GOVERNMENT OF INDIA
FINANCE
LOK SABHA

STARRED QUESTION NO:19
ANSWERED ON:08.08.2012
FOREX DERIVATIVE CONTRACTS QUESTION
Tewari Shri Manish

Will the Minister of FINANCE be pleased to state:

(a) the total value of foreign exchange derivative contracts approved by the Reserve Bank of India (RBI) and executed by the Indian banks annually between 1 April, 2008 to 1 July, 2012;

(b) the quantum of loss caused annually to the Indian Companies and individuals due to Forex Derivative Contracts between 1 April, 2008 to Uuly, 2012 as quantified by RBI or any other statutory agency;

(c) the average fluctuation in exchange rate of the rupee qua the dollar between 1 April, 2008 to 1 July, 2012 on a monthly basis;

(d) whether the RB! estimated gross mark to market losses to 22 banks due to Forex Derivative Contracts at only Rs. 31,719 crore and if so, the details thereof;

(e) the details of banks found guilty vide RBI order dated 19 April, 2011 for violating RBI and FEMA guidelines on Forex Derivatives trading and penalties imposed on them; and

(f) the reasons for imposing token penalties especially in view of enormous losses to many SME units in the Textiles and Pharma sectors?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI P. CHIDAMBARAM)

(a) to (f): A statement is laid on the Table of the House.

STATEMENT FOR LOK SABHA STARRED QUESTION NO.19 FOR 0th AUGUST, 2012 REGARDING FOREX DERIVATIVE CONTRACTS TABLED BY (SHRI MANISH TEWARI)

(a) All transactions relating to foreign exchange in India are governed by the Foreign Exchange Management Act, 1999 (FEMA). Reserve Bank of India (RBI) outlines foreign exchange derivative transactions which can be undertaken by the users, the purposes for which such transactions can be undertaken and the types of instruments which can be used. RBI does not give any specific approval for such contracts.

(b) RBI has not quantified the quantum of loss caused to Indian companies and individuals due to forex derivative contracts and as such the RBI does not have data on the quantum of such loss.

(c) The exchange rate of the Indian Rupee is determined on the basis of supply and demand for the foreign currency. A Table showing such fluctuation between April 2008 to July 2012 is at Annex-I.

(d) RBI has reported that it does not have data on the estimated losses on foreign exchange derivative trades. However, as per the data collected separately by RBI from 22 banks for Marked to Market (MTM) positions regarding customers for December 2008 was at Rs. 31,719 crores. This cannot be termed as estimated losses as MTM is basically an accounting concept wherein all outstanding financial contracts are marked to market at fair value. Hence, MTM value is dynamic in nature and changes in line with the market movements and represents the replacement cost of the derivative contracts.

(e) RBI had not imposed penalty on any of the bank for violation of RBI / FEMA guidelines vide its order dated 19.04.2011. However, RBI had imposed penalties on 19 commercial banks as at Annex-H on April 26, 2011 under Section 47A of the Banking Regulation Act, 1949 for contravention of various instructions issued by RBI in respect of derivatives, such as failure to carry out due diligence in regard to suitability of products, selling derivative products to users not having risk management policies, etc.

(f) To rationalize the punitive action, the 19 banks were categorised into three groups based on the number of significant contraventions established during the course of the proceedings. Of the 19 banks, six banks that had five or more such contraventions were penalized Rs. 15,00 lakh each, eight banks that had less than five but more than two such contraventions were penalized Rs. 10.00 lakh each and five banks that had two such contraventions were penalized Rs.5,00 lakh each.