PART - A

Risk Management Document

The objective of this document is to create an awareness about various risks associated with the business of Finolex Cables Limited ('FCL' or 'the Company'), define the risk policies, lay out the risk strategies and decide on the risk appetite of the organization.

The process involves risk identification, risk measurement, risk prioritisation, risk monitoring and risk escalation.

This document sets out the infrastructure for risk management namely methodologies, systems and tools.

This document defines the risk management structures by defining reporting lines and roles, and responsibilities

Business of the Company

The Company is engaged in the business of manufacturing cables used in a wide range of electrical, and communication applications. The Company also manufactures continuous cast copper rods and PVC sheets. The Company will soon start manufacture of high voltage power cables and electrical products namely, electrical switches, compact fluorescent lamps and miniature circuit breakers and earth leakage circuit breakers.

The main raw materials for manufacturing cables are copper, alluminium or glass and various polymers. The raw material for manufacturing copper rods is copper cathode. The raw material for manufacturing PVC sheets is PVC resin. The raw materials can be sourced locally or by imports.

Bulk of the copper rods are consumed captively; the balance are sold in the market. For cables, domestic market offers a large consumption base though exports do take place on a smaller scale.

The Company has strong networth and adequate financial resources available at its disposal. The financial resources include internal accruals retained in the business, facilities sanctioned by the banks, higher credit rating for issuing long term debt paper and the highest credit rating for issuing short term debt paper.

Risk Management Process

The Company has identified following cognizable risks:

1. Business Risk

The Company includes jelly filled telephone cables (JFTCs) business in this category. The sale of JFTCs as a percentage of total sales has been dropping. This has happened due to substitution of JFTCs by optic fibre cables especially for trunk route application and growth in demand skewed towards wireless phones as against fixed line phones. Being aware of this phenomenon, the Company took a decision on priority to remodel and convert JFTC capacity at Urse plant for manufacture of electrical cables and high end communication cables. The conversion is almost complete and the converted facility has started commercial production. A similar exercise will be undertaken for the JFTC plant at Goa.

This decision of remodelling the JFTC capacity has been taken by the Board of Directors of the Company. The implementation is monitored by the Managing Director. As a matter of further risk mitigation measure, flexibility has been kept at the converted capacity. It can be switched back to manufacturing JFTCs, should the need arise in future.

2. Financial Risk

The Company has the option to raise short term and long term funds in local currency or foreign currency. The Company considers that the external authorizations/ commitments for availability of finance to the Company lower the financial risk considerably. However, should the Company not do well in business on a continued basis or should the business outlook change to negative bias, the availability of external authorizations/ commitments could come under strain. Also, in case of foreign currency borrowings, the Company runs the risk of depreciating rupee which can impact the cash flow and the profitability. In case of exports, the Company runs the risk of appreciating rupee. Forward exchange contracts and derivative instruments are used to address the risks.

The finance function is headed by the Director (Finance). He is assisted by a team of qualified professionals. All the finance related decisions are taken by the Director (Finance).

3. Interest Rate Risk

Like any other business, the Company too faces the risk of adverse movements in interest rates. The Company therefore makes use of financial derivative instruments to guard against this risk. The decision to undertake a derivative transaction is taken by the Director (Finance) and the derivative transactions are monitored by him.

4. Liquidity Risk

The Company sells the products in two segments of the market, the trade segment and the OEM/ institutional segment. For trade segment, the Company mostly operates on cash basis and strictly regulates the credit. In OEM/ institutional segment the Company offers credit in line with the industry practices. However the Company monitors it closely. The Company has created a separate section (which is attached to the finance function and is independent of marketing function) to monitor credit. The section is headed by a General Manager.

In case of the Company, the liquidity risk is low and the liquidity tightness can be alleviated through bank facilities.

5. Market Risk

The Company runs two principal market risks, one is on the sales side and the other is on the purchase side.

