

CHAPTER 28

FORWARD CONTRACTS

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**FORWARD CONTRACTS
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28. INTRODUCTIONS

There is an inherent 'Exchange Risk' in an international trade transaction denominated in a foreign currency, as an adverse movement in the exchange rate may reduce the realisation of home currency for an exporter or increase the cost for an importer. To reduce this exchange risk for a transaction to be concluded at future date, 'Forward Contracts' are booked. It is a mechanism through which the rate is fixed in advance for purchase or sale of foreign currency needed at that future date.

28.1. DEFINITION

FEDAI has defined Forward Contract as a contract deliverable at a future date, duration of the contract being computed from spot value date at the time of transaction. Forward Contract is an agreement to exchange one currency for another currency on a specific date in future, at a pre-determined exchange rate, set at the time the contract is made. The contract locks in an exchange rate and regardless of what the exchange rate may be on the future date, the transaction will be put through at the contracted rate. Under Forward Contract, the customer has not only the right to acquire or sell foreign currency on a future date at a pre-determined rate, but also has an obligation to meet the commitment. The Forward Contract is priced either at a 'premium or discount' over the spot rate.

28.1.1. TYPES OF CONTRACTS

Forward Contracts can broadly be classified as 'Fixed Date Forward Contracts' and 'Option Forward Contracts'. In Fixed Date Forward Contracts, the buying/selling of foreign exchange takes place at a specified future date i.e. a fixed maturity date. The foreign exchange cannot be received/delivered prior to/after the predetermined date. The Option Forward Contract is entered into in order that the customer gets the flexibility to receive/deliver the foreign exchange on any day during a specified period. FEDAI rules require the option period of delivery to be specified as any period not exceeding one month.

28.1.2. WHO CAN BOOK

Forward contracts are to be looked only through the designated 'A'/'B' category branch. 'C' category branch to route the request of their customers through 'B' category branch.

28.2. EXCHANGE CONTROL REGULATIONS

28.2.1. RESIDENTS INDIVIDUALS

In order to enable resident individuals to manage / hedge their foreign exchange exposures arising out of actual or anticipated remittances, both inward and outward, it has been decided to permit all resident individuals, firms and companies, who have actual or anticipated foreign exchange exposures to book foreign exchange forward contracts up to US\$ 250,000 on the basis of a simple declaration without any requirement of further documentation.. The contracts booked under this facility would normally be on a deliverable basis. However, in case of mismatches in cash flows or other exigencies, the contracts booked under this facility may be allowed to be cancelled and re-booked. The notional value of the outstanding contracts should not exceed USD 250,000 at any time. Further, the contracts may be permitted to be booked up to tenors of one year only.

Such contracts may be booked through AD Category I banks with whom the resident individual has banking relationship, on the basis of an application-cum declaration in the format given in Annexure 28(1). The AD Category - I banks should satisfy themselves that the resident individuals understand the nature of risk inherent in booking of forward contracts and should carry out due diligence regarding “*user appropriateness*” and “*suitability*” of the forward contracts to such customer.

Banks are required to submit a quarterly report to the Chief General Manager, Reserve Bank of India, Foreign Exchange Department, Central Office, Forex Markets Division, central Office Building, Mumbai - 400 001 within the first week of the following month, as per format given in Annexure 28(2).

A person resident in India may enter into a forward contract with an authorised dealer in India to hedge an exposure to exchange risk in respect of a transaction for which sale and/or purchase of foreign exchange is permitted under the Act, or rules or regulations or directions or orders made or issued there under, subject to following terms and conditions

- a) The authorised dealer through verification of documentary evidence is satisfied about the genuineness of the underlying exposure,
- b) The maturity of the hedge does not exceed the maturity of the underlying transaction,
- c) The currency of hedge and tenor are left to the choice of the customer,
- d) Where the exact amount of the underlying transaction is not ascertainable, the contract is booked on the basis of a reasonable estimate,
- e) Foreign currency loans/bonds will be eligible for hedge only after final approval is accorded by the Reserve Bank where such approval is necessary,
- f) In case of Global Depository Receipts (GDRs) the issue price has been finalised,
- g) Balances in the Exchange Earner’s Foreign Currency (EEFC) accounts sold forward by the account holders shall remain earmarked for delivery and such contracts shall not be cancelled. They may, however, be rolled-over.

- h) Contracts involving rupee as one of the currencies, once cancelled can be re-booked only upto a predetermined limit on certain terms and conditions. They can however be rolled over at ongoing rates on or before maturity. This restriction shall not apply to contracts covering export transactions, which may be cancelled, rebooked or rolled over at on-going rates. Cancellation and re-booking of forward contracts is permitted freely to all other forward contracts of residents subject to following conditions:
1. Total forward contracts covering import/non-trade transactions re-booked shall not exceed the total of the unhedged exposures falling due within one year. This facility is to be made available only to customers who submit details of exposure to the AD. Based on the information furnished branches should fix the limit for rebooking of cancelled contracts. *The limit ascertained would be the cumulative total of the amount of the forward contracts that can be cancelled and rebooked during the year.*
 2. For monitoring the limit Authorised Dealers may obtain suitable declaration from the customer about the contracts re-booked with other banks.
 3. For further review and refinement of this facility on an on-going basis, Authorised Dealers may call for information regarding unhedged exposures from the resident Corporates every year on prescribed format.
 4. Authorized Dealers are permitted to enter into forward /option contracts with residents who wish to hedge their overseas direct investments (in equity and loan), subject to verification of such exposure and provided further that the contracts are completed by delivery or rolled over on the due date. If a hedge becomes naked in part or full due to shrinking of the market value of overseas direct investment, the hedge may continue to the original maturity. Roll over on the due date shall be permitted to the extent of market value as on that date.

28.2.2. CORPORATES HAVING FOREX EXPOSURE

This facility is being extended to resident corporate entities with a view to enable them to manage their exposures efficiently and will be available to them until further notice.

- ◆ Substitution of contracts for hedging trade transactions may be permitted by an authorised dealer on being satisfied with the circumstances under which such substitution has become necessary.

