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RBI amends Guidelines on OTC Forex Derivatives

The Reserve Bank of India has today issued amendments to the [Guidelines on Over the Counter \(OTC\) Foreign Exchange Derivatives and Overseas Hedging of Commodity Prices and Freight Risks](#). The guidelines were issued on December 28, 2010.

The Reserve Bank has decided to amend the eligibility criteria for users of the cost reduction structures. Under the revised eligibility criteria it has now been stipulated that listed companies and their subsidiaries/joint ventures/associates having common treasury and consolidated balance sheet or unlisted companies with a minimum net worth of ₹ 200 crore can undertake cost reduction structures subject to the following conditions:

- a. All such products would be fair valued on each reporting date;
- b. The companies would 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; and
- c. The companies would also follow the principle of prudence which requires recognition of expected losses and non-recognition of unrealised gains.
- d. Disclosures would have to be made in the financial statements as prescribed in ICAI press release dated December 2, 2005.
- e. Further, the companies should have a risk management policy with a specific clause in the policy that allows using the type/s of cost reduction structures.

These stipulations have also been mandated for the users of OTC option strategies involving a simultaneous purchase and sale of options for overseas commodity hedging.

The Reserve Bank had received representations from the industry that as AS 30 and 32 required under the earlier guidelines are yet to be notified by the Ministry of Corporate Affairs (MCA), adherence of the corporates to the above standards should be synchronised with the notification of these standards by MCA. In view of the representations received and as a transitional arrangement the guidelines have been amended.