

**PART A - PURCHASES**

- 3A.1 Purchase of TT's, MT's, etc. from public
- 3A.2 Inward Remittances
- 3A.3 Acquisition of Foreign Exchange by Residents
- 3A.4 Payment of Inward Remittances in Rupees
- 3A.5 Foreign Inward Remittance Payment
- 3A.6 Issue of Bank Certificates
- 3A.7 Refund of Inward Remittances

**PART B - SALES**

- 3B.1 General
- 3B.2 Sales to Residents
- 3B.3 Procedures for making Applications
- 3B.4 Reserve Bank Permits
- 3B.5 Manner of Payment of Rupees against sale of Foreign Exchange
- 3B.6 Submission of Unutilised Permits
- 3B.7 Recurring Remittances
- 3B.8 Issue of Foreign Exchange to Residents under Instructions from Overseas Correspondents
- 3B.9 Deleted
- 3B.10 Undertaking/Certificate regarding payment of Income-tax

**PART C - FORWARD EXCHANGE COVER**

- 3C.1 General
- 3C.2 Forward Contracts for Foreign Currency Loans, etc.
- 3C.3 Verification of Documents
- 3C.4 Forward Cover for Non-residents
- 3C.5 Deleted
- 3C.6 Deleted
- 3C.7 Foreign Currency Options
- 3C.8 Foreign Currency-Rupees Swaps
- 3C.9 Hedging of Loan Exposures
- 3C.10 Management of Bank's Assets-Liabilities
- 3C.11 Hedging of Commodity Price Exposure on International Commodity Exchanges
- 3C.12 Hedging of Gold Prices by Authorised Dealers

**PART D - RUPEE TRAVELLERS CHEQUES**

- 3D.1 Travellers Cheques Valid for Negotiation outside India
- 3D.2 Form A2
- 3D.3 Appointment of Selling Agents outside India
- 3D.4 Travellers Cheques Negotiable only in India
- 3D.5 Reimbursement

**PART E - FOREIGN CURRENCY NOTES AND COINS**

- 3E.1 General
- 3E.2 Purchases from Public
- 3E.3 Purchases against Currency
- 3E.4 Encashment Certificates
- 3E.5 Purchase on Authorised Dealers' Own Responsibility
- 3E.6 Import of Foreign Currency Notes
- 3E.7 Sale to Public Under General Authority
- 3E.8 Reconversion of Indian Currency
- 3E.9 Sales to Foreign Tourists

- 3E.9A Providing foreign currency travellers cheques and notes to the Master/Captain of foreign vessels against inward remittance
- 3E.10 Cash Memo
- 3E.11 Sales to other Authorised Dealers, Exchange Bureaux and Money-changers
- 3E.12 Rates of Exchange
- 3E.13 Display of Exchange Rate Chart
- 3E.14 Regulation of Authorised Dealers' Sales to Travellers
- 3E.15 Export of Surplus Foreign Currency Notes and Coins
- 3E.16 Records Maintained by Exchange
- 3E.17 Reporting of Transactions by Exchange Bureaux

#### **ANNEXURE I**

CBDT's Circular No.759 dated 18th November 1997 regarding deduction of tax at source

#### **ANNEXURE II**

Guidelines for accessing International Commodity Exchanges for hedging of commodity price exposures tax at source

## **FOREIGN EXCHANGE TRANSACTIONS WITH PUBLIC**

### **PART A - PURCHASES**

#### **Purchase of TTs, MTs, etc. from public**

- 3A.1** Authorised dealers may freely purchase from the public in India TTs, MTs, drafts, bills, etc. drawn in any foreign currency against rupees.

#### **Inward Remittances**

- 3A.2** There are no restrictions on receipt of remittances in India from any foreign country through authorised dealers in India. Reserve Bank has also permitted by its [Notification No. FERA.48/77-RB](#) dated 24th November 1977, any person to receive directly from persons resident outside India, foreign exchange in the form of bank drafts or travellers cheques issued outside India or cheques drawn on banks situated outside India, provided the foreign exchange so received is surrendered to an authorised dealer within seven days of receipt.

*NOTE: Where the amount of remittance exceeds Rs. 100,000, the purpose of inward remittance, i.e. whether it represents transfer of capital, savings, profit, dividend, etc. should be ascertained and reported in the supplementary statement annexed to the relative R Return. The payment should not, however, be delayed for want of this information which may be obtained separately and furnished to Reserve Bank later.*

#### **Acquisition of Foreign Exchange by Residents**

- 3A.3** Reserve Bank has permitted by its [Notification No.FERA.158/94-RB](#) dated 24th February 1994, any person to receive payment in foreign currency/ies from any person resident outside India and who is on a visit to India for services rendered or in settlement of any lawful obligation, provided that any such foreign currency/ies held in excess of U.S.\$ 2000 (Two thousand US dollars) inclusive of foreign currencies, if any, held for numismatic purposes or its equivalent, taking into account existing foreign currency holdings, if any, is sold to an authorised dealer within seven days from its receipt.

#### **Payment of Inward Remittances in Rupees**

- 3A.4** Under Central Government [Notification F.No. 10/22/ 90/NRI](#) Cell dated 17th July 1992, any person in or resident in India (other than certain exempted categories) receiving foreign exchange is under an obligation to offer it for sale to an authorised dealer within the prescribed period. Except where specifically provided in this Manual or where the specific permission of Reserve Bank has

been obtained, no authorised dealer shall open an account, in favour of a resident or a non-resident, in foreign currency.

