

**RESERVE BANK OF INDIA**  
**(Exchange Control Department)**

**NOTIFICATION**

**Mumbai, the 3<sup>rd</sup> May, 2000**

(Includes amendments up to 18<sup>th</sup> February 2020)

**Foreign Exchange Management (Foreign exchange derivative contracts)  
Regulations, 2000**

[No. FEMA.25/2000-RB](#) – In exercise of the powers conferred by clause (h) of sub-section (2) of Section 47 of the Foreign Exchange Management Act, 1999 (42 of 1999), the Reserve Bank makes the following regulations, to promote orderly development and maintenance of foreign exchange market in India, namely:

**1. Short title and commencement**

- 1) These Regulations may be called the Foreign Exchange Management (Foreign exchange derivative contracts) Regulations, 2000.
- 2) They shall come in force on the 1st day of June, 2000.

**2. Definitions**

In these Regulations, unless the context requires otherwise:

- i) 'Act' means the Foreign Exchange Management Act, 1999 (42 of 1999);
- ii) <sup>43</sup>'Authorised dealer' means a person authorised as such by Reserve Bank under subsection (1) of section 10 of the Act;
- iii) <sup>50</sup>[Deleted]
- iv) <sup>51</sup>[Deleted]
- v) <sup>44</sup>'Foreign exchange derivative contract' means a financial contract which derives its value from the change in the exchange rate of two currencies at least one of which is not Indian Rupee or which derives its value from the change in the interest rate of a foreign currency and which is for settlement at a future date, i.e. any date later than the spot settlement date, provided that contracts involving currencies of Nepal and Bhutan shall not qualify under this definition.
- va) <sup>52</sup>[Deleted]
- vi) <sup>53</sup>[Deleted]

vii) 'Schedule' means a schedule annexed to these Regulations;

viii) <sup>54</sup>[Deleted]

ix) <sup>55</sup>[Deleted]

x) The words and expressions used but not defined in these Regulations shall have the same meanings respectively assigned to them in the Act;

xi) <sup>56</sup>[Deleted]

xii) <sup>45</sup>'Contracted exposure' refers to currency risk arising on account of current and capital account transactions permissible under the Act or any rules or regulations made thereunder, that have been entered into;

xiii) <sup>46</sup>'Anticipated exposure' refers to currency risk arising on account of current and capital account transactions permissible under the Act or any rules or regulations made thereunder, that are proposed to be entered into in future;

xiv) <sup>47</sup>'Currency risk' means the potential for loss on account of movement in exchange rates of Rupee against a foreign currency or on account of movement in exchange rates of one foreign currency against another or on account of movement of interest rate applicable to a foreign currency;

xv) <sup>48</sup>'Hedging' means the activity of undertaking a foreign exchange derivative transaction to manage currency risk;

xvi) <sup>49</sup>'Exchange traded currency derivatives' means a standardised foreign exchange derivative contract traded on a recognised stock exchange to buy or sell one currency against another on a specified future date, at a price specified on the date of contract.

### **3. Prohibition**

Save as otherwise provided in these Regulations, no person in India shall enter into a foreign exchange derivative contract <sup>21</sup>or currency futures without the prior permission of the Reserve Bank.

### **4. <sup>57</sup>Permission to enter into a foreign exchange derivative contract**

A person, whether resident in India or resident outside India, may enter into a foreign exchange derivative contract or exchange traded currency derivative contract in accordance with provisions contained in Schedule I of this regulation

### **5. <sup>58</sup>[Deleted]**

**5A.** <sup>59</sup>[Deleted]

**5B.** <sup>60</sup>[Deleted]

**5C.** <sup>61</sup>[Deleted]

## **6.** <sup>14</sup>**Commodity Hedge**

i) Reserve Bank may, on an application made in accordance with the procedure specified in Schedule III permit, subject to such terms and conditions as it may consider necessary, a person resident in India to enter into a contract in a commodity exchange or market outside India to hedge the price risk in a commodity.

ii) Notwithstanding anything contained in sub-regulation (i), an authorised dealer bank <sup>30</sup>[Deleted] may permit a company, resident in India <sup>20</sup>[Deleted], to enter into contracts in a commodity exchange or market outside India, to hedge the price risk in a commodity <sup>19</sup>[Deleted] subject to such terms and conditions as may be stipulated by the Reserve Bank from time to time.

<sup>31</sup>[Deleted]

<sup>32</sup>[Deleted]

<sup>33</sup>iii) Notwithstanding anything contained in this regulation a unit in the Special Economic Zone (SEZ) may enter into contracts in a commodity exchange or market outside India to hedge the price risk of the commodity of export/import, subject to the condition that such contract is entered into on a 'stand-alone' basis.

Explanation: The term 'stand-alone' means that the unit in the SEZ is completely isolated from financial contracts with its parent or subsidiary in the mainland or within the SEZ(s) as far as its import/export transactions are concerned.

## **6A.** <sup>22</sup>**Freight Hedge**

i) Reserve Bank may, on an application made in accordance with such procedure as may be directed by Reserve Bank, permit a person resident in India, subject to such terms and conditions as may be considered necessary, to enter in to a freight derivative contract in an exchange or a market outside India to hedge the freight risk such person is exposed to.

ii) Notwithstanding anything contained in sub regulation (i) an authorised dealer in India<sup>34</sup> specially authorised in that behalf by the Reserve Bank may permit an oil refining company or a shipping company, resident in India, to enter in to freight derivative contracts in an exchange or market outside India, to hedge the freight risk which the company is exposed to, subject to such terms and conditions as may be stipulated by the Reserve Bank from time to time.

Provided that such authorised dealer category-I bank shall exercise the authority subject to directions and guidelines issued to them by the reserve Bank in that behalf.

