

June 19, 2007

To,

All Category - I Authorised Dealer Banks

Madam / Sir,

Hedging of Overseas Direct Investments By Residents - Liberalisation

Attention of Authorised Dealer Category - I (AD Category - I) banks is invited to A. P. (DIR Series) Circular No. 47 dated December 12, 2003, in terms of which resident entities having overseas direct investments (in equity and loan) are permitted to hedge the exchange risk arising out of such investments by entering into forward / option contracts with AD Category – I banks, subject to verification of such exposure. Such contracts must be completed by delivery or rolled over on the due date and not cancelled.

2. As announced in the Annual Policy Statement for the Year 2007-08 (para 141), with a view to provide greater flexibility to residents with overseas direct investments (in equity and loan), it has been decided to allow cancellation of such forward contracts. Accordingly, AD Category – I banks may allow cancellation of forward contracts entered into by residents for overseas direct investments (in equity and loan) for hedging the exchange risk. Further, 50 per cent of the cancelled contracts may be allowed to be rebooked. All other conditions and guidelines contained in A. P. (DIR Series) Circular No. 47 dated December 12, 2003 remain unchanged.

3. Necessary amendments to Notification No.FEMA25/RB-2000 dated 3rd May 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 concerned.

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 is without prejudice to permissions / approvals, if any, required under any other law.

Yours faithfully,

(Salim Gangadharan)
Chief General Manager