms and Conditions

General principles to be observed for forward foreign exchange contracts.

a) The maturity of the hedge should not exceed the maturity of the underlying transaction. The currency of hedge and tenor, subject to the above restrictions, are left to the customer. Where the currency of hedge is different from the currency of the underlying exposure, the risk management policy of the corporate, approved by the Board of the Directors, should permit such type of hedging.

b) Where the exact amount of the underlying transaction is not ascertainable, the contract may be booked on the basis of reasonable estimates. However, there should be periodical review of the estimates.

c) Foreign currency loans/bonds will be eligible for hedge only after final approval is accorded by the Reserve Bank, where such approval is necessary or Loan Registration Number is allotted by the Reserve Bank.

d) Global Depository Receipts (GDRs)/American Depository Receipts (ADRs) will be eligible for hedge only after the issue price has been finalized.

e) Balances in the Exchange Earner's Foreign Currency (EEFC) accounts sold forward by the account holders shall remain earmarked for delivery and such contracts shall not be cancelled. They are, however, eligible for rollover, on maturity.

f) In case of contracted exposures, forward contracts, involving Rupee as one of the currencies, in respect of all current account transactions as well as capital account transactions with a residual maturity of one year or less may be freely cancelled and rebooked.

g) In case of forward contracts involving Rupee as one of the currencies, booked by residents in respect of all hedge transactions, if cancelled with one AD Category I bank can be rebooked with another AD Category I bank subject to the following conditions:

    (i) the switch is warranted by competitive rates on offer, termination of banking relationship with the AD Category I bank with whom the contract was originally booked;

    (ii) the cancellation and rebooking are done simultaneously on the maturity date of the contract; and

    (iii) the responsibility of ensuring that the original contract has been cancelled rests with the AD Category I bank who undertakes rebooking of the contract.

h) Forward contracts can be rebooked on cancellation subject to condition (i) below.

i) The facility of rebooking should not be permitted unless the corporate has submitted the exposure information as prescribed in Annex V.

j) Substitution of contracts for hedging trade transactions may be permitted by an AD Category I bank on being satisfied with the circumstances under which such substitution has become necessary. The AD Category I bank may also verify the amount and tenor of the underlying substituted.

ii) Cross Currency Options (not involving Rupee)

Participants

Market-makers - AD Category I banks as approved for this purpose by the Reserve Bank

Users – Persons resident in India

Purpose

a) To hedge exchange rate risk arising out of trade transactions.

b) To hedge the contingent foreign exchange exposure arising out of submission of a tender bid in foreign exchange.

Operational Guidelines, Terms and Conditions

a) AD Category I banks can only offer plain vanilla European options[1].

b) Customers can buy call or put options.

c) These transactions may be freely booked and/ or cancelled subject to verification of the underlying.

d) All guidelines applicable for cross currency forward contracts are applicable to cross currency option contracts also.

e) Cross currency options should be written by AD Category I banks on a fully covered back-to-back basis. The cover transaction may be undertaken with a bank outside India, an Off-shore Banking Unit situated in a Special Economic Zone or an internationally recognized option exchange or another AD Category I bank in India. AD Category I banks desirous of writing options, should obtain a one-time approval from the Chief General Manager, Reserve Bank of India, Financial Markets Regulation Department,, Central Office, 23rd Floor, Mumbai, 400001, before undertaking the business.

iii) Foreign Currency - INR Options

Participants

Market-makers - AD Category I banks, as approved for this purpose by the Reserve Bank.

Users – Persons resident in India

Purpose

a) To hedge foreign currency exposures in accordance with Schedule I of Notification No. FEMA 25/2000-RB dated May 3, 2000, as amended from time to time.

b) To hedge the contingent foreign exchange exposure arising out of submission of a tender bid in foreign exchange.

Operational Guidelines, Terms and Conditions

a) AD Category I banks having a minimum CRAR of 9 per cent, can offer foreign currency– INR options on a back-to-back basis.

b) For the present, AD category I banks can offer only plain vanilla European

1 A European option may be exercised only at the expiry date of the option, i.e. at a single pre-defined point in time.

options.

c) Customers can buy call or put options.

d) All guidelines applicable for foreign currency-INR foreign exchange forward contracts are applicable to foreign currency-INR option contracts also.

e) AD Category I banks having adequate internal control, risk monitoring/ management systems, mark to market mechanism, etc. are permitted to run a foreign currency– INR options book on prior approval from the Reserve Bank, subject to conditions. AD Category I banks desirous of running a foreign currency-INR options book and fulfilling minimum eligibility criteria listed below, may apply to the Reserve Bank with copies of approval from the competent authority (Board/ Risk Committee/ ALCO), detailed memorandum in this regard, specific approval of the Board for the type of option writing and permissible limits. The memorandum put up to the Board should clearly mention the downside risks, among other matters.

Minimum Eligibility Criteria:

a.i. Net worth not less than Rs 300 crore

a.ii. CRAR of 10 per cent

a.iii. Net NPAs not exceeding 3 per cent of the net advances

a.iv. Continuous profitability for at least three years

The Reserve Bank will consider the application and accord a one-time approval at its discretion. AD Category I banks are expected to manage the option portfolio within the Reserve Bank approved risk management limits.

f) AD banks may quote the option premium in Rupees or as a percentage of the Rupee/foreign currency notional.

g) Option contracts may be settled on maturity either by delivery on spot basis or by net cash settlement in Rupees on spot basis as specified in the contract. In case of unwinding of a transaction prior to the maturity, the contract may be cash settled based on market value of an identical off-setting option.

h) Market makers are allowed to hedge the 'Delta' of their option portfolio by accessing the spot and forward markets. Other 'Greeks' may be hedged by entering into option transactions in the inter-bank market.

i) The 'Delta' of the option contract would form part of the overnight open position.

j) The 'Delta' equivalent as at the end of each maturity shall be taken into account for the purpose of AGL. The residual maturity (life) of each outstanding option contract can be taken as the basis for the purpose of grouping under various maturity buckets.

k) AD banks running an option book are permitted to initiate plain vanilla cross currency option positions to cover risks arising out of market making in foreign currency-INR options.

l) Banks should put in place necessary systems for marking to market the portfolio on a daily basis. FEDAI will publish daily a matrix of polled implied volatility estimates, which market participants can use for marking to market their portfolio.

m) The accounting framework for option contracts will be as per FEDAI circular No.SPL-24/FC-Rupee Options/2003 dated May 29, 2003.

iv) Foreign Currency-INR Swaps

Participants

Market-makers – AD Category I banks in India.

Users –

i. Residents having a foreign currency liability and undertaking a foreign currency-INR swap to move from a foreign currency liability to a Rupee liability.

ii. Incorporated resident entities having a rupee liability and undertaking an INR – foreign currency swap (INR-FCY) to move from rupee liability to a foreign currency liability, subject to certain minimum prudential requirements, such as risk management systems and natural hedges or economic exposures. In the absence of natural hedges or economic exposures, the INR-foreign currency swap (to move from rupee liability to a foreign currency liability) may be restricted to listed companies **or** unlisted companies with a minimum net worth of Rs 200 crore. Further, the AD Category I bank is required to examine the suitability and appropriateness of the swap and be satisfied about the financial soundness of the corporate.

Purpose

To hedge exchange rate and/or interest rate risk exposure for those having long-term foreign currency borrowing or to transform long-term INR borrowing into foreign currency liability.

Operational Guidelines, Terms and Conditions

a) No swap transactions involving upfront payment of Rupees or its equivalent in any form shall be undertaken.

b) The term “long-term exposure” means exposures with residual maturity of one year or more.

c) The swap transactions, once cancelled, shall not be rebooked or re-entered, by whichever mechanism or by whatever name called. In[2] case of FCY-INR swaps however, where the underlying is still surviving, the client, on cancellation of the swap contract, may be permitted to re-enter into a fresh swap, to hedge the underlying but only after the expiry of the tenor of the original swap contract that had been cancelled. This flexibility is not permitted for INR-FCY swaps.

d) AD Category I banks should not offer leveraged swap structures. Typically, in leveraged swap structures, a multiplicative factor other than unity is

2 A.P. (DIR Series) Circular No. 78 dated February 13, 2015

attached to the benchmark rate(s), which alters the payables or receivables vis-à-vis the situation in the absence of such a factor.

e) The notional principal amount of the swap should not exceed the outstanding amount of the underlying loan.

f) The maturity of the swap should not exceed the remaining maturity of the underlying loan.

v) Cost Reduction Structures i.e. cross currency option cost reduction structures and foreign currency –INR option cost reduction structures.

Participants

Market-makers - AD Category I banks

Users – Listed companies and their subsidiaries/joint ventures/associates having common treasury and consolidated balance sheet or unlisted companies with a minimum net worth of Rs. 200 crore

provided

a. All such products are fair valued on each reporting date;
b. The companies follow the Accounting Standards notified under section 211 of the Companies Act, 1956 and other applicable Guidance of the Institute of Chartered Accountants of India (ICAI) for such products/ contracts as also the principle of prudence which requires recognition of expected losses and non-recognition of unrealized gains;
c. Disclosures are made in the financial statements as prescribed in ICAI press release dated 2nd December 2005; and
d. The companies have a risk management policy with a specific clause in the policy that allows using the type/s of cost reduction structures.