- ◆ Authorised Dealers may allow importers and exporters to book Forward
- ◆ Contracts on the basis of a declaration of an exposure and based on past performance subject to following conditions:

a) PAST PERFORMANCE METHOD

The facility will be used by importers/exporters of goods and services to hedge currency risk on the basis of a declaration of an exposure and based on past performance. The Permissible Limits are as under

i) For Exports:

Limits will be fixed up to the average of the previous three financial years' (April to March) average export turnover or the previous financial year's actual export turnover, whichever is higher. Further, contracts booked in excess of 75 per cent of the eligible limit are to be on deliverable basis and cannot be cancelled.

ii) For imports:

Limits will be fixed up to 100% of the average of previous three financial years' (April to March) import turnover or the previous years' actual turnover, whichever is higher. Further, forward contracts booked under this facility will be fully deliverable and no cancellation will be allowed.

- ◆ Contracts booked upto 75% of the eligible limits mentioned above i) and II), may be cancelled with exporter / importer bearing / being entitled to the loss or gain as the case may be. Secondly, contracts booked in excess of 75% of the above eligible limits shall be on deliverable basis and cannot be cancelled meaning in the event of cancellation beyond 75% of the above eligible limits, the exporter / importer shall have to bear the loss but will not be entitled to receive gain.
- ◆ The contracts booked during the current financial year (April to March) and the outstanding contracts at any point time should not exceed eligible limits as arrived at above.

- ◆ The eligible limit, as specified above to be approved by the Branch on the basis of application made by the importer/exporter customer as per Annexure 28(3). The information submitted by the customer should be cross checked to the extent possible with branch records like past transactions, turnover etc.
 - i. An undertaking may be taken from the customer that supporting documentary evidence will be produced before the maturity of all the contracts booked.
 - ii. Importers and exporters should furnish a quarterly declaration to the bank, duly certified by the Statutory Auditor, regarding amounts booked with other AD Category I Banks under this facility, as per Annexure – 28(4).
 - iii. A certificate from the Statutory Auditor/Chartered Accountant certifying the export/import turnover of the previous three years as per format in Annexure –28(5).
 - iv. For an exporter customer to be eligible for this facility, the aggregate of overdue bills shall not exceed 10% of the turnover.

- ◆ The past performance limits once utilized are not to be reinstated either on cancellation or on maturity of the contracts.

- ◆ Branches shall arrive at the past performance limits at the beginning of every financial year. The drawing up of the audited figures (previous year) may require some time at the commencement of the financial year. However, if the statements are not submitted within three months from the last date of the financial year, the facility should not be provided until submission of the audited figures.

- ◆ AD Branches are required to submit a monthly report (as on the last Friday of every month) on the limits granted and utilized by their constituents under Past Performance to IBD before the 5th of subsequent month for consolidation and onward submission to Reserve Bank of India.

- ◆ AD Branches should maintain a register incorporating the details of the operations under the limits sanctioned for booking of hedge contracts on the basis of Past Performance on the basis of which the monthly reporting has been done to IBD.

- ◆ In terms of Para 28.2.2.a.ii, limits under Past Performance are to be arrived at the beginning of financial year duly supported by certificate of import/export turnover from the Statutory Auditor/Chartered Accountant within a period of three months from the close of the financial year. In case of non-receipt of the above, no further booking of forward contracts under Past Performance will be allowed in the accounts.

b) CONTRACTED METHOD

- ◆ Branches have to evidence the underlying documents so that the existence of underlying foreign currency exposure can be clearly established.
- ◆ Branches, through verification of documentary evidence, should be satisfied about the genuineness of the underlying exposure, irrespective of the transaction being a current or a capital account.
- ◆ Full particulars of the contracts should be marked on the original documents under proper authentication and retained for verification. Branches should ensure that the underlying provided is a valid Sale / Purchase contract and not a proforma/tax invoice irrespective of trade/ business. In the absence of a contract duly signed & accepted by both the seller and buyer, a email contract may be accepted giving full particulars of the sale/purchase transactions as is normally available in a written contract.
- ◆ In cases where the submission of original sale/purchase contract is not possible, a copy of the original document duly certified by an authorized official of the user may be obtained.
- ◆ In either of the cases, before offering the contract, the branches shall obtain an undertaking from the customer and also quarterly certificate as under
 - i. An undertaking from the customer that the same underlying exposure has not been covered with any other AD Category I Bank(s). Where hedging of the same exposure is undertaken in parts, with more than one AD Category I Bank(s), the details of amount already booked with other AD Category I Bank(s) should be clearly indicated in the declaration. This undertaking can also be obtained as a part of the deal confirmation.

- ii. Quarterly certificates from the statutory auditors of the users, that the contracts outstanding at any point of time with all AD Category I Banks during the quarter did not exceed the value of the underlying exposures.
- ◆ While details of the underlying have to be recorded at the time of booking the contract, in the matters of logistic issues, a maximum period of 15 days may be allowed for production of the documents.
 - ◆ If the documents are not submitted by the customer within 15 days, the contract may be cancelled, and the exchange gain, if any, should not be passed on to the customer.
 - ◆ In the event of non-submission of documents by the customer within 15 days on more than three occasions in a financial year, booking of permissible derivatives contracts in future may be allowed only against production of the underlying documents, at the time of booking the contracts.
 - ◆ Branches, at the time of booking of the contract, will give full details of the underlying to the Dealing Rooms. Dealing Rooms, in turn, will record the details of the underlying in their system.
 - ◆ In case of contracted exposures, Exporters and Importers are freely allowed to cancel and rebook forward contracts in respect of all current account transactions as well as capital account transactions with a residual maturity of one year or less.

In terms of our Internal Control Guidelines, the limits for booking of forward contracts shall not exceed 4 times the Post-shipment/Import L/C limits enjoyed by the customer, subject to the prudential norms. In case of customers who do not enjoy the regular credit facilities, exposures under various hedging products can be taken up to USD 500,000/-

Branches should therefore ensure that total forward contracts outstanding at any point of time including the forward contracts booked on the basis of past performance should be within the 4 times of the Post-shipment/Import L/C limit. However branches should note that aggregate forward contracts booked during the year on declaration basis should not exceed the limit fixed as per para (1) above.

