केनरा बैंक Canara Bank

भारत सरकार का उपक्रम

A Government of India Undertaking

Together We Can

Foreign Exchange

Forward Contract

Public Disclosure Statement (PDS)

Canara Bank is providing you with this PDS, so that you receive adequate information about Forward Contract. It will help you understand their features, risks, benefits, an illustration of how the product works and assist you in making an informed decision about entering into Forward Contracts.

MAY 2023

INTEGRATED TREASURY WING

Forward Contract

Forward contract is a binding agreement between two parties to purchase and sell a specific quantity of foreign currency at a specified price but with delivery and settlement at a specified future date.

Users

Customers who need to hedge their foreign currency payables or receivables can use forward contracts to protect themselves from adverse movements in the exchange rate. For example, forward enables the exporter who sells goods abroad in terms of foreign currency to determine at once, the amount realizable in terms of Rupees and the importer to determine at once the cost of his imports in terms of Rupees.

Benefits & Risks

The objective of this mechanism is to safeguard the customer from any probable adverse movements or fluctuations in rates of exchange at a later date. At the same time, even if the rate moves favorably (at the future date) the customer is bound to settle the underlying transaction at the contracted rate. In other words, by booking a forward contract, the customer has the obligation to acquire or dispose off the foreign currency on a future date at the predetermined exchange rate.

Types

Forward contracts can be classified into Forward Purchase Contracts (i.e., Exports, Inward Remittances, etc.) or Forward Sale Contracts (i.e., Imports, Outward Remittances, etc.) depending upon the nature of underlying transaction.

Terms

Forward Contract shall be strictly as per related provisions of FEMA and FEDAI rules/ guidelines issued from time to time. Please refer to Application for booking Forward Contract for other important terms and conditions applicable to this product.

Illustration *(Bank: Purchase/Customer: Sale - i.e., Exports)*

PARAMETERS		
1	Currency Pair	USD/INR
2	Notional	1,00,000 USD
3	Spot Rate	73.50
4	Tenor	11 months
5	Swap Points (Premium)	3.50
6	Forward (Contracted) Rate	77

Settlement Scenarios

- On maturity:

Customer would deliver 1,00,000 USD and shall take delivery of INR 77 Lakhs.

- Early delivery:

Customer shall take delivery of the INR against the delivery of USD 1 Lakh or part thereof, by paying back the prevailing swap points for the residual maturity, subject to the recovery of swap cost. E.g., if the swap points to pay for the residual period is at 1.00 on the date of early delivery, the INR notional for delivery would be INR 77 Lakh and applicable swap cost of INR 1 Lakh will be recovered.

- Termination/Cancellation of contract:

Customer may terminate the contract, during the tenor of contract, at the prevailing market rate. The prevailing market rate shall constitute of the spot rate and swap points for residual maturity of the contract. Exchange Gain on such termination/cancellation shall be settled on maturity. Exchange Loss shall be settled upfront.

In the above example, if the spot rate on the date of termination/ cancellation of the contract is at 72.50 and swap points for the residual maturity of the contract is at 2.0 (premium), the net rate for cancellation shall be 74.50 (costs and fees extra). Gain on such termination/cancellation of contract shall be ~ INR 2.50 Lakh and the same shall be paid to the customer on the maturity date of the original contract.

If customers fail to utilize/rollover/cancel the forward contract on or before the maturity date, Bank shall cancel the contract and recover the loss and/or charges arising out of the said cancellation by debiting customer’s account. Moreover, customers are not eligible for any gain arising out of said cancellation.

Charges

On each sale or purchase contract booked	Rs. 750/- per contract
Early Delivery, Extension and Cancellation of Forward Contract	Rs. 750/- per request + SWAP cost & cancellation charges where applicable

Terms & Conditions

- Anticipated exposure:

An exposure to the exchange rate of INR against a foreign currency on account of current and capital account transactions permissible under FEMA, 1999 or any rules or regulations made there under, which are expected to be entered into in future.

- Contracted exposure:

An exposure to the exchange rate of INR against a foreign currency on account of current and capital account transactions permissible under FEMA, 1999 or any rules or regulations made there under, which have already been entered into.

- For contracts involving INR, customers may book forward contracts up to USD 10 million equivalent of notional value (outstanding at any point in time) without the need to establish the existence of underlying exposure.
- In case of contracted exposure -
  - Documentary evidence of underlying exposure to be enclosed
  - Documentary evidence of underlying exposure shall be submitted within 15 calendar days from the date of booking of contract.
- In case of anticipated exposure -
  - Gain, if any, arising out of cancellation/rollover of the forward contract under Anticipated Exposure shall be payable only when related cash flow takes place. Further, such gain, if any, shall not attract any interest for the period from the date of accrual till the date of payment.
- On cancellation or early delivery of a forward contract, the incidence of cancellation / early delivery charges/gains occur which will be recovered from or paid to the customer, as the case may be, in addition to applicable charges.

- **Margin Requirements:**

Tenor of Contract	MARGIN	
	Borrower	NON Borrower
Up to 1 year	0.5% to 2%	3%
Above 1 year	2% to 5%	5%

- **In case of contracts booked under anticipated exposure, with maturity beyond one year, for capital account transactions (as defined under FEMA), additional margin of 10% to be obtained.**

- **Mark-to-Market (MTM) margin:**
  Whenever MTM loss reaches the limit of 75% of available margin. The additional Margin shall be maintained per contract wise. Such margin shall be kept under lien marked for forward contracts. Margin can be considered by the way of earmarking the Balances in Current Account/Term Deposit.