(Note: The above accounting treatment is a transitional arrangement till AS 30 / 32 or equivalent standards are notified.)”

Purpose

To hedge exchange rate risk arising out of trade transactions, External Commercial Borrowings (ECBs) and foreign currency loans availed of domestically against FCNR (B) deposits.

Operational Guidelines, Terms and Conditions

a) Writing of options by the users, on a standalone basis, is not permitted.
b) Users can enter into option strategies of simultaneous buy and sell of plain vanilla European options, provided there is no net receipt of premium.
c) Leveraged structures, digital options, barrier options, range accruals and any other exotic products are not permitted.

d) The portion of the structure with the largest notional, computed over the tenor of the structure, should be reckoned for the purpose of underlying.

e) The delta of the options should be explicitly indicated in the term sheet.

f) AD Category I banks may, stipulate additional safeguards, such as, continuous profitability, higher net worth, turnover, etc depending on the scale of forex operations and risk profile of the users.

g) The maturity of the hedge should not exceed the maturity of the underlying transaction and subject to the same the users may choose the tenor of the hedge. In case of trade transactions being the underlying, the tenor of the structure shall not exceed two years.

h) The MTM position should be intimated to the users on a periodical basis.

vi) Hedging of Borrowings in foreign exchange, which are in accordance with the provisions of Foreign Exchange Management (Borrowing and Lending in Foreign Exchange) Regulations, 2000.

Products – Interest rate swap, Cross currency swap, Coupon swap, Cross currency option, Interest rate cap or collar (purchases), Forward rate agreement (FRA)

Participants

Market-makers –

a) AD Category I banks in India

b) Branch outside India of an Indian bank authorized to deal in foreign exchange in India

c) Offshore banking unit in a SEZ in India.

Users –

Persons resident in India who have borrowed foreign exchange in accordance with the provisions of Foreign Exchange Management (Borrowing and Lending in Foreign Exchange) Regulations, 2000.

Purpose

For hedging interest rate risk and currency risk on loan exposure and unwinding from such hedges.

Operational Guidelines, Terms and Conditions

a) The products, as detailed above should not involve the rupee under any circumstances.

b) Final approval has been accorded or Loan Registration Number allotted by the Reserve Bank for borrowing in foreign currency.

c) The notional principal amount of the product should not exceed the outstanding amount of the foreign currency loan.

d) The maturity of the product should not exceed the unexpired maturity of the underlying loan.

e) The contracts may be cancelled and rebooked freely.

2) Probable exposures based on past performance

Participants

Market-makers – AD Category I banks in India.

Users – Importers and exporters of goods and services

Purpose

To hedge currency risk on the basis of a declaration of an exposure and based on past performance up to the average of the previous three financial years' (April to March) actual import/export turnover or the previous year's actual import/export turnover, whichever is higher. Probable exposure based on past performance can be hedged only in respect of trades in merchandise goods as well as services.

Products

Forward foreign exchange contracts, cross currency options (not involving the rupee), foreign currency-INR options and cost reduction structures [as mentioned in section B para I 1(v)].

Operational Guidelines, Terms and Conditions

a) Corporates having a minimum net worth of Rs 200 crores and an annual export and import turnover exceeding Rs 1000 crores and satisfying all other conditions as stipulated in section B para I 1(v) may be allowed to use cost reduction structures.

b) The contracts booked during the current financial year (April-March) and the outstanding contracts at any point of time should not exceed

i. The eligible limit i.e. the average of the previous three financial years' actual export turnover or the previous year's actual export turnover, whichever is higher for exports.

ii. Hundred percent of the eligible limit i.e. the average of the previous three financial years' actual import turnover or the previous year's actual import turnover, whichever is higher for imports. Importers, who have already booked contracts up to previous limit of fifty per cent in the current financial year, shall be eligible for difference arising out of the enhanced limit.

c) Contracts booked up to 75 percent of the eligible limit mentioned at paragraph (b) (i) and (b) (ii) 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 (b) (i) and (b) (ii) 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.

d) These limits shall be computed separately for import/export transactions.

e) Higher limits will be permitted on a case-by-case basis on application to the Financial Markets Regulation Department, Central Office, Reserve Bank of India. The additional limits, if sanctioned, shall be on a deliverable basis.

f) Any contract booked without producing documentary evidence will be marked off against this limit. These contracts once cancelled, are not eligible to be rebooked. Rollovers are also not permitted.

g) AD banks should permit their clients to use the past performance facility only after satisfying themselves that the following conditions are complied with:

i. An undertaking may be taken from the customer that supporting documentary evidence will be produced before the maturity of all the contracts booked.

ii. Importers and exporters should furnish a quarterly declaration to the AD Category I banks, signed by the Chief Financial Officer (CFO) and the Company Secretary (CS), regarding amounts booked with other AD Category I banks under this facility, as per Annex VI. In the absence of a CS, the Chief Executive Officer (CEO) or the Chief Operating Officer (COO) shall co-sign the undertaking along with the CFO.

iii. For an exporter customer to be eligible for this facility, the aggregate of overdue bills shall not exceed 10 per cent of the turnover.

iv. Aggregate outstanding contracts in excess of 50 per cent of the eligible limit may be permitted by the AD Category I bank on being satisfied about the genuine requirements of their customers after examination of a document as per the format in Annex VII, signed by the CFO and CS, containing the following:

- A declaration that all guidelines have been adhered to while utilizing this facility; and.
- A certificate of import/export turnover of the customer during the past three years.

In the absence of a CS, the CEO or the CFO shall co-sign the undertaking along with the CFO.

h) The past performance limits once utilised are not to be reinstated either on cancellation or on maturity of the contracts.

i) AD Category I banks must arrive at the past performance limits at the beginning of every financial year. The drawing up of the audited figures (previous year) may require some time at the commencement of the financial year. However, if the statements are not submitted within three months from the last date of the financial year, the facility should not be provided until submission of the audited figures.

j) As part of the annual audit exercise, the Statutory Auditor shall certify the following:

- The amounts booked with AD Category-I banks under this facility; and
- All guidelines have been adhered to while utilizing this facility over the past

financial year.

k) AD Category I banks must institute appropriate systems for validating the past performance limits at pre-deal stage. In addition to the customer declarations, AD Category I banks should also assess the past transactions with the customers, turnover, etc.

l) AD Category I banks are required to submit a monthly report (as on the last Friday of every month) on the limits granted and utilised by their constituents under this facility as prescribed in Annex X.

3) Special Dispensation

i) Small and Medium Enterprises (SMEs)

Participants

Market-makers – AD Category I.

Users – Small and Medium Enterprises (SMEs) [3]

Purpose

To hedge direct and / or indirect exposures of SMEs to foreign exchange risk

Product

Forward foreign exchange contracts

Operational Guidelines: Small and Medium Enterprises (SMEs) having direct and / or indirect exposures to foreign exchange risk are permitted to book / cancel / / roll over forward contracts without production of underlying documents to manage their exposures effectively, subject to the following conditions:

a) Such contracts may be booked through AD Category I banks with whom the SMEs have credit facilities and the total forward contracts booked should be in alignment with the credit facilities availed by them for their foreign exchange requirements or their working capital requirements or capital expenditure.

b) AD Category I bank should carry out due diligence regarding "*user appropriateness*" and *"suitability*" of the forward contracts to the SME customers as per Para 8.3 of 'Comprehensive Guidelines on Derivatives' issued vide DBOD.No.BP.BC.44/21.04.157/2011-12 dated November 2, 2011.

c) The SMEs availing this facility should furnish a declaration to the AD Category I bank regarding the amounts of forward contracts already booked, if any, with other AD Category I banks under this facility.

ii) Resident Individuals, Firms and Companies

Participants

Market-makers – AD Category I banks

3 SME as defined by the Rural Planning and Credit Department, Reserve Bank of India vide circular RPCD.PLNS.BC.No.63/06.02.31/2006-07 dated April 4, 2007.

Users: Resident Individuals, Firms and Companies

Purpose

To hedge their foreign exchange exposures arising out of actual or anticipated remittances, both inward and outward, can book forward contracts, without production of underlying documents, up to a limit of USD 250,000, based on self declaration.

Product

Forward foreign exchange contracts

Operational Guidelines, Terms and Conditions

a) The contracts booked under this facility would normally be on a deliverable basis. However, in case of mismatches in cash flows or other exigencies, the contracts booked under this facility may be allowed to be cancelled and re-booked. The notional value of the outstanding contracts should not exceed USD 250,000 at any time.

b) The contracts may be permitted to be booked up to tenors of one year only.

c) Such contracts may be booked through AD Category I banks with whom the resident individual has banking relationship, on the basis of an application-cum-declaration in the format given in Annex XIV. The AD Category I banks should satisfy themselves that the resident individuals understand the nature of risk inherent in booking of forward contracts and should carry out due diligence regarding "*user appropriateness*" and *"suitability*" of the forward contracts to such customer.

