

**Monetary and Credit Policy Measures- Mid - Term review for the
Year 2001-2002-Unhedged Foreign Currency Exposures of Corporates**

BP.BC. 37 /21.04.048/2001-2002

October 27, 2001

All Scheduled Commercial Banks (excluding RRBs and LABs)

Dear Sir,

**Monetary and Credit Policy Measures- Mid-Term review for
the Year 2001-2002-Unhedged Foreign Currency Exposures of
Corporates**

Please refer to paragraphs 30 and 31 of the Statement on “Mid-term Review of Monetary and Credit Policy for the year 2001-2002” enclosed to the Governor’s letter No. MPD.BC. 210 /07.01.279/2001-2002 dated October 22, 2001.

2. In terms of para 3.2.5.(6) of our guidelines on risk management systems in banks issued vide our circular DBOD.BP.SC.BC. 98/21.04.103/99 dated October 7, 1999, banks were advised to evolve a suitable framework for monitoring the market risks, especially forex risk exposure of corporates who have no natural hedges, on a regular basis.

3. Over a period, considerable flexibility has been given to the corporates to hedge their forex exposure in the market. Instruments available to the corporates for hedging their exchange risks include forward cover, currency options, foreign currency-rupee swaps, hedging of the loan exposures, etc. Banks are also allowed to hedge their asset-liability portfolio, after obtaining necessary policy approval in this regard from their top management. It is, however, observed that sometimes a noticeable portion of the corporate foreign currency commitments tend to remain unhedged by the corporates on the basis of their perceptions of the market and these could impact the overall financial status of the corporates under severe uncertainties.

4. It is, therefore, advised that banks which have large exposures to corporates should monitor and review on a monthly basis, through a suitable reporting system, the unhedged portion of the foreign currency exposures of those corporates whose total foreign currency exposure is relatively large (say, above US\$ 25 million or its equivalent).

Yours faithfully,

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(C.R. Muralidharan)
Chief General Manager