### **Foreign Inward Remittance Payment System (FIRPS)**

**3A.5** FEDAI has evolved the Foreign Inward Remittance Payment System(FIRPS) to facilitate quick transmission of funds to beneficiaries in India against inward remittances received from abroad through banking channels in rupees as well as foreign currencies. This system is used by authorised dealers for arranging payment of proceeds of personal remittances received from abroad in favour of resident Indians as well as for credit to Ordinary Non-Resident accounts / Non-resident (External) accounts in India of persons of Indian nationality or origin. The essence of the system is that authorised dealers must without delay convert into rupees foreign currency remittances received from abroad in the form of TTs, MTs and Pay Orders and arrange payment of the proceeds by the FIRPS instruments which are encashable at par at all branches in India of all authorised dealers and of other scheduled commercial banks who, though not authorised to deal in foreign exchange, agree to abide by regulations framed by FEDAI, governing issue and encashment of FIRPS instruments. Authorised dealers will be guided by rules and regulations framed from time to time by FEDAI with the approval of Reserve Bank in the matter of issue etc. of instruments under FIRP System. Authorised dealers may also freely employ other methods like money orders, MTs, TTs, drafts and telegraphic pay orders for transmitting inward remittances to beneficiaries but they should bear in mind the need for speed in transmitting funds to beneficiaries, particularly those living in remote parts of the country, in view of the importance attached to inward remittances.

### **Issue of Bank Certificates**

**3A.6** (i) Authorised dealers should issue certificates in [form BCI](#) against receipt of inward remittances or realisation of foreign exchange on security paper if the amount exceeds Rs.15,000/- in value, bearing distinctive serial numbers and reference numbers. In case the amount of inward remittance or realisation of foreign exchange is upto Rs.15,000/- certificates in [form BCI](#) with serial numbers and reference numbers may be issued on the letter-head of the authorised dealer (with their 'Logo' printed on it). Since inward remittances received for opening of or credit of Non-Resident (External) accounts/FCNR accounts can be repatriated freely, authorised dealers should not issue certificates against such remittances.

(ii) Authorised dealers may also be required to issue bank certificates to exporters in the prescribed form for submission to the Director General of Foreign Trade immediately after negotiation of documents, but prior to realisation of export proceeds. Such certificates cannot contain the value actually realised and date of realisation of export proceeds. Hence while issuing such certificates authorised dealers may merely indicate the FOB value under column 14 of the certificate without certifying that the amount has been actually realised. Authorised dealers should make a specific remark on such certificates that it is not an export realisation certificate.

(iii) Authorised dealers may also issue a certificate of inward remittances in Form 10 H to assesseees for submission to Income-tax Authorities alongwith the Return of Income. The format of Form 10 H has been prescribed in terms of Section 80RRA of the Income-tax Act read with the Rule 29A of the Income-tax Rules and is similar to [form BCI](#).

### **Refund of Inward Remittances**

**3A.7** Authorised dealers may comply with requests received from their overseas correspondents for cancellation of inward remittances in foreign exchange and refund the amounts without reference to Reserve Bank after satisfying themselves that the refunds are not being made in cover of transactions of a compensatory nature, resulting in remittances which should have normally accrued to India being either lost to the country or used by residents in India other than the original beneficiaries.

## PART B - SALES

### General

**3B.1** All sales of foreign exchange are subject to regulation by Exchange Control and authorised dealers may sell foreign exchange only in accordance with the regulations laid down in this Manual.

### Sales to Residents only

**3B.2** Authorised dealers may sell foreign exchange only to persons, firms and banks resident in India and in accordance with the procedure detailed in this Part. No sales should be made to non-residents except as specifically provided in this Manual.

NOTE: *For the purpose of sale of foreign exchange, persons, firms, companies or other organisations resident in Nepal and Bhutan should be treated like any other non-residents.*

### Procedure for making Applications

**3B.3** (i) Applications by persons, firms and banks other than authorised dealers for remittances

in any foreign currency to a beneficiary abroad must be made to an authorised dealer on

form [form A1](#) bearing the legend 'Application for remittance in 'foreign currency', if the purpose of remittance is import of goods into India and on [form A2](#) bearing a similar legend in every other case.

(ii) Questionnaire forms have been prescribed in the Manual to elicit additional information

required for dealing with applications for remittances in certain cases. In certain other cases, the applicants may have to furnish supporting information by letter. In all such cases, the requisite questionnaire form etc. should accompany the application on [form A1](#) or [A2](#) as the case may be.

NOTE: *Applications for release of foreign exchange from members of the public will be entertained by Reserve Bank only if they are received through an authorised dealer.*

(iii) If the remittance is for an approved purpose and is otherwise within the powers of

authorised dealers, the authorised dealer may sell the foreign exchange applied for, provided he has satisfied himself as to the bona fides of the application.

(iv) If the remittance does not fall within the powers of authorised dealers and therefore

requires prior approval of Reserve Bank, the authorised dealer should obtain the application in duplicate and forward it to Reserve Bank for consideration. Authorised dealers will do well to obtain an additional copy of the form for their reference and record. The authorised dealer should verify the correctness of the statements made in the applications, ensure that they are complete in all respects and are duly signed by the applicants and certify them in token of having done so over his stamp and signature before forwarding them to Reserve Bank. Comments, if any, of the authorised dealer should also be recorded on the application form or if appropriate, by a separate letter. The sale of foreign exchange should not be made until a copy of the application form ([A1](#) or [A2](#) as the case may be) has been returned by Reserve Bank together with a permit authorising the remittance.

NOTES: A. [Forms A1](#) and [A2](#) are required to be completed even in cases where sale of foreign exchange is not involved but payment is made in rupees by credit to an account of non-resident bank with the authorised dealer or through ACU.