In view of the above revised guidelines, a request letter should be obtained from Importers and Exporters who desire to avail of the facility of booking forward contracts based on past performance. The Format of the request letter is as per Annexure 28(1). Branches are advised to obtain request letters from the importers and exporters duly completed in all respects and sanction a limit in favour of the party, which should be monitored properly. The total forward contracts booked on the basis of declaration should not exceed the sanctioned limit, on the lines stated above.

After exhausting the sanctioned limit, branches should ensure that further forward contracts are booked only against submission of the underlying documentary evidence.

28.2.3. SMALL AND MEDIUM ENTERPRISES (SMEs)

In order to enable Small and Medium Enterprises (SMEs), having direct and / or indirect exposures to foreign exchange risk to manage their exposures effectively, it has been decided to allow AD Category - I banks to permit such entities to book /cancel / rebook / roll over forward contracts without production of underlying documents, subject to the following conditions:

- ◆ Such contracts may be allowed to be booked after ensuring that the entity qualifies as SME as defined by the Rural Planning and Credit Department, Reserve Bank of India.
- ◆ Such contracts may be booked through AD Category - I banks with whom the SMEs have credit facilities and the total forward contracts booked should be in alignment with the credit facilities availed by them for their foreign exchange requirements or their working capital requirements or capital expenditure.
- ◆ AD Category - I bank should carry out due diligence regarding “*user appropriateness*” and “*suitability*” of the forward contracts to the SME customers.
- ◆ The SMEs availing this facility should furnish a declaration to the AD Category - I bank regarding the amounts of forward contracts already booked, if any, with other AD Category - I banks under this facility.
- ◆ SMEs are also permitted to use foreign currency rupee options for hedging their exposures after production of underlying documents or under past performance

28.2.4. FIIs/QFIs/OTHER PORTFOLIO INVESTERS

A Registered Foreign Institutional Investor (FII)/QFI/OPI may enter into a forward contract with rupee as one of the currencies with an authorised dealer in India to hedge its exposure in India,

Provided that -

- a) the value of the hedge does not exceed the current market value in respect of investments in debt instruments and in equity,
- b) **Forward contracts booked by FIIs/QFIs/other portfolio investors, once cancelled, can be rebooked up to the extent of 10 per cent of the value of the contracts cancelled. The forward contracts booked by these investors may, however, be rolled over on or before maturity.**
- c) the cost of hedge is met out of repatriable funds and/or inward remittance through normal banking channel,
- d) All outward remittances incidental to hedge are net of applicable Indian taxes.

28.2.5. NRIs

A non-resident Indian may enter into forward contract with rupee as one of the currencies, with an authorised dealer in India to hedge;

- (a) The amount of dividend due to him/it on shares held in an Indian company;
- (b) The balances held in Foreign Currency Non-Resident (FCNR) account or Non-Resident External Rupee (NRE) account,
- (c) The amount of investment made under portfolio scheme in accordance with the provisions of the Foreign Exchange Regulation Act, 1973 or under notifications issued there under or is made in accordance with the provisions of the Foreign Exchange Management (Transfer or issue of Security by a Person Resident outside India) Regulations, 2000 and in both cases subject to the terms and conditions specified in 28.2.2.

Reserve Bank may, on application, allow a person resident outside India to purchase a forward contract to hedge his investment made since 1st January 1993.

28.3. FEDAI GUIDELINES

Forward contracts should be for definite amounts, without provisions for excess or shortfall. Where partial shipments are permitted, separate forward contracts are to be booked to cover each partial shipment. In such an event, each forward contract will have different forward rate.

28.3.1 DELIVERY PERIOD

In case of an option forward contract, a contract can be booked for any option period of delivery. However, the option period of the forward contract should not exceed one month e.g.

4th December 2013 to 3rd January 2014

1st December 2013 to 31st December 2014

6th December 2013 to 13th December 2014

Contracts permitting option delivery must state first and last dates of delivery. If the delivery of foreign exchange falls in two or more separate calendar months due to part shipments, it is advisable to book separate split contracts on the basis of the same underlying transaction. If the fixed date of delivery or last date of delivery option is a holiday/declared a holiday, the delivery shall be effected/delivery option exercised on the preceding working day. In case a holiday is declared without advance notice, delivery will take place on the next working day.

All contracts are deliverable at the bank named in the contract.

28.3.3. DATE OF DELIVERY

- ◆ Date of delivery under forward contract will be :
 - i) Date of negotiation/purchase/discount and payment of Rupees to customer for bills/documents negotiated, purchased or discounted. (OD forward purchase contract)
 - ii) Date of payment of Rupees to customer on realisation bills, for bills/documents sent for collection. (TT forward purchase contract)
 - iii) Date of retirement/crystallisation of liability whichever is earlier in case of import bills under LC.
 - iv) Date of retirement in the case of import collection bills.
 - v) In the case of other forward sale contracts, for remittance of surplus freight, dividend, interest / instalment of foreign currency loan, NRE account balances etc. date of debit to customer's account.
 - vi) In the case of FCNR deposits, the date of conversion of foreign currency proceeds into Indian Rupees.
- ◆ The customer whether buyer or seller, will have the option of delivery. The purchase contract should state the tenor of the bills/documents in case of negotiation/purchase/discount of the same. Acceptance of delivery of bills/documents drawn for a different tenor will be at the discretion of the Bank.
- ◆ Any excess amount over the amount stated in a contract or shortfall therein shall be bought or sold as the case may be, at the Bank's current spot rate of the day and the amount of the excess in the contract shall be cancelled as per the rate applicable in Para 28.12. and 28.12.1 given below.
- ◆ Where sight documents are already received under Import LC, or sight import collection bills are already received, no forward sale contract can be booked.

28.4. PROCEDURAL ASPECTS

QUANTUM

As per internal guidelines of the Bank, following are the limits for booking of forward contracts:

- a) Four times the post shipment or import LC limits for purchase and sale transactions respectively including the forward contracts booked on the basis of declaration of exposure. Head of the Branch or officer not below the rank of Manager of larger branches and officer in charge of forex department of smaller branches are empowered to book forward contracts.
- b) USD 500,000/- for customers not enjoying regular credit limits, subject to operations in the account being satisfactory and earlier obligations under forward contracts met promptly.