### **7. Remittance related to a Foreign Exchange Derivative contract**

An authorised dealer in India may remit outside India foreign exchange in respect of a transaction, undertaken in accordance with these Regulations, in the following cases, namely:

- a) Option premium payable by a person resident in India to a person resident outside India;
- b) Remittance by a person resident in India of amount incidental to a foreign exchange derivative contract entered into in accordance with Regulation 4;
- c) Remittance by a person resident outside India of amount incidental to a foreign exchange derivative contract entered into in accordance with<sup>62</sup> Regulation 4;
- d) Any other remittance related to a foreign exchange derivative contract approved by Reserve Bank.

### **8. <sup>16</sup>Remittance related to a Commodity Derivative Contract**

An authorised dealer in India may remit outside India foreign exchange in respect of a transaction, undertaken in accordance with these Regulations, in the following cases, namely:

- a) Option premium payable by a person resident in India to a person resident outside India;
- b) Remittance by a person resident in India of amount incidental to a commodity derivative contract entered into in accordance with Regulation 6;
- c) Any other remittance related to a commodity derivative contract approved by Reserve Bank.

**Footnotes:**

i) The principal Regulations [[Notification no. FEMA 25/2000-RB dated May 3, 2000](#)] were published in the Gazette of India [Extraordinary, Part II–Section 3–Sub-Section (i)] vide G.S.R.411(E) dated May 08, 2000 and subsequently amended vide:

- 1) [Notification no. FEMA 28/2000-RB dated September 5, 2000](#) [Foreign Exchange Management (Foreign exchange derivative contracts) (Amendment) Regulations, 2000] published in the Gazette of India [Extraordinary, Part II–Section 3–Sub-Section (i)] vide G.S.R.756(E) dated 28.09.2000.
- 2) [Notification no. FEMA 54/2002-RB dated March 5, 2002](#) [Foreign Exchange Management (Foreign exchange derivative contracts) (Amendment) Regulations, 2002] published in the Gazette of India [Extraordinary, Part II–Section 3–Sub-Section (i)] vide G.S.R.264(E) dated 28.09.2000.
- 3) Notification no. FEMA 66/2002-RB dated July 27, 2002 [Foreign Exchange Management (Foreign exchange derivative contracts) (Second Amendment) Regulations, 2002] published in the Gazette of India [Extraordinary, Part II–Section 3–Sub-Section (i)] vide G.S.R.579(E) dated 19.08.2002.
- 4) Notification no. FEMA 70/2002-RB dated August 26, 2002 [Foreign Exchange Management (Foreign exchange derivative contracts) (Third Amendment) Regulations, 2002] published in the Gazette of India [Extraordinary, Part II–Section 3–Sub-Section (i)] vide G.S.R.222(E) dated 18.03.2003.
- 5) Notification no. FEMA 81/2003-RB dated January 8, 2003 [Foreign Exchange Management (Foreign exchange derivative contracts) (Amendment) Regulations, 2003] published in the Gazette of India [Extraordinary, Part II–Section 3–Sub-Section (i)] vide G.S.R.532(E) dated 09.07.2003.
- 6) Notification no. FEMA 101/2003-RB dated October 03, 2003 [Foreign Exchange Management (Withdrawal of General Permission to Overseas Corporate Bodies (OCBs)) Regulations, 2003] published in the Gazette of India [Extraordinary, Part II–Section 3–Sub-Section (i)] vide G.S.R.848(E) dated 29.10.2003.
- 7) Notification no. FEMA 104/2003-RB dated October 21, 2003 [Foreign Exchange Management (Foreign exchange derivative contracts) (Third Amendment) Regulations, 2003] published in the Gazette of India [Extraordinary, Part II–Section 3–Sub-Section (i)] vide G.S.R.880(E) dated 11.11.2003.
- 8) [Notification no. FEMA 105/2003-RB dated October 21, 2003](#) [Foreign Exchange Management (Foreign exchange derivative contracts) (Fourth Amendment) Regulations, 2003] published in the Gazette of India [Extraordinary, Part II–Section 3–Sub-Section (i)] vide G.S.R.881(E) dated 11.11.2003.
- 9) [Notification no. FEMA 143/2005-RB dated December 19, 2005](#) [Foreign Exchange Management (Foreign exchange derivative contracts) (Amendment) Regulations, 2005] published in the Gazette of India [Extraordinary, Part II–Section 3–Sub-Section (i)] vide G.S.R.750(E) dated 28.12.2005.

