



**RESERVE BANK OF INDIA  
Foreign Exchange Department  
Central Office  
Mumbai - 400 001**

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RBI/2010-11/526  
A.P. (DIR Series) Circular No. 60

May 16 , 2011

To

All Authorised Dealer - Category I banks

Madam / Sir

**Comprehensive Guidelines on Over the Counter (OTC)  
Foreign Exchange Derivatives and Overseas Hedging  
of Commodity Price and Freight Risks**

Attention of the Authorised Dealer Category - I (AD Category - I) banks is invited to [Notification No. FEMA 25/2000-RB dated May 3, 2000](#), as amended from time to time, on the regulations governing foreign exchange derivative contracts. Further, attention is also invited to the comprehensive guidelines on Over-the-Counter (OTC) Foreign Exchange Derivatives and Overseas Hedging of Commodity Price and Freight Risks issued vide [A.P. \(DIR Series\) Circular No. 32 dated December 28, 2010](#).

2. In view of the representation received from the industry associations and as AS 30/32 standards are yet to be notified by the Ministry of Corporate Affairs, it has been decided to amend the eligibility criteria for the users of cost reduction structures as contained under para B I (1)(v) of A.P. (DIR Series) Circular No. 32 dated December 28, 2010 as indicated below:

## **A. Existing Provisions**

“**Users** – Listed companies or unlisted companies with a minimum net worth of Rs. 100 crore ( subsidiaries or affiliates of listed companies which follow AS 30/32, having common treasuries and consolidate the accounts with parent companies are exempted from the minimum net worth criteria), which are complying with the following:

- Adoption of Accounting Standards 30 and 32. Companies which are not complying fully with AS 30 and 32 should follow the accounting treatment and disclosure standards on derivative contracts, as envisaged under AS 30/32.
- Having a risk management policy and a specific clause in the policy that allows using the type/s of cost reduction structures. ”

## **B. Amended Provisions**

“**Users** - Listed companies and their subsidiaries/joint ventures/associates having common treasury and consolidated balance sheet

or

Unlisted companies with a minimum net worth of Rs. 200 crore provided

- All such products are fair valued on each reporting date;
- The companies follow the Accounting Standards notified under section 211 of the Companies Act, 1956 and other applicable Guidance of the Institute of Chartered Accountants of India (ICAI) for such products/ contracts as also the principle of prudence which requires recognition of expected losses and non-recognition of unrealized gains;
- Disclosures are made in the financial statements as prescribed in ICAI press release dated 2<sup>nd</sup> December 2005; and

- The companies have a risk management policy with a specific clause in the policy that allows using the type/s of cost reduction structures.

(Note: The above accounting treatment is a transitional arrangement till AS 30 / 32 or equivalent standards are notified.)”

Other provisions of the circular shall remain unchanged.

3. It may also be noted that the above eligibility criteria would also be applicable to the users of OTC option strategies involving a simultaneous purchase and sale of options for overseas commodity hedging.

4. The necessary amendments to Notification No. FEMA.25/RB-2000 dated May 3, 2000 [Foreign Exchange Management (Foreign Exchange Derivatives Contracts) Regulations, 2000] are being notified separately.

5. AD Category - I banks may bring the contents of this circular to the notice of their constituents and customers concerned.

6. The directions contained in this circular have been issued under Sections 10(4) and 11(1) of the Foreign Exchange Management Act, 1999 (42 of 1999) and are without prejudice to permissions /approvals, if any, required under any other law.

Yours faithfully,

**(Meena Hemchandra)**

**Chief General Manager-in-Charge**