B. Sub-paragraphs (iii) and (iv) also apply, *mutatis mutandis*, to remittances made to foreign countries otherwise than by direct sale of a foreign currency.

### **Reserve Bank Permits**

**3B.4** If an application for remittance is approved, Reserve Bank will issue a permit printed on special security paper which will, inter alia, indicate name of applicant, amount sanctioned, name of beneficiary abroad and authorised dealer through whom remittance can be effected. All Reserve Bank permits for remittance of foreign exchange will be issued over the signatures of two officials. Authorised dealers may make remittances under the authority of the permit after verifying that

- (a) the permit has been issued on security paper;
- (b) all alterations/corrections thereon, if any, have been duly authenticated;
- (c) the permit bears two full signatures on behalf of the issuing office of Exchange Control Department of Reserve Bank;

and

- (d) the permit appears prima facie to be genuine.

Authorised dealers should endorse the amount of foreign exchange sold or remitted against the permit on the reverse of it under their stamp and signature. If the authorised dealer has any grounds to suspect that the permit presented for remittance is not in order or appears to have been fraudulently issued, he should immediately refer the matter to the issuing office. If any conditions have been prescribed by Reserve Bank while approving the remittance, authorised dealers should ensure that the conditions are fulfilled before making the remittance.

### **Manner of Payment of Rupees against sale of Foreign Exchange**

**3B.5** (i) It is a basic understanding that when any person applies to an authorised dealer or to

Reserve Bank for sale of foreign exchange to him, the foreign exchange is required for meeting his own commitments abroad or for his own use. The rupee funds against sales of foreign exchange should, therefore, be provided by the applicants themselves. Authorised dealers should, however, ensure that in all cases of sale of foreign exchange/remittance in foreign exchange equivalent to Rs.20,000/- or more, irrespective of whether remittances are made under powers delegated to authorised dealers or against Reserve Bank permits, the relative payment is received from the applicant only by a crossed cheque drawn on the applicant's bank account or on the bank account of the firm/company. Authorised dealers may also accept payment in the form of a Banker's Cheque/Pay Order and/or Demand Draft. In no circumstances should payment in respect of such sale of foreign exchange/remittance in foreign exchange be accepted in cash.

- (ii) As an exception to the above rule, authorised dealers may sell foreign exchange

equivalent to amount not exceeding Rs.50,000/- for travel abroad for business, BTQ, etc. purposes against payment in cash. Where the sale of foreign exchange to residents for the visits abroad exceeds the amount equivalent to Rs.50,000/-, the payment must be received only by a crossed cheque drawn on the applicant's bank account or on the

bank account of the firm/company sponsoring business visit of the applicant. Authorised dealers may also accept payment in the form of Bankers' Cheque/Pay Order/Demand Draft in above cases.

(iii) Where the rupee equivalent for drawing foreign exchange exceeds Rs.50,000 either

for any single instalment or for more than one instalment reckoned together for a single journey/visit it should be paid by the traveller by means of a cross cheque/demand draft/pay order as stated above.

NOTE: (i) *This provision will also apply in the case of payments made in rupees by credit to accounts of non-resident banks or through ACU.*

(ii) *Where the rupee equivalent of foreign exchange drawn, in a single transaction for studies abroad is Rs.50,000 or more it should be paid by means of a crossed cheque/demand draft/pay order as stated above.*

### **Submission of utilised Permits and Remittance Forms**

**3B.6** After making the remittance, the authorised dealer should surrender both the utilised permit and the remittance application in [form A1](#) / [A2](#) to Reserve Bank under cover of the R Return in which the sale is reported. Remittance applications covering sales of foreign exchange made within the powers delegated to authorised dealers should also be attached to the R Return for the relevant period, stating clearly on the forms the relative paragraph/s of the Manual and/or A.D. Circular relied upon for making the remittances.

### **Recurring Remittances**

**3B.7** Wherever regular periodic remittances have to be made for purposes which are not covered by authorised dealers' authority, Reserve Bank issues in approved cases permits for recurring remittances on account of family maintenance, savings, maintenance of offices abroad, etc. authorising such remittances. These permits will, inter alia, indicate name of applicant, name of beneficiary abroad, amount authorised to be remitted each time, intervals at which it may be remitted, period for which remittances may be continued and name of authorised dealer through whom remittances can be made. Authorised dealers may make remittances in accordance with the terms of such permits after getting applications on [form A2](#) completed for each such remittance by the applicant (or on his behalf). Purpose of remittance and full particulars of Reserve Bank permit should be clearly stated in the applications. Such applications should be attested and submitted to Reserve Bank with relevant R Returns in the same manner as in respect of other remittances. Each remittance effected should be recorded on the reverse of the permit against stamp and signature of authorised dealer and the permit retained with authorised dealer. Permit may be returned to remitter if required by him on bona fide grounds. Permit against which the last remittance has been made should not be returned to applicant but attached to the remittance application covering the last remittance and surrendered to Reserve Bank with the relative R Return.

### **Issue of Foreign Exchange to Residents under Instructions from Overseas Correspondents**

**3B.8** Issue of foreign exchange in any form (such as travellers cheques, notes, coins etc.) to persons resident in India under instructions from overseas branches/correspondents of authorised dealers requires prior approval of Reserve Bank. (See [paragraph 11D.8](#) regarding sale of foreign exchange to foreign tourists, transit passengers and foreign nationals not permanently resident in India).