Note

For booking of Forward Contract in excess of the above said limit, the approval of sanctioning authority is necessary.

In the case of customers listed in (b) above, following precautions are to be taken :

- i) Capacity of the party to meet commitments and to pay swap/collection charges is to be assessed upfront.
- ii) Adequate cash margin (say 5% to 15% of contract value) be obtained to cover Bank's exposure arising out of possible failure to give or take delivery under the forward contract. Any reduction of margin below 5% or waiver requires approval of DGM/AGM heading ELBs/Regional Office in case of other branches.
- iii) As these customers do not enjoy any credit limits, export bills should necessarily be sent on collection basis only and forward contracts are to be booked accordingly (TT contracts). Mere booking of forward contract does not entitle such customers to any fund based facilities. This has to be explained to the customer at the time of booking of the contract.

28.5. DOCUMENTS

1. Request for booking the forward contract signed by authorised signatory/ies of firm/company etc. to be obtained in Annexure 28(1).
2. Underlying contracts as evidenced by original LC/firm order/deposit/Board Resolution on dividend etc. In the case of exports/imports, preliminary information like telex, cable, fax etc. can be accepted provided they contain adequate information necessary for booking forward purchase/sale contracts. An undertaking should be obtained from the customer to produce supporting documentary evidence

before the maturity or utilisation of Forward Contract. In the case of imports, if LC is established by us, no separate documentary evidence need be called for.

In the case of export bills already sent on collection, no separate documentary evidence is required for booking forward contract.

3. Exporters/Importers booking a forward contract on basis of declaration :

- i) Turnover evidence either from audited Balance Sheet (provided it contains turnover data regarding exports/imports) or Chartered Accountant's Certificate.
- ii) Declaration confirming that the aggregate forward contracts booked is within limit.
- iii) Annual Auditor's certificate to be modified to include a clause certifying the above. Based on the Certificate, if it transpires that the client has overbooked, it should be reported to RBI.
- iv) Branch to insist on documentary evidence only for excess over the limit.
- v) Board Resolutions in case of companies, specifying authorised officials to book forward contracts and fixing ceilings for booking forward contracts.
- vi) 'Risk Management Policy' of the company/firm to be designed and a copy filed with Bank.
- vii) An undertaking is to be obtained to the effect that no forward contract has been booked/will be booked with other ADs.

Note :

In case of partnership/proprietary firms, a letter signed by proprietor/partners covering (v) and (vi) to be submitted.

Charges Rs.500/+ S.Tax per contract to be recovered upfront.

28.6. FORWARD PURCHASE CONTRACT (FPC)

- ◆ FPC is booked against export of goods and services/receipt of foreign exchange by inward remittance/conversion of EEFC/RFC or FCNR (B) deposits.
- ◆ Underlying contract to be verified for compliance with exchange control/trade control regulations e.g. delivery period of contract should not exceed 6 months from the date of shipment.

- ◆ A single contract can be booked for different export orders in the same currency and at of appropriate tenor, if the payments of all are being received by one Bank.
- ◆ Substitution of export order can be allowed if shipment against the original order is not made.

28.7. FORWARD SALE CONTRACT (FSC)

- ◆ FSC is booked for imports into India, remittance of dividend/interest etc.
- ◆ Underlying contract to be verified for compliance with exchange/trade control requirements. If import is under licence, 'Exchange Control' copy is to be obtained and endorsed for having booked forward sale contract.
- ◆ Necessary approval from RBI for repayment of instalments under foreign currency loan to be verified.
- ◆ The contract should not exceed the net amount payable overseas.
- ◆ Substitution of contract is permitted.
- ◆ Maturity period of forward sale contract should normally be

In the case of import LC	Approx. due date of the bill by taking into account date of shipment, postal transit period, usance period etc.
If usance bills under LC are already received	Due date of the bill
Import collection bill	In line with the tenor of the bill. (Maximum six months from date of shipment unless short term credit beyond 6 months is approved.

Note:

- i) No forward contract can be booked after receipt of sight import bills for collection or sight bills drawn under LC.
- ii) Forward contract can be booked in the case of usance import bills even after receipt of documents.

28.8. PROCEDURE AT BRANCH

Following Registers are to be maintained

- i) Forward Exchange Contract Ledger (Finacle)
- ii) Due date diary for forward contracts for purposes of follow up and automatic cancellation of overdue forward contracts on the 3rd day.
 - ◆ Application is to be verified for compliance with regulations / guidelines.
 - ◆ Check if the exposure would exceed the permitted limit.
 - ◆ Forward contract can be booked on behalf of customers by officer in-charge of forex department of smaller branches or Manager (Export/Imports) in case of large branches, provided the out standings are within the limits laid down as per 28.4, there are no irregularities in the a/c and all terms of sanction of limits are complied with
 - ◆ In the case of customers who do not enjoy any post shipment or import LC limit, Head of the A.D. branch can permit booking of forward contracts upto USD 5,00,000 only. Excesses beyond USD 5,00,000 should be referred to Regional Head who is authorised to permit booking of forward contracts upto aggregate of USD 1 Mio. Requests for booking forward contracts beyond USD 1 Mio should be referred to Zonal Head/FGM/GM(LC & SME).
 - ◆ Requests for booking of forward contracts on behalf of non-customers should not be entertained. However, in the case of LCs restricted to us, if beneficiary banks with other banks, the request for booking Forward Contract may be considered if the same is received through the beneficiary's bank or alternatively, FC funds may be credited (less charges) to the nostro a/c of beneficiary's bank upon negotiation of export documents, if payment is requested in foreign currency.
 - ◆ On sanction, report the transaction to the Dealing Room for obtaining the forward rate. Details to be furnished to the Dealing Room are as under:

Forward Purchase Contract

- Branch reference No.
- Party's name
- Foreign currency amount
- Option delivery period/fixed delivery date
- Type of transaction i.e exports, inward remittance, conversion of FCNR(B) deposit to Indian Rupees etc.
- Usance period in the case of exports.
- Whether export bills will be negotiated/purchased/discounted (OD contracts) or sent on collection (TT contract)
- If export bills are already sent on collection basis, bill no. / date of bill.

