

Simplified Hedging Facility- Draft Guidelines

Participants: Resident entities with foreign currency exposures and non-resident entities with Rupee exposures, other than individuals, arising out of transactions permitted under Foreign Exchange Management Act, 1999, of up to USD 30 million or equivalent.

Purpose: To hedge underlying exchange rate risk.

Products: Any Over the Counter (OTC) derivatives and Exchange Traded Currency Derivatives (ETCD) permitted under FEMA, 1999, except cost reduction structures and swaps.

Designated Bank: Any AD Cat-I bank designated as such by the customer for the purpose of hedging under the facility. Upon designation, the bank shall get this information updated in the Trade Repository (TR).

Operational Guidelines, Terms and Conditions

- a. Customers with total hedging requirement of up to USD 30 million at any point in time may enter into permitted forex derivative contracts with any AD bank up to his requirement. The customer is not required to furnish any documentary evidence to the AD bank for establishing exposure.
- b. Customer will provide the AD bank with a one-time self-declaration signed by the CFO or CFO equivalent, to the effect that the sum total of the outstanding OTC derivative contracts and the outstanding ETCD contracts are backed by underlying currency exposure, either contracted or anticipated.
- c. At the time of booking of hedge contracts, customers may provide information relating to the underlying exposure (no documentary or other evidence is needed) including type of transaction i.e. current or capital account (ECB, FPI, FDI etc.), currency, tenor etc.
- d. Hedge contracts can be booked with any AD bank provided, the underlying delivery takes place with the same bank. Cancelled contracts under this facility may be freely rebooked with the same bank.

- e. On cancellation, while losses may be passed on to the customer, net gains i.e. gains in excess of cumulative losses, if any, will be passed on to the customer at the time of delivery of the underlying cash flow. In case of part delivery, net gains will be paid to the customer on a pro-rata basis.
- f. A customer, who has booked contracts under this facility shall not book hedge contracts under any other facility.

Role of Designated Bank

All OTC hedge contracts booked under this facility will be suitably tagged by the concerned AD bank in its report to the Trade Repository (TR). On receipt of the first such transaction for a customer, the TR shall notify exchanges (NSE, BSE and MSEI) to report all futures and options transactions, of that customer, to the TR at the end of each day in which a transaction has taken place. The TR shall, reflect all hedge transactions booked, both on exchanges and OTC. The total amount of hedges booked, if they exceed USD 30 million, will be informed to the designated AD bank.