### **Cancellation of Sales**

**3B.9** Deleted

### **Undertaking/Certificate regarding payment of Income-tax**

**3B.10** (i) Certain types of remittances are being allowed by Reserve Bank or by authorised dealers under the powers delegated to them subject, inter alia, to production of Income-tax clearance certificate/NOC from Income-tax authorities. Under the revised procedure notified by the Government of India, Ministry of Finance, Department of Revenue, Central Board of Direct Taxes, New Delhi, vide their circular No. 759 dated 18th November 1997, it will be in order for authorised dealers to allow such remittances without insisting on tax clearance certificate/NOC from Income-tax authorities, provided the person making the remittance furnishes an undertaking (in duplicate) addressed to the Assessing Officer accompanied by a certificate from an Accountant (other than an employee) as defined in the explanation below Section 288 of the Income-tax Act, 1961 in the form prescribed by Government. A copy of CBDT's circular dated 18th November 1997 and the specimen forms of undertaking to be furnished by the remitter and that of the certificate to be furnished by the Accountant are given in the Annexure to this Chapter. Authorised dealers should, before allowing the remittance, obtain the aforesaid undertaking/certificate from the remitter/Accountant for compliance with the Income-tax provisions, where necessary.

(ii) Authorised dealers should after making the remittance (irrespective of whether the remittance has been made against Reserve Bank permit or under the powers delegated to them) immediately forward a copy of the applicant's undertaking together with a copy of the Accountant's certificate, to the assessing officer of the Income-tax Department as indicated in the undertaking. The other copy each of the undertaking and the certificate should be kept on record for verification by the Internal Auditors of the authorised dealer/Inspecting Officers of Reserve Bank

## **PART C - FORWARD EXCHANGE COVER**

### **General**

**3C.1** (i) Authorised dealers may enter into contracts for forward purchase and sale of foreign currency with residents who have a crystallised exposure to exchange risk in respect of genuine transactions permitted under the Exchange Control regulations.

(ii) The choice of the currency and tenor are left to the customer. However, the maturity of the cover should **not** exceed the maturity of the underlying transaction. Contracts covering trade transactions may be freely booked, cancelled, ( [A.D.\(M.A. Series\) Circular No.30](#) ) rolled over at ongoing rates as well as substituted. Where the exact amount is not ascertainable owing to the rates/costs being linked to variable factors, contracts may be booked on the basis of a reasonable estimate.

(iii) Contracts booked to cover non-trade transactions, once cancelled cannot be rebooked. They may, however, be rolled over on or before the maturity.

### **Forward Contracts for Foreign Currency Loans, etc.**

**3C.2** (i) Authorised dealers may provide cover in respect of foreign currency

loans/bonds after final approval is accorded by the Reserve Bank for the arrangement.

However, cancellation of contracts booked before commencement of the draw-down will require prior approval of Reserve Bank. Global Depository Receipts (GDRs) become eligible for cover only after the issue price has been finalised.

(ii) Balances in the EEFC accounts may be allowed to be sold forward

by the accountholders provided they remain earmarked for delivery. Such contracts should not, however, be cancelled.

### **Verification of Documents**

**3C.3** While booking contracts, suitable documentary evidence should be verified to ensure

that an exposure exists, to the extent of the amount of cover sought. The particulars of contract such as amount, date and number of the contract etc. should be marked on such documents under proper authentication and copies thereof retained for record for inspection/audit purposes. The particulars should also be recorded in the register for systematic follow up etc.

### **Forward Cover for Non-residents**

**3C.4** (i) Forward cover for remittance of dividends due to overseas investors on

account of direct foreign investment in India may be offered to the resident corporates after final decision on the rate of interim/final dividend is taken by the Board. The cost of cover may be borne by the overseas investor or the Indian company.

(ii) Reserve Bank will approve on case to case basis applications for forward

cover in respect of foreign direct investments made in India since 1st January 1993. Applications with full particulars may be submitted for consideration to the Chief General Manager, Exchange Control Department (Forex Markets Division), Reserve Bank of India, Central Office, Mumbai 400 001.

(iii) Authorised dealers may provide forward cover to Foreign Institutional Investors (FIIs)

in respect of their investments in debt instruments in India. At the time of offering/rolling over such cover it should be ensured that -

- (a) The extent of cover does not exceed the market value of the investments translated in dollar terms,
- (b) The tenor of the cover does not exceed the remaining tenor to maturity of the underlying.

A monthly statement showing details of forward covers booked/cancelled/rolled-over indicating the name of the FII, amount of the contract booked/cancelled/rolled-over, and the market value of the underlying should be forwarded to the Chief General Manager, Exchange Control Department, (Forex Markets Division), Reserve Bank of India, Central Office, Mumbai 400 001, so as to reach before 10th of the succeeding month.

NOTE: *While it is recognised that the nature and value of the underlying would vary on account of changes in the composition of the portfolio, exchange rate movements etc., authorised dealers should ensure adherence to the aforesaid condition by undertaking a quarterly review. However, in case the value of the underlying shrinks owing to repatriation of sale proceeds, the forward contract should be partly/fully cancelled forthwith.*

(iv) Deleted.

(v) Forward cover may be offered to Non-resident Indians to hedge the:

balances held in FCNR/Non-resident (External) Rupee Accounts and the interest payable thereon subject to the following conditions

- (a) the value and maturity of the contract should not exceed the value and maturity of the underlying deposit and interest payable;
- (b) the cost of hedge should be met out of repatriable funds or through an inward remittance;
- (c) all outward remittances incidental to the hedge may be allowed by authorised dealers subject to payment of tax, if any.