B. General Instructions for OTC forex derivative contracts entered by Residents in India

While the guidelines indicated above govern specific foreign exchange derivatives, certain general principles and safeguards for prudential considerations that are applicable across the OTC foreign exchange derivatives, are detailed below. In addition to the guidelines under the specific foreign exchange derivative product, the general instructions should be followed scrupulously by the users (residents in India other than AD Category I banks) and the market makers (AD Category I banks).

a) In case of all forex derivative transactions [except INR- foreign currency swaps i.e. moving from INR liability to foreign currency liability as in section B para I(1)(iv)] is undertaken, AD Category I banks must take a declaration from the clients that the exposure is unhedged and has not been hedged with another AD Category I bank. The corporates should provide an annual certificate to the AD Category I bank certifying that the derivative transactions are authorized and that the Board (or the equivalent forum in case of partnership or proprietary firms) is aware of the same.

b) In the case of **contracted exposure**, AD Category I banks must obtain:

   i) An undertaking from the customer that the same underlying exposure has not been covered with any other AD Category I bank/s. Where hedging of the same exposure is undertaken in parts, with more than one AD Category I bank, the details of amounts already booked with other AD Category I bank/s should be clearly indicated in the declaration. This undertaking can also be obtained as a part of the deal confirmation.

   ii) An annual certificate from the statutory auditors to the effect that the contracts outstanding with all AD category I banks at any time during the year did not exceed the value of the underlying exposures at that time. It is reiterated, however, that that the AD bank, while entering into any derivative transaction with a client, shall have to obtain an undertaking from the client to the effect that the contracted exposure against which the derivative transaction is being booked has not been used for any derivative transaction with any other AD bank.

c) Derived foreign exchange exposures are not permitted to be hedged. However, in case of INR- foreign currency swaps, at the inception, the user can enter into one time plain vanilla cross currency option (not involving Rupee) to cap the currency risk.

d) In any derivative contract, the notional amount should not exceed the actual underlying exposure at any point in time. Similarly, the tenor of the derivative contracts should not exceed the tenor of the underlying exposure. The notional amount for the entire transaction over its complete tenor must be calculated and the underlying exposure being hedged must be commensurate with the notional amount of the derivative contract.

e) Only one hedge transaction can be booked against a particular exposure/ part thereof for a given time period.

f) The term sheet for the derivative transactions (except forward contracts) should also necessarily and clearly mention the following:

   i) the purpose for the transaction detailing how the product and each of its components help the client in hedging;

   ii) the spot rate prevailing at the time of executing the transaction; and

   iii) quantified maximum loss/ worst downside in various scenarios.

g) AD Category I banks can offer only those products that they can price independently. This is also applicable to the products offered even on back to back basis. The pricing of all forex derivative products should be locally demonstrable at all times.

h) The market-makers should carry out proper due diligence regarding ‘user appropriateness’ and ‘suitability’ of products before offering derivative products (except forward contracts) to users as detailed in. No.BP.BC.44 / 21.04.157/2011-12 dated November 2, 2011.

i) AD Category I may share with the user the various scenario analysis encompassing both the possible upside as well as the downsides and sensitivity analysis identifying the various market parameters that affect the product.

j) The provisions of comprehensive guidelines on Derivatives issued vide DBOD.No.BP.BC.86/21.04.157/2006-07 dated April 20, 2007 and as amended from time to time are also applicable to forex derivatives.

k) Sharing of information on derivatives between banks is mandatory and as detailed vide circular DBOD.No.BP.BC.46/08.12.001/2008-09 dated September 19, 2008 and DBOD.No.BP.BC.94/08.12.001/2008-09 dated December 8, 2008.

4. Currency Futures on recognised Stock /New Exchanges

As part of further developing the derivatives market in India and adding to the existing menu of foreign exchange hedging tools available to the residents and non-residents, currency futures contracts have been permitted to be traded in recognized stock exchanges or new exchanges, recognized by the Securities and Exchange Board of India (SEBI) in the country. The currency futures market would function subject to the directions, guidelines, instructions issued by the Reserve Bank and the SEBI, from time to time.

Persons resident in India are permitted to participate in the currency futures market in India subject to directions contained in the Currency Futures (Reserve Bank) Directions, 2008 [Notification No.FED.1/DG(SG)-2008 dated August 6, 2008] (Directions) and Notification No.FED.2/ED (HRK)-2009 dated January 19, 2010 issued by the Reserve Bank of India, which have been issued under Section 45W of the Reserve Bank of India Act, 1934.

Currency futures are subject to following conditions:

Permission

(i) Currency futures are permitted in US Dollar (USD) - Indian Rupee (INR), Euro (EUR)-INR, Japanese Yen (JPY)-INR and Pound Sterling (GBP)-INR.

(ii) ‘Persons resident in India’ may purchase or sell currency futures contracts subject to the terms and conditions laid down in paragraph 6 below.

(iii) Foreign Portfolio Investors (FPIs) are permitted to enter into currency futures contracts subject to the terms and conditions laid down in Part A, Section II, paragraph no. 2.

Features of currency futures

Standardized currency futures shall have the following features:

a. USD-INR, EUR-INR, GBP-INR and JPY-INR contracts are allowed to be traded.

b. The size of each contract shall be USD 1000 for USD-INR contracts, Euro 1000 for Euro-INR contracts, GBP 1000 for GBP-INR contracts and JPY 100,000 for JPY-INR contracts.

c. The contracts shall be quoted and settled in Indian Rupees.

d. The maturity of the contracts shall not exceed 12 months.

e. The settlement price for USD-INR and Euro-INR contracts shall be the Reserve Bank's Reference Rates and for GBP-INR and JPY-INR contracts shall be the exchange rates published by the Reserve Bank in its press release on the last trading day.

Membership

(i) The membership of the currency futures market of a recognised stock exchange shall be separate from the membership of the equity derivative segment or the cash segment. Membership for both trading and clearing, in the currency futures market shall be subject to the guidelines issued by the SEBI.

(ii) Banks authorized by the Reserve Bank under section 10 of the Foreign Exchange Management Act, 1999 as 'AD Category - I bank' are permitted to become trading and clearing members of the currency futures market of the recognized stock exchanges, on their own account and on behalf of their clients, subject to fulfilling the minimum prudential requirements.

(iii) AD Category - I banks which do not meet the above minimum prudential requirements and AD Category - I banks which are Urban Co-operative banks or State Co-operative banks can participate in the currency futures market only as clients, subject to approval therefore from the respective regulatory Departments of the Reserve Bank.

Position limits

i. The position limits for various classes of participants in the currency futures market shall be subject to the guidelines issued by the SEBI.

ii. The AD Category - I banks, shall operate within prudential limits, such as Net Open Position (NOP) and Aggregate Gap (AG) limits.

Risk Management measures

The trading of currency futures shall be subject to maintaining initial, extreme loss and calendar spread margins and the Clearing Corporations / Clearing Houses of the exchanges should ensure maintenance of such margins by the participants on the basis of the guidelines issued by the SEBI from time to time.

Surveillance and disclosures

The surveillance and disclosures of transactions in the currency futures market shall be carried out in accordance with the guidelines issued by the SEBI.

Authorisation to Currency Futures Exchanges / Clearing Corporations

Recognized stock exchanges and their respective Clearing Corporations / Clearing Houses shall not deal in or otherwise undertake the business relating to currency futures unless they hold an authorization issued by the Reserve Bank under section 10(1) of the Foreign Exchange Management Act, 1999.

5. Currency Options on recognised Stock /New Exchanges

In order to expand the existing menu of exchange traded hedging tools available to the residents and non residents, plain vanilla currency options contracts have been permitted to be traded in recognized stock exchanges or new exchanges, recognized by the Securities and Exchange Board of India (SEBI) in the country.

Exchange traded Currency options are subject to following conditions:

Permission

(i) Exchange traded Currency option contracts are permitted in US Dollar (USD) - Indian Rupee (INR).

(ii) 'Persons resident in India' may purchase or sell exchange traded currency options contracts subject to the terms and conditions laid down in paragraph 6 below.

(iii) Foreign Portfolio Investors (FPIs) are permitted to enter into exchange traded currency options contracts subject to the terms and conditions laid down in Part A, Section II, paragraph no. 2.

Features of exchange traded currency options

Standardized exchange traded currency options shall have the following features:

a.i. The underlying for the currency option shall be US Dollar – Indian Rupee (USD-INR) spot rate.

a.ii. The options shall be premium styled European call and put options.

a.iii. The size of each contract shall be USD 1000.

a.iv. The premium shall be quoted in Rupee terms. The outstanding position shall be in USD.

a.v. The maturity of the contracts shall not exceed twelve months.

a.vi. The contracts shall be settled in cash in Indian Rupees.

a.vii. The settlement price shall be the Reserve Bank's Reference Rate on the date of expiry of the contracts.

Membership

i) Members registered with the SEBI for trading in currency futures market shall be eligible to trade in the exchange traded currency options market of a recognised stock exchange. Membership for both trading and clearing, in the exchange traded currency options market shall be subject to the guidelines issued by the SEBI.

ii) Banks authorized by the Reserve Bank under section 10 of the Foreign Exchange Management Act, 1999 as 'AD Category - I bank' are permitted to become trading and clearing members of the exchange traded currency options market of the recognized stock exchanges, on their own account and on behalf of their clients, subject to fulfilling the following minimum prudential requirements:

a) Minimum net worth of Rs. 500 crores.
b) Minimum CRAR of 10 per cent.
c) Net NPA should not exceed 3 per cent.
d) Made net profit for last 3 years.

