



Reserve Bank of India
Foreign Exchange Department
Central Office, Mumbai 400 001

RBI/2007-08/176

A. P. (DIR Series) Circular No. 15

Dated 29th October, 2007

Booking of Forward Contracts - Liberalisation

Attention of Authorised Dealer Category - I (AD Category - I) banks is invited to *A. P. (DIR Series) Circular No. 19 dated January 24, 2002, A. P. (DIR Series) Circular No. 63 dated December 21, 2002, A. P. (DIR Series) Circular No. 26 dated November 1, 2004, A. P. (DIR Series) Circular No. 22 dated December 13, 2006 and A. P. (DIR Series) Circular No. 52 dated May 8, 2007*, in terms of which persons resident in India have been allowed to enter into forward contracts on the basis of underlying exposures. Further, exporters and importers have also been allowed to book forward contracts on the basis of declaration of exposures and based on past performances, subject to specified conditions.

2. As announced in the Annual Policy Statement for the Year 2007-08 (paras 142 and 143), with a view to provide greater flexibility to the Small and Medium Enterprises (SME) sector and resident individuals, it has been decided to further liberalise the scope and range of forward contracts to facilitate such entities to hedge their foreign currency exposures on a dynamic basis. Accordingly, a draft circular was placed on the website on June 1, 2007 for users' views/comments. Subsequently, discussions were also held with FEDAI and banks. On the basis of feedback received, the draft circular was modified and the revised draft was placed on the website on October 10, 2007 for users' views/comments. In the light of feedback now received from banks, FEDAI, user group, etc. the guidelines have been suitably modified.

Small and Medium Enterprises (SMEs) (para 142)

3. In order to enable Small and Medium Enterprises (SMEs), having direct and/or indirect exposures to foreign exchange risk to manage their exposures effectively, it has been decided to allow AD Category – I banks to permit such entities to book/cancel/rebook/roll over forward contracts without production of underlying documents, subject to the following conditions :

- (i) Such contracts may be allowed to be booked after ensuring that the entity qualifies as 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.
- (ii) 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.
- (iii) 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. 86/21.04.157/2006-07 dated April 20, 2007.
- (iv) 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.

4. SMEs are also permitted to use foreign currency rupee options for hedging their exposures after production of underlying documents or under past performance route.

Resident Individuals (para 143)

5. In order to enable resident individuals to manage/hedge their foreign exchange exposures arising out of actual or anticipated remittances, both inward and outward, it has been decided to permit them to book forward contracts, without production of underlying documents, up to a limit of USD 100,000, based on self declaration. 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 100,000 at any time. Further, the contracts may be permitted to be booked up to tenors of one year only.

6. 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 I. 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.

7. AD Category – I banks are required to submit a quarterly report to the Chief General Manager, Reserve Bank of India, Foreign Exchange Department, Central Office, Forex Markets Division, Central Office Building, Mumbai - 400 001 within the first week of the following month, as per format given in Annex II. The first quarterly report should be submitted for the quarter ended December 2007 so as to reach Reserve Bank within the first week of January 2008.

8. Necessary amendments to *Notification No. 25/2000-RB dated 3rd May, 2000* [Foreign Exchange Management (Foreign Exchange Derivative Contracts) Regulations, 2000] are being issued separately.

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

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

Sd/-
(SALIM GANGADHARAN)
Chief General Manager

Annex I

[Annex to A. P. (DIR Series) Circular No. 15 dated October 29, 2007]

**Application-cum-Declaration for booking of forward contracts
up to USD 100,000 by Resident Individuals**

(To be completed by the applicant)

I. Details of the applicant

- a. Name :
- b. Address :
- c. Account No. :
- d. PAN No. :

II. Details of the foreign exchange forward contracts required

- 1. Amount (Specify currency pair) :
- 2. Tenor :

III. National value of forward contract outstanding as on date

IV. Details of actual/anticipated remittances

- 1. Amount :
- 2. Remittance Schedule :
- 3. Purpose :

Declaration

I,(Name of the applicant), hereby declare that the total amount of foreign exchange forward contracts booked with the _____ (designated branch) of _____ (bank) in India is within the limit of USD 100,000/- (US Dollar One lakh only) and certify that the forward contracts are meant for undertaking permitted current and/or capital account transactions. I also certify that I have not booked foreign exchange forward contracts with any other bank/branch. I have understood the risks inherent in booking of foreign exchange forward contracts.

Signature of the applicant

(Name)

Place :

Date :

Certificate by the Authorised Dealer Category – I bank

This is to certify that the customer (Name of the applicant) having PAN No. has been maintaining an account (No.) with us since *We certify that the customer meets the AML/KYC guidelines laid down by RBI and confirm having carried out requisite suitability and appropriateness test.

Name and Designation of the authorised official :

Place :

Signature :

Date : Stamp and seal

*month/year

Annex II

(A. P. (DIR Series) Circular No. 15 dated October 29, 2007)

Statement – Details of Forward contracts booked and cancelled

For the Quarter ended –

(USD million)

Category	Forward Contracts Booked		Forward Contracts Cancelled	
	During the Quarter	Cumulative total - Year to Date	During the Quarter	Cumulative total - Year to date

SMEs

Individuals

Name of the AD Category – I bank :

Signature of the Authorised official :

Date :

Stamp :