Branch should send confirmation of the reporting in Annexure 28(2) to the backup section of 'A' category branch.

Forward Sale contract

- Branch reference No.
- Party's name
- Foreign currency amount
- Option delivery period/fixed delivery date
- Nature of transaction i.e. imports, outward remittance of dividend, freight instalment/interest etc.
- Usance period of import bill.

Branch should send confirmation of reporting in Annexure 28(2) to the backup section 'A' category branch. In both the above cases, backup section will be sending forward exchange contract in triplicate to the 'B' category branch-one copy for 'B' category branch as office copy and two copies for the customer, one of which to be returned to the branch duly signed by the customer and stamped according to the applicable stamp duty.

STEPS TO BE TAKEN AFTER BOOKING FORWARD CONTRACT:

- ◆ Control the forward contract in the System (Finacle) and the system will pass the following entries :
 - DR. Customer's liability for future exchange bought/sold a/c.
CR. Liability for future exchange bought/sold a/c.
 - DR. Customer's CD / CC A/c
CR. Income A/c
(Service charge for booking of forward contract)
- ◆ Note boldly on the relevant folders maintained for Import LC, import/Export Collection/Inward Outward Remittance etc. that a forward contract has been booked. Also note in relevant export/import bill LC/PAD register etc. The relevant underlying contract like LC, Export Order, Import Licence etc. should be endorsed, giving details of forward contract booked.
- ◆ On receipt of the exchange contract in triplicate from the 'A' category branch, two copies are to be sent to the customers, who will return the confirmation copy duly stamped (special adhesive stamp Rs.100/-) and signed by authorised signatory(ies). The same is to be filed along with folder.

- ◆ On the fixed date for delivery or option period of delivery, the forward rate agreed upon will be applied for payment under Import LC, realisation of export collection item, inward remittance etc.
- ◆ On delivery, the branch should report the utilisation of the contract to the Dealing Room (A category branch) giving full details in Annexure 28(3).
- ◆ The Numbering Register and Due Date Diary are to be checked on a daily basis to ensure that customers are reminded of the forward contracts falling due and also for cancellation of overdue contracts on the 3rd day as given in para 28.12.1.
- ◆ On delivery or payment for the forward contract being completed as also at the time of cancellation, the entries are to be marked off in the Sustem (Finacle). The system will pass the following entries on utilization or cancellation of the contract :
 - DR. - Liability for future exchange sold/bought
 - CR. - Customers liability for future exchange sold/bought

The folder is to be appropriately marked and filed in chronological order.

- ◆ The 'A' category branch sends a statement of outstanding forward contracts every month, which has to be reconciled entry by entry at the B category branch. Follow up is also to be made for contracts falling due in the immediate future.
- ◆ Balancing of all forward contracts is to be done monthly from both the Ledger and Register.

28.9. EARLY DELIVERY, LATE DELIVERY AND CANCELLATION

Forward contract being an agreement to exchange currencies at a future date, it is likely that sometimes the customer may be unable to adhere to the contracted delivery schedule or the underlying transaction may itself get frustrated. The customer may, therefore, in these cases request for

- i) Early delivery
- ii) Cancellation

A minimum charge of Rs.500/ plus SWAP cost and cancellation charges where applicable for every request for early delivery or cancellation of a contract shall be levied.

28.10. FEDAI GUIDELINES

- ◆ As a general rule it is optional for the Bank to accept/give early delivery of the contract.
- ◆ It is the responsibility of the customer to effect delivery or to request for cancellation, as the case may be, on or before maturity date of the contract.
- ◆ Swap cost is to be recovered from customer for all cases of early delivery of purchase or sale contracts, irrespective of whether an actual swap is made or not. Such recoveries should be made upfront.
- ◆ Swap gain is to be normally paid at the end of the swap period. For exceptions, refer Para 28.12.6 and 28.13.2.

NOTE: Swap is the simultaneous buying and selling of identical amount of one currency in terms of another currency for differing maturities. The swap loss/gain is the difference between the rate at which currency is purchased and sold. If the Bank has to buy high and sell low, the difference is the swap cost (loss) recoverable from the customer. Swap gain would accrue when in the vice versa, the Bank buys low and sells high.

- ◆ Interest on outlay of funds for arranging a swap shall be recovered from the customer. Interest at rate applicable on term deposits on inflow of funds can be paid at the discretion of the Bank to the customers.

28.11. EARLY DELIVERY

Branch has to report early delivery of forward contract to back up section of 'A' category branch in Annexure 28(6).

Swap difference shall be recovered /paid in cases of early delivery. Interest at commercial rate will be recovered in addition to the swap cost in case there is an outlay of funds for the bank due to early delivery of purchase or sale contract. The amount of funds outlaid shall be arrived at by taking the difference between the original contract rate and the rate at which swap could be arranged. Interest will be paid at the discretion of the Bank in case of inflow of funds at the appropriate rate applicable for term deposits for the period the funds have remained with the Bank.

28.11.1 EARLY DELIVERY IN PURCHASE CONTRACT

- ◆ On the date of early delivery there was an outflow of funds being the difference between the contracted rate (paid to customer) and the spot sale rate (amount realised on sale of USD delivered by the customer), which works out to Rs.45,000/ in the example. The swap loss is Rs.40,000/ being the difference between (1) the amount received from the spot sale and (2) the 2 months forward purchase, which the Bank was compelled to undertake due to the early delivery.
- ◆ Cash outlay arises when the swap spot selling rate is lower than the contract rate. If the foreign currency is at a discount in direct contrast to the above example, swap difference shall be paid to the customer.

Example of Swap Gain/Inflow of funds :

In the previous example, if on the date of early delivery, the rates were :

1. Spot sale @ Rs.61.00	Rs.61,00,000.00
2. Forward Purchase 2 months (discount) @ Rs.60.80	Rs.60,80,000.00
3. Customer paid at contracted rate @ Rs.60.85	Rs.60,85,000.00

Inflow of funds Rs.61.00 lacs - Rs.60.85 lacs = Rs.0.15 lacs

Swap gains Rs.61.00 lacs - Rs.60.80 lacs = Rs.0.20 lacs

Interest on the inflow of Rs.15,000/ to be paid at the rate applicable for term deposits for 2 months. Swap gain of Rs.20,000/- to be paid to the customer.

