



RESERVE BANK OF INDIA
Foreign Exchange Department
Central Office
Mumbai - 400 001

RBI/2011-12/326

A. P. (DIR Series) Circular No.63

December 29, 2011

To

All Category-I Authorised Dealer Banks

Madam / Sir,

**External Commercial Borrowings (ECB) denominated in Indian Rupees (INR)
- hedging facilities for non-resident entities**

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], as amended from time to time.

2. In terms of [A.P. \(Dir Series\) Circular No. 27 dated September 23, 2011](#),
- i. “eligible borrowers” have been permitted to avail of ECBs designated in INR from foreign equity holders under the automatic/ approval route, as the case may be, as per the extant ECB guidelines.
 - ii. NGOs engaged in microfinance activities have been permitted to avail of ECBs designated in INR, under the automatic route, from overseas organisations and individuals as per the extant ECB guidelines.

In order to facilitate the same, it has been decided to allow non-residents to hedge their currency risk in respect of ECBs denominated in Indian Rupees, with AD Category I banks in India, as per the details given in the Annex.

3. Necessary amendments to the Notification No. FEMA.25/RB-2000 dated May 3, 2000 [Foreign Exchange Management (Foreign Exchange Derivative 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-in-Charge

ECBs denominated in INR - Hedging Facilities for Non-Resident Entities

Purpose

To hedge the currency risk arising out of ECBs designated in INR with AD Category- I banks in India.

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 -
 - o That the same underlying exposure has not been hedged with any other AD Category- I bank/s in India.
 - o 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.