On the sales side, the Company faces competition from smaller players and unorganized sector entities. To mitigate this risk of competition, the Company puts constant efforts in the areas of product quality, product improvement, development of new products, timely supply and servicing, competitive pricing and cost structure, market development, penetration and visibility, dynamic approach to situations, creating customer preference, expansion of existing business and undertaking of new businesses.

Every working day morning (barring exceptional situations) at 9:00 A.M. a meeting is held at the registered office amongst departmental heads of key functions namely marketing, manufacturing, systems, logistics and commercial. The meeting is presided by the Executive Director and in his absence, by the Pimpri plant in-charge. The meeting collectively looks into the matters concerning the above stated functions and the decision taken for improving operational efficiencies, better marketing thrust etc. Similar meetings are held at the plants at Urse and Goa, for plant matters. The decisions requiring policy pronouncements are referred to a larger forum which meets once in a month at the registered office. The forum is presided by the Managing Director and the other wholetime Directors (except the Chairman) and departmental/ functional heads participate in the meeting. Except for certain apex organizational policy decisions such as entering into new business, setting limits for borrowings and investments etc which are escalated to the Board of Directors, the other operating decisions are taken by this forum. The minutes of the meeting of this forum are recorded and circulated amongst the participants. The unfinished matters are reviewed at the subsequent meetings.

On the purchase side, the Company runs the risk of copper price movements. The price movements could be favorable or unfavorable to the Company. The copper price movements are periodically reviewed by a committee comprising of the Managing Director, the Executive Director, the purchase head and the marketing heads. The Company, as far as possible does not hedge against copper price movements. Instead, the Company endeavors to pass on the effect of copper price movements to the customers. Accordingly, the Company attempts to minimize the price movement risk on copper. However the Company's action to pass on the price effect happens with a time lag. Such an operating procedure has been consciously adopted by the Company. On the procurement side of copper, the Company has preferred to enter into a purchase contract on yearly basis, to ensure uninterrupted supply of copper. Pricing terms offered to the Company are on preferential basis. For other raw materials, the purchase head is authorized to buy the raw material upto the predetermined value, which if exceeds, escalates to the ED as per the authority levels fixed. For capital items, the purchase head has to necessarily take MD's approval before placement of purchase order on the supplier.

6. Event risk

Events can be segregated into natural events and man made events. For natural happenings which are adverse in nature like earthquakes, floods, tempest etc, the Company has opted for insurance cover. The insurance protects atleast the bookvalue of the assets. For man made events such as riots also, the Company has taken insurance cover. Many-a-time events do not usher in a signal or indication. The Company feels that event risk is inherent to doing business and at times may effect the Company adversely. However the Company has organised itself to deal with an event risk. For example, the 9/11 attack by terrorists on the World Trade Centre in the US sent the financial markets in a dizzy and created an uncertainty in the international trade. An emergency meeting of the wholetime Directors (including the Managing Director) of the Company was called by the Chairman. Herein the financial and export market risks were specifically evaluated and collective decisions were taken to mitigate the event risk. The Company may repeat this course of action in future.

7. Legal Risk

The Company is the market leader in cable industry. Over years, ‘Finolex’ brand has acquired enviable market value. The Company has noticed unauthorized use of brand Finolex by some market participants. The Company has engaged services of Finolex Proprietary Ltd to help the Company protecting its brand and designs / copyrights. However the Company runs the risk of duplicate products being sold under unauthorised use of Finolex logo.

Evaluation, Authorization and Reporting

A) Risk evaluation takes place at the functional level. The functional heads are authorized to incur normal expenditure to control the risk factors.

B) The functional heads have been advised to report the risk factors to the wholetime Director in-charge. The wholetime Director incharge would discuss the risk matters with other wholetime Directors and the Managing Director. Many of the issues get decided at this level. The process happens by discussion and through written communication.

C) The abnormal matters are brought to the notice of the Chairman on priority basis and within the overall organizational framework, matters are decided. A communication is sent to the concerned persons.

D) Issues involving organizational directions, issues of strategic importance and certain counter party transactions like approval of banking facilities, etc. are referred to the Board and the Board's approval sought thereon. The Board's decisions get recorded by way of Board resolutions.