28.11.2 EARLY DELIVERY IN SALE CONTRACT

A forward sale contract has been booked by an importer for US\$ 100000.00 value three months @ US\$ 1 = Rs 61.00.

Documents are received in the first month. The exchange rate ruling as on the date of receipt of documents were as under:

Spot Rate Rs. 60.65 - 60.70

Two months forward Rate Rs 61.10 - 61.15

Early delivery has compelled the Bank to effect following transactions:

1)	Payment by the customer at contracted Rate US\$ 100000 @ Rs 61.00	Rs 61,00,000
2)	Spot purchase of US\$ 100000 at market Selling rate of 1 US\$ = Rs 60.70	Rs 60,70,000
3)	Two months forward sale of US\$ 100000 1 US\$ = Rs 61.10	Rs 61,10,000

- ◆ On the date of early delivery Bank will be receiving Rs 61,00,000 from the customer and will have to pay Rs 60,70,000 for purchasing US\$ from the market. Hence there is a net inflow of Rs.30,000 (Rs. 61,00,000 - Rs.60,70,000) which will remain with the bank for 2 months. As per FEDAI rules, interest on inflow of funds will be paid at the deposit rate applicable for 2 months.
- ◆ As per the original contract, Bank was to sell US\$ to the customer 3 months forward. As such the Bank had purchased US\$ 3 months forward from the interbank market. On
- ◆ Account of early delivery, the customer has now to be sold US\$ in the first month itself. Therefore, bank is constrained to make a Spot purchase of US\$ from the interbank market and a 2 months forward sale transaction to coincide with the maturity of original transaction. The transactions listed in 2 and 3 above forms a Swap transaction. The Swap involved is Spot Purchase at Rs.60.70 and Forward Sale at Rs.61.10. The bank has thus made a Swap gain of Re.0.40 per US\$ which has to be paid to the customer. (Rs.40,000 i.e. Rs.61,10,000 - Rs.60,70,000).

Example of Swap Loss/Outflow of funds

In the aforesaid example if on the date of early deliver the rates were as under:

Spot Rate Rs.61.20 - Rs.61.10

Two months Forward Rate Rs.60.50 - Rs.60.60

Original contract rate Rs.61.00

1.	Payment by the customer at contracted rate USD 100000 @ Rs.61.00	Rs.61,00,000
2.	Spot purchase of USD 100000 at market selling rate of 1 USD = Rs.61.10	Rs.61,10,000
3.	Two months forward Sale of USD 100000 1 USD = Rs.68.50	Rs.68,50,000

Out flow of funds Rs.61,10,000 - Rs.61,00,000=Rs.10,000
Swap Loss Rs.61,10,000 - Rs.60,50,000 = Rs.60,000

Interest at commercial rate on outflow of funds (i.e. Rs.10000) along with Swap Loss of Rs.60,000 is to be recovered from the customer.

28.12. CANCELLATION OF FORWARD CONTRACT

The customer has the right to cancel a forward contract at any time during the currency of the contract.

- ◆ The customer shall be paid/charged the difference between the contracted rate and the rate at which cancellation is effected. Exchange difference not exceeding Rs.100/ shall be ignored.
- ◆ It will also be in order to permit part cancellation of forward contract on the written request of the customer.
- ◆ The rate at which cancellation is effected are:

ON MATURITY DATE

Purchase contract - Spot TT Selling rate
Sale contract - Spot TT buying rate

BEFORE MATURITY

Purchase contract - Appropriate (Unexpired) forward TT selling rate
Sale contract - Appropriate (Unexpired) forward TT buying rate

28.12.1. CANCELLATION OF OVERDUE FORWARD CONTRACT

- ◆ An overdue forward contract may be cancelled under following circumstances:
 - a. The contract may be cancelled after the maturity date but before the 3rd day with specific understanding and written request from the customer. Accordingly, branches should follow-up with the customers immediately on the expiry of the contract and request them to cancel the contract even before the expiry of 3 days from maturity date.

- b. In case a forward contract becomes overdue due to absence of instructions from customer, non-delivery etc., it shall be automatically cancelled on the 3rd day from date of maturity. The contract shall be cancelled on the next succeeding working day, in case the 3rd day falls on a Saturday or a holiday. The procedure for automatic cancellation on the 3rd day shall be adhered to in all the cases of default and customer should not be allowed to effect delivery against the contract, extend or cancel the contract after the maturity date.
- ◆ Swap cost involved in the cancellation shall be recovered from the customer.
 - ◆ Exchange difference (gain to the customer), if any, on cancellation of the overdue contract shall not be paid to the customer as the contract is cancelled on his default.
 - ◆ In case a purchase contract becomes overdue due to non-acceptance of bills tendered and the exporter takes up the contract by tendering fresh bills or cancels the contract, the exchange difference shall be recovered or paid from/to the customer.
 - ◆ It should be ensured that outstanding contingent liability in respect of forward contracts cancelled is promptly reversed.

28.12.2. ROLL OVER ON OR BEFORE THE MATURITY DATE OF CONTRACT

The customer may seek Roll-over of the contract, where a delay is anticipated. Roll-over comprises of simultaneous cancellation before maturity and booking of a fresh forward contract. In roll-over, the forward contract shall be cancelled at appropriate rate as given above in para 28.12 and rebooked at the applicable forward rate. The difference between the contracted rate and the rate at which the contract is cancelled should be recovered from/paid to the customer at the time of roll-over.

28.12.3. CANCELLATION BEFORE MATURITY

Examples

A forward purchase contract has been booked by an exporter for USD 100,000/ delivery 3rd month @ Rs.60.80. The customer asks for cancellation after a month on which date the spot rate is Rs.60.90 / 61.15 and 2 months forward rate Rs.61.60 / 61.75

Exchange difference would be the difference between :

Original contract rate Rs.61.80	Rs. 61,80,000.00
Forward TT selling rate Rs. 61.75 # (2 months unexpired period)	Rs. 61,75,000.00 _____

- ◆ Verify details from folder
- ◆ Place request letter along with recommendations of processing officer to the competent authority explained in para 28.7.
- ◆ After sanction, report the transaction to Dealing Room giving the reference no. of the contract as given by them (A category branch).
- ◆ Pass decontrolling entry through system :
 - Dr. Liability for further exchange sold/bought a/c.
 - Cr. Customer's liability for further exchange sold/bought a/c.