- 10) [Notification no. FEMA 147/2006-RB dated March 16, 2006](#) [Foreign Exchange Management (Foreign exchange derivative contracts) (Amendment) Regulations, 2006] published in the Gazette of India [Extraordinary, Part II–Section 3–Sub-Section (i)] vide G.S.R.222(E) dated 19.04.2006.
- 11) [Notification no. FEMA 148/2006-RB dated March 16, 2006](#) [Foreign Exchange Management (Foreign exchange derivative contracts) (Second Amendment) Regulations, 2006] published in the Gazette of India [Extraordinary, Part II–Section 3–Sub-Section (i)] vide G.S.R.223(E) dated 19.04.2006.
- 12) [Notification no. FEMA 159/2007-RB dated September 17, 2007](#) [Foreign Exchange Management (Foreign exchange derivative contracts) (Amendment) Regulations, 2007] published in the Gazette of India [Extraordinary, Part II–Section 3–Sub-Section (i)] vide G.S.R.760(E) dated 07.12.2007.
- 13) [Notification no. FEMA 177/2008-RB dated August 1, 2008](#) [Foreign Exchange Management (Foreign exchange derivative contracts) (Amendment) Regulations, 2008] published in the Gazette of India [Extraordinary, Part II–Section 3–Sub-Section (i)] vide G.S.R.577(E) dated 05.08.2008.
- 14) [Notification no. FEMA 191/2009-RB dated May 20, 2009](#) [Foreign Exchange Management (Foreign exchange derivative contracts) (Amendment) Regulations, 2009] published in the Gazette of India [Extraordinary, Part II–Section 3–Sub-Section (i)] vide G.S.R.440(E) dated 23.06.2009.
- 15) [Notification no. FEMA 201/2009-RB dated November 5, 2009](#) [Foreign Exchange Management (Foreign exchange derivative contracts) (Second Amendment) Regulations, 2009] published in the Gazette of India [Extraordinary, Part II–Section 3–Sub-Section (i)] vide G.S.R.895(E) dated 14.12.2009.
- 16) [Notification no. FEMA 210/2010-RB dated July 19, 2010](#) [Foreign Exchange Management (Foreign exchange derivative contracts) (Amendment) Regulations, 2010] published in the Gazette of India [Extraordinary, Part II–Section 3–Sub-Section (i)] vide G.S.R.635(E) dated 27.07.2010.
- 17) [Notification no. FEMA 226/2012-RB dated March 16, 2012](#) [Foreign Exchange Management (Foreign exchange derivative contracts) (Amendment) Regulations, 2012] published in the Gazette of India [Extraordinary, Part II–Section 3–Sub-Section (i)] vide G.S.R.608(E) dated 03.08.2012.
- 18) [Notification no. FEMA 240/2012-RB dated September 25, 2012](#) [Foreign Exchange Management (Foreign exchange derivative contracts) (Second Amendment) Regulations, 2012] published in the Gazette of India [Extraordinary, Part II–Section 3–Sub-Section (i)] vide G.S.R.799(E) dated 30.10.2012.
- 19) Notification no. FEMA 260/2013-RB dated February 18, 2013 [[Foreign Exchange Management \(Foreign exchange derivative contracts\) \(Amendment\) Regulations, 2013](#)] published in the Gazette of India [Extraordinary, Part II–Section 3–Sub-Section (i)] vide G.S.R.330(E) dated 23.05.2013.
- 20) [Notification no. FEMA 303/2014-RB dated May 21, 2014](#) [Foreign Exchange Management (Foreign exchange derivative contracts) (Amendment) Regulations, 2014] published in the Gazette of India [Extraordinary, Part II–Section 3–Sub-Section (i)] vide G.S.R.374(E) dated 02.06.2014.

- 21) Notification no. FEMA 365/2016-RB dated June 1, 2016 [Foreign Exchange Management (Foreign exchange derivative contracts) (Amendment) Regulations, 2016] published in the Gazette of India [Extraordinary, Part II–Section 3–Sub-Section (i)] vide G.S.R.571(E) dated 01.06.2016.
- 22) Notification no. FEMA 378/2016-RB dated October 25, 2016 [Foreign Exchange Management (Foreign exchange derivative contracts) (Amendment) Regulations, 2016] published in the Gazette of India [Extraordinary, Part II–Section 3–Sub-Section (i)] vide G.S.R.1005(E) dated 25.10.2016.
- 23) Notification no. FEMA 384/2017-RB dated March 17, 2017 [Foreign Exchange Management (Foreign exchange derivative contracts) (Amendment) Regulations, 2017] published in the Gazette of India [Extraordinary, Part II–Section 3–Sub-Section (i)] vide G.S.R.260(E) dated 17.03.2017.
- 24) Notification no. FEMA 388/2017-RB dated October 24, 2017 [Foreign Exchange Management (Foreign exchange derivative contracts) (Second Amendment) Regulations, 2017] published in the Gazette of India [Extraordinary, Part II–Section 3–Sub-Section (i)] vide G.S.R.1324(E) dated 24.10.2017.
- 25) Notification no. FEMA 398/RB-2020 [Foreign Exchange Management (Foreign exchange derivative contracts) (First Amendment) Regulations, 2020] dated February 18, 2020 published in the Gazette of India [Extraordinary, Part III–Section 4] vide [Gazette ID CG-MH-E-06032020-216549 dated 03.03.2020](#).

**Schedule – I**  
**(See Regulation 4)**

<sup>63</sup>**Permissible foreign exchange derivative contract**

<sup>64</sup>1. A person, whether resident in India or resident outside India, may enter into a foreign exchange derivative contract with an authorised dealer. Contracts involving Rupee subject to the following condition(s):

i) That such contracts shall be for the purpose of hedging a contracted or anticipated exposure

Provided that contracts not based on a contracted or anticipated exposure may be undertaken, as may be permitted by the Reserve Bank of India

Provided further that transactions that involve the Rupee but are settled by delivery of a foreign currency shall be undertaken only by an authorised dealer or a person not resident in India and such other persons as may be permitted by the Reserve Bank of India, in terms of the directions issued in this regard by the Reserve Bank of India.

ii) That such person shall share the details of the exposure with the authorised dealer when called upon to do so by the authorised dealer.

2. A person may enter into an exchange traded currency derivative contract on an exchange recognised under section 4 of the Securities Contract (Regulation) Act, 1956. Contracts involving Rupee shall be subject to the following condition(s):

i) That such contracts shall be for the purpose of hedging a contracted exposure as defined in these regulations.

ii) That such person shall designate an Authorised Dealer in India for monitoring of their positions taken beyond such position limits as may be prescribed by the Reserve Bank of India to an exchange.

iii) That such person shall share the details of the contracted exposure with the Authorised Dealer when called upon to do so by the dealer.