The AD Category - I banks, which fulfil the prudential requirements, should lay down detailed guidelines with the approval of their Boards for trading and clearing of the exchange traded currency options contracts and management of risks.

iii) AD Category - I banks, which do not meet the above minimum prudential requirements and AD Category - I banks, which are Urban Co-operative banks or State Co-operative banks, can participate in the exchange traded currency options market only as clients, subject to approval therefor from the respective regulatory Departments of the Reserve Bank.

Position limits

i) The position limits for various classes of participants for the currency options shall be subject to the guidelines issued by the SEBI.

ii) The AD Category - I banks shall operate within prudential limits, such as Net Open Position (NOP) and Aggregate Gap (AG) limits.

Risk Management measures

The trading of exchange traded currency options shall be subject to maintaining initial, extreme loss and calendar spread margins and the Clearing Corporations / Clearing Houses of the exchanges should ensure maintenance of such margins by the participants on the basis of the guidelines issued by the SEBI from time to time.

Surveillance and disclosures

The surveillance and disclosures of transactions, in the exchange traded currency options market, shall be carried out in accordance with the guidelines issued by the SEBI.

Authorisation to the Exchanges / the Clearing Corporations for dealing in Currency Options

Recognized stock exchanges and their respective Clearing Corporations / Clearing Houses shall not deal in or otherwise undertake the business relating to the exchange traded currency options unless they hold an authorisation issued by the Reserve Bank under section 10 (1) of the Foreign Exchange Management Act, 1999.

6. Terms and conditions for residents participating in the Exchange Traded Currency Derivatives(ETCD)

a. Domestic participants shall be allowed to take a long (bought) as well as short (sold) position in USD-INR pair upto USD 15 million per exchange without having to establish the existence of any underlying exposure. In addition, domestic participants shall be allowed to take long as well as short positions in EUR-INR, GBP-INR and JPY-INR pairs, all put together, upto USD 5 million equivalent per exchange without having to establish the existence of any underlying exposure. For the convenience of monitoring, exchanges may prescribe fixed limits for the contracts in currencies other than USD such that these limits are within the equivalent of USD 5 million. These limits shall be monitored by the exchanges and breaches, if any, may be reported to Financial Markets Regulation Department, Reserve Bank of India.

b. Domestic participants who want to take a position in excess of limits mentioned at paragraph (a) above in the ETCD market will have to establish the existence of an underlying exposure. The procedure for the same shall be as under:

i. For participants who are exporters or importers of goods and services, the eligible limit up to which they can take appropriate hedging positions in ETCDs will be determined as higher of the (I) average of the last three years' export or import turnover, or (II) previous year's export or import turnover.

ii. The participants shall furnish, to the trading member of the exchange, a certificate(s) from their statutory auditors regarding the limit(s) mentioned above along with an undertaking signed by the Chief Financial Officer (CFO) to the effect that at all time, the sum total of the outstanding OTC derivative contracts and the outstanding ETCD contracts shall be corresponding to the actual exports or imports contracted, as the case may be.

iii. Based on the above certificate, a trading member can book ETCD contracts upto fifty per cent of the eligible limit [as at paragraph (i) above] on behalf of the concerned customer. If a participant wishes to take position beyond the fifty per cent of the eligible limit in the ETCD, it has to produce a signed undertaking from the Chief Financial Officer (CFO) or the senior most functionary responsible for company's finance and accounts and the Company Secretary (CS) to the effect_that the sum total of the outstanding OTC derivative contracts and outstanding ETCD contracts has been in correspondence with the eligible limits. In the absence of a CS, the Chief Executive Officer (CEO) or the Chief Operating Officer (COO) shall co-sign the undertaking along with the CFO or the senior most functionary responsible for company's finance and accounts. Based on such an undertaking, the trading member can book ETCD contracts beyond fifty per cent of the limit and up to limit mentioned in paragraph (i) above.

iv. For all other participants having an underlying foreign currency exposure in respect of both current and capital account transactions as also exporters and importers who wish to access the ETCD market on the basis of contracted exposure, they will have to undertake the transaction through AD Category-I bank/s who are operating as trading members. In such cases, the responsibility for verification of the underlying exposures and ensuring that the ETCD bought/sold is in conformity with the underlying exposure and that no OTC contract has been booked against the same underlying exposure shall rest with the concerned (AD Category I bank) trading member.

v. All participants in the ETCD market, except those covered by paragraph (iv) above, will be required to submit to the concerned trading member of the exchange a half-yearly signed undertaking from the Chief Financial Officer (CFO) or the senior most functionary responsible for company's finance and accounts and the Company Secretary (CS) to the effect_that the sum total of the outstanding OTC derivative contracts and outstanding ETCD contracts has been in correspondence with the eligible limits. In the absence of a CS, the Chief Executive Officer (CEO) or the Chief Operating Officer (COO) shall co-sign the undertaking along with the CFO or the senior most functionary responsible for company's finance and accounts.

c. It may be noted that the onus of complying with the provisions of this circular rests with the participant and in case of any contravention the participant shall render itself liable to any action that may be warranted as per the provisions of Foreign Exchange Management Act, 1999 and those of the Regulations, Directions, etc. framed thereunder.

7. Commodity Hedging

Residents in India, engaged in import and export trade or as otherwise approved by the Reserve Bank from time to time, are permitted to hedge the price risk of permitted commodities in the international commodity exchanges/ markets. This facility must not be used in conjunction with any other derivative product. It may be noted that the role of Authorized Dealer banks here is primarily to provide facilities for remitting foreign currency amounts towards margin requirements from time to time, subject to verification of the underlying exposure. In lieu of making a direct remittance towards payment obligations arising out of commodity derivative transactions entered into by customers with overseas counterparties, AD Category I banks may issue guarantees/standby letters of credit to cover these specific payment obligations related to commodity derivatives, subject to the conditions/guidelines in Annex XV. It is clarified that the term Board, wherever used refers to Board of Directors or the equivalent forum in case of partnership or proprietary firms. The facility is divided into following categories:

I) Delegated Route

a. Hedging of price risk on actual Import/Export of commodities

Participants

Users: Companies in India engaged in import and export of commodities

Facilitators: AD Category I banks.

Purpose: To hedge price risk of the imported/exported commodity

Products: Standard exchange traded futures and options (purchases only) in international commodity exchanges. If risk profile warrants –may use OTC contracts overseas.

Operational Guidelines

AD Category I banks satisfying certain minimum norms, and authorized by the Reserve Bank may grant permission to companies listed on a recognized stock exchange to hedge price risk on import/ export in respect of any commodity (except gold, silver, platinum) in the international commodity exchanges/ markets. The guidelines are given in Annex XI (A & B).

b. Hedging of anticipated imports of crude oil

Participants

Users: Domestic companies engaged in refining crude oil.

Facilitators: AD Category I banks.

Purpose: To hedge the price risk on crude oil imports on the basis of past performance.

Products: Standard exchange traded futures and options (purchases only) in international commodity exchanges. If risk profile warrants – may use OTC contracts overseas.

Operational Guidelines:

a) Hedging to be permitted up to 50 per cent of the volume of actual imports during the previous year or 50 per cent of the average volume of imports during the previous three financial years, whichever is higher.

b) Contracts booked under this facility will have to be regularized by production of supporting import orders during the currency of the hedge. An undertaking may be obtained from the companies to this effect.

c) All other conditions and guidelines as per Annex XI should be complied with.

c. Hedging of price risk on domestic purchase and sales

(i) Select Metals

Participants

Users: Domestic producers/ users of aluminium, copper, lead, nickel and zinc listed on a recognized stock exchange.

Facilitators: AD Category I banks **Purpose:** To hedge the price risk on aluminium, copper, lead, nickel and zinc based on their underlying economic exposures

Products: Standard exchange traded futures and options (purchases only) in international commodity exchanges.

Operational Guidelines:

a) Hedging may be permitted up to the average of previous three financial years' (April to March) actual purchases / sales or the previous year's actual purchases / sales turnover, whichever is higher, of the above commodities.

b) AD Category I banks would require the user to submit a Board resolution certifying Board approved policies which define the overall framework within which derivatives activities should be conducted and the risks controlled.

c) All other conditions and guidelines as per Annex XI (A & B) should be complied with.

(ii) ATF (Aviation Turbine Fuel)

Participants

Users: Actual domestic users of ATF.

Facilitators: AD Category I banks **Purpose:** To hedge economic exposures in respect of ATF based on domestic purchases.

Products: Standard exchange traded futures and options (purchases only) in international commodity exchanges. If risk profile warrants – may use OTC contracts overseas.

Operational Guidelines:

a) AD Category I banks should ensure that permission for hedging ATF is granted only against firm orders.

b) AD Category I banks should retain necessary documentary evidence.

c) AD Category I banks would require the user to submit a Board resolution certifying Board approved policies which define the overall framework within which derivatives activities should be conducted and the risks controlled.

d) All other conditions and guidelines as per Annex XI (A & B) should be complied with.

(iii) Domestic purchases of crude oil and sales of petro-products

Participants

Users: Domestic crude oil refining companies.

Facilitators: AD Category I banks **Purpose:** To hedge commodity price risk on domestic purchases of crude oil and domestic sales of petroleum products, which are linked to international prices.