In case of roll over control the contract at the present contract rate.

- ◆ Make entry in Forward Contract Ledger and reduce outstanding balance. In case of extension also make the entry for the fresh contract booked.
- ◆ Round-off in the Due Date Diary and mark the date with notation cancelled/delivered/rolled-over.
- ◆ Note prominently the date in the relevant folder.
- ◆ In case swap/exchange loss has been incurred due to early delivery/cancellation, the 'A' category branch will raise a POB/local branch debit advice, which is to be recovered from the customer.
- ◆ The swap gain if payable to the customer, is paid on the maturity date by the 'A' category branch, who will remit the same by authority cheque/local branch credit advice. However, on a specific request from the customer, the 'A' category branch may pay the discounted value of the swap gain on the date of cancellation itself i.e. after reducing the interest on the amount of gain at commercial rate for the period upto the maturity date.
- ◆ A minimum charge of Rs.500/- for early delivery, roll over and cancellation of forward contract will also be included in the relevant POB/local branch debit credit advice as the same is to be credited to the Income account of the 'A' category Branch.
- ◆ The contingent liability in respect of Forward Contracts requires provision of capital. Hence this portfolio should be kept at base minimum level. To reduce the unnecessary provision of capital as per RBI norms this liability should be immediately reduced on utilisation/cancellation of the contracts.

28.13. CROSS CURRENCY FORWARD CONTRACT

Forward Contracts cover foreign currency transactions against Indian rupees. A Cross Currency Forward Contract provides forward cover for a foreign currency transaction in terms of another foreign currency instead of Indian Rupees. Thus, a customer having exposure in one foreign currency, shifts his exposure to another foreign currency. This is resorted to, with a view to take advantage of exchange rate movement in another foreign currency.

At times, an exporter may have to avail PCFC in USD against exports denominated in another foreign currency, say EURO. In such cases, the exporter would desire to book cross currency forward contract against EURO, as he has to liquidate PCFC in USD.

The following will make the concept clear:

Exporter has an order for EURO 10,000/-. In case in the global market, EURO is weakening against USD, and if USD is stable in the Indian forex market, the exporter will prefer to book a cross currency forward for EURO against USD. He may leave USD Indian Rupee leg open. Upon realisation, the EURO will be converted into USD at cross currency forward contract rate. By so doing, the exporter may receive more Indian rupees than he would have otherwise got, had he left the exposure uncovered.

The currency of the underlying contract, (EURO in our example) is called the **commodity currency** and the foreign currency to which the exposure is shifted (USD in our example) is called a **settlement currency**. The settlement currency is then notionally converted into Indian Rupees at interbank rate for the purpose of controlling the forward contract liability. This rate is called **Wash Rate**. The wash rate is indicated in the advice branches receive from the Dealing Room after having booked the cross currency forward contract.

28.13.1. RULES/PROCEDURES

The rules/procedures are the same as explained in para 28.2.to 28.8. However, customer has to additionally indicate the settlement currency, which should be informed to the Dealing room as well, while reporting the booking of the forward contract.

28.13.2. EARLY DELIVERY/CANCELLATION

Rules applicable are same as explained for forward contracts. However, the actual date of realisation is treated as the date of delivery. Swap charges/cancellation charges recoverable are converted at TT selling rate of the concerned settlement as stated in para 28.12.6. At specific request received from the customer, Bank may consider payment front-ended, in which case gains will be converted at appropriate forward rate and interest at deposit rate for period from the date of payment till original maturity date, will be deducted there from.

If the customer desires to fix the rate of exchange at which swap gains are to be converted on maturity, a forward contract for the appropriate period may be booked.

28.14. FORWARD TO FORWARD CONTRACT

A forward to forward contract is a swap transaction, which involves simultaneous sale and purchase of one currency for another, where both transactions are forward contracts, for e.g. a sale in three months against a purchase in six months. A forward to forward contract can be extended to a customer with a genuine underlying transaction, who desires to lock in the forward premium without locking in the spot rate. The locking in of the spot rate by the cancellation of a leg/both legs of the contract has to be done before the start date of the forward to forward contract i.e. in above example before the 3 months sale leg.

The forward to forward contract will be booked by customers who desire to take advantage of opposite movements in the spot and forward rates. **However, in terms of prevailing exchange control guidelines, forward to forward contracts are not allowed.**

28.15. OVERNIGHT PLACEMENT OF ORDER

In order to enable customers to take advantage of exchange rate movement in major international markets, the Bank offers an Overnight Placement of Orders facility for both spot and forward transactions. The customer will have to clearly indicate the level at which the transactions are to be booked abroad. The facility will be made available only for orders of minimum amount of USD 0.250 mn.

28.16.

Annexure 28(1)

A. P. (DIR Series) Circular No. 119 dated April 07, 2014

**Application cum Declaration for booking of forward contracts up to
US\$ 250,000 by Resident Individuals, Firms and Companies**

(To be completed by the applicant)

I. Details of the applicant

- a. Name
- b. Address.....
- c. Account No.....
- d. PAN No.....

II. Details of the foreign exchange forward contracts required

- 1. Amount (Specify currency pair)
- 2. Tenor

III. Notional value of forward contracts outstanding as on date

IV. Details of actual / anticipated remittances

- 1. Amount :
- 2. Remittance Schedule :
- 3. Purpose :

Declaration

I/We, (Name of the applicant), hereby declare that the total amount of foreign exchange forward contracts booked with the (designated branch) of (bank) in India is within the limit of US\$ 250,000/- (US Dollar Two lakh and Fifty Thousand only) and certify that the forward contracts are meant for undertaking permitted current and / or capital account transactions. I/We also certify that I have not booked foreign exchange forward contracts with any other bank / branch. I/We have understood the risks inherent in booking of foreign exchange forward contracts.

