Foreign Exchange Dealers' Association of India

173, Maker Tower 'F',
Cuffe Parade,
Mumbai - 400 005.

Tel.: 2218 2549 /
2218 4432
Telefax : 2218 9946

E-mail : mail@fedai.org.in
Website : www.fedai.org.in

SPL-37/FEDAI Rule Revised/2012
27th June 2012

To All Members of FEDAI

Dear Sir,

Revised FEDAI Rules – 7.1 Edition

Managing Committee at its meeting held on 21st June 2012, approved the revised FEDAI Rules. We enclose the **revised FEDAI Rules (7.1 edition), which will be effective from 1st July 2012.** Member banks are requested to advise their AD Category branches and ensure implementations of FEDAI Rules.

Thanking you,

Yours faithfully,

Chief Executive

Encl. : a/a.

FEDAI RULES (7.1 Edition) 1 July 2012

General Guidelines/Instructions

1. The directives issued by the Reserve Bank of India in respect of interest rates on Export & Import finance shall be adhered to by the Authorised Dealers.
2. The member banks are totally free to determine their own charges for various types of forex transactions, keeping in view the advice of RBI that such charges are not to be out of line with the average cost of providing services.
3. With a view to simplifying and liberalising import, authorised dealers are permitted to open standby letters of credit on behalf of their importer constituents for importing goods into India, permissible under Foreign Trade Policy. RBI in terms of its AP (Dir Series) Circular No.84 dated 3rd March 2003 advised the authorised dealers to open standby letters of credit subject to adherence to the guidelines issued by FEDAI. The detailed guidelines were issued by FEDAI in Special Circular No.SPL-16/Standby LC/2003 dated 1st April 2003, SPL-20/SBLC/05 dated 5th April 2005 and SPL-75/standby LC/05 dated 13th December 2005.
4. Guidelines for quoting the rates for merchant transactions have been left to our member banks to decide.
5. Information regarding various forex related programmes, exchange rates advised at various times, important circulars issued by FEDAI etc. are available at our website www.fedai.org.in. E-mail address of FEDAI is mail@fedai.org.in**.**
6. Our reference to Authorised Dealer is the reference to all Authorised Dealers (Category-I) banks and other members of FEDAI, wherever applicable

<u>Rule 1</u> <u>Hours of Business</u>

1.1 The exchange trading hours for Inter-bank forex market in India would be from 9.00 a.m. to 5.00 p.m. No customer transaction should be undertaken by the Authorised Dealers after 4.30 p.m. on all working days.

1.2 Cut-off time limit of 05.00 p.m. is not applicable for cross currency transactions. In terms of paragraph 7.1 of Internal Control Guidelines over Foreign Exchange Business of Reserve Bank of India (February 2011), Authorised Dealers are permitted to undertake cross currency transactions during extended hours, provided the Managements lay down the extended dealing hours.

1.3 For the purpose of Foreign Exchange business, Saturday will not be treated as a working day.

1.4 "**Known holiday"** is one which is known at least 4 working days before the date. A holiday that is not a "known holiday" is defined as a "**suddenly declared holiday**".

Rule 2 EXPORT TRANSACTIONS

2.1. Post shipment Credit in Rupees

a) Application of exchange rate:

Foreign Currency bills will be purchased/discounted/negotiated at the Authorised Dealer's current bill buying rate or contracted rate. Interest for the normal transit period and/or usance period shall be recovered upfront simultaneously.

b) Crystallisation and Recovery:

i) Authoried Dealers should formulate own policy for crystallisation of foreign currency liability into rupee liability, in case of non-payment of bills on the due date.
ii) The policy in this regard should be transparently available to the customers.
iii) For crystallisation into Rupee liability, the Authorised Dealer shall apply its TT selling rate of exchange. The amount recoverable, thereafter, shall be the crystallised Rupee amount along with interest and charges, if any.
iv) Interest shall be recovered on the date of crystallisation for the overdue period at the appropriate rate; and thereafter till the date of recovery of the crystallised amount.
v) Export bills payable in countries with externalisation issues shall also be crystallised as per the policy of the authorised dealer, notwithstanding receipt of advice of payment in local currency.

c) Realisation of Bills after crystallisation.