## **Schedule – II**

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**Schedule – III**  
**(See Regulation 6)**

**Procedure for Application for Approval for Hedging of Commodity Price Risk**

1. A person resident in India, engaged in export-import trade <sup>12</sup>or as permitted by the Reserve Bank, who seeks to hedge price risk in respect of any commodity including Gold, <sup>2[Deleted]</sup>may submit an application to the International Banking Division of an authorised dealer giving the following details:

- i) A brief description of the hedging strategy proposed, namely:
  - a) Description of business activity and nature of risk;
  - b) Instruments proposed to be used for hedging;
  - c) Names of commodity exchange and brokers through whom the risk is proposed to be hedged and credit lines proposed to be availed. The name and address of the regulatory authority in the country concerned may also be given;
  - d) Size/average tenure of exposure and/or total turnover in a year, together with expected peak positions thereof and the basis of calculation.
- ii) Copy of the Risk Management Policy approved by the Management covering:
  - a) Risk identification;
  - b) Risk measurements;
  - c) Guidelines and procedures to be followed with respect to revaluation and/or monitoring of positions;
  - d) Names and designations of the officials authorised to undertake transactions and limits.
- iii) Any other relevant information.

2. <sup>15</sup>Authorised dealer, after ensuring that the application is supported by documents indicated in paragraph 1, as may be relevant, may forward the application with its recommendations to the Reserve Bank of India, where applicable. In all other cases, the application may be forwarded by the company concerned to an authorised dealer bank authorised to grant permission under sub-regulation (ii) of regulation 6, for consideration.

## Endnotes:

<sup>1</sup>Inserted w.e.f. 03.05.2000 vide notification no. FEMA 240/2012-RB dated September 25, 2012.

<sup>2</sup>Deleted w.e.f. 05.09.2000 vide notification no. FEMA 28/2000-RB dated September 5, 2000. Prior to its deletion, in Schedule III, paragraph 1, the words read as “but excluding oil and petroleum products”.

<sup>3</sup>Substituted w.e.f. 09.04.2002 vide notification no. FEMA 54/2002-RB dated March 5, 2002. Prior to its substitution, in Schedule I, paragraph A(1), sub-paragraph (a) read as “the authorised dealer through verification of documentary evidence is satisfied about the genuineness of the underlying exposure,”

<sup>4</sup>Inserted w.e.f. 19.08.2002 vide notification no. FEMA 66/2002-RB dated July 27, 2002.

<sup>5</sup>Substituted w.e.f. 18.03.2003 vide notification no. FEMA 70/2002-RB dated August 26, 2002. Prior to its substitution, in Schedule I, paragraph A(1), sub-paragraph (h) read as:

“(h) contracts involving rupee as one of the currencies, once cancelled shall not be rebooked although they can 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 ongoing rates,”

<sup>6</sup>Inserted w.e.f. 07.07.2003 vide notification no. FEMA 143/2005-RB dated December 19, 2005.

<sup>7</sup>Substituted w.e.f. 09.07.2003 vide notification no. FEMA 81/2003-RB dated January 8, 2003. Prior to its substitution, in Schedule II, paragraph (1), sub-paragraph (a) read as:

“(a) the value of the hedge does not exceed the current market value in respect of investments in debt instruments,”

<sup>8</sup>Deleted w.e.f. 09.07.2003 vide notification no. FEMA 81/2003-RB dated January 8, 2003. Prior to its deletion, in Schedule II, paragraph (1), sub- paragraph (b) read as:

“(b) the value of the hedge does not exceed 15% of the market value of the equity as at the close of business on 31st March 1999, converted at the rate of US\$ 1 = Rs. 42.43 plus the increase in market value/inflows after 31st March 1999 provided that the forward cover once taken shall be allowed to continue as long as it does not exceed the value of the underlying investment,”

<sup>9</sup>Substituted w.e.f. 09.07.2003 vide notification no. FEMA 81/2003-RB dated January 8, 2003. Prior to its substitution, in Schedule II, paragraph (3) read as:

“(3) 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.”

<sup>10</sup>Deleted w.e.f. 23.10.2003 vide notification no. FEMA 101/2003-RB dated October 03, 2003. Prior to its deletion, in Schedule II, paragraph 2, the words read as “or Overseas Corporate Body”.

<sup>11</sup>Inserted w.e.f. 11.11.2003 vide notification no. FEMA 104/2003-RB dated October 21, 2003.

<sup>12</sup>Inserted w.e.f. 11.11.2003 vide notification no. FEMA 105/2003-RB dated October 21, 2003.

<sup>13</sup>Substituted w.e.f. 23.06.2005 vide notification no. FEMA 147/2006-RB dated March 16, 2006. Prior to its substitution, in Schedule I, in paragraph (A)(1), sub-paragraph (h), the words read as:

“(h) <sup>5</sup>contracts involving the rupee as one of the currencies, once cancelled, shall not be re-booked except as otherwise permitted by the Reserve Bank from time to time although they can be rolled over at ongoing rates on or before maturity. Contracts covering export transactions may be cancelled, re-booked or rolled over at on-going rates without any restrictions.”

<sup>14</sup>Substituted w.e.f. 23.07.2005 vide notification no. FEMA 148/2006-RB dated March 16, 2006. Prior to its substitution, Regulation 6, read as:

“(6) Commodity Hedge - Reserve Bank may, on an application made in accordance with the procedure specified in Schedule III, permit subject to such terms and conditions as it may consider necessary, a person resident in India to enter into a contract in a commodity exchange or market outside India to hedge price risk in a commodity.

<sup>4</sup>Provided that a unit in the Special Economic Zone (SEZ) may, without prior approval of the Reserve Bank, enter into a contract in a commodity exchange or market outside India to hedge the price risk in the commodity on export/import, subject to the condition that such contract is entered into on a "stand-alone" basis

Explanation: The term "stand-alone" means that the unit in the SEZ is completely isolated from financial contracts with its parent or subsidiary in the mainland or within the SEZ(s) as far as its import/export transactions are concerned.”