E) The legal framework would require certain authorizations to be sought from the shareholders of the Company. Such issues as well as other issues which in the opinion of the Board of Directors require a reference to the shareholders are referred to the shareholders for decision. The decisions are made by way of shareholders' resolutions.

F) Matters which require approval from Government are referred to the Government for approval.

G) There are committees of the Board namely finance committee, audit committees, remuneration committee and share transfer/ investor grievance committee set up with defined objectives. The matters referred to them and their decisions are recorded by way of minutes of the meeting. These minutes are put up to the Board for noting and confirmation.

H) There exists a system of monthly reporting of financial and legal matters to the Chairman, MD and other wholetime Directors.

I) The Board is reported the following:
   i) Financial results on a quarterly basis.
   ii) The power of attorney, vakalatnama and letter of authority given by the wholetime Directors (including Managing Director) within their delegated authority.
   iii) Status of redressal of investor grievances.
   iv) Quarterly treasury activity reports (including RBI mandated forex exposure report)

Disciplinary Rules and Regulations

1) Dealing with the counter parties shall be for the defined purposes and shall be in a manner consistent with the overall risk management framework.
2) Dealings shall be done by persons authorized.
3) Dealings shall be recorded by way of a written communication.
4) The documents signed with counterparty shall include clauses for:
   a) Legality and enforceability of the transactions
   b) Rights and liabilities with regard to disclosure of information and taxation under Indian/ international laws.
   c) Force majeure conditions.
5) Legal aspects of the counter party documents shall be clarified with the company secretary.
6) Accounting of the hedge transactions shall be done in accordance with the accounting standard. In case accounting standard is not prescribed, it shall be done on settlement basis.

PART - B

FINOLEX CABLES LIMITED

Exchange Risk Management Policy

For Corporate Treasury

1. Background

In view of the fact that the Company has dealings in foreign currency for imports, exports, foreign exchange loans, etc. coupled with the fact that the forex market has been quite volatile, it is important that the Company lays down a broad framework for proactive Forex Risk management. Apart from that, the RBI also requires that each Company's Board should approve a Forex Hedge Policy and institutionalize a framework to review the implementation of the Policy.

RBI, vide its circular dated November 2, 2011, had modified the Comprehensive Guidelines on Derivatives. These guidelines are applicable to all permitted generic and structured derivative products except forward contracts which shall continue to be governed by Circular AD (DIR) 32 dated 28.12.2010. It has made it compulsory for banks to ask its corporate clients dealing in all permitted generic and structured derivatives to furnish a board resolution in a specific format on its Risk Management Policy whereby the Board confirms that the Company has a Risk Management Policy which contains the following:

- Guidelines of risk identification, measurement, reporting and control.
- Guidelines and procedures to be followed with respect to revaluations and monitoring of positions including MTM (Mark to Market)
- Designation of officials authorized to undertake transactions and limits per transactions assigned to them and a requirement that the assignment of limits to an official would be on per transaction basis.
- A requirement to ensure separation of duties between front, middle and back office.
- Mechanism regarding reporting of data to the Board including financial position of transaction etc.

Hence in this Policy, the following have been incorporated, as required by RBI:

- An organizational Structure segregating work between Front Office, Middle Office and Back Office and the function of each properly outlined.
- Designation of the officials authorized to undertake transaction, limits per transaction assigned to them and a requirement that the assignment of limits to an official to be on a per transaction basis.
- Adherence to proper Accounting Policy and disclosure norms to be followed in respect of derivative transactions.
- Derivative transactions involving leveraged and exotic products shall be entered into only with the prior express permission of the Board and if the then prevailing RBI policy permits the usage of such products.

