

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:4644
ANSWERED ON:18.12.2009
VIOLATION OF FOREIGN EXCHANGE NORMS
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Will the Minister of FINANCE be pleased to state:

- (a) whether Reserve Bank of India (RBI) identified some banks which violated foreign exchange norms in their derivative trade;
- (b) if so, the details thereof;
- (c) whether any enquiry/investigation has been undertaken in this regard;
- (d) if so, the details thereof; and
- (e) the reaction of the Government thereto?

Answer

The Minister of State in the Ministry of Finance (Shri Namo Narain Meena)

(a) to (e): On receiving information regarding wide-spread losses on account of derivative transactions by the Users, Reserve Bank of India (RBI) carried out special scrutinies in select banks active in derivative transactions. Further, a portfolio approach was adopted towards the derivative business offered by some of these banks during the course of Annual Financial Inspections (AFIs) 2007 and 2008 cycles. RBI also held discussions with the chief executives of 22 banks, that were seen to be active in the business, to assess the systemic impact. Based on the information gathered in relation to derivative transactions, RBI has taken the following actions;

(i) RBI has impressed upon the banks to bear in mind the sensitivities involved in the matter and adopt a pragmatic approach in resolving the grievances of the customers;

(ii) To ease the difficulties of the Users, RBI revisited the regulatory framework regarding asset classification and restructuring of derivative contracts and provided that any receivable on account of Marked-to-Market derivative exposure, even if overdue for a period of 90 days or more, will not require classification of other funded facilities of the client as Non-Performing Asset (NPA)

(iii) Constituted the Inter Departmental Group (IDG) to review derivative transactions of banks and recommend appropriate supervisory action. IDG has identified Foreign Exchange Management Act (FEMA), 1999 guidelines violations by a few banks for taking necessary action.

(iv) In the light of special scrutinies, AFIs of the banks and meetings with the Chief Executives of select banks, the FEMA Regulations and comprehensive derivative guidelines have been revisited. RBI has placed draft guidelines relating to foreign exchange derivatives on its website, on 12.11.2009, for feedback from all stakeholders.