(vi) Forward cover may also be provided by authorised dealers to NRIs/OBCs:

in respect of their portfolio equity investments as also investments in equity by Foreign Institutional Investors (FIIs) in Indian companies subject to adherence to the following guidelines

- (a) The amount eligible for cover will be the difference in dollar terms between the market value of the investments in equity held by NRIs/OCBs/FIIs as at the close of business on 11th June 1998 converted at the RBI reference rate (US\$ 1 = Rs.42.38) and the market value of investments at the time of providing cover, converted at the current rate. These values may be computed taking into account the pipeline transactions also.

or

Fresh inflows since 11th June 1998 (the reinvestment of cash balances lying in the accounts of NRIs/OCBs/FIIs as at the close of business on 11th June 1998 is also to be reckoned as fresh inflow) **which ever is higher.**

- (b) or subsequent repatriation of funds it is open to the NRIs/OCBs/FIIs to either utilise the forward contract or access the spot market. In case any NRI/OCB/FII wishes to continue with the forward contract, it should be ensured that the dollar value of total investments in equity in India exceeds the value of the forward contract.
- (c) The cover may be extended to FIIs Fund-wise or FII-wise whichever is operationally convenient.
- (d) A monthly statement indicating (a) the name of the NRI/OCB/FII/Fund, (b) the market value of investments in dollar terms as on 11th June 1998, (c) the present market value and incremental inflow, (d) the eligible amount of cover and (e) the actual amount of cover and its maturity should be forwarded to the Chief General Manager, Exchange Control Department (Forex Markets Division), Reserve Bank of India, Central Office, Mumbai 400 001 so as to reach him before the 10th of the following month.

**3C.5** Deleted.

#### **Forward Contracts Based on Business Projections**

**3C.6** Deleted.

#### **Foreign Currency Options**

**3C.7** (i) Cross currency options may be offered to residents to cover their genuine exposures

vide [paragraphs 3C.1, 3C.2](#) and contingent exposures like tender bids. Cost effective risk

reduction strategies like range forwards, ratio range forwards and such other variables may also be offered to customers provided there is no net inflow of premium. These products may be allowed to be freely booked and cancelled.

(ii) The option should be written on a fully covered basis whereby the authorised

dealers buy from the overseas branch/bank/ internationally recognised approved option exchanges an identical option for the same amount, strike price and maturity date as the one sold to the customer.

(iii) Option premium may be remitted without the prior approval of Reserve Bank.

(iv) Options written and purchased should be marked to market at suitable periods

so as to coincide with the date of evaluation of the foreign exchange position.

(v) Appropriate accounting entries should be passed for options purchased and sold as well as for premium received and paid so that options exposure appears in the account as a contingent item.

(vi) Limits for customer exposures as well as for options purchased should be laid down.

(vii) Options may be bought from overseas and sold to other authorised dealers in India.

(viii) Authorised dealers who propose to write options, should apply to the Chief

General Manager, Exchange Control Department, (Forex Market Division), Reserve Bank of India, Central Office, Mumbai for permission.

### **Foreign Currency-Rupee Swaps**

**3C.8** (i) Authorised dealers may arrange foreign currency - rupee swaps between corporates who run exposures arising out of their long-term foreign currency commitments. Entities

in the system who do not have any forex exposure but are willing to assume a forex liability in lieu of their long term rupee liability may also become counter parties in the arrangement.

(ii) Authorised dealers may enter into foreign currency rupee swaps between entities to assist the exchange of such obligations between them and absorb the residual currency/interest mismatches within their open position/gap discipline.

*NOTE : A swap is a financial transaction in which two counterparties agree to exchange streams of payments or cash flows over a period of time with a view to achieving overall cost reduction for both parties. Hence it is not the intention that authorised dealers should allow the swap route to become a surrogate for forward contracts for those who do not qualify for forward cover under [paragraphs 3C.1](#) and [3C.2](#).*

### **Hedging of Loan Exposures**

**3C.9** (i) Indian corporates may approach authorised dealers for hedging of their foreign currency loan liabilities. Authorised dealers may offer the undernoted products to corporates either by booking the transaction overseas or on a back-to-back basis.

- (a) Interest rate swaps
- (b) Currency swaps
- (c) Coupon swaps
- (d) Interest rate caps/collars (purchase)

- (e) Forward Rate Agreement
- (ii) Before entertaining the corporate's request, authorised dealer should ensure that
  - (a) the Reserve Bank has accorded final approval for the conclusion of the underlying loan transaction;
  - (b) the notional principal amount of the hedge does not exceed the outstanding amount of the foreign currency loan;
  - (c) the maturity of the hedge does not exceed the remaining life to maturity of the underlying loan;
  - (d) the Board of Directors of the corporate has approved (one-time) the financial limits and authorised designated officials to conclude the hedge transactions;
  - (e) the hedge results in a reduction of the risk of exposure and there is no net inflow of premium direct or implied in cases where option components are built into the hedge strategy;
  - (f) authorised dealers should first satisfy themselves about the eligibility, the terms of the hedge etc. before offering the products to corporates. In cases where transactions are booked abroad, the overseas entity should be the branch of an authorised dealer in India. While reporting the transaction to Reserve Bank authorised dealers should certify that all conditions stipulated above are complied with.
- (iii) Corporate may be permitted to unwind from a hedge transaction.
- (iv) Authorised dealers should also ensure that the corporate submits the

following reports/certificates

- (a) A report showing the details of the transactions concluded (booked as well as cancelled), duly countersigned by the authorised dealer, to the Regional Office of the Reserve Bank under whose jurisdiction it is situated, within a week from the date of conclusion of the transaction.
- (b) A quarterly report to the corporate's Board furnishing details of all such transactions and a copy thereof alongwith a copy of the Board's resolution, to the authorised dealer.
- (c) An annual certificate from the statutory Auditors that the company has complied with all the prescribed terms and conditions, to the authorised dealer.
- (v) Payment of upfront premia, if any, as well as all other charges incidental to

the hedge transaction may be effected by authorised dealers without the prior approval of Reserve Bank.

