

SUMMARY CHAPTER No. 24

EXTENSION / CANCELLATION OF

FORWARD CONTRACTS

Extension of Forward Contracts: A customer who has entered in to a forward contract may not always be able to complete it on the due date for reasons beyond his control, such as strike, transport delay, non-receipt of supplies, non-availability of shipping space, etc., in such circumstances the contract may, at the request of the customer, be extended at the option of the banker, on, before or after the date of delivery of the exchange under the contract.

Extension of Forward Purchase Contracts:

(a) **Time limit:** A forward purchase contract may be extended by the authorized dealer, provided that the last date of delivery of the foreign exchange under the extended contract does not fall beyond 3 months in the case of exports to Pakistan or Afghanistan and 6 months in other cases from the date, or the expected date of shipment. (b) **Roll-over Forward Purchase Contract:** A roll-over forward purchase contract under a deferred payment arrangement may, at the end of the initial period of 6 months and thereafter at the end of each subsequent period of 6 months, be renewed by the authorized dealer, provided that the deferred payment terms were originally approved by the Reserve Bank. (c) **Extension for Relaxed Period:** Where the Reserve Bank has relaxed the time limit for the realization of the proceeds of exports, an extension of a forward purchase contract against such exports, may be allowed without reference to the Reserve Bank.

Extension of Forward Sale Contract:

(a) **Time limit:** A forward sale contract may be extended for a further period without reference to the Reserve Bank provided that the last date of delivery under the extended contract does not fall beyond six months from the date, or the expected date, of shipment. (b) **Roll-over Forward sale Contract:** The extension of a forward sale contract on a roll-over basis under a deferred payment arrangement may, without any reference to the Reserve Bank, be allowed after the initial or a subsequent period of six months, provided that the deferred payment arrangement was originally approved by the Reserve Bank. (c) **Forward Sale Contract Against Surplus Freight:** The extension beyond the original period of two months of forward sale contact with a foreign steamship / airline company operating in India against remittance to its Head Office of surplus collection is permissible only with the prior approval of the Reserve Bank. (d) **Cross currency and Other Forward sale Contracts:** A cross-currency forward sale contract in respect of import invoiced in a currency other than the currency of the loan, or a forward sale contract covering remittances to be made by an Indian airline/shipping co. requires prior approval of the Reserve Bank.

Cost of Extension: As a forward sales or purchase contract is, as a rule, covered by a matching purchase or sale of an equivalent amount of the same currency, an extension of contract, if any required, would necessitate a reversal of the cover operation by a swap. Subject to Exchange Control Regulations, a forward contract may be extended on the realization of the cost, the cost of swapping the cover plus the interest on the outlay of funds. Cash outlay arises when the swap spot purchase rate is lower, or the spot selling rate is higher, than the contract rate, cost may be recovered in cash, allowing the contract to continue unaltered.

Cancellation of Contract: A forward contract cannot be utilized against any other foreign exchange commitment or risk. The unutilized portion, if any of a forward contract is therefore required to be cancelled.

Procedure: The unutilized portion of a forward contract, irrespective of the amount involved, may be cancelled by the contracting bank without reference to the Reserve Bank. No forward contract should be kept open for an unreasonable length of time merely on the ground that the application for cancellation has not been received from the customer. The amount cancelled should be endorsed on the Exchange Control Copy or the relative import license. A report of the cancellation should immediately be sent to the Reserve bank along with the documentary evidence.

In Case of Deferred Payment Contract: A forward contract, covering an import and export on a deferred payment basis, can not be cancelled without the approval of the Reserve bank.

Statement: A monthly statement on the prescribed form of all rollover contracts in respect of imports or exports on deferred payment basis as well as outstanding contracts should be sent to the Controller, Exchange Control Department, Reserve Bank of India, Central Office Mumbai.

Cost of Cancellation: The cost of cancellation is a sort of penalty payable by the customer. If any reason, the cancellation of a forward contract is not affected on the date of expiry, interest is charged by the bank for the overdue period.