Treasury alert 3/2011

RBI's Comprehensive Guidelines on Derivatives – modification dated 15 December 2011

How could it impact you?

pwc

Recently, the currency rates in India have experienced significant volatility with the Indian Rupee touching all time low vis-à-vis the US Dollar. Keeping in view the developments in the foreign exchange market, the Reserve Bank of India (RBI) issued a notification on December 15, 2011 vide notification no. RBI/2011-12/300 A.P. (DIR Series) Circular No. 58 as an extension of the earlier past Notifications[1]. The measures included in the Circular apply with immediate effect.

Overview of significant changes

Following are the key features of the new Circular and the clarifications thereto:

- Under contracted exposures, forward contract involving the Indian Rupee as one of the currencies booked by residents, once cancelled, cannot be rebooked. However, if there is any un-hedged position as on the date of circular, the same is allowed to be hedged. But once the same is cancelled, it cannot be rebooked.
- Rollover is allowed for all the contracts subject to the condition that maturity of the hedge should not exceed the maturity of the underlying transaction. Roll-over should be understood as simultaneous cancellation and rebooking.

[1] a) FEMA/25/RB-2000 dated May 3, 2000; and b) A.P. (DIR Series) Circular No.32 dated December 28, 2010

- Past performance limits for importers have been reduced to 25 percent of eligible limit. Where importers have already utilised in excess of the above limit, no further bookings may be allowed.
- Forward contracts booked by exporters and importers under probable exposure would henceforth be on fully deliverable basis. However, to align the maturity of the contract, short-term rollovers are permitted.
- In case of cancellations, exchange gain, if any, should not be passed on to the customer.
- All cash/tom/spot transactions by the Authorised Dealers on behalf of clients will be undertaken for actual remittances/delivery only and cannot be cancelled / cash settled.
- All forward contract booked by Foreign Institutional Investor (FII's) subsequent to this amendment, once cancelled, cannot be rebooked. However it may be rolled over on or before maturity.

Questions that you may wish to consider discussing with your advisors?

- Will the past performance limit get reduced once the derivative are cancelled and rebooked?
- Is the past performance restriction of 25% applicable to exporters also?
- Are cancelled forward contracts eligible for rebooking?
- Whether above guidelines are applicable for options and other derivative contract?

How can we help?

PwC would like to take the opportunity to share insights and experiences around this change in compliance for derivative financial instruments.

The areas where we can provide service:

- Help in formulating a Treasury Policy;
- Advise on policies, procedures and controls to be built in the organisation around the derivative transactions;
- Assist in defining a treasury framework;
- Assist in evaluation and implementation of hedge accounting solutions for derivative financial instruments which would help to mirror the risk management objective of the Company;
- Evaluate the internal control framework and suggest tailoring the internal audit steps to identify the key controls and ensure compliance with the ongoing increased regulatory guidance.

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