



भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA
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December 15, 2011

A.P. (DIR Series) Circular No. 58

To,

All Authorised Dealer Category - I Banks

Madam / Sir,

Risk Management and Inter Bank Dealings

Attention of Authorized Dealers Category – I (AD Category – I) banks is invited to the Foreign Exchange Management (Foreign Exchange Derivative Contracts) Regulations, 2000 dated May 3, 2000 [[Notification No.FEMA/25/RB-2000 dated May 3, 2000](#)] and [A.P.\(DIR Series\) Circular No.32 dated December 28, 2010](#), as amended from time to time.

2. Keeping in view the developments in the foreign exchange market, it has been decided to implement the following measures **with immediate effect** until further review.

I. Under contracted exposures, forward contracts, involving the Rupee as one of the currencies, booked by residents to hedge current account transactions, regardless of the tenor, and to hedge capital account transactions, falling due within one year, were allowed to be cancelled and rebooked.

It has now been decided to withdraw the above facility. Forward contracts booked by residents irrespective of the type and tenor of the underlying exposure, once cancelled, cannot be rebooked.

ii. Under probable exposures based on past performance residents were allowed 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. Further, contracts booked in excess of 75 per cent of the eligible limit were to be on deliverable basis and could not be cancelled.

It has now been decided that

- a. For importers availing of the above past performance facility, the facility stands reduced to 25 percent of the limit as computed above, i.e., 25 percent of 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. In case of importers who have already utilised in excess of the revised / reduced limit, no further bookings may be allowed under this facility.
- b. All forward contracts booked under this facility by both exporters and importers hence forth will be on fully deliverable basis. In case of cancellations, exchange gain, if any, should not be passed on to the customer.
- iii. All cash/tom/spot transactions by the Authorised Dealers on behalf of clients will be undertaken for actual remittances / delivery only and cannot be cancelled / cash settled.
- iv. Foreign Institutional Investors (FIIs) are currently allowed to hedge currency risk on the market value of entire investment in equity and/or debt in India as on a particular date. The contracts once cancelled cannot be rebooked except to the extent of 10 per cent of the market value of the portfolio as at the beginning of the financial year. The forward contracts may, however, be rolled over on or before maturity.

It has now been decided that henceforth forward contracts booked by the FIIs, once cancelled, cannot be rebooked. The forward contracts may, however, be rolled over on or before maturity.

- v. The Board of Directors of Authorised Dealers were allowed to fix suitable limits for various Treasury functions with net overnight open exchange position and aggregate gap limits required to be approved by the Reserve Bank.

It has now been decided that

- a. Net Overnight Open Position Limit (NOOPL) of Authorised Dealers would be reduced across the board. Revised limits in respect of individual banks are being advised to the Authorised Dealers separately.
- b. Intra-day open position / daylight limit of Authorised Dealers should not exceed the existing NOOPL approved by the Reserve Bank.
- c. The above arrangement would be reviewed on an ongoing basis keeping in view the evolving market conditions.

3. Necessary amendments to Notification No. FEMA.25/RB-2000 dated May 3, 2000 [Foreign Exchange Management (Foreign Exchange Derivatives Contracts) Regulations, 2000] are being notified separately.

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

5. The directions contained in this circular have been issued under sections 10(4) and 11(1) of the Foreign Exchange Management Act 1999 (42 of 1999) and are without prejudice to permissions/approvals, if any, required under any other law.

Yours faithfully,

(Meena Hemchandra)
Chief General Manager

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