2. Objectives

The objective of this policy is to provide an overarching framework for managing the cash flow risks associated with Foreign exchange and Interest rate exposures of the company. Specifically the policy aims to:

a. On the **‘operational’ side** [cash flows arising from regular import and export transactions], minimize the impact of adverse fluctuations in the foreign currency rates on the cash flows;

b. On the **‘financing’ side** [cash flows associated with foreign currency debt servicing obligations, i.e. principal and interest payments], minimize exchange risk while servicing loans taken in foreign currency, which may arise from adverse exchange rate movements away from the target exchange rate;

c. On the **‘project side’** [cash flows arising from imported capital equipment], adherence to INR benchmarks set during the costing of given project;

d. Investment in subsidiaries abroad, if any, either in terms of equity, shareholder’s loans, etc.;

e. Pre-shipment and post-shipment credits in foreign currency or any short term loan from banks;

f. Suppliers credits / Buyers credit.

In essence, the objective is to reduce, if not eliminate, any losses due to foreign exchange and Treasury related transactions.

3. Risk Management approach

Establishing successful policy frameworks involves articulating objectives, strategies and tactics and defining how performance will be measured.

The framework of this policy is enumerated as under:

- Risk Management policy document approval and review process
- Authority structure for entering and approving the market deals based on size of the deal
- Documentation of Business processes resulting in inception of Currency risk to the cash flows
- Identification and quantification of Currency risks pertinent in these business processes followed by the company
- Benchmarking of exposures for effective risk management
- Defining acceptable threshold limits for Stop loss & Stop Profit triggers, dealing limits, approval limits, hedging ratio etc.
- Setting up of MIS framework for seamless information flow
- Validity check for appropriateness and suitability of hedging policy
- Accounting framework of translation of foreign currency exposures and their related outstanding hedges

4. Exchange Rate Risk

a. Foreign exchange **transaction risk** is the risk that the company's cash flows will be adversely affected by movements in exchange rates that will increase the value of foreign currency payables, or will diminish the value of foreign currency receivables.

b. Foreign exchange **translation risk** relates to the effect of currency movements on the value of a company's assets and liabilities denominated in foreign currencies when those values are translated into the functional currency of the company for accounting purposes.

c. Foreign exchange **economic risk** related to the effect of currency movements on the domestic revenues and cost components which are linked to global price movements.

For the purpose of this policy, Foreign Currency is defined as any currency that is denominated other than in Indian Rupees.

5. Identification of Foreign Exchange Exposure

An Exposure can be defined as a Contracted or Projected Cash Flow whose magnitude in Indian Rupees is not certain at the moment the transaction is entered into. The company has foreign currency exposures on account of following items:

a. Trade operations

i. Export
ii. Imports
iii. Other foreign currency receivable/payables like quality claims, commission etc.
iv. Supplier's credit / Buyers credit in foreign exchange.

b. Short term exposures

i. Foreign currency short term loans in form of FCNR(B), PCFC
ii. Short term bridge loans denominated in foreign currency
iii. Foreign exchange debt Principal and interest repayments due within 1 year

c. Long term liabilities

i. Long term foreign currency liabilities for project expenditure
ii. Payments due against imported capital equipment for projects

Export Receivables

The inception of exchange fluctuation risk on foreign currency receivables happens the moment export marketing department confirms the contract with a customer at an underlying rate foreign currency conversion rate used for pricing that contract

For the purposes of identifying the exposures, the export receivables need to be segregated into two parts:

a. **Actual/Confirmed receivables:** These receivables relate to export orders already committed for which shipment has either already happened or yet to happen. As a result of which, the tentative date of receipt is almost certain based upon the shipment schedule and credit terms.

b. **Forecasted receivables:** These receivables are based upon the company's sales budget and the dispatch plans.

For the purposes of this policy only Actual/Confirmed receivables will be hedged using permitted hedging instruments.

Import payables:

The inception of exchange fluctuation risk on foreign currency payables happens the moment purchase department confirms the purchase contract with supplier at an underlying foreign currency conversion rate used for pricing that contract.