After receipt of advice of realisation, the authorised dealer will apply TT buying rate or contracted rate (if any) to convert foreign currency proceeds.

d) Dishonour of bills

In case of dishonour of a bill before crystallisation, the bank shall recover.
i) Rupee equivalent amount of the bill and foreign currency charges at TT selling rate.
ii) appropriate interest and rupee denominated charges.

2.2. Application of Interest

a) Rate of interest applicable to all export transactions shall be as per the guidelines of Reserve Bank of India from time to time.

b) Overdue interest shall be recovered from the customer, if payment is
not received within normal transit period in case of demand bills and on/or before notional due date/actual due date in case of usance bills, as per RBI directive.

c) Early Realisation

In case of early realisation, interest for the unexpired period shall be refunded to the customer. The bank shall also pay or recover notional swap cost as in the case of early delivery under a forward contract.

2.3. Normal Transit Period

Concepts of normal transit period and notional due date are linked to concessional interest rate on export bills.
Normal transit period comprises of the average period normally involved from the date of negotiation/purchase/discount till the receipt of bill proceeds.
It is not to be confused with the time taken for the arrival of the goods at the destination.
Normal transit period for different categories of export business are laid down as below

a) Fixed Due Date
In the case of export usance bills, where due dates are fixed or are reckoned from date of shipment or date of bill of exchange etc, the actual due date is known. Therefore in such cases, normal transit period is not applicable.

b) Bills in Foreign Currencies – 25 days

c) Exports to Iraq under United Nations Guidelines – Max. 120 days

d) Bills drawn in Rupees under Letters of Credit (L/C)

i) Reimbursement provided at centre of negotiation	- 3 days
ii) Reimbursement provided in India at centre different from centre of negotiation	- 7 days
iii) Reimbursement provided by banks outside India	- 20 days
iv) Exports to Russia under L/C where reimbursement is provided by RBI	- 20 days.

e) Bills in Rupees not under Letter of Credit - 20 days

f)TT reimbursement under Letters of Credit (L/C)

i) Where L/C provides for reimbursement by electronic means	- 5 days
ii) Where L/C provides reimbursement claim after certain number of days from the date of negotiation	- 5 days + this additional period.

2.4. Substitution/Change in Tenor

a) In case of change in the usance of a bill, interest on post shipment credit shall be charged to the customer, as per RBI guidelines. In addition, the bank shall charge or pay notional swap difference. Interest on outlay of funds for such swaps shall also be recovered from the customer at rate not below base rate of the bank concerned.

b) It is optional for banks to accept delivery of bills under a contract made for purchase of a clean TT. In such cases, the bank shall recover/pay notional swap difference for the relative cover. Interest at the rate not below base rate of the bank would be charged on the outlay of funds.

2.5. Export Bills sent for collection:

a) Application of exchange rates

The conversion of foreign currency proceeds of export bills sent for collection <u>or</u> of goods sent on consignment basis shall be done at prevailing TT buying rate or the forward contract rate, as the case may be. The conversion to Rupee equivalent shall be made only after the foreign currency amount is credited to the nostro account of the bank.

b) On receipt of credit advice/statement of nostro account and compliances of guidelines, requirements of the Bank and FEMA, the Bank shall transfer funds for the credit of exporter's account within two working days.

c) If the above stipulated time limit is not observed, the Bank shall pay compensation for the delayed period at the minimum interest rate charged on export credit. Compensation for adverse movement of exchange rate, if any, shall also be paid as per the compensation policy of the bank.

Rule 3 : IMPORT TRANSACTIONS

3.1 **Application of exchange rate:**

a)	Retirement of import bills	-	Exchange rate as per forward sale contract, if forward contract is in place. Prevailing Bills selling rate, in case there is no forward contract.
b)	Crystallisation of Import bill (vide para 3.3 below)	-	same as above
c)	For determination of stamp duty on import bills	-	As per exchange rate provided by the authority concerned.

3.2. **Application of Interest:**

a) Bills negotiated under import letters of credit shall carry commercial rate of interest as applicable to banks' domestic advances from time to time.

b) Interest remittable on interest bearing bills shall be subject to the directive of Reserve Bank of India in this regard.

