

Product Disclosure Statement – Foreign Exchange Forward Contracts

Classification -Restricted

1. Features

1.1 Definition of a Forward Contract

A forward contract is an agreement between the two parties (Bank and User) to buy or to sell the underlying asset. In currency market, two parties agree to exchange currencies (buy or sell) for a future date at a pre agreed rate.

1.2 Types of Forward Contract

(i) Fixed dated forward contract

Fixed dated forward contract is an agreement to exchange (buy or sell) foreign currency at a pre agreed rate for fixed date/maturity. User locks the forward rate to buy / sell the foreign currency at an agreed rate for a fixed maturity.

(ii) Option dated forward contract

Option dated forward contract is an agreement to exchange (buy or sell) foreign currency at a pre agreed rate for an option period (variable tenor up to a max of one month). If the User is not sure about the exact date of payment / receipt of foreign currency, he can book a forward contract to buy / sell the foreign currency at an agreed rate for an option period (variable tenor max up to one month). The user can take delivery/utilize the contract on any day within the option period at the fixed rate originally contracted.

All features and other terms and conditions of forward contracts will be guided by the extant Governing Directions issued by Reserve Bank of India (RBI), which lays down the guidelines to be followed for offering Derivative OTC products based on broad principles enumerated therein.

Product Features

- Settlement of the FX Forward is completed by delivery of the respective currencies on the maturity of the contract.
- The tenor is more than 2 business days.

Key Product Benefits

- FX Forward would enable the Counterparty to shift its exposure from one currency to another and hedge the underlying risk against any adverse movement.

1.3 Pricing of Forward Contracts

Forward Rate = Spot Rate +/- Forward Premium/Forward Discount

FX spot rate and Forward price for different maturities are available in the interbank market. Forward rate (or the outright forward rate) is arrived at by adding the spot rate and the forward premium. forward contract price for a currency pair can be either be positive (quoting at a premium) or negative (quoting in discount) and is guided by (i) the interest rate differential between the economies/countries of the currencies in the pair (ii) Market dynamics of demand and supply. Generally, in a currency pair, the currency with lower interest rate gets quoted at a premium in the forward market.

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In case of option dated contract, forward rate is arrived at in a similar manner by adding the spot rate and forward swap price. If the forward /swap price at a premium, the forward premium/ price will be applied for up to start date of the option dated buy/export forward contracts and up to the last date for import/sell forward contracts.

If the forward /swap price is at a discount, the forward discount /price will be applied up to the last date of the option dated forward buy/export contracts and up to start date of the for import/sell forward contracts.

2. Terms and conditions including for termination and utilization

2.1 Events applicable post booking of a Forward Contract

A deal once booked can either be

1. Utilized (prior to or on maturity date for part or full amount of the contract)
2. Cancelled (prior to or on maturity date for part or full amount of the contract)
3. Rolled over/extension (prior to or on maturity date)

Delivery / Utilization:

Under the Forward Contract, the user can take delivery of the contract at the pre-contracted rate. Delivery/Utilisation of the forward contract can be done for full or partial amount at or prior to the maturity date. In case of option dated contracts, if the Delivery/Utilisation is completed within the option window period then it is treated like delivery of a fixed dated contract on maturity and delivery is done for full or partial amount at the pre-agreed contracted rate.

In case the user wishes to take early delivery of a forward contract of their cashflows to meet their underlying requirement, the cashflows are exchanged at the contracted rate and market impact, for the residual period if any will be settled separately with the user as per the prevailing market rates. Further Bank will recover the interest on outflow of funds for the purpose of arranging the swap in addition to swap premium. If such a swap leads to inflow of funds, interest will be paid by the Bank to the user.

Cancellation/Termination/Unwind:

As per the RBI regulations, the user is permitted to cancel a Forward Contract. The difference between the original booking rate and the cancellation (current market rate for the residual maturity) would be paid/received from the user upfront / rear-ended as per the extant regulations. Cancellation rate arrived by adding the spot rate and the forward swap price for the residual maturity.

In case of option dated contracts, if the cancellation is done within the option window period, then it is treated like cancellation of a fixed dated contract on its maturity date.

Cancellation post maturity date: As per the current RBI & FEDAI guidelines, profit on cancellation cannot be passed to user, whereas loss will be debited to the account.

Rollover of the Contract:

In case the user requests for the rollover of the contract, the same is permitted under the RBI regulations. The user would need to furnish the booking details along with the extension details. Care should be taken to ensure that in case of contract booked under contracted exposure facility, the validity of the underlying supports the rollover of the contract.

Under rollover of forward contract, the original forward contract would be cancelled/terminated at current market rate and a rolled over contract will be booked for future date. Cancellation rate is arrived at by adding the current spot rate and the forward swap price for the residual maturity. Rolled over contract rate (or rebooking rate) is arrived by adding the current spot rate and the forward swap price for the extension maturity.

Rollover of option dated contracts is also permitted. In such cases, the original forward contract would be cancelled/terminated at current market rate and a rolled over contract will be booked for future date. Cancellation rate of an option dated contract is arrived in manner as enumerated above for cancellation of option dated contracts, while the rollover rate of an option dated contract is arrived by adding the current spot rate and the forward swap price for the extension maturity. (Please also refer to pricing of option dated contracts enumerated earlier in this document).

3. Illustrative Cashflow

An illustration of a typical cashflow for Forward contract will have below characteristics, based on following trade parameters

Parameter	Description
Tenor	12 months
Notional	10,000,000 USD
Spot Rate	88.10 USDINR
Trade Date	01June25
Effective Date	03June25
Maturity Date	03June26
Forward Points	125 paise (1/100th of Rupee)
Forwards Rate	89.35 USDINR

Buyer of the Forward contract agrees to buy base currency (USD) at maturity at the forwards rate 89.35 i.e. buyer of Forward will buy 10,000,000 USD and sell 893,500,000 INR to their counterparty and vice-versa.

USDINR FORWARD CASHFLOW

Value Date	USD Amounts	INR amounts
03June30	10,000,000	-893,500,000

DISCLAIMER

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The user should have appropriate approvals before entering into any such transaction. The individual contract confirmations may further contain the exact specific of the transaction and the governing terms and conditions of the contract.

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