For the purposes of identifying the exposures, the import payables need to be segregated into two parts:

a. **Actual/Confirmed payables:** These receivables relate to import orders already committed for which shipment has either already happened or yet to happen. As a result of which, the tentative date of payment is almost certain based upon the shipment schedule and credit terms.

b. **Forecasted payables:** These payables are based upon the company's procurement budget in line with the dispatch plans.

For the purposes of this policy only Actual/Confirmed payables will be hedged using permitted hedging instruments.

6. ***Management of Exposure***

It is prudent to follow hedging of exposures to minimize the negative impact of exchange risk on cash flow and profitability of the company. The overall hedging of exposures shall be governed by following risk management parameters:

- All exports and imports on trade account are to be hedged using a forward cover. The Company is risk averse in the short term and would seek to protect margins by removing the variability related to currency fluctuations.
- Imports of capital equipment will be financed either by way of Buyers Credit (initially for a period of 6 months, extendable subject to credit availability to a period of 3 years) or by way of Long Term Loans. Where the financing is by way of a short term Buyers Credit, such imports will be covered by a forward cover. Where, however, such imports are financed by a confirmed long term Buyers Credit or by way of a Long Term Loan, such exposure will be covered by means of an Option contract.
- Similarly, other Long term foreign currency liabilities (such as an ECB for eg) will be covered by Option contracts.

In the case of forward covers for short term exposures, all exposures above a value of USD 25000/- will be fully hedged.

In the case of option contracts for Long Term exposures, at any point in time at least 50% of the outstanding exposures or exposures in excess of USD 10 million will be covered.

Trading in currency derivatives is completely prohibited under the Company policy – the aim of this policy is to secure protection against possible currency fluctuations and there is no intent to seek gains out of currency fluctuations.

Communication with banks and foreign exchange dealers in connection with obtaining quotes, confirming forward covers or options will follow the protocol laid down in Board Resolutions (as modified from time to time) in this regard.

Quarterly disclosure of covered exposures will be made to the Board.

FOREX RISK MANAGEMENT – DELIGATION OF AUTHORITY

The Board, after approving the Forex Risk Policy, is empowered to delegate the monitoring and review of the policy to a Forex Risk Management Committee (FRMC). The Board shall review the Forex Risk Management on an annual basis. Any modification to this Policy shall be effective on the recommendation of the Audit Committee and approval of the Board.

The FRMC will comprise of:

1. Managing Director
2. Director Finance & CFO
3. President / SVP / VP - Finance

ROLES AND RESPONSIBILITIES OF FRMC:

The FRMC should meet monthly over the phone, electronically or otherwise and discuss the following:

1. Current exposures of the Company (both transaction and translational)
2. Current market situation, in particular in foreign currencies which are critical to the operations of the Company
3. Outstanding Hedging position
4. Take hedging decisions within the agreed broad framework of hedging rules, ratio, process and instruments.

Key decisions of the FRMC shall be minuted

ROLES AND RESPONSIBILITIES OF TREASURY:

Treasury would be responsible for the following:

1. Identifying forex exposures of the Company
2. Monitoring financial market trends to assess the risks vis-à-vis exposures
3. Consider and evaluate alternative hedge strategies to mitigate the risks
4. Process of evaluation of hedge prior to executing the transaction:
    a. Speaking to banks for market views
    b. Taking market views from other Finolex group companies
    c. Speaking with external agencies, if any are appointed
    d. Taking quotes from various banks
    e. Evaluating the effectiveness of hedge
5. Execution of hedge
6. Compliance with current and future legal requirements
7. Maintaining appropriate documentation
8. Review and report to the FRMC in case of change of scenario or sudden events

The relevant foreign exchange transactions and contracts should be authorized and executed by the directors, officers as listed in the Board Resolution dated 3rd May 2012, or such other amended resolution, from time to time.