Products: Standard exchange traded futures and options (purchases only) in international commodity exchanges. If risk profile warrants – may use OTC contracts overseas.

Operational Guidelines:

a) The hedging will be allowed strictly on the basis of underlying contracts.

b) AD Category I banks should retain necessary documentary evidence.

c) All other conditions and guidelines as per Annex XI (A & B) should be complied with.

d. Hedging of price risk on Inventory

Participants

Users: Domestic oil marketing and refining companies.

Facilitators: AD Category I banks

Purpose: To hedge commodity price risk on Inventory.

Products: Over-the-counter (OTC) / exchange traded derivatives overseas with tenor restricted to a maximum of one-year forward.

Operational Guidelines:

a) Hedge is allowed to the extent of 50 per cent of their inventory based on the volumes in the quarter proceeding the previous quarter.

b) All other conditions and guidelines as per Annex XI (A & B) should be complied with.

II) Approval Route

Participants

Users: Residents in India, who are exposed to systemic international price risk in commodities.

Facilitators: AD Category I banks

Purpose: To hedge systemic international price risk in commodities.

Products: Standard exchange traded futures and options (purchases only) in international commodity exchanges. If risk profile warrants – may use OTC contracts overseas.

Operational Guidelines:

Applications of companies/ firms which are not covered by the delegated authority of AD Category I may be forwarded to the Reserve Bank for consideration through the International Banking Division of an AD Category I bank concerned along with the latter's specific recommendations. The details of the application are given in Annex XII.

III) Entities in Special Economic Zones (SEZ)

Participants

Users: Entities in Special Economic Zones (SEZ)

Facilitators: AD Category I banks

Purpose: To hedge price risk of the imported/exported commodity

Products: Standard exchange traded futures and options (purchases only) in international commodity exchanges. If risk profile warrants – may use OTC contracts overseas.

Operational Guidelines:

AD banks may allow entities in the Special Economic Zones (SEZ) to undertake hedging transactions in the overseas commodity exchanges/markets to hedge their commodity prices on export/import, subject to the condition that such contract is entered into on a stand-alone basis. (The term "standalone" means the unit in SEZ is completely isolated from financial contacts with its parent or subsidiary in the mainland or within the SEZs as far as its import/export transactions are concerned.)

NOTE: The detailed guidelines in respect of Delegated Route and Approval Route are given in the Annex XI and XII respectively.

8. Freight hedging

Domestic oil refining companies and shipping companies exposed to freight risk, are permitted to hedge their freight risk by the AD Category I banks authorized by the Reserve Bank. Other companies exposed to freight risk can seek prior permission from the Reserve Bank through their AD Category I bank.

It may be noted that the role of Authorized Dealer banks here is primarily to provide facilities for remitting foreign currency amounts towards margin requirements from time to time, subject to verification of the underlying exposure. This facility must not be used in conjunction with any other derivative product. The facility is divided into following categories:

I) Delegated Route

Participant:

Users: Domestic oil-refining companies and shipping companies.

Facilitators: AD Category I banks, specifically authorized by the Reserve Bank i.e. those who have been delegated the authority to grant permission to listed companies to hedge commodity price risk in the international commodity exchanges / markets, subject to the conditions mentioned therein.

Purpose: To hedge freight risk.

Products: Plain vanilla Over the Counter (OTC) or exchange traded products in the international market / exchange.

Operational Guidelines:

i) The maximum tenor permissible will be one year forward.

ii) The exchanges on which the products are purchased must be a regulated entity in the host country.

iii) AD Category I banks should ensure that the entities hedging their freight exposures have Board Resolutions which certify that the Board approved Risk Management policies, defines the overall framework within which derivative transactions should be undertaken and the risks contained therein.

AD Category I banks should approve this facility only after ensuring that the sanction of the company's Board has been obtained for the specific activity and also for dealing in overseas exchanges / markets. The Board approval must include explicitly the authority/ies permitted to undertake the transactions, the mark-to-market policy, the counterparties permitted for OTC derivatives, etc. and a list of transactions undertaken should be put up to the Board on a half-yearly basis.

iv) The AD Category I bank must obtain a copy of a Board resolution that certifies that the corporate has a Risk Management Policy, incorporating the above details at the time of permitting the transaction itself and as and when changes made therein.

v) The underlying exposure for the users is detailed under (a) and (b) below:

(a) For Domestic oil refining companies:

(i) The freight hedging will be on the basis of underlying contracts i.e., import/export orders for crude oil/petroleum products.

(ii) Additionally, domestic oil refining companies may hedge their freight risk on anticipated imports of crude oil on the basis of their past performance up to 50 per cent of the volume of actual imports of crude oil during the previous year or 50 per cent of the average volume of imports during the previous three financial years, whichever is higher.

(iii) Contracts booked under the past performance facility will have to be regularized by production of underlying documents during the currency of the hedge. An undertaking may be obtained from the company to this effect.

(b) For shipping companies:

(i) The hedging will be on the basis of owned / controlled ships of the shipping company which have no committed employment. The quantum of hedge will be determined by the number and capacity of these ships. The same may be certified by the statutory auditor and submitted to the AD Category I bank.

(ii) Contracts booked will have to be regularized by production of underlying documents i.e. employment of the ship during the currency of the hedge. An undertaking may be obtained from the company to this effect.

(iii) AD Category I banks may also ensure that the freight derivatives being entered into by the shipping companies are reflective of the underlying business of the shipping companies.

II) Approval Route

Participants

Users: Companies (other than domestic oil-refining companies and shipping companies) who are exposed to freight risk

Facilitators: AD Category I banks

Purpose: To hedge freight risk

Products: Plain vanilla Over the Counter (OTC) or exchange traded products in the international market / exchange.

Operational Guidelines

a) The maximum tenor permissible will be one year forward.

b) The exchanges on which the products are purchased must be a regulated entity in the host country.

c) Applications of companies/ firms which are not covered by the delegated authority of AD Category I may be forwarded to the Reserve Bank for consideration through the International Banking Division of their AD Category I bank concerned along with the latter's specific recommendations.

SECTION II

Facilities for Persons Resident outside India

Participants

Market-makers – AD Category I banks.

Users –Foreign Portfolio Investors(FPIs), Investors having Foreign Direct Investments (FDI), Non Resident Indians (NRIs), Non Resident exporters and importers, Non Residents lenders having ECBs designated in INR.

The purpose, products and operational guidelines of each of the users is detailed below:

1. Facilities for Foreign Portfolio Investors (FPIs)

Purpose

i) To hedge currency risk on the market value of entire investment in equity and/or debt in India as on a particular date.

ii) To hedge the coupon receipts arising out of investments in debt securities falling due during the following twelve months.

iii) To hedge Initial Public Offers (IPO) related transient capital flows under the Application Supported by Blocked Amount (ASBA) mechanism.

Products

Forward foreign exchange contracts with rupee as one of the currencies and foreign currency-INR options. Foreign Currency – INR swaps for IPO related flows.

Operational Guidelines, Terms and Conditions

a) FPIs may approach any AD Category I bank for hedging their currency risk on the market value of entire investment in equity and/or debt in India as on a particular date subject to the following conditions:

i. The eligibility for cover may be determined on the basis of a valuation certificate provided by the designated AD category bank along with a declaration by the FPI to the effect that its global outstanding hedges plus the derivatives contracts cancelled across all AD category banks is within the market value of its investments.

ii. The FPI should also provide a quarterly declaration to the custodian bank that the total amount of derivatives contract booked across AD Category banks are within the market value of its investments.

iii. The hedges taken with AD banks other than designated AD banks have to be settled through the Special Non-Resident Rupee A/c maintained with the designated bank through RTGS/NEFT.

iv. If an FPI wishes to enter into a hedge contract for the exposure relating to that part of the securities held by it against which it has issued any PN/ODI, it must have a mandate from the PN/ODI holder for the purpose. Further, while AD Category bank is expected to verify such mandates, in cases where this is rendered difficult, they may obtain a declaration from the FPI regarding the nature/structure of the PN/ODI establishing the need for a hedge operation and that such operations are being undertaken against specific mandates obtained from their clients.

b) AD Category I banks may undertake periodic reviews, at least at quarterly intervals, on the basis of market price movements, fresh inflows, amounts repatriated and other relevant parameters to ensure that the forward cover outstanding is supported by underlying exposures. In this context, it is clarified that in case an FPI intends to hedge the exposure of one of its sub-account holders, (cf paragraph 4 of schedule 2 to Notification No. FEMA 20 /2000-RB dated 3rd May 2000) it will be required to produce a clear mandate from the sub-account holder in respect of the latter's intention to enter into the derivative transaction. Further, the AD Category I banks shall have to verify the mandate as well as the eligibility of the contract vis-a-vis the market value of the securities held in the concerned sub-account.

c) If a hedge becomes naked in part or in full owing to contraction of the market value of the portfolio, for reasons other than sale of securities, the hedge may be allowed to continue till the original maturity, if so desired.

d) Forward contracts booked by FPIs, once cancelled, can be rebooked up to the extent of 10 per cent of the value of the contracts cancelled. The forward contracts booked may, however, be rolled over on or before maturity.

