Framework of new hedging guidelines

Contracted Exposure and Anticipated Exposure:

Clients of the Bank can avail the facility of the booking the contracts under Anticipated Exposure or Contracted Exposure provided all contracts involving deliverable Rupee are

(i) For the purpose of hedging as defined in the regulation
(ii) The notional and tenor of the contract does not exceed the value and tenor of the exposure at any point of time
(iii) The same exposure has not been hedged using any other derivative contract.

Contracted Exposure:

i. A contracted exposure is an exposure to the exchange rate of INR against a foreign currency on account of current and capital account transactions permissible under FEMA, 1999 or any rules or regulations made thereunder, which has already been entered into.
ii. Evidence of underlying exposure shall be submitted within 15 calendar days from the trade date. Authenticated documentation for evidence of underlying shall be submitted either in physical form or electronic form through a mode acceptable to the Bank (e.g. electronic copies, scan through official email)
iii. In the event the evidence of underlying exposure is not provided within the stipulated timelines or is not to the satisfaction of the Bank, the contract would be cancelled. Losses upon such cancellation shall be recovered and gains, if any, shall not be passed on to the client.
iv. If trades are booked against underlying exposure where the value of the exposure is not ascertainable with certainly, such contracts may be booked on the basis of reasonable estimates (such as Master Sales Agreements or Master Procurement Agreement or similar such arrangements). The Bank would make a reasonable estimation of the exposure based on the documents submitted and its assessment of the client's business. Such estimates would also be subject to periodic review.
v. Contracts booked under contracted exposure can be rebooked after cancellation.

Anticipated Exposure:

i. A contract booked against an exposure to the exchange rate of INR against a foreign currency on account of current and capital account transactions permissible under FEMA, 1999 or any rules or regulations made thereunder, which are expected to be entered into in future. Therefore, the amount of an anticipated exposure and the time by when it would crystalize may not be precisely known at the time of entering into a hedge contract.
ii. When hedging under this facility, the client will have to declare while booking the trade that this is under anticipated exposure. The amount and tenor permissible for such hedges would be based on the Bank's assessment of the reasonableness of such future exposure. **The bank could ask for additional details to satisfy itself.**
iii. **Bank shall need relevant information of exposure at the time of initiating the trade. This information should include, at a minimum, basic details of underlying (for e.g., current account, capital account, etc.).**
iv. If such hedging is for capital account transactions, then information of such exposure e.g. anticipated nature of transaction, expected date and amount of agreement.
v. In the event that the bank is not satisfied about such underlying exposure within 15 days of the trade, the Bank retains the right to cancel all or part of the contract. The profits from such cancellations if any would not be passed on to the client while losses would have to be borne by the client.

vi. Contracts under anticipated exposure can be cancelled and rebooked. However, for outright cancellations, or cancellation and rolled over as a new contract, the losses on such cancellations would be payable while profits would be withheld. These withheld profits would be passed on to the client on

   (a) Satisfying the Bank that the contract has been delivered either through the Bank's counters or through another bank.
   (b) The cancellation was for reasons beyond the control of the client. In such cases, the bank would need to satisfy itself with necessary documentary proof.

vii. In case of rollovers or if a trade is booked against previously hedged and cancelled trade, the client should submit the unique reference no of previously hedged / cancelled trade at the time of initiation of the rebooked trade. This will enable linking hedges on the same anticipated exposure, and the client can net losses on cancellations against prior profits on cancellations. The net profits on such trades however would be passed to the client only as per the point above. In absence of any such information of linkages at the time of booking of contract, contract booked would be treated as new exposure. The discretion of linking previous hedges either at the time of booking a new trade or at a future date, and the calculations of the net value of such trades, would be at the sole discretion of the Bank