<sup>15</sup>Substituted w.e.f. 23.07.2005 vide notification no. FEMA 148/2006-RB dated March 16, 2006. Prior to its substitution, in Schedule III, paragraph 2 read as:

“(2) Authorised dealer, after ensuring that the application is supported by documents indicated in paragraph 1, as may be relevant, may forward the application with its recommendations to the Reserve Bank of India, where applicable. In all other cases, the application may be forwarded by the company concerned to an authorised dealer bank authorised to grant permission under sub-regulation (ii) of regulation 6, for consideration.”

<sup>16</sup>Inserted w.e.f. 23.07.2005 vide notification no. FEMA 159/2007-RB dated September 17, 2007.

<sup>17</sup>Inserted w.e.f. 13.12.2006 vide notification no. FEMA 159/2007-RB dated September 17, 2007.

<sup>18</sup>Substituted w.e.f. 08.02.2007 vide notification no. FEMA 159/2007-RB dated September 17, 2007. Prior to its substitution, in Schedule II, in paragraph 1, sub-paragraph (b), the words read as:

“(b) <sup>8</sup>Forward contracts once cancelled shall not be rebooked but may be rolled over on or before the maturity,”

<sup>19</sup>Deleted w.e.f. 31.05.2007 vide notification no. FEMA 159/2007-RB dated September 17, 2007. Prior to its deletion, in Regulation 6, sub-regulation (ii), the words read as “imported/exported by it”.

<sup>20</sup>Deleted w.e.f. 03.06.2008 vide notification no. FEMA 201/2009-RB dated November 5, 2009. Prior to its deletion, in Regulation 6, in sub-regulation (ii), the words read as “and listed on a recognised stock exchange”.

<sup>21</sup>Inserted w.e.f. 05.08.2008 vide notification no. FEMA 177/2008-RB dated August 1, 2008.

<sup>22</sup>Inserted w.e.f. 04.02.2009 vide notification no. FEMA 191/2009-RB dated May 20, 2009.

<sup>23</sup>Substituted w.e.f. 27.07.2010 vide notification no. FEMA 210/2010-RB dated July 19, 2010. Prior to its substitution, Regulation 5A read as:

“5A Permission to a person resident in India to enter into currency futures

A person resident in India may enter into a currency futures in a stock exchange recognised under section 4 of the Securities Contract (Regulation) Act, 1956, to hedge an exposure to risk or otherwise, subject to such terms and conditions as may be set forth in the directions issued by the Reserve Bank of India from time to time.”

<sup>24</sup>Deleted w.e.f. 01.02.2011 vide notification no. FEMA 240/2012-RB dated September 25, 2012. Prior to its deletion, in Schedule I, in paragraph B(3), sub-paragraph (1), the words read as “Provided that in respect of cost effective risk reduction strategies like range forwards, ratio range forwards or any other variable by whatever name called there shall not be any net inflow of premium.”

<sup>25</sup>Inserted w.e.f. 01.02.2011 vide notification no. FEMA 240/2012-RB dated September 25, 2012.

<sup>26</sup>Inserted w.e.f. 20.05.2011 vide notification no. FEMA 226/2012-RB dated March 16, 2012.

<sup>27</sup>Inserted w.e.f. 21.07.2011 vide notification no. FEMA 226/2012-RB dated March 16, 2012.

<sup>28</sup>Deleted w.e.f. 15.12.2011 vide notification no. FEMA 260/2013-RB dated February 18, 2013. Prior to its deletion, in Schedule I, paragraph (A)(1), sub-paragraph (h), the words read as,

“(h) <sup>13</sup> Such contracts booked by residents to hedge current account transactions, regardless of tenor, not being those booked on past performance basis without documents or booked to hedge transactions denominated in foreign currency but settled in Indian Rupee, may be cancelled and rebooked freely at ongoing rates. Contracts covering export transactions may also be cancelled, rebooked or rolled over at ongoing rates without any restriction.”

<sup>29</sup>Inserted w.e.f. 29.12.2011 vide notification no. FEMA 260/2013-RB dated February 18, 2013.

<sup>30</sup>Deleted w.e.f. 17.01.2012 vide notification no. FEMA 260/2013-RB dated February 18, 2013. Prior to its deletion, in Regulation 6, sub-regulation (ii), the words read as “specially authorised in that behalf by the Reserve Bank”.

<sup>31</sup>Deleted w.e.f. 17.01.2012 vide notification no. FEMA 260/2013-RB dated February 18, 2013. Prior to its deletion, in Regulation 6, sub-regulation (ii), the words read as “Provided that such authorised dealer bank shall exercise such authority subject to the directions and guidelines issued to them by the Reserve Bank in that behalf”.

<sup>32</sup>Deleted w.e.f. 17.01.2012 vide notification no. FEMA 260/2013-RB dated February 18, 2013. Prior to its deletion, in Regulation 6, sub-regulation (iii), the words read as:

“(iii) An authorised dealer bank may apply to the Reserve Bank of India, Foreign Exchange Department for grant of authority to grant permission under sub-regulation (ii) to its customers.”

<sup>33</sup>Renumbered w.e.f. 17.01.2012 vide notification no. FEMA 260/2013-RB dated February 18, 2013.

<sup>34</sup>Substituted w.e.f. 17.01.2012 vide notification no. FEMA 260/2013-RB dated February 18, 2013. Prior to its substitution, in Regulation 6A, in sub-regulation (ii), the words read as “specially authorised by the Reserve Bank under sub-regulation (ii) of Regulation 6”.

<sup>35</sup>Inserted w.e.f. 16.07.2012 vide notification no. FEMA 260/2013-RB dated February 18, 2013.

<sup>36</sup>Inserted w.e.f. 12.09.2012 vide notification no. FEMA 260/2013-RB dated February 18, 2013.