e) Forward contracts booked for hedging coupon receipts as indicated in para. (1)(ii) above shall not be eligible for rebooking on cancellation. They may however be rolled over on maturity provided the relative coupon amount is yet to be received.

f) The cost of hedge should be met out of repatriable funds and /or inward remittance through normal banking channel.

g) All outward remittances incidental to the hedge are net of applicable taxes.

h) For IPO related transient capital flows

   i.i. FPIs can undertake foreign currency- rupee swaps only for hedging the flows relating to the IPO under the ASBA mechanism.

   i.ii. The amount of the swap should not exceed the amount proposed to be invested in the IPO.

   i.iii. The tenor of the swap should not exceed 30 days.

   i.iv. The contracts, once cancelled, cannot be rebooked. Rollovers under this scheme will also not be permitted.

i) FPIs and other foreign investor are free to remit funds through any bank of its choice for any transaction permitted under FEMA, 1999 or the Regulations / Directions framed thereunder. The funds thus remitted can be transferred to the designated AD Category -I custodian bank through the banking channel. Note should, however, be taken that KYC in respect of the remitter, wherever required, is a joint responsibility of the bank that has received the remittance as well as the bank that ultimately receives the proceeds of the remittance. While the first bank will be privy to the details of the remitter and the purpose of the remittance, the second bank, will have access to complete information from the recipient's perspective. Besides, the remittance receiving bank is required to issue FIRC to the bank receiving the proceeds to establish the fact the funds had been remitted in foreign currency.

2. Terms and conditions for Foreign Portfolio Investors participating in the Exchange Traded Currency Derivatives (ETCD) [Refer Part A, sub-paragraphs (4) & (5)]

Foreign portfolio investors (FPIs) eligible to invest in securities as laid down in Schedules 2, 5, 7 and 8 of the Foreign Exchange Management (Transfer or Issue of Security by a person resident outside India) Regulations, 2000 (FEMA 20/2000-RB dated May 3, 2000 (GSR 406 (E) dated May 3, 2000)) as amended from time to time may enter into currency futures or exchange traded currency options contracts subject to the following terms and conditions:

a. FPIs will be allowed access to the currency futures or exchange traded currency options for the purpose of hedging the currency risk arising out of the market value of their exposure to Indian debt and equity securities.

b. Such investors can participate in the currency futures / exchange traded options market through any registered / recognised trading member of the exchange concerned.

c. FPIs can take position – both long (bought) as well as short(sold) – in USD-INR pair upto USD 15 million per exchange. In addition, they shall be allowed to take long as well as short positions in EUR-INR, GBP-INR and JPY-INR pairs, all put together, upto USD 5 million equivalent per exchange. For the convenience of monitoring, exchanges may prescribe fixed limits for the contracts in currencies other than USD such that these limits are within the equivalent of USD 5 million. These limits shall be monitored by the exchanges and breaches, if any, may be reported to Financial Markets Regulation Department, Reserve Bank of India.

d. An FPI cannot take a short position beyond USD 15 million in USD-INR pair and USD 5 million in all other currency pairs put together at any time. In order to take a long position in excess of these limits in any exchange, it will be required to have an underlying exposure. The onus of ensuring the existence of an underlying exposure shall rest with the FPI concerned.

e. The exchange will, however, be free to impose additional restrictions as prescribed by the Securities and Exchange Board of India (SEBI) for the purpose of risk management and fair trading.

f. The exchange/ clearing corporation will provide FPI wise information on day-end open position as well as intra-day highest position to the respective custodian banks. The custodian banks will aggregate the position of each FPI on the exchanges as well as the OTC contracts booked with them (i.e. the custodian banks) and other AD banks. If the total value of the contracts exceeds the market value of the holdings on any day, the concerned FPI shall be liable to such penal action as may be laid down by the SEBI in this regard and action as may be taken by Reserve Bank of India under the Foreign Exchange Management Act (FEMA), 1999. The designated custodian bank will be required to monitor this and bring transgressions, if any, to the notice of RBI / SEBI.

3. Facilities for Non-resident Indians (NRIs)

Purpose

a) To hedge the exchange rate risk on the market value of investment made under the portfolio scheme in accordance with provisions of FERA, 1973 or under notifications issued there under or in accordance with provisions of FEMA, 1999.

b) To hedge the exchange rate risk on the amount of dividend due on shares held in Indian companies.

c) To hedge the exchange rate risk on the amounts held in FCNR (B) deposits.

d) To hedge the exchange rate risk on balances held in NRE account.

Products

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

b) Additionally, for balances in FCNR (B) accounts – Cross currency (not involving the rupee) forward contracts to convert the balances in one foreign currency to other foreign currencies in which FCNR (B) deposits are permitted to be maintained.

4. Facilities for Hedging Foreign Direct Investment in India

Purpose

i) To hedge exchange rate risk on the market value of investments made in India since January 1, 1993, subject to verification of the exposure in India

ii) To hedge exchange rate risk on dividend receivable on the investments in Indian companies

iii) To hedge exchange rate risk on proposed investment in India

Products

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

Operational Guidelines, Terms and Conditions

a) In respect of contracts to hedge exchange rate risk on the market value of investments made in India, contracts once cancelled are not eligible to be rebooked. The contracts may, however, be rolled over.

b) In respect of proposed foreign direct investments, following conditions would apply:

   (i) Contracts to hedge exchange rate risk arising out of proposed investment in Indian companies may be allowed to be booked only after ensuring that the overseas entities have completed all the necessary formalities and obtained necessary approvals (wherever applicable) for the investment.

(ii) The tenor of the contracts should not exceed six months at a time beyond which permission of the Reserve Bank would be required to continue with the contract.

(iii) These contracts, if cancelled, shall not be eligible to be rebooked for the same inflows.

(iv) Exchange gains, if any, on cancellation shall not be passed on to the overseas investor.

5. Facilities for Hedging Trade Exposures, invoiced in Indian Rupees in India

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 in Annex XVIII. 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.

6. Facilities for Hedging of ECBs, designated in Indian Rupees, in India

I) Purpose: To hedge the currency risk arising out of ECBs designated in INR either directly with AD Category- I banks in India or through their overseas banks on a back to back basis as per operational guidelines, terms and conditions given under (II) below

Products

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

Operational Guidelines, Terms and Conditions

- The foreign equity holder / overseas organisation or individual approaches the AD bank in India with a request for forward cover in respect of underlying transaction for which he needs to furnish 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 ECB 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 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.

II) **Purpose**: To hedge the currency risk arising out of ECBs designated in INR extended by recognised non-resident lenders[4] with AD Category- I banks in India through their overseas banks on a back to back basis.

Products: Foreign currency-INR swaps

Operational Guidelines, Terms and Conditions

(a.i) The recognised non-resident lender approaches his overseas bank with appropriate documentation as evidence of an underlying ECB denominated in INR with a request for a swap rate for mobilising INR for onward lending to the Indian borrower.

(a.ii) The overseas bank, in turn, approaches an AD Cat-I bank for a swap rate along with documentation furnished by the customer that will enable the AD bank in India to satisfy itself that there is an underlying ECB in INR (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.

4 In terms of A.P. (DIR Series) Circular No. 25 dated September 3, 2014 and A.P. (DIR Series) Circular No. 103 dated May 21, 2015

(iii) A KYC certification on the end client shall also be taken by the AD bank in India as a one-time document from the overseas bank.

(iv) Based on the documents received from the overseas bank, the AD bank in India should satisfy itself about the existence of the underlying ECB in INR and offer an indicative swap rate to the overseas bank which, in turn, will offer the same to the non-resident lender on a back-to-back basis.

(v) The continuation of the swap shall be subject to the existence of the underlying ECB at all times.

(vi) On the due date, settlement may be done through the Vostro account of the overseas bank maintained with its correspondent bank in India.

(vii) The concerned AD Cat-I bank shall keep on record all related documentation for verification by Reserve Bank.

Operational Guidelines, Terms and Conditions

The operational guidelines as outlined for FPIs would be applicable, with the exception of the provision relating to rebooking of cancelled contracts. All foreign exchange derivative contracts permissible for a resident outside India other than a FPI, once cancelled, are not eligible to be rebooked.

SECTION III

Facilities for Authorised Dealers Category-I

1. Management of Banks' Assets-Liabilities

Users – AD Category I banks

Purpose - Hedging of interest rate and currency risks of foreign exchange asset-liability portfolio

Products - Interest Rate Swap, Interest Rate Cap/Collar, Currency Swap, Forward Rate Agreement. AD banks may also purchase call or put options to hedge their cross currency proprietary trading positions.

Operational Guidelines, Terms and Conditions

The use of these instruments is subject to the following conditions:

a) An appropriate policy in this regard is approved by the Top Management.

b) The value and maturity of the hedge should not exceed those of the underlying.

c) No 'stand alone' transactions can be initiated. If a hedge becomes naked, in part or full, owing to the contraction of the value of portfolio, it may be allowed to continue till the original maturity and should be marked to market at regular intervals.

d) The net cash flows arising out of these transactions are booked as income/ expenditure and reckoned toward foreign exchange position, wherever applicable.