- (vi) Authorised dealers should ensure that the hedge transactions are allowed to be put through solely for the purpose of liability management and on no account stand alone deals be permitted.

### **Management of Bank's Assets-Liabilities**

**3C.10** Authorised dealers may use the following instruments to hedge their assets-liability portfolio after an appropriate policy in this regard is approved by their Top Management -

1. Interest rate swaps;
2. Currency swaps; and
3. Forward rate agreements.

The use of the instruments is subject to the following:

- a) The value and maturity of the hedge do not exceed that of the underlying.
- b) No 'stand alone' transactions are initiated. If a hedge becomes naked in part or full owing to shrinking of the portfolio, it may be allowed to continue till maturity and marked to market at regular intervals.
- c) The net cash flows arising out of these transactions are booked as income and expenditure. This will form part of the exchange position.

#### **Hedging of Commodity Price Exposure on International Commodity Exchanges**

**3C.11** Indian corporates seeking access to International Commodity Exchanges for hedging of commodity price exposures other than for oil and petroleum products, should approach Reserve Bank through an authorised dealer. The guidelines to be followed by authorised dealers/corporates in this regard are given in Annexure II. Authorised dealers should scrutinise the applications in accordance with the guidelines and forward the proposals with their recommendations to the Chief General Manager, Exchange Control Department, Reserve Bank of India, Central Office, Mumbai-400 001.

#### **Hedging of Gold Prices by Authorised Dealers**

**3C.12** Authorised dealers who have been permitted by Reserve Bank to accept Gold under Gold Deposit Scheme may use, to manage price risk, Exchange-traded and over-the-counter hedging products available overseas. However, while using products involving options, it may be ensured that there is no net receipt of premium, either direct or implied. Banks which are allowed to enter into forward Gold contracts in India in terms of the guidelines issued by the Department of Banking Operations and Development (DBOD), are also allowed to cover their price risk by hedging abroad in the manner indicated above.

## **PART D - RUPEE TRAVELLERS CHEQUES**

#### **Travellers Cheques Valid for Negotiation outside India**

**3D.1** The issue of rupee travellers cheques valid for negotiation outside India is regarded as equivalent to sale of foreign exchange. Authorised dealers alone may, therefore,

issue such rupee travellers cheques. Such issue of travellers cheques is subject to the regulations governing sale of foreign exchange for travel purposes.

#### **Form A 2**

**3D.2** Remittances in reimbursement of rupee travellers cheques encashed outside India will be made by authorised dealers only when the encashed travellers cheques are received

from overseas banks for collection. [Forms A2](#) will not, therefore, be required to be completed by purchasers at the time of sale of travellers cheques.

### **Appointment of Selling Agents outside India**

**3D.3** Authorised dealers may freely appoint selling agents outside India for sale of their rupee travellers cheques valid for negotiation in India or anywhere in the world. The

internationally valid rupee travellers cheques may, however, be got printed in a distinct series, format and colour vis-a-vis inland rupee travellers cheques. Authorised dealers may also suitably fix retention limits for stocking of rupee travellers cheques by their selling agents outside India.

### **Travellers Cheques Negotiable only in India**

**3D.4** Rupee travellers cheques issued solely for use within India cannot be taken or sent out of India. They cannot, therefore, be encashed outside India. Reimbursement should be

refused where such travellers cheques have been encashed outside India. Such cases should also be reported with full details to Reserve Bank.

### **Reimbursement**

**3D.5** Authorised dealers may reimburse overseas banks and others who have encashed rupee travellers cheques (encashable outside India) issued by themselves (authorised dealers) or by their selling agents.

## **PART E - FOREIGN CURRENCY NOTES AND COINS**

### **General**

**3E.1** Besides authorised dealers, certain established firms, hotels and other organisations have been granted money-changer's licences by Reserve Bank to deal in foreign

currency notes, coins and travellers cheques, subject to directions issued to them from time to time. Certain authorised dealers have also been permitted to operate exchange bureaux at important airports and seaports for the purpose of providing money changing facilities to travellers. The Memoranda of Instructions FLM and RLM contain the directions issued by Reserve Bank to 'full-fledged' and 'restricted' money changers respectively. The regulations governing purchase and sale of foreign currency notes, coins, etc. by authorised dealers and their exchange bureaux are laid down in the succeeding paragraphs.

- NOTES: A. *By its [Notification No. FERA.48/77-RB](#) dated 24th November 1977, Reserve Bank has permitted any person to receive foreign currency notes directly from out of India, provided the foreign currency so received is offered for sale to an authorised dealer within seven days of its receipt.*
- B. *By its [Notification No. FERA.158/94-RB](#) dated 24th February 1994, Reserve Bank has permitted any person to receive payment in any foreign currency/ies from any person resident outside India and who is on a visit to India for services rendered or in settlement of any lawful obligation, provided that any such foreign currency/ies in excess of U.S.\$ 2000 (US Dollars Two thousand) or its equivalent, taking into account existing foreign currency holdings, if any, is sold to an authorised dealer within seven days from its receipt.*