3.3. **Crystallisation of Import Bill under Letters of Credit.**

Unpaid foreign currency import bills drawn under letters of credit shall be crystallised as per the stated policy of the bank in this respect

Rule 4

Clean Instruments:

4.1. **Outward Remittance:**
Outward remittance shall be effected at TT selling rate of the bank ruling on that date or at the forward contract rate.

4.2**.** **Encashment of foreign currency notes and instruments**
Foreign currency travelers' cheques, currency notes, foreign currency in prepaid card, debit/credit card will be encashed at Authorised Dealer's option at the appropriate buying rate ruling on the date of encashment.

4.3. **Payment of foreign inward remittance**
Foreign currency remittance up to an equivalent of USD 10,000/- shall be immediately converted into Indian Rupees. Remittance in excess of equivalent of USD 10,000 shall be executed in foreign currency. The beneficiary has the option of presenting the related instrument for payment to the executing bank within the period prescribed under FEMA.

4.4. The applicable exchange rate for conversion of the foreign currency inward remittance shall be T T buying rate or the contracted rate as the case may be.

4.5. **Compensation for delayed payment** : Authorised Dealers shall pay or send Intimation, as the case may be, to the beneficiary in two working days from the date of receipt of credit advice / nostro statement.
In case of delay, the bank shall pay the beneficiary interest @ 2 % over its savings bank interest rate. The bank shall also pay compensation for adverse movement of exchange rate, if any, as per its compensation policy.

Rule 5 Foreign Exchange Contracts

5.1. **Contract amounts**

Exchange contracts shall be for definite amounts and periods.
When a bill contract mentions more than one rate for bills of different deliveries, the contract must state the amount and delivery against each such rate.

5.2. **Option period of delivery**

Unless the date of delivery is fixed and indicated in the contract, the option period may be specified at the discretion of the customer subject to the condition that such option period of delivery shall not extend beyond one month.
If the fixed date of delivery or the last date of delivery option is a known holiday; the last date for delivery shall be the preceding working day.
In case of suddenly declared holidays, the contract shall be deliverable on the next working day.
Contracts permitting option of delivery must state the first & last dates of delivery.

For Example: 18th January to 17th February, 31st January to 29th Feb. 2012.
“Ready” or “Cash” merchant contract shall be deliverable on the same day.
“Value next day” contract shall be deliverable on the working day immediately succeeding the contract date.
A spot contract shall be deliverable on second succeeding working day following the contract date.
A forward contract is a contract deliverable at a future date, duration of the contract being computed from spot value date at the time of transaction”.

5.3. **Place of delivery**

All contracts shall be understood to read “to be delivered or paid for at the Bank” and “at the named place”.

5.4. **Date of delivery**

Date of delivery under forward contracts shall be :
i) In case of bills/documents negotiated, purchased or discounted - the date of negotiation/purchase/ discount and payment of Rupees to the customer.
However, in case the documents are submitted earlier to, or later than the original delivery date, or for a different usance, the bank may treat it as proper delivery, provided there is no change in the expected date of realisation of foreign currency calculated at the time of booking of the contract. No early realisation or late delivery charges shall be recovered in such cases.
ii) In case of export bills/documents sent for collection - date of payment of Rupees to the customer on realisation of the bills.
iii) In case of retirement/crystallisation of import bills/documents - the date of retirement/ crystallisation of liability, whichever is earlier.

5.5. **Option of delivery**

In all forward merchant contracts, the merchant, whether a buyer or a seller, will have the option of delivery.

5.6. **Option of usance**

The merchant purchase contract should state the tenor of the bills/documents.
Acceptance of delivery of bills/documents drawn for a different tenor will be at the discretion of the bank.

5.7. **Merchant quotations**

The exchange rate shall be quoted in direct terms i.e. so many Rupees and Paise for 1 unit or 100 units of foreign currency.

5.8. **Rounding off Rupee equivalent of the foreign currency**

Settlement of all merchant transactions shall be effected on the principle of rounding off the Rupee amounts to the nearest whole Rupee i.e. without paise.

RULE 6 Early Delivery, Extension and Cancellation of Foreign Exchange Contracts

6.1. **General**

i) At the request of a customer, unless stated to the contrary in the provisions of FEMA, 1999, it is optional for a bank to:

a. Accept or give early delivery; or b. Extend the contract.

ii) It is the responsibility of a customer to effect delivery or request the bank for extension / cancellation as the case may be, on or before the maturity date of the contract.

