

**Booking of Forward Contracts**  
**A.P. (DIR Series) Circular No.98 (April 29, 2003)**

**Reserve Bank of India**  
**Exchange Control Department**  
**Central Office**  
**Mumbai-400 001**

A.P. (DIR Series) Circular No.98

April 29, 2003

To  
All Authorised Dealers in Foreign Exchange

Madam/Sirs

**Booking of Forward Contracts**

Attention of Authorised Dealers is invited to A.P. (DIR Series) Circular No.92 dated April 4, 2003. It has been decided to enlarge the scope of forward contracts to cover the following transactions.

**1. Inflows under Foreign Direct Investment**

Forward contracts are currently not available for inflows on account of foreign investments into India. It has now been decided to permit residents outside India to enter into forward sale contracts with Authorised Dealers in India to hedge the currency risk arising out of their proposed Foreign Direct Investment in India. Such contracts may be allowed to be booked only after ensuring that the overseas entities have completed all the necessary formalities and obtained necessary approvals (wherever applicable) for the investment.

The tenor of the contracts should not exceed six months beyond which permission of the Reserve Bank would be required to continue with the contract. Forward contracts, if cancelled, shall not be eligible to be rebooked for the same inflows and exchange gains, if any, on cancellation shall not be passed on to the overseas investor.

**2. Transactions denominated in foreign currency and settled in Indian Rupees**

Paragraph A of Schedule I to Notification No. FEMA 25/ RB-2000 dated May 3, 2000 allows residents in India to book forward contracts in respect of transactions for which sale and/or purchase of foreign exchange is permitted under the Act or rules or regulations, directions or orders made or issued there under.

Hitherto, forward cover was not available in respect of transactions denominated in foreign currency but settled in Indian Rupees. It has now been decided to permit booking of forward contracts for hedging such transactions. These contracts shall be held till maturity and cash settlement would be made on the maturity date by cancellation of the contracts. Forward contracts covering such transactions once cancelled, are not eligible for rebooking.

As in the case of all forward contracts, Authorised Dealers may obtain a declaration from their constituents while booking such contracts confirming that the underlying exposure had not been hedged earlier.

**3. Cross Currency Forward Contracts for balances in FCNR(B) Accounts**

Paragraph 2 (b) of Schedule II to Notification No.FEMA 25/RB-2000 dated May 3, 2000 permits a non-resident Indian (NRI) or Overseas Corporate Bodies (OCBs) to enter into forward contracts with rupee as one of the currencies to hedge the balances held in Foreign Currency Non-Resident (FCNR) accounts.

In order to facilitate better hedging opportunities to the holders of FCNR(B) deposits, it has now been decided to allow deposit holders to book cross currency (i.e. not involving the rupee) forward contracts to convert the balances in one foreign currency to another foreign currency in which FCNR(B) deposits are permitted to be maintained, at the option of the account holder. Such contracts, once cancelled, are not eligible to be rebooked.

4 Necessary amendments to the Foreign Exchange Management Regulations, 2000 are being issued separately.

5. Authorised Dealers may bring the contents of this circular to the notice of their constituents concerned.

6.. 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).

Yours faithfully,  
**Grace Koshie**  
**Chief General Manager**