ROLES AND RESPONSIBILITIES OF FINANCE AND TREASURY DEPARTMENTS:

On a monthly basis, Treasury and Finance Departments shall review the status in respect of the following:

a. Month wise foreign currency principal and interest installments becoming due over next 12 months
b. Due date of short term loans, FCNR (B) and PCFC loans
c. Proposed drawdown of Foreign currency short term loans based upon cash flow planning
d. Details of Long term foreign currency liabilities (FCL, FCCB and ECB) for project expenditure, such as

- Amount outstanding as at the end of each month
- Average Maturity and terminal maturity date of the loan
- Interest rate

e. Actual and forecasted schedule of payment for liabilities incurred for procuring imported capital equipment to be obtained **from Purchase Department**

PERMISSIBLE INSTRUMENTS AND CURRENCIES:

Permissible currencies

The permissible currencies in which the Company would enter into deals and derivatives would be USD, Euro, GBP and JPY. The FRMC of Finolex Cables has the discretion to permit deals in other currencies.

Permissible Instruments

The various instruments that RBI has permitted are listed in Annexure 1

Instruments for different Tenors used / to be used by Finolex Cables are:

Tenor of the exposure	Hedging Tool - Currency	Hedging Tool - Interest Rates
0 - 6 months	Forwards, vanilla options (plain)	To be negotiated in the loan document
6 months - 1 year	Forwards, vanilla options (plain)	To be negotiated in the loan document
1 year - 3 years	Principal Only Swaps, Interest Only Swaps, options	IRS, MIFOR & Option Contracts
More than 3 years	To be referred to the Board	

Prior to entering into any hedge transaction, approval should be taken from the directors/officers as per the relevant Board Resolution and the hedge should be within the limits specified in the relevant FRMC meeting.

The above table is only indicative and is for providing guidance on the nature of hedging tools to be used by the Company and its subsidiaries, if any. However, depending on the market conditions, it may be necessary to use other hedging tools. The FRMC of the Company has the discretion to consider other permissible instruments as given in Annexure 1 and to decide on it. Derivative transactions involving leveraged and exotic products shall be entered into only with the express prior permission of the Board and if the extant RBI policy permits usage of such products

GUIDING PRINCIPLES TO GOVERN THE ABOVE STRATEGY:

a. Risk identification and quantification shall be owned by Treasury.
b. The hedging decision and the hedging instrument shall be decided giving regard to the currency view for the tenor of the hedge.
c. The internal view shall be formulated considering views of banks and other Group Companies. If required the help of outside consultants may also be sought from external experts, whether individual or agencies, subject to prior approval of FRMC.
d. The accounting perspective should be checked before arriving at any decision on the process in conjunction with the Accounts team and proper accounting policy and disclosure norms shall be followed in respect of derivative transactions
e. Tenor and Amount Limit:
   The tenor and amount of the deal shall not exceed the tenor and value of underlying exposure, the nature of the transaction is to hedge risk, not be speculative.
f. Hedges with tenor of 3 years or more will require approval from the Board in addition to approval from the FRMC.
g. Counterparty Limits:

Sr No	Bank Name	Notional Amount
1	Bank of Baroda	USD 15 million or equivalent
2	Central Bank of India	USD 15 million or equivalent
3	Citi Bank	USD 15 million or equivalent
4	Corporation Bank	USD 15 million or equivalent
5	HDFC Bank	USD 15 million or equivalent
6	ICICI Bank	USD 15 million or equivalent
7	State Bank of India	USD 15 million or equivalent
8	The Bank of Nova Scotia	USD 15 million or equivalent
9	Axis Bank	USD 15 million or equivalent

The above limits can be reviewed and increased by the FRMC within the limits approved in this regard by the Board from time to time. Also, additional counterparty banks may be recommended to the FRMC based on the bank's India/overseas credit rating and the relationship with the Company. The FRMC may approve of such new counterparty through mails or physical meetings.

provided that the aggregate limit for all the counterparties (Banks) put together shall not at any time exceed the ceiling limit of USD 100 Million or equivalent currency;

provided further that for purpose of compliance with the aforesaid individual Bank wise limit of USD 15 Million or equivalent currency and/or the overall ceiling limit of USD 100 Million or equivalent currency, the notional amounts of all outstanding forex forward contracts and/or derivative contracts entered into by the Company with each of the concerned Bank and/or all the Banks put together, as may be applicable, shall be taken into account and the notionals of any long and short positions shall not be netted off for the said purpose; and

An ISDA agreement between the Company and the counter-party bank should be a pre-requisite to enter into a derivative transaction.