6.2. **Early delivery**

If a bank accepts or gives early delivery, the bank shall recover/pay swap difference, if any.

6.3. **Extension**

Foreign exchange contracts where extension is sought by the customers shall be cancelled (at an appropriate selling or buying rate as on the date of cancellation) and rebooked simultaneously only at the current rate of exchange. The difference between the contracted rate, and the rate at which the contract is cancelled, shall be recovered from/paid to the customer at the time of extension. Such request for extension shall be made on or before the maturity date of the contract.

6.4. **Cancellation**

i) In case of cancellation of a contract at the request of a customer, (the request shall be made on or before the maturity date) the Authorised Dealer shall recover/ pay, as the case may be, the difference between the contracted rate and the rate at which the cancellation is effected. The recovery/payment of exchange difference on cancellation of forward contracts before the maturity date may be either upfront or back-ended at the discretion of banks.

ii) Rate at which cancellation is to be effected:

a. Purchase contracts shall be cancelled at T.T. selling rate of the contracting Authorised Dealer

b. Sale contracts shall be cancelled at T.T. buying rate of the contracting Authorised Dealer

c. Where the contract is cancelled before maturity, the appropriate forward T.T. rate shall be applied.

iii) Notwithstanding the fact that the exchange contract between the customer and the bank becomes impossible of performance, for whatever reason, including Government prohibitory orders, the exchange contract shall not be deemed to have become void and the customer shall forthwith apply to the Authorised Dealer for cancellation, as per the provisions of paragraph 6.4.(i) and (ii) above.

iv) a. In the absence of any instructions from the customer, vide para 6.1(ii), a contract which has matured shall be cancelled by the bank on the 7th working day after the maturity date.

b. Swap cost, if any, shall be recovered from the customer under advice to him.

c. When a contract is cancelled after the maturity date, the customer shall not be entitled to the exchange difference, if any, in his favour, since the contract is cancelled on account of his default. He shall, however, be liable to pay the exchange difference, against him.

6.5. **Swap cost/gain**

i) In all cases of early delivery of a contract, swap cost shall be recovered from the customer, irrespective of whether an actual swap is made or not. Such recoveries should be made either back-ended or upfront at discretion of the bank.

ii) Payment of swap gain to a customer shall be made at the end of the swap period.

6.6. **Outlay and Inflow of funds**

Authorised Dealer shall recover interest on outlay of funds for the purpose of arranging the swap, in addition to the swap cost in case of early delivery of a contract.

If such a swap leads to inflow of funds, interest shall be paid to the customer. Funds outlay / inflow shall be arrived at by taking the difference between the original contract rate and the rate at which the swap could be arranged.

The rate of interest to be recovered / paid should be determined by banks as per their policy in this regard.

Rule 7 Business through Intermediaries

7.1. **Intermediaries**
Exchange brokers, Multi Bank Portals (MBP), Electronic Order Matching Systems (EOMs) are some of the commonly used intermediaries in foreign exchange markets. Authorised Dealers shall use the services of intermediaries accredited by FEDAI. No brokerage, fees, charges or any other form of remuneration shall be paid by the Authorised Dealers to other bank employees on any foreign exchange contracts.

7.2. Accredited intermediaries will conform to the rules, conditions and the code of conduct laid down by FEDAI from time to time. FEDAI may review the working and standing of accredited intermediaries from time to time. Any accredited intermediary who conducts any business contrary to the rules of FEDAI may have his accreditation withdrawn and no Authorised Dealer shall transact any business with him thereafter.

7.3 It shall be the duty of each Authorised Dealer and the associations of intermediaries to report to FEDAI, the name of an intermediary who suggests, proposes or transacts any business which is contrary to the rules of FEDAI.

7.4. **Reporting Changes**
Any changes in regard to the constitution or address or any other material change in respect of an intermediary shall be advised to FEDAI promptly for necessary approval. Intermediaries shall also report changes in the calling assistants, key employees, Managers to FEDAI.

7.5. **Contracts Notes/Confirmations**
All contracts/confirmations/advices in relation to foreign exchange business must bear the clause "Subject to the Rules & Regulations of the Foreign Exchange Dealers' Association of India."
No foreign exchange contract shall be made with an intermediary as a principal. A bank must refuse to give delivery to or take delivery from any party other than the declared principal – an authorised dealer.