<sup>37</sup>Inserted w.e.f. 02.06.2014 vide notification No. FEMA 303/2014-RB dated May 21, 2014.

<sup>38</sup>Substituted w.e.f. 01.06.2016 vide notification no. FEMA 365/2016-RB dated June 1, 2016. Prior to its substitution, Regulation 4 read as:

“(4) A person resident in India may enter into a foreign exchange derivative contract in accordance with provisions contained in Schedule I, to hedge an exposure to risk in respect of a transaction permissible under the Act, or rules or regulations or directions or orders made or issued thereunder”.

<sup>39</sup>Inserted w.e.f. 01.06.2016 vide notification no. FEMA 365/2016-RB dated June 1, 2016.

<sup>40</sup>Substituted w.e.f. 25.10.2016 vide notification no. FEMA 378/2016-RB dated October 25, 2016. Prior to its substitution, Regulation 5B, read as:

“(5B) <sup>37</sup>Permission to a person resident outside India to enter into currency futures or exchange traded currency options

A person resident outside India who is eligible to invest in securities as laid down in Schedules 2, 5, 7 and 8 of Foreign Exchange Management (Transfer or Issue of Security by a person resident outside India) Regulations, 2000 (FEMA 20/2000-RB dated May 3, 2000 (GSR 406 (E) dated May 3, 2000)) as amended from time to time, may enter into currency futures or exchange traded currency options contracts on a stock

exchange recognised under section 4 of Securities Contracts (Regulations) Act, 1956 to hedge an exposure to risk, subject to such terms and conditions as may be set forth in the directions issued by the Reserve Bank of India from time to time.”

<sup>41</sup>Inserted w.e.f. 17.03.2017 vide notification no. FEMA 384/2017-RB dated March 17, 2017.

<sup>42</sup>Inserted w.e.f. 24.10.2017 vide notification no. FEMA 388/2017-RB dated October 24, 2017.

<sup>43</sup>Substituted w.e.f. 03.03.2020 vide notification no. FEMA 398/RB-2020 dated February 18, 2020. Prior to its substitution, in Regulation 2, sub-regulation (ii) read as:

“(ii) 'Authorised dealer' means a person authorised as authorised dealer under sub-section (1) of section 10 of the Act;”

<sup>44</sup>Substituted w.e.f. 03.03.2020 vide notification no. FEMA 398/RB-2020 dated February 18, 2020. Prior to its substitution, in Regulation 2, sub-regulation (v) read as:

“(v) 'Foreign exchange derivative contract' means a financial transaction or an arrangement in whatever form and by whatever name called, whose value is derived from price movement in one or more underlying assets, and includes,

- (a) a transaction which involves at least one foreign currency other than currency of Nepal or Bhutan, or
- (b) a transaction which involves at least one interest rate applicable to a foreign currency not being a currency of Nepal or Bhutan , or
- (c) a forward contract,

but does not include foreign exchange transaction for Cash or Tom or Spot deliveries;”

<sup>45</sup>Inserted w.e.f. 03.03.2020 vide notification no. FEMA 398/RB-2020 dated February 18, 2020.

<sup>46</sup>Inserted w.e.f. 03.03.2020 vide notification no. FEMA 398/RB-2020 dated February 18, 2020

<sup>47</sup>Inserted w.e.f. 03.03.2020 vide notification no. FEMA 398/RB-2020 dated February 18, 2020

<sup>48</sup>Inserted w.e.f. 03.03.2020 vide notification no. FEMA 398/RB-2020 dated February 18, 2020

<sup>49</sup>Inserted w.e.f. 03.03.2020 vide notification no. FEMA 398/RB-2020 dated February 18, 2020

<sup>50</sup>Deleted w.e.f. 03.03.2020 vide notification no. FEMA 398/RB-2020 dated February 18, 2020. Prior to its deletion, in Regulation 2, sub-regulation (iii) read as:

“(iii) 'Cash delivery' means delivery of foreign exchange on the day of transaction;”

<sup>51</sup>Deleted w.e.f. 03.03.2020 vide notification no. FEMA 398/RB-2020 dated February 18, 2020. Prior to its deletion, in Regulation 2, sub-regulation (iv) read as:

“(iv) 'Forward contract' means a transaction involving delivery, other than Cash or Tom or Spot delivery, of foreign exchange;”

<sup>52</sup>Deleted w.e.f. 03.03.2020 vide notification no. FEMA 398/RB-2020 dated February 18, 2020. Prior to its deletion, in Regulation 2, sub-regulation (va) read as:

“(va) <sup>21</sup>'Currency Futures' means a standardised foreign exchange derivative contract traded on a recognised stock exchange to buy or sell one currency against another on a specified future date, at a price specified on the date of contract, but does not include a forward contract.”

<sup>53</sup>Deleted w.e.f. 03.03.2020 vide notification no. FEMA 398/RB-2020 dated February 18, 2020. Prior to its deletion, in Regulation 2, sub-regulation (vi) read as:

“(vi) 'Registered Foreign Institutional Investor (FII)' means a foreign institutional investor registered with Securities and Exchange board of India;”

<sup>54</sup>Deleted w.e.f. 03.03.2020 vide notification no. FEMA 398/RB-2020 dated February 18, 2020. Prior to its deletion, in Regulation 2, sub-regulation (viii) read as:

“(viii) 'Spot delivery' means delivery of foreign exchange on the second working day after the day of transaction;”

<sup>55</sup>Deleted w.e.f. 03.03.2020 vide notification no. FEMA 398/RB-2020 dated February 18, 2020. Prior to its deletion, in Regulation 2, sub-regulation (ix) read as:

“(ix) 'Tom delivery' means delivery of foreign exchange on a working day next to the day of transaction;”

<sup>56</sup>Deleted w.e.f. 03.03.2020 vide notification no. FEMA 398/RB-2020 dated February 18, 2020. Prior to its deletion, in Regulation 2, sub-regulation (xi), read as:

“(xi) <sup>35</sup>Qualified Foreign Investor (QFI)' means a person resident outside India as defined in Regulation 2 of FEMA 20/RB-2000 dated May 3, 2000.”