- C. Reserve Bank has granted general permission vide its [Notification No. FERA.127/93-RB](#) dated 22nd March 1993 to persons, who have entered into agreements with (one or more) credit card servicing banks/organisations in India, to receive payment in Indian rupees for goods and/or services sold in India against charge slips raised in Indian rupees on internationally recognised credit cards of persons resident outside India, provided that the dues are realised in foreign exchange through an authorised dealer from the overseas credit card issuing institutions. Charge slips raised on 'add-on'/supplementary/'sponsored' credit cards issued overseas in favour of persons resident in or outside India are also covered by the above Notification.
- D. In pursuance of Central Government [Notification F.No.10/22/90-NRI Cell](#) dated 17th July 1992, persons in or resident in India can hold foreign coins without any limit. Residents are also permitted to hold foreign currency/currencies upto a value equivalent of U.S.\$ 2000 for personal purpose inclusive of foreign currencies, if any, held for numismatic purpose. The amount of foreign currencies held as stated above for personal purpose can also be taken out of India. [cf. [paragraph 6G.3\(i\)](#)]

### **Purchases from Public**

- 3E.2** Authorised dealers and their exchange bureaux may freely purchase foreign currency notes and coins from any person, whether a traveller or not, against payment in rupees.

Reserve Bank has granted general permission to persons resident in India to receive foreign currency notes, directly from out of India, or to receive them from any person resident outside India while on a visit to India, for services rendered or in settlement of any lawful obligation subject to the condition that foreign currency notes so received are surrendered to an authorised dealer within seven days of its receipt or acquisition as the case may be. Authorised dealers should note that the person tendering the notes being a resident need not necessarily possess a passport and hence its production should not be insisted upon as a matter of course before encashing foreign currency notes, etc.

### **Purchases against Currency Declaration Forms**

- 3E.3** Where foreign exchange was brought into India by the tenderer against declaration on Currency Declaration [Form \(CDF\)](#), he should be asked to produce the form. The

production of [CDF](#) need not be insisted upon if the tenderer is unable, for any reason, to produce it. Where [CDF](#) is produced, particulars of purchases made should be endorsed on the reverse of the form giving number and date of the encashment certificate issued to the tenderer under the stamp and signature of authorised dealer/exchange bureau. If the entire foreign exchange covered by the [CDF](#) is encashed, [CDF](#) should not be returned to the tenderer, but retained by the authorised dealer or exchange bureau. The exchange bureaux should submit the fully used [CDFs](#) to Reserve Bank along with the monthly statement of purchases and sales of foreign currency notes/coins.

NOTE: *In cases where foreign exchange offered for sale by traveller had been originally obtained from an authorised dealer/exchange bureau/authorised money-changer in India, the repurchase thereof should on request be endorsed on the traveller's passport in red ink.*

### **Encashment Certificates**

- 3E.4** Authorised dealers and their exchange bureaux should issue encashment certificates in [form ECF](#) in all cases of purchase from the public, irrespective of whether [CDF](#)

has been submitted or not by the tenderer of foreign exchange and whether the tenderer asks for the certificate or not. These certificates should be issued on security paper if the foreign currency encashed exceeds Rs.15,000/- in

value and in other cases on letter-head of the authorised dealer (with their 'Logo' printed on it). Certificates should be serially numbered. Duplicate copies of all such certificates should be preserved in book form for production to Reserve Bank as and when required.

*NOTE: The certificate should invariably be issued on the date of purchase of the foreign currency and should be made valid for three months for the purpose of reconversion of the unspent balance, if any, into foreign exchange (see [paragraph 3E.8](#)). The validity period of the certificate for the purpose of reconversion should be prominently indicated at the top right hand corner of each certificate.*

### **Purchase on Authorised Dealers' Own Responsibility**

**3E.5** All purchases of foreign currency notes made by authorised dealers and their exchange bureaux are at their own risk and responsibility. They must accordingly make their own

arrangements for realising proceeds of surplus foreign currency notes purchased by them by sale to other authorised dealers, authorised money-changers or through their overseas branches and correspondents. Many countries operate restrictions on the import of their own (as well as foreign) currency notes, whether by travellers or on account of persons or banks resident abroad, and authorised dealers should arrange to keep themselves fully informed through their overseas branches or correspondents of these restrictions as also events like demonetisation, currency reform etc. taking place in foreign countries.

### **Import of Foreign Currency Notes**

**3E.6** When the stock of foreign currency notes with authorised dealers is not adequate for meeting their normal business requirements, they could import foreign currency notes from their overseas branches or correspondents.

### **Sales to Public under General Authority**

**3E.7** Branches/offices of authorised dealers (including their exchange bureaux at airports and seaports) may sell foreign currency notes and coins upto U.S.\$ 50 or its equivalent per person to outgoing travellers, other than (i) transit passengers who are holding foreign passports, (ii) passengers holding foreign passports and travelling on open-dated return tickets issued outside India and (iii) travellers proceeding to Bhutan and Nepal, after verifying from the travellers' passage tickets that they are about to leave India and have not availed of U.S.\$ 50 from city/town office of an authorised dealer. Authorised dealers' branches/offices in the city/town area should sell foreign currency notes/coins not earlier than 30 days from the date of departure on production of a confirmed journey ticket. All such sales should be endorsed on the travellers' passports.

**NOTE:** The facility in this paragraph may also be extended to eligible travellers who are proceeding out of India **by land route**, at the branches of authorised dealers, if any, operating at the Land Customs Stations on the concerned routes.

