

Based On
RBI/2007-2008/22 Master Circular No./6 /2007-08 dated July 2, 2007
On RISK MANAGEMENT & INTER BANK DEALINGS

GENERAL

- Exposure, whether capital or current, should be genuine
- Maturity of hedge not to exceed exposure maturity
- No restriction on hedge currency/ tenor
- Contract can be booked on estimated amount where exact exposure amount is unknown
- FC loans/ bonds can be covered only after they are approved by the RBI
- GDR can be hedged after issue price is finalized

CANCELLATION REBOOKING FACILITY

Exposure Type	Tenor	Currency	Facility	Exceptions
EEFC Accounts			Delivery only. Rollover allowed.	
All	< 12 months	Rupee leg	Book-cancel-rebook	Not applicable to "past performance" exposures without documents & Rupee settled FC transactions
Current Account	< = > 12 mths	Rupee leg	Book-cancel-rebook	Not applicable to "past performance" exposures without documents & Rupee settled FC transactions
All	< = > 12 mths	Non-Rupee	Book-cancel-rebook	

Conditions:


The facility of cancellation and rebooking should not be permitted unless the corporate has submitted the required exposure information as on April 1 of the year.

Allowance:

Substitutions of contracts for hedging trade transactions allowed.

PAST PERFORMANCE FACILITY

Eligible Limit = Max of (average of last 3 financial years' imports/ exports, last year's imports/ exports)
Limit above to be computed separately for Imports, Exports

- Cover > 50% of limit needs CA certificate stating all guidelines have been adhered to, certificate of last 3 export  import turnover
- Cover > 75% of limit has to be on Deliverable basis

Requirements:

- Customers to notify ADs of amounts booked with other ADs under this facility
- Customers to produce supporting documentary evidence at time of premature cancellation of Forward Contract

For Exporters, overdue bills should not exceed 10% of turnover

**CHANGE OF
BANK**

Cancelled Fwd Contract can be rebooked with another bank if rates are better. BUT, the cancellation and rebooking are to be done simultaneously **on the maturity date of the contract**. (seems quite restrictive). *Is it really followed in practice?*

**INDIANS CAN
COVER FDI
RISK**

- Equity and Loan investments overseas can be covered with ADs
- Forward Contracts can be cancelled or rolled over on due dates.
- Rebooking also possible, but to the extent of 50% of cancelled contract.
- If market value of FDI shrinks during life of the forward contract, the forward contract may continue to the original maturity. Rollover, HOWEVER, will be to the extent of market value of the FDI at the time of rollover.

**FOREIGN
CURRENCY
DENOMINATED
RUPEE
TRANSACTIONS**

- Foreign currency denominated, but Rupee settled transactions, can be covered.
- Such contracts are to be held till maturity and cash settled by cancellation.
- Contracts once cancelled cannot be rebooked.
- Currency indexed Customs duty payable by Importers can also be covered. If the Duty payable changes due to changes in duty rates, the Forward Contracts may be cancelled/ rebooked before maturity

**FOREIGN
CURRENCY
LOANS**

Indian borrower may enter into

- Interest Rate Swap,
- Currency Swap
- Coupon Swap
- Foreign Currency Option
- Interest Rate Cap or Collar (purchase)
- Forward Rate Agreement (FRA)

The above contracts may unwound also, may be freely cancelled and rebooked.

Conditions:

- The contract should not involve the Rupee
- Final approval (loan identification number) should have been issued by the RBI
- Hedge amount should not exceed the outstanding loan amount
- Maturity of hedge should not exceed maturity of loan.

SWAPS

Resident Indian having long-term forex **OR** Rupee exposure may enter into Foreign Currency - Rupee Swap under following conditions:

- No upfront payment of Rupees or its equivalent in any form shall be undertaken
- ADs to act as intermediaries, matching counterparty requirements
- There is a limit of USD 50 mln on swaps facilitating customers to assume a forex liability, thereby resulting in supply in the market.
- Positions arising out of cancellation of foreign currency to Rupee swaps do not fall in the cap above.
- When a swap (as limited above) is cancelled/ amortises, the cap (as specified above) the cap will be reinstated to the extent of the amount cancelled/ amortised.
- No rebooking allowed, if cancelled.

OPTIONS

Banks allowed to enter into FX-Rupee Options with their customers on a back-to-back basis. They can also run Option books under RBI approval. All guidelines applicable to forward contracts are applicable to Rupee options also.

Resident Indian may enter into a Cross Currency Option Contract (not involving the Rupee) subject to

- There should be no net inflow of premium
- Maybe freely booked/ cancelled
- Contingent forex exposure arising from submission of foreign currency tender bid may be hedged using Options
- All guidelines applicable to cross currency forward contracts are applicable to cross currency options also.

Cross currency options are to be written on a fully covered back-to-back basis.

**Guidelines for
Banks**

1. Banks to ensure that in the case of
 - i. swap structures where premium is inbuilt into the cost
 - ii. option contracts involving cost reduction structures, such structures do not result in increase in risk in any manner and do not result in net receipt of premium by the customer
2. Banks should not offer leveraged swap structures
3. Banks should not allow swap route to be used as surrogate forward contracts for those not qualified for forward covers.