<sup>57</sup>Substituted w.e.f. 03.03.2020 vide notification no. FEMA 398/RB-2020 dated February 18, 2020. Prior to its substitution, Regulation 4 read as:

“4. Permission to a person resident in India to enter into a Foreign Exchange Derivative contract

<sup>38</sup>A person resident in India may enter into a foreign exchange derivative contract in accordance with provisions contained in Schedule I, to hedge an exposure to risk or otherwise, in respect of a transaction permissible under the Act, or rules or regulations or directions or orders made or issued thereunder.”

<sup>58</sup>Deleted w.e.f. 03.03.2020 vide notification no. FEMA 398/RB-2020 dated February 18, 2020. Prior to its deletion, Regulation 5 read as follows:

“5. Permission to a person resident outside India to enter into a Foreign Exchange Derivative contract:-

A person resident outside India may enter into a foreign exchange derivative contract with a person resident in India in accordance with provisions contained in Schedule II, to hedge an exposure to risk in respect of a transaction permissible under the Act, or rules or regulations or directions or orders made or issued thereunder.”



<sup>59</sup>Deleted w.e.f. 03.03.2020 vide notification no. FEMA 398/RB-2020 dated February 18, 2020. Prior to its deletion, Regulation 5A read as:

“5A. <sup>21 23</sup>Permission to a person resident in India to enter into currency futures or currency options:-

A person resident in India may enter into currency futures or currency options on a stock exchange recognised under Section 4 of the Securities Contract (Regulation) Act, 1956, to hedge an exposure to risk or otherwise, subject to such terms and conditions as may be set forth in the directions issued by the Reserve Bank of India from time to time.”

<sup>60</sup>Deleted w.e.f. 03.03.2020 vide notification no. FEMA 398/RB-2020 dated February 18, 2020. Prior to its deletion, Regulation 5B read as:

“5B. <sup>40</sup>Permission to a person resident outside India to enter into exchange traded currency derivatives

A person resident outside India who is exposed to Rupee currency risk arising out of:

(i) a permitted current account transaction or

(ii) a Rupee denominated asset held by him or a Rupee denominated liability incurred by him, as permitted under FEMA, 1999,

may transact currency derivatives contracts on a stock exchange recognised under section 4 of Securities Contracts (Regulations) Act, 1956 to hedge such exposure, subject to such terms and conditions as may be set forth in the directions issued by the Reserve Bank of India from time to time.”

<sup>61</sup>Deleted w.e.f. 03.03.2020 vide notification no. FEMA 398/RB-2020 dated February 18, 2020. Prior to its deletion, Regulation 5C read as:

5C. <sup>42</sup>Permission to resident and non-resident entities to undertake hedge transactions with simplified procedures:-

Notwithstanding anything contained in paras 4, 5, 5A and 5B, resident entities with foreign currency exposures and non- resident entities with rupee exposures, other than individuals, may hedge underlying exchange rate risk arising out of transactions permitted under Foreign Exchange Management Act, 1999, or rules or regulations or directions or orders made or issued thereunder, subject to such simplified terms and conditions as may be set forth in the directions.”

<sup>62</sup>Substituted w.e.f. 03.03.2020 vide notification no. FEMA 398/RB-2020 dated February 18, 2020. Prior to its substitution, in Regulation 7, sub-regulation (c) read as "Regulation 5".

<sup>63</sup>Substituted w.e.f. 03.03.2020 vide notification no. FEMA 398/RB-2020 dated February 18, 2020. Prior to its substitution, the title of Schedule I read as "Foreign Exchange Derivative Contract permissible for a Person Resident in India."

<sup>64</sup>Substituted w.e.f. 03.03.2020 vide notification no. FEMA 398/RB-2020 dated February 18, 2020. Prior to its substitution, Schedule I reads as:

“A. Forward Contract:-

1. 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 thereunder, subject to following terms and conditions:

- a) <sup>3</sup>The authorised dealer through verification of documentary evidence is satisfied about the genuineness of the underlying exposure or as otherwise permitted by the Reserve Bank from time to time;
- 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)/<sup>1</sup>American Depository Receipts (ADRs) the issue price has been finalized;
- 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 be however, be rolled-over;
- h) <sup>5 13 28</sup>[Deleted]
- i) 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;
- j) <sup>11</sup>A person resident in India may subject to the terms and conditions prescribed by Reserve Bank of India may enter into a forward contract with an authorised dealer in India to hedge an exposure to exchange risk in respect of transactions denominated in foreign currency but settled in Indian rupees.

AA. <sup>17</sup>Forward Contract in respect of Economic Exposure:-

A person resident in India may, subject to such terms and conditions as may be stipulated by the Reserve Bank from time to time, enter into a forward contract with an authorised dealer in India to hedge an economic exposure to exchange risk in respect of such transactions as may be prescribed by the Reserve Bank from time to time.

B. Contract other than Forward Contract:-

2. (1) A person resident in India who has borrowed foreign exchange in accordance with the provisions of Foreign Exchange Management (Borrowing and Lending in Foreign Exchange) Regulations, 2000, may enter into an Interest rate swap or Currency swap or Coupon Swap or Foreign Currency Option or Interest rate cap or collar (purchases) or Forward Rate Agreement (FRA) contract with an authorised dealer in India

or with a branch outside India of an authorised dealer for hedging his loan exposure and unwinding from such hedges.