ORGANIZATIONAL STRUCTURE:

- There shall be complete segregation of Front Office, Middle Office and Back Office in terms of functionality, with respect of dealing in Derivatives Contracts. The domain of responsibility under various offices is described below:

Front Office	To take quotes from banks, transact with the banks and report to Middle Office the details of the deals.
Middle Office	To verify the terms of the deal and check compliance issues (including individual bank limits) and to act as bridge between Front and Back Office.
Back Office	To report the deal to signing and reporting authorities and to check accounting, settlement and reconciliation of the deal.

- The designation of officials authorized to transact the hedge in accordance with the relevant FRMC decision and limits per transactions are as follows:

1. President / SVP / VP - Finance: USD 1 million per transaction
2. Senior Manager - Finance: USD 1 million per transaction

- The settlements shall be done by the back office after confirmation with the counterparties (banks)
- The confirmation can be done over the recorded lines with the counterparties (banks).
- The signing and reporting authority for such transaction will rest on the concerned Directors/Officers of the Company as per Board Resolution dated 3rd May 2012 or such other amended resolution, which is to be submitted to the concerned bank before transactions are undertaken.
- There will be a formal and independent compliance function which monitors legal, regulatory, policies, procedures and limits.
- There shall be an annual internal audit of the Treasury (Front, Middle and Back Office) to be done by the internal audit department.

IT INFRASTRUCTURE:

- Newswire 18, Bloomberg or Reuters are recommended as a News Service, along with its pricing system, to ensure proper rates and quotes.

POST EXECUTION RISK MANAGEMENT ACTIVITIES:

After the execution of deals, following shall be taken care of for better internal control, by the Middle and Back office:

- Ensuring requisite approvals have been taken for all hedges
- Ensuring each deal is designated to the underlying exposure
- Ensuring deals are recorded in a proper handbook/register for the same
- Ensuring deal is recorded correctly in the accounting system

- The Back-office would issue deal confirmations (duly authorized by the signatories) to the counterparties and their deal confirmation to be matched with the Bank records. Any mismatch to be investigated immediately with the dealer and the counterparties and resolved.

MIS AND REVIEW MECHANISM:

- Exposure reports (clearly mentioning the hedged / un-hedged positions with the tenor and currency details) and profit/loss reports would be circulated to the related authorities on a monthly basis and to the Board of Directors on a quarterly basis.
- There would be proper periodic review meeting of Treasury by respective authority responsible to ensure proper control and performance.
- A proper performance monitoring of the hedges would be done through maintaining proper mark to market (MTM) records (this would be done either on Bloomberg/Reuters or reliance would be placed on bank confirmations) and a deal-wise P&L.
- MTMs of the hedges executed should be furnished to the FRMC on a monthly basis. The evaluation will be done on the last day of every month.
- Review exposure and report to the FRMC in case of change of scenario or sudden events.
- Bank-wise hedges vis-à-vis limits with each bank to be maintained.
- Adherence to requirements under applicable accounting standards to be ensured.
- The Board will be informed periodically the position regarding forex exposure and action taken to mitigate the same.

Annexure 1

In addition to generic derivative products, structured derivate products may be used as long as these products do not contain any derivative instrument as underlying and provided that they have specifically been permitted by Reserve Bank of India (RBI)

The various instruments that RBI has permitted are as follows:

Generic derivative products:

- Forex Forward Contracts
- Forward Rate Agreements
- Interest rate caps and floors (plain vanilla only)
- Plain Vanilla Options (call option and put option)
- Interest Rate Swaps
- Currency Swaps including Cross-Currency Swaps

Structured derivative products:

- Instruments which are combination of either cash instrument and one or more generic derivative products
- Instruments which are combination of two or more generic derivative products