2. Hedging of Gold Prices

Users **–**

i. Banks authorised by the Reserve Bank to operate the Gold Deposit Scheme

ii. Banks, which are allowed to enter into forward gold contracts in India in terms of the guidelines issued by the Department of Banking Regulation (including the positions arising out of inter-bank gold deals)

Purpose – To hedge price risk of gold

Products - Exchange-traded and over-the-counter hedging products available overseas.

Operational Guidelines, Terms and Conditions

a) While using products involving options, it may be ensured that there is no net receipt of premium, either direct or implied.

b) Authorised banks are permitted to enter into forward contracts with their constituents (exporters of gold products, jewellery manufacturers, trading houses, etc.) in respect of the underlying sale, purchase and loan transactions in gold with them, subject to the conditions specified by the Reserve Bank in this regard. The tenor of such contracts should not exceed six months.

3. Hedging of Capital

Users – Foreign banks operating in India

Product – Forward foreign exchange contracts

Operational Guidelines, Terms and Conditions

a) Tier I capital -

i) The capital funds should be available in India to meet local regulatory and CRAR requirements and, hence, these should not be parked in nostro accounts. Foreign currency funds accruing out of hedging should not be parked in Nostro accounts but should remain swapped with banks in India at all times.

ii) The forward contracts should be for tenors of one or more years and may be rolled over on maturity. Rebooking of cancelled hedges will require prior approval of the Reserve Bank.

b) Tier II capital -

- Foreign banks are permitted to hedge their Tier II capital in the form of Head Office borrowing as subordinated debt, by keeping it swapped into rupees at all times in terms of DBOD circular No.IBS.BC.65/23.10.015/2001-02 dated February 14, 2002.
- Banks are not permitted to enter into foreign currency-INR swap transactions involving conversion of fixed rate rupee liabilities in respect of Innovative Tier I/Tier II bonds into floating rate foreign currency liabilities.

4. Participation in the currency futures market in India

Please refer to Part-A Section I, paragraph 4. In continuation of the same:

a) AD Category I Banks may be guided by the DBOD instructions vide DBOD.No.FSD.BC.29/24.01.001/2008-09 dated August 6, 2008.

b) AD Category I Banks are permitted to become trading and clearing members of the currency futures market of recognised stock exchanges, on their own account and on behalf of their clients, subject to fulfilling the following minimum prudential requirements:

i) Minimum net worth of Rs. 500 crores.

ii) Minimum CRAR of 10 per cent.

iii) Net NPA should not exceed 3 per cent.

iv) Net profit for last 3 years.

The AD Category - I banks which fulfill the prudential requirements should lay down detailed guidelines with the approval of their Boards for trading and clearing of currency futures contracts and management of risks.

(c). AD Category - I banks which do not meet the above minimum prudential requirements and AD Category - I banks which are Urban Co-operative banks or State Co-operative banks can participate in the currency futures market only as clients, subject to approval and directions from the respective regulatory Departments of the Reserve Bank.

(d) The AD Category - I banks, shall operate within prudential limits, such as Net Open Position (NOP) and Aggregate Gap (AG) limits. The exposure of the banks, on their own account, in the currency futures market shall form part of their NOP and AG limits.

(e) AD Category-I banks may undertake proprietary trading in the ETCD market within their Net Open Position Limit (NOPL) and any limit that may be imposed by the exchanges for the purpose of risk management and preserving market integrity.

(f) AD Category-I banks may also net / offset their positions in the ETCD market against the positions in the OTC derivatives markets. Keeping in view the volatility in the foreign exchange market, Reserve Bank may however stipulate a separate sub-limit of the NOPL (as a percentage thereof) exclusively for the OTC market as and when required.

5. Participation in the exchange traded currency options market in India

Please refer to Part-A Section I, paragraph 5. In continuation of the same:

a) AD Category - I banks are permitted to become trading and clearing members of the exchange traded currency options market of the recognized stock exchanges, on their own account and on behalf of their clients, subject to fulfilling the following minimum prudential requirements:

i. Minimum net worth of Rs. 500 crores.

ii. Minimum CRAR of 10 per cent.

iii. Net NPA should not exceed 3 per cent.

iv. Made net profit for last 3 years.

The AD Category - I banks, which fulfil the prudential requirements, should lay down detailed guidelines with the approval of their Boards for trading and clearing of the exchange traded currency options contracts and management of risks.

b) AD Category - I banks, which do not meet the above minimum prudential requirements and AD Category - I banks, which are Urban Co-operative banks or State Co-operative banks, can participate in the exchange traded currency options market only as clients, subject to approval therefor from the respective regulatory Departments of the Reserve Bank.

c) The AD Category - I banks shall operate within prudential limits, such as Net Open Position (NOP) and Aggregate Gap (AG) limits. The option position of the banks, on their own account, in the exchange traded currency options shall form part of their NOP and AG limits

PART B

ACCOUNTS OF NON-RESIDENT BANKS

1. General

(i) Credit to the account of a non-resident bank is a permitted method of payment to non-residents and is, therefore, subject to the regulations applicable to transfers in foreign currency.

(ii) Debit to the account of a non-resident bank is in effect an inward remittance in foreign currency.

2. Rupee Accounts of Non-Resident Banks

AD Category I banks may open/close Rupee accounts (non-interest bearing) in the names of their overseas branches or correspondents without prior reference to the Reserve Bank. Opening of Rupee accounts in the names of branches of Pakistani banks operating outside Pakistan requires specific approval of the Reserve Bank.

3. Funding of Accounts of Non-resident Banks

(i) AD Category I banks may freely purchase foreign currency from their overseas correspondents/branches at on-going market rates to lay down funds in their accounts for meeting their bonafide needs in India.

(ii) Transactions in the accounts should be closely monitored to ensure that overseas banks do not take a speculative view on the Rupee. Any such instances should be notified to the Reserve Bank.

NOTE: **Forward purchase or sale of foreign currencies against Rupees for funding is prohibited. Offer of two-way quotes in Rupees to non-resident banks is also prohibited.**

4. Transfers from other Accounts

Transfer of funds between the accounts of the same bank or different banks is freely permitted.

5. Conversion of Rupees into Foreign Currencies

Balances held in Rupee accounts of non-resident banks may be freely converted into foreign currency. All such transactions should be recorded in Form A2 and the corresponding debit to the account should be in form A3 under the relevant Returns.

6. Responsibilities of Paying and Receiving Banks

In the case of credit to accounts the paying banker should ensure that all regulatory requirements are met and are correctly furnished in form A1/A2 as the case may be.

7. Refund of Rupee Remittances

Requests for cancellation or refund of inward remittances may be complied with without reference to Reserve Bank after satisfying themselves that the refunds are not being made in cover of transactions of compensatory nature.

8. Overdrafts / Loans to Overseas Branches/ Correspondents

(i) AD Category I banks may permit their overseas branches/ correspondents temporary overdrawals not exceeding Rs.500 lakhs in aggregate, for meeting normal business requirements. This limit applies to the amount outstanding against all overseas branches and correspondents in the books of all the branches of the authorised AD Category I bank in India. This facility should not be used to postpone funding of accounts. If overdrafts in excess of the above limit are not adjusted within five days a report should be submitted to the Reserve Bank of India, Financial Markets Regulation Department, Central Office, Mumbai 400001 within 15 days from the close of the month, stating the reasons thereof. Such a report is not necessary if arrangements exist for value dating.

(ii) AD Category I bank wishing to extend any other credit facility in excess of (i) above to overseas banks should seek prior approval from the Chief General Manager, Reserve Bank of India, Financial Markets Regulation Department, Central Office, 23rd Floor, Mumbai, 400001.

9. Rupee Accounts of Exchange Houses

Opening of Rupee accounts in the names of Exchange Houses for facilitating private remittances into India requires approval of the Reserve Bank. Remittances through Exchange Houses for financing trade transactions are permitted upto Rs.15,00,000 per transaction[5].

5 A. P. (DIR Series) Circular No. 102 May 21, 2015

PART C

INTER-BANK FOREIGN EXCHANGE DEALINGS

1. General

The Board of Directors of AD Category I banks should frame an appropriate policy and fix suitable limits for various Treasury functions.

2. Position and Gaps

The net overnight open exchange position (Annex-I) and the aggregate gap limits should be communicated to the Reserve Bank soon after the approval of the Board / Management Committee.

3. Inter-bank Transactions

Subject to compliance with the provisions of paragraphs 1 and 2, AD Category I banks may freely undertake foreign exchange transactions as under:

a) With AD Category I banks in India:

(i) Buying/Selling/Swapping foreign currency against Rupees or another foreign currency.

(ii) Placing/Accepting deposits and Borrowing/Lending in foreign currency.

b). With banks overseas and Off-shore Banking Units in Special Economic Zones

(i) Buying/Selling/Swapping foreign currency against another foreign currency to cover client transactions or for adjustment of own position,

(ii) Initiating trading positions in the overseas markets.

NOTE :

A. Funding of accounts of Non-resident banks - please refer to paragraph 3 of Part B.

B. Form A2 need not be completed for sales in the inter-bank market, but all such transactions shall be reported to Reserve Bank in R Returns.

4. Foreign Currency Accounts/ Investments in Overseas Markets

(i) Inflows into foreign currency accounts arise primarily from client-related transactions, swap deals, deposits, borrowings, etc. AD Category I banks may maintain balances in foreign currencies up to the levels approved by the Board. They are free to manage the surplus in these accounts through overnight placement and investments with their overseas branches/correspondents subject to adherence to the gap limits approved by the Reserve Bank.