Provided that:

- a) The contract does not involve rupee;
- b) The Reserve Bank has accorded final approval for borrowing in foreign currency;
- c) The notional principal amount of the hedge does not exceed the outstanding amount of the foreign currency loan; and
- d) The maturity of the hedge does not exceed the unexpired maturity of the underlying loan.

(2) A person resident in India, who owes a foreign exchange or rupee liability, may enter into a contract for foreign currency rupee swap with an authorised dealer in India to hedge long term exposure.

(3) The contract entered into under sub-paragraph 2, if cancelled shall not be rebooked or re-entered, by whatever name called.

3. (1) A person resident in India may enter into a foreign currency option contract <sup>6</sup>not involving the rupee as one of the currencies with an authorised dealer in India to hedge foreign exchange exposure of such person arising out of his trade.

<sup>24</sup>[Deleted]

Explanation: The contingent foreign exchange exposure arising out of submission of a tender bid in foreign exchange is also eligible for hedging under this sub-paragraph.

(2) A transaction undertaken under sub-paragraph (1) may be freely booked and/or cancelled.

(3) <sup>6</sup>A person resident in India may enter into a foreign currency-rupee option contract with an authorised dealer to hedge an exposure to exchange risk in respect of a transaction for which sale and/or purchase of foreign currency is permitted under the Act or the rules or regulations or directions or orders made or issued there under on the same terms and conditions applicable to forward contracts.

(4) <sup>25</sup>A person resident in India may enter into cross-currency option cost reduction structures (not involving the rupee as one of the currencies) and foreign currency-rupee option cost reduction structures with an authorised dealer to hedge an exposure to exchange risk arising out of trade transactions or external commercial borrowings <sup>36</sup>or foreign currency loans availed of domestically against FCNR (B) deposits] subject to such terms and conditions as may be stipulated by the Reserve Bank from time to time.

<sup>39</sup>C. Writing of standalone options against underlying exposure:-

A person resident in India may enter into cross-currency option contract (not involving the rupee as one of the currencies) and/or foreign currency-rupee option contract with an authorised dealer against an underlying foreign exchange exposure in respect of a transaction for which sale and/or purchase of foreign currency is permitted under the Act or the rules or regulations or directions or orders made or issued

thereunder subject to such terms and conditions as may be stipulated by the Reserve Bank from time to time.

<sup>65</sup>Deleted w.e.f. 03.03.2020 vide notification no. FEMA 398/RB-2020 dated February 18, 2020. Prior to its deletion, Schedule II read as:

“Foreign Exchange Derivative Contract permissible for a Person Resident Outside India:-

1. A Registered Foreign Institutional Investor (FII)<sup>35</sup>/Qualified Foreign Investor (QFI) 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) <sup>7</sup>The value of the hedge does not exceed the market value of the underlying debt or equity instruments, provided forward contracts once booked shall be allowed to continue to the original maturity even if the value of the underlying portfolio shrinks, for reasons other than sale of securities;

<sup>8</sup>[Deleted]

b) <sup>18</sup>Forward contracts may be cancelled and rebooked subject to such terms and conditions as may be stipulated by the Reserve Bank from time to time, or may 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.

1A. <sup>26</sup>A registered FII<sup>35</sup>/QFI may enter into foreign currency-rupee swaps for hedging the transient capital flows relating to the Initial Public Offers (IPO) under the Application Supported by Blocked Amount (ASBA) mechanism, subject to such terms and conditions as may be stipulated by the Reserve Bank from time to time.

2. A non-resident Indian <sup>10</sup>[Deleted] 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 thereunder 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 the proviso to paragraph 1 of this Schedule.

2A. <sup>11</sup>A non-resident Indian may, subject to conditions prescribed by the Reserve Bank of India from time to time, enter into cross currency (not involving the rupee) forward contracts to convert the balances held in FCNR (B) accounts in one foreign currency to another foreign currency in which FCNR (B) deposits are permitted to be maintained.

3. <sup>9</sup>Authorised dealers may offer forward contracts to persons resident outside India to hedge the investments made in India since January 1, 1993, subject to verification of the exposure in India. These forward contracts once cancelled are not eligible to be rebooked.

3A. <sup>11</sup>A person resident outside India may subject to conditions prescribed by the Reserve Bank of India from time to time enter into a forward sale contract with an authorised dealer in India to hedge the currency risk arising out of his proposed foreign direct investment in India.

3B. <sup>11</sup>A person resident outside India having Foreign Direct Investments in India may, subject to the condition that forward cover shall be taken only after the rate has been approved by the Board, enter into forward contracts with rupee as one of the currencies to hedge the currency risk on dividend receivable by him from the Indian company.

4. <sup>6</sup>A Foreign Institutional Investor, a Non-Resident Indian or a Person Resident outside India having Foreign Direct Investment in India, may enter into a foreign currency-rupee option contract with an authorised dealer in India, under the same terms and conditions applicable to forward contracts.

5. <sup>27</sup>A non-resident importer/exporter may enter into a forward contract with rupee as one of the currencies or a foreign currency-rupee option contract with an Authorised Dealer in India to hedge the currency risk in respect of exports from and imports to India, invoiced in Indian Rupees, subject to such terms and conditions as may be stipulated by the Reserve Bank from time to time.

6. <sup>29</sup>A non-resident may enter in to a forward contract with rupee as one of the currencies or a foreign currency-rupee option contract or a foreign currency-INR swap with an Authorised Dealer in India to hedge the currency risk in respect of ECBs denominated in Indian Rupees, subject to such terms and conditions as may be stipulated by the Reserve Bank from time to time.

<sup>41</sup>A non-resident may enter into a foreign exchange derivative contract with an Authorised Dealer bank in India to hedge an exposure to exchange risk of and on behalf of its Indian subsidiary in respect of the said subsidiary's transactions subject to such terms and conditions as may be stipulated by the Reserve Bank from time to time."