

December 10, 2008

All Scheduled Commercial Banks
(excluding Regional Rural Banks)

Dear Sir

Unhedged foreign exchange exposure of clients – Monitoring by banks

Please refer to our circular No. DBOD. BP. BC 51/21.04.103/2003-2004 dated December 5, 2003, wherein banks were advised that they should have a policy which explicitly recognizes and takes into account risks arising on account of unhedged foreign exchange exposures of their clients. Banks were also advised that foreign currency loans above US \$ 10 million, or such lower limits as may be deemed appropriate vis a vis the banks' portfolios of such exposures, can be extended by banks only on the basis of a well laid out policy of their Boards with regard to hedging of such foreign currency loans.

2. We reiterate the instructions contained in the above circular and advise that the Board policy of banks should cover unhedged foreign exchange exposure of all their clients including Small and Medium Enterprises (SMEs). Further, for arriving at the aggregate unhedged foreign exchange exposure of clients, their exposure from all sources including foreign currency borrowings and External Commercial Borrowings should be taken into account.

3. Banks which have large exposures to clients should monitor and review on a monthly basis, through a suitable reporting system, the unhedged portion of the foreign currency exposures of those clients, whose total foreign currency exposure is relatively large (say, about US \$ 25 million or its equivalent). The review of unhedged exposure for SMEs should also be done on a monthly basis. In all other cases, banks are required to put in place a system to monitor and review such position on a quarterly basis.

4. In the case of consortium / multiple banking arrangements, the lead role in monitoring the unhedged foreign exchange exposure of clients, as indicated above, would have to be assumed by the consortium leader / bank having the largest exposure. In this connection, a reference is drawn to our circular No. DBOD. BP. BC 46/08.12.001/2008-09 dated September 19, 2008 wherein banks have already been advised to put in place a system of information sharing and dissemination.

Yours faithfully

(Prashant Saran)
Chief General Manager-in-Charge