(ii) AD Category I banks are free to undertake investments in overseas markets up to the limits approved by their Board. Such investments may be made in overseas money market instruments and/or debt instruments issued by a foreign state with a residual maturity of less than one year and rated at least as AA (-) by Standard & Poor / FITCH IBCA or Aa3 by Moody's. For the purpose of investments in debt instruments other than the money market instruments of any foreign state, bank's

Board may lay down country ratings and country - wise limits separately wherever necessary.

NOTE: For the purpose of this clause, 'money market instrument' would include any debt instrument whose life to maturity does not exceed one year as on the date of purchase.

(iii) AD Category I banks may also invest the un-deployed FCNR (B) funds in overseas markets in long-term fixed income securities subject to the condition that the maturity of the securities invested in do not exceed the maturity of the underlying FCNR (B) deposits.

(iv) Foreign currency funds representing surpluses in the nostro accounts may be utilised for:

a) making loans to resident constituents for meeting their foreign exchange requirements or for the Rupee working capital/capital expenditure needs of exporters/ corporates who have a natural hedge or a risk management policy for managing the exchange risk subject to the prudential/interest-rate norms, credit discipline and credit monitoring guidelines in force.

b) extending credit facilities to Indian wholly owned subsidiaries/ joint ventures abroad in which at least 51 per cent equity is held by a resident company, subject to the guidelines issued by Reserve Bank (Department of Banking Regulation).

(v) AD Category I banks may write-off/transfer to unclaimed balances account, un-reconciled debit/credit entries as per instructions issued by Department of Banking Regulation, from time to time.

5. Loans/Overdrafts

a) All categories of overseas foreign currency borrowings of AD Category I banks, (except for borrowings at (c) below), including existing External Commercial Borrowings and loans/overdrafts from their Head Office, overseas branches and correspondents outside India, International / Multilateral Financial Institutions [see (e) below] or any other entity as permitted by Reserve Bank of India and overdrafts in nostro accounts (not adjusted within five days), shall not exceed 100 per cent of their unimpaired Tier I capital or USD 10 million (or its equivalent), whichever is higher subject to conditions laid down in (f) below. The aforesaid limit applies to the aggregate amount availed of by all the offices and branches in India from all their branches/correspondents abroad and also includes overseas borrowings in gold for funding domestic gold loans (cf. DBOD circular No.IBD.BC. 33/23.67.001/2005-06 dated September 5, 2005). If drawals in excess of the above limit are not adjusted within five days, a report, as per the format in Annex-VIII, should be submitted to the Chief General Manager, Reserve Bank of India, Financial Markets Regulation Department Central Office, Mumbai 400001, within 15 days from the close of the month in which the limit was exceeded. Such a report is not necessary if arrangements exist for value dating.

b) The funds so raised may be used for purposes other than lending in foreign currency to constituents in India and repaid without reference to the Reserve Bank. As an exception to this rule, AD Category I banks are permitted to use borrowed funds as also foreign currency funds received through swaps for granting foreign currency loans for export credit in terms of IECD Circular No 12/04.02.02/2002-03 dated January 31, 2003. Any fresh borrowing above this limit shall be made only with the prior approval of the Reserve Bank. Applications for fresh ECBs should be made as per the current ECB Policy.

c) The following borrowings would continue to be outside the limit of 100 per cent of unimpaired Tier I capital or USD 10 million (or its equivalent), whichever is higher:

i).Overseas borrowings by AD Category I banks for the purpose of financing export credit subject to the conditions prescribed in DBOD Master Circular dated July 2, 2015 on Rupee / Foreign Currency Export Credit & Customer Service To Exporters.

ii).Subordinated debt placed by head offices of foreign banks with their branches in India as Tier II capital.

iii) Capital funds raised/augmented by the issue of Innovative Perpetual Debt Instruments and Debt Capital Instruments, in foreign currency, in terms of Circulars DBOD. No. BP.BC.57/21.01.002/2005-06 dated January 25, 2006, DBOD.No.BP.BC.23/21.01.002/2006-07 dated July 21, 2006 and Perpetual Debt Instruments and Debt Capital Instruments in foreign currency issued in terms of circular DBOD.No.BP.BC.98/21.06.201/2011-12 dated May 2, 2012.

iv) Any other overseas borrowing with the specific approval of the Reserve Bank.

d) Interest on loans/overdrafts may be remitted (net of taxes) without the prior approval of Reserve Bank.

e) [6]AD category-I banks may borrow only from International / Multilateral Financial Institutions in which Government of India is a shareholding member or which have been established by more than one government or have shareholding by more than one government and other international organizations.

f) The borrowings beyond 50 per cent of unimpaired Tier I capital of AD Category – I banks will be subject to the following conditions:

(i) The bank should have a Board approved policy on overseas borrowings which shall contain the risk management practices that the bank would adhere to while borrowing abroad in foreign currency.

(ii) The bank should maintain a CRAR of 12.0 per cent.

(iii) The borrowings beyond the existing ceiling shall be with a minimum maturity of three years.

(a.iii) All other existing norms (FEMA regulations, NOPL norms, etc) shall continue to be applicable.

PART D

REPORTS TO THE RESERVE BANK

i) The Head/Principal Office of each AD Category-I banks should submit daily statements of Foreign Exchange Turnover in Form FTD and Gaps, Position and

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6 A.P. (DIR Series) Circular No. 112 dated June 25, 2015

Cash Balances in Form GPB through the Online Returns Filing System (ORFS) as per format given in Annex-II.

ii) The Head/Principal Office of each authorised dealer category-I should forward a statement of Nostro / Vostro Account balances on a monthly basis in the format given in Annex-III to the Director, Division of International Finance, Department of Economic Analysis and Policy, Reserve Bank of India, Central Office Building, 8th Floor, Fort, Mumbai-400 001. The data may also be transmitted by fax or e-mail at the numbers/addresses given in the format.

iii) AD Category-I banks should consolidate the data on cross currency derivative transactions undertaken by residents and submit half-yearly reports (June and December) as per the format indicated in the Annex-IV. The report may also be forwarded by e-mail so as to reach the Department by the 10th of the following month.

iv) AD Category-I banks should forward details of exposures in foreign exchange as at the end of every quarter as per the format indicated in Annex-V. ADs should submit this report as per the revised format online only from quarter ended September 2013 through the Extensible Business Reporting Language (XBRL) system which may be accessed at https://secweb.rbi.org.in/orfsxbrl/. AD Category – I banks which require login ID / passwords for accessing XBRL system may submit their e-mail addresses and contact numbers to e-mail. Please note that details of exposures of all corporate clients who meet the prescribed criteria have to be included in the report. The AD banks should submit this report based on bank's books and not based on corporate returns.

v) Authorised Dealers Category I should forward details of option transactions (FCY-INR) undertaken on a weekly basis as per the format indicated in Annex VIII. The report may also be forwarded by e-mail so as to reach the Department by the 10th of the following month.

vi) AD Category-I banks have to report their total outstanding foreign currency borrowings under all categories as on the last Friday of every month as per the format in Annex-IX. The report should be received by the 10th of the following month. The report may also be forwarded by e-mail so as to reach the Department by the 10th of the following month.

vii) AD Category-I banks are required to submit a monthly report (as on the last Friday of every month) on the limits granted and utilized by their constituents under the facility of booking forward contracts on past performance basis, as per the format in Annex-X. The report may also be forwarded by e-mail so as to reach the Department by the 10th of the following month.

viii) The Head/Principal Office of each AD Category-I banks should submit a statement in form BAL giving details of their holdings of all foreign currencies on fortnightly basis through Online Returns Filing System (ORFS) within seven calendar days from the close of the reporting period to which it relates.

ix) A monthly statement should be furnished before the 10th of the succeeding month, in respect of cover taken by FPI, indicating the name of the FPI / fund, the eligible amount of cover, the actual cover taken, etc. as per the format in Annex XIII. The report may also be forwarded by e-mail so as to reach the Department by the 10th of the following month.

x) The Head/Principal Office of each AD Category-I banks should furnish an up-to-date list (in triplicate) of all its offices/branches, which are maintaining Rupee accounts of non-resident banks as at the end of December every year giving their code numbers allotted by Reserve Bank. The list should be submitted before 15th January of the following year. The offices/branches should be classified according to area of jurisdiction of Reserve Bank Offices within which they are situated. The report may also be forwarded by e-mail so as to reach the Department by the 10th of the following month.

xi) AD Category – I banks are required to submit a quarterly report on the forward contracts booked & cancelled by SMEs and Resident Individuals, Firms and Companies within the first week of the following month, as per format given in Annex XIV. The report may also be forwarded by e-mail so as to reach the Department by the 10th of the following month.

xii) 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 Annex XIX. The report may also be forwarded by e-mail so as to reach the Department by the 10th of the following month.

xiii) 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 Annex XX. The report may also be forwarded by e-mail so as to reach the Department by the 10th of the following month.

The reports are to be sent to the Chief General Manager, Reserve Bank of India, Financial Markets Regulation Department, Central Office 23rd Floor, Mumbai - 400 001 unless otherwise specified. Reports may be sent preferably through e-mail.