

Swap transactions allowed for rupee- denominated foreign loans: RBI

To facilitate external commercial borrowing (ECBs) and lending denominated in rupees by foreign lenders, the Reserve Bank of India (RBI) has allowed such lenders to enter into swap transactions with their overseas bank, which shall in turn enter into a back- toback swap transaction with banks in India.

In a currency swap, the parties to the contract exchange the principal of two different currencies immediately, so that each has use of the different currency.

It will help to hedge risk from currency exposure.

According to the new norms, the recognised non- resident lender will first approach his foreign bank with appropriate documentation as evidence of an underlying ECB denominated in rupee with a request for a swap rate for mobilising rupee for onward lending to the Indian borrower.

Based on that, the foreign bank will approach an authored dealer bank for a swap rate, along with documentation furnished by the customer that will enable the bank in India to satisfy itself that there is an underlying ECB in rupees.

RBI said a Know Your Customer (KYC) certification on the end- client shall also be taken by the bank in India as a one- time document from the foreign bank. Based on the documents received from the foreign bank, the bank in India should satisfy itself about the existence of the underlying ECB in rupee and offer an indicative swap rate to the foreign bank. The bank will offer the same to the non- resident lender on a back- to- back basis.

The continuation of the swap shall be subject to the existence of the underlying ECB at all times. On the due date, settlement may be done through the Vostro account of the foreign bank maintained with its counter- party bank in India, RBI said.

(Business Standard)