### **Reconversion of Indian Currency**

**3E.8** Authorised dealers and their exchange bureaux may sell foreign currency against Indian rupees held by persons who are not residents of India but are passing through

or leaving India after a visit, at the time of their departure from India, provided a bank/encashment certificate issued on the prescribed form by an authorised dealer, exchange bureau or authorised money-changer (in [form BCI](#), [ECF](#) or [ECR](#), as the case may be) is produced to show that the rupee had been acquired by sale of foreign exchange to an authorised dealer or money-changer in India and the certificate is valid for such reconversion i.e. a period of three months is not over from the date of sale of the foreign currency by the traveller. Where encashment certificates

issued by restricted money-changers in [form ECR](#) are produced, care must be taken to see that the sale of foreign currency is restricted to the amount indicated at item C of the certificate. All such sales should be endorsed on the appropriate page of the traveller's passport under the stamp and signature of authorised dealer/exchange bureau. Certificates tendered by the travellers should be retained by authorised dealer/exchange bureaux for record and production to Reserve Bank during inspection.

NOTE: *Exchange bureaux of authorised dealers operating at airports/seaports may convert, at their discretion, unspent Indian currency in the possession of persons who are not residents of India, but are passing through or leaving India after a visit, if for bona fide reasons, the person is unable to produce encashment certificate, provided the amount to be reconverted does not exceed Rs.10,000/-.*

### **Sales to Foreign Tourists**

**3E.9** Sale of foreign currency notes to tourists at offices of authorised dealers other than

their exchange bureaux operating at airports and seaports, may be made up to a limit of

U.S.\$ 500 or its equivalent, if required by them. Exchange bureaux functioning at airports and seaports may, however, sell foreign currency notes and coins without limit to foreign tourists and transit passengers against encashment of foreign currency travellers cheques, drafts, etc. or in reconversion of Indian currency at the time of their departure from India.(See [paragraph 3E.8](#)).

### **Providing foreign currency travellers cheques and notes to the Master/Captain of foreign vessels against inward remittance**

**3E.9A** The authorised dealer **through whom** remittance in the name of the Master/Captain of a foreign vessel calling at an Indian port has been received may, on proper identification with reference to passport of the Master/Captain in whose name the remittance has been received, provide foreign currency travellers cheques in the name of the Master/Captain of the ship and/or foreign currency notes for meeting the local expenses and/or making payment to members of the crew on board. Foreign currency travellers cheques/notes should, however, not be made available to the Master/Captain of foreign ship where the remittance has been received in favour of the **local agent** of the shipping company.

### **Cash Memo**

**3E.10** Authorised dealers and their exchange bureaux should issue to all travellers to whom

foreign currency is sold by them a cash memo in [form CM](#), irrespective whether it is

demanded by the traveller or not. Cash Memos should be issued only on the official printed letter-head of the authorised dealer. The cash memos may be required for production to Customs Authorities while taking the foreign currency out of India.

### **Sales to other Authorised Dealers, Exchange Bureaux and Money-changers**

**3E.11** Authorised dealers and exchange bureaux may freely dispose of their surplus foreign currency

notes and coins by sale to other authorised dealers, exchange bureaux and full-fledged

money changers. The rupee funds against sale of foreign currency notes and coins to a full-fledged money changer should, however, be received by way of a crossed cheque drawn on the latter's bank account irrespective of the amount involved. Payment in the form of Banker's Cheque/Payment Order and/or Demand Draft may be accepted provided it is accompanied by a certificate from the bank issuing the relative instrument certifying that the funds for the instruments have been received by debit to the applicant's bank account. In no circumstances should payment in respect of such sale be accepted in cash.

## **Rates of Exchange**

**3E.12** Authorised dealers and their exchange bureaux may buy from and sell to public foreign currency notes and coins at rates of exchange determined by market

conditions. Dealings in foreign currency notes and coins between authorised dealers and between authorised dealers and money-changers would also be at rates determined by market conditions.

## **Display of Exchange Rate Chart**

**3E.13** Exchange bureaux operated by authorised dealers should display, at a prominent place at or near the public counter, a chart indicating the rates for purchase of foreign currency notes and travellers cheques and for sale of foreign currency notes.

## **Regulation of Authorised Dealers' Sales to Travellers**

**3E.14** Having regard to restrictions imposed by certain foreign countries on the amount of local currency which travellers may bring into the country, authorised dealers and

their exchange bureaux should regulate their sales of foreign currency to travellers in such a manner that the travellers may not be put to any loss or inconvenience on arrival in a foreign country.

## **Export of Surplus Foreign Currency Notes and Coins**

**3E.15** Authorised dealers may freely despatch their surplus stocks of foreign currency notes and coins to their overseas branches or correspondents for realisation and credit of

proceeds to their foreign currency accounts. Authorised dealers may also export surplus foreign currency notes/coins tendered to them by the full-fledged money changers. They may also export such surplus to private money changer abroad subject to the condition that either the realisable value is credited in advance to their nostro accounts or a bank guarantee issued by an international bank of repute covering the full amount of the foreign currency notes/coins to be exported has been received. Authorised dealers should ensure that at any given point of time, the amount of foreign currency notes/ coins that will be exported does not exceed the amount of bank guarantee or the amount of remittance received in advance from the private money changer abroad.

## **Records to be maintained by Exchange Bureaux**

**3E.16** Exchange bureaux of authorised dealers should maintain proper books and accounts to record all purchase and sale transactions in foreign currency notes and coins on the

lines of provisions in paragraph 21 of Memorandum FLM. A record of sales of notes and coins to other exchange bureaux and authorised money-changers should also be separately maintained for production to Reserve Bank when called for.

## **Reporting of Transactions by Exchange Bureaux**

**3E.17** (i) Purchases and sales made by exchange bureaux of authorised dealers should be incorporated in the R Returns submitted by their link offices.