Signature of the applicant

(Name)

Place:

Date:

Certificate by the Authorised Dealer Category - I bank

*This is to certify that the customer (Name of the applicant) having PAN No. has been maintaining an account (no.) with us since * We certify that the customer meets the AML / KYC guidelines laid down by RBI and confirm having carried out requisite suitability and appropriateness test.*

Name and designation of the authorised official:

Place:

Signature:

Date: Stamp and seal

** month / year*

A. P. (DIR Series) Circular No.119 dated April 07, 2014

Statement – Details of Forward contracts booked and cancelled under Self-declaration

For the Quarter ended – Category	Forward Contracts Booked		Forward Contracts Cancelled	
	During the Quarter	Cumulative total-Year to Date	During the Quarter	Cumulative total-Year to Date
SMEs				
Individuals				
Firms / Companies				

Name of the AD Category-I bank:
Signature of the Authorised Officials:
Date:
Stamp:

(On the letter head of customer)

Branch Head,

Union Bank Of India

Branch

Sir,

Request for sanction of limit for booking of forward contracts on the basis of past performance (April 01, to March 31,)

We request you to sanction the following limits for booking of hedging contracts on the basis of past performance during the year **April 01, to March 31,**

Booking of Export Contract USD:

Booking of Import Contract USD:

We give below the foreign exchange turnover of our unit and other relevant details for the last three years in equivalent of USD:

(Amt in USD millions)

F.YR(APR-MAR)	Turnover		Amt of OD Export Bills		OD Bills as % of Turn Over	
	EXPORT	IMPORT	EXPORT	IMPORT	EXPORT	IMPORT
YEAR 1						
YEAR 2						
YEAR 3						

We undertake / confirm the following:

1. We understand that the above limit is the sum / cumulative total of the forward contracts we can book during the above financial year on the basis of past performance.
2. We undertake to submit the audited financial statements / figures within three months from the last date of the financial year. We understand that bank will not permit the facility thereafter until submission of the audited figures.
3. We will inform the bank about the details of the forward contracts booked by us on the basis of past performance with other Authorised Dealers The sum total of the forward contracts booked by us with all the Authorised Dealers together will be within the above limits fixed.
4. We also undertake to furnish a quarterly declaration duly certified by our statutory Auditor, regarding amounts booked with other AD Category I banks under this facility in the given format.
5. We will furnish to the bank the following Certificates failing which we

understand that the bank will not permit us to book forward contracts on the basis of past performance.

6. The outstanding forward contracts booked by us on the basis of past performance and on the basis of submission of underlying will together be within the credit exposure limits fixed by the bank. The credit exposure will be worked out on the basis of current exposure method stipulated by Reserve Bank Of India.
7. The contracts booked by us on the basis of past performance will be utilized by us only against the submission of underlying; The details of the underlying will be furnished to the bank before maturity date of the contracts.
8. The cancellation of the contracts booked by us on the basis of past performance will be restricted to 75% of the above limits. We also understand that contracts once cancelled will not be eligible to be rebooked. Rollovers are also not permitted. We will take delivery of a minimum of 25% of the contracts booked by us on the basis of past performance.
9. We undertake that the contracts booked during the current financial year and the outstanding contracts including those booked during the last year under the facility at any point of time will not exceed the eligible limit for the year.
10. We confirm that our total overdue export receivables will not be in excess of 10% of the annual turnover at any point of time. We understand that we will not be in a position to book forward contracts for export on the basis of past performance if our overdue bills outstanding are in excess of 10% of our turnover.

(Authorized Signatory)

ANNEXURE 28(4)

Intimate regarding limits enjoyed by Constituents for booking forward contracts on the Basis of Past Performance during the year

1. Name of the Customer:
2. Customer ID:
3. Name of the branch:
4. Details of limits enjoyed (Rs in Lacs)
 - a. Post shipment Limit:
 - b. LC limit:
 - c. Special sanction in terms of DA
(For units not enjoying credit facilities)
5. Renewal of limits due:

6. Total Turnover of the customer (Rs in Lacs)
(The figure will be customer's total turnover and not just the turnover with our bank)
 - a. Export turnover for the last year:
 - b. Average export turnover of last 3 years:
 - c. Import turnover for the last year:
 - d. Average Import turnover of last 3 years:

7. Limits fixed for the year for booking of forward contracts on the basis of past performance: (Rs in Lacs)
 - a. Export (Higher of 6 (a) or 6 (b):
 - b. Import (Higher of 6 (c) or 6 (d):

8. Whether Chartered Accountants certificate obtained regarding adherence to all RBI guidelines on booking of forward contracts on the basis of past performance and the import/export turnover during the above three years: Yes/ No

9. If no we understand that the customer will not be permitted to book forward contracts on the basis of past performance.

9. Whether customer is booking forward contracts with other authorized dealers: Yes/No

If yes, we undertake to monitor the total forward contracts booked on the basis Of past performance /cancelled during the year with all the ADs

as per the **RBI** guidelines.

10. We also understand that contracts booked in excess of 75% of the limit will be on deliverable basis and cannot be cancelled.

Branch Head

Branch

ANNEXURE 28(5)

Format of Declaration of amounts booked/cancelled under Past Performance facility

[On letterhead of the Company]

Date :

To,
(Name and address of the Bank) Dear
Sir,

Sub : Declaration of amounts booked/cancelled under Past Performance facility

We refer to the facility of booking of Forward or Option Contracts involving Foreign Exchange, based on the past performance facility with Authorised Dealer Category I Banks (AD Category I Banks), more specifically in relation to the undertaking submitted by us to you, dated [] in this regard ('Undertaking').

In accordance with the said Undertaking, we hereby furnish a declaration regarding the amounts of the transactions booked by us with all AD Category I banks. We are availing the past performance limit with the following AD Category I banks :

Please find below the information regarding amounts booked / cancelled with all AD Category I Banks under the said past performance facility as permitted under the FEMA Regulations :

Amount in US Dollar

Eligible limit under past performance	Agg. Amt of contracts booked with all the Ads from Apr till date	Agg. Amount of contracts cancelled with all the Ads from Apr till date	Amount of contracts Ws with all the Ads as on date	Amt utilized (by delivery of documents) as on date	Available limit under past perf. as on date

Thanking you,

Yours faithfully,

For XXXXXX

Authorised Signatories