<u>RULE 8 INTERBANK SETTLEMENT</u>

8.1. Issues of delays in payments of funds in any currency (including Indian Rupee) in settlement of foreign exchange contracts are dealt in this rule.
Considering the technological advances in processes of payments and reconciliation of accounts, it has become far more speedier to detect non-delivery of funds. Banks are expected to track delivery of funds, note discrepancies if any, and take corrective actions expeditiously and efficiently.

8.2. Interest for delayed delivery
In the event of late delivery of any currency (including Indian Rupee) in foreign exchange contract, interest for the number of days of delay (regardless of the causes for delay) shall be payable by the seller-bank. The interest for the overdue period shall be payable at the rate of 2% over the benchmark rate of the currency concerned. The benchmark rates for the currencies are listed below:-

1. INR - NSE – MIBOR overnight rate
2. STG - Base rate of Barclays Bank
3. USD - Prime rate of Citibank N A
4. EUR - Marginal Lending Facility rate of European Central Bank
5. JPY - Prime rate of Bank of Tokyo-Mitsubishi UFJ Ltd.
6. CHF - 3 month rate of Swiss National Bank
7. CAD - Prime rate of Bank of Nova Scotia

In case of transactions in currencies not mentioned above, the seller bank shall pay interest at 2% over notional overdraft rate payable by the buyer bank.
The rate of interest applied would be the average rate based on rates on each day of delay.

8.3. Acceptance of back valued credit.
In case, the seller bank is willing to rectify the situation of late payment, by offering to deliver funds on value dated basis, the buyer bank shall accept such funds, provided the funds are delivered <u>within two working days</u> from the due date of the contract. In case, funds are delivered beyond two working days from the due date, it will be the choice of the buyer bank to accept-
(a) Value dated funds or (b) Claim interest as per para 8.2 above.

8.4. Time Limit for claim for delay
The claim for the delay in receipt of funds by the buyer bank should be made within 15 working days from the due date of the contract. The seller bank in such a case shall be liable to pay interest for the full period of delay.
If the claim is not made within 15 working days, the interest will be payable by the selling bank for the maximum period of 60 days only.

8.5. Time Limit for settlement of claim
The selling bank has to settle the claim (with interest for overdue period, as above) within 15 working days from the date of receipt of claim.

If a claim is not settled within 15 working days, the seller bank will be required to pay interest at the rate mentioned in 8.2 above for the entire overdue period. The cap of 60 days for interest payment as mentioned in 8.4 above will not apply in such cases.

8.6. Deliberate default

In case the claim is not settled within 60 days from the date of lodgment of claim, the matter may be referred to FEDAI for final decision, which shall be binding on both the banks concerned.

The matter would be examined by the Managing Committee of FEDAI or any other Sub-Committee appointed for this purpose by the Managing Committee. The said committee of FEDAI will decide about penalty on the defaulting bank.

8.7. Wrong delivery of funds

In case, a seller bank delivers funds to the account other than the notified account of the buyer bank, it shall compensate the buyer in terms of the above rules.

8.8. Use of incorrectly paid funds (undue enrichment)

A bank which has received funds, not intended for its accounts, shall be liable to compensate the bank which has been out of funds by either:

1) returning the funds with proper value, provided charges for back valuation are borne by the original remitting bank or

2) returning the funds with interest that is earned, less charges, if any.

8.9. Known holiday/suddenly declared holiday

If the maturity date of the contract happens to be a known holiday, the contract would mature on the working day immediately preceding the known holiday.

In case of suddenly declared holidays, the contract shall be deliverable on the next working day.

In case of suddenly declared holiday falling on the last working day of the month known at least 2 working days prior to the settlement day, the contract shall be deliverable on the preceding day when all centers concerned are open.

8.10. Notice for Option Delivery

In case of interbank forward contract, that allows option of delivery, the buyer bank shall take up such forward contract after giving a notice of 2 working days to the seller bank.

8.11. Settlement of Forward Contracts effective from 1 Oct 2012

All the eligible member banks should become member of CCIL's Forex Forward Guaranteed Settlement segment. All eligible interbank Forex Forward contracts should be subjected to the CCIL's Forex Forward Settlement segment.

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