

RBI announces draft directions on facilities for hedging foreign exchange risk by Residents and Non-residents

The Reserve Bank of India has released a draft of the revised directions and regulations on facilities for hedging foreign exchange risk by Residents and Non-residents.

Background:

A review of the existing facilities for hedging of foreign exchange risk by non-residents and residents was announced in the Statement on Developmental and Regulatory Policies in February 2018 and August 2018 respectively.

Post review, the draft directions propose to, inter alia:

- Merge the facilities for residents and non-residents into a single unified facility for all users,
- Allow users having valid exposure to hedge the same using any available instrument,
- Introduce the facility to hedge anticipated exposure,
- Simplify the procedures for authorised dealers to offer foreign exchange derivatives.

Once finalised, the directions shall replace the existing directions in Part A - Section I and II of the Master Direction on Risk Management and Interbank Dealings.

Risk Management and Inter-bank Dealings: Hedging of foreign exchange risk by Residents and Non-Residents – Liberalisation

DRAFT CIRCULAR

Attention of Authorized Dealers Category – I (AD Category – I) banks is invited to the Foreign Exchange Management (Foreign Exchange Derivative Contracts) Regulations, 2000 dated May 3, 2000 (Notification No. FEMA. 25/RB-2000 dated May 3, 2000), as amended from time to time and Master Directions on Risk Management and Inter-Bank Dealings dated July 5, 2016, as amended from time to time.

2. As announced in the Statement on Developmental and Regulatory Policies February, 2018 and August, 2018, the existing facilities for non-residents and residents to hedge their foreign exchange risk on account of transactions permitted under FEMA, 1999 have been revised. The revised directions are provided at Annex – I to this circular(enclosed). All previous operational guidelines, terms and conditions in this regard stand withdrawn.

3. Necessary amendments (Notification No. FEMA /2018-RB dated ____, 2018) to Foreign Exchange Management (Foreign Exchange Derivatives Contracts) Regulations, 2000 (Notification No. FEMA.25/RB-2000 dated May 3, 2000) (Regulations) have been notified in the Official Gazette vide G.S.R. No. ____ (E) dated _____, 2018, a copy of which is annexed to this circular. These regulations have been issued under clause (h) of sub-Section (2) of Section 47 of FEMA, 1999 (42 of 1999).

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

RBI seeks inputs on the draft directions and therefore, request you to please provide your suggestions (if any) latest by 28th February 2019 at research@phdcci.in

Please contact for any query related to this mail to Ms. Bhawna Kakkar, Research Associate at bhawna.kakkar@phdcci.in with a cc to Dr. S P Sharma, Chief Economist at spsharma@phdcci.in and Ms. Surbhi Sharma, Associate Economist at surbhi@phdcci.in of PHD Chamber of Commerce & Industry.

Warm Regards,

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