

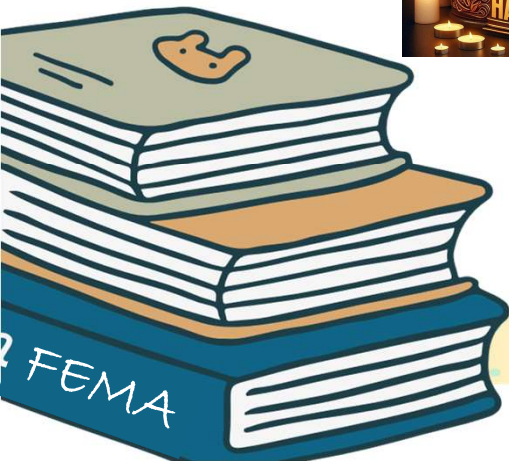
JAIN SHRIMAL & CO.

FEMA Ke Fundae

#FamiliarwithFEMA



Hedging of commodity
(Price and Freight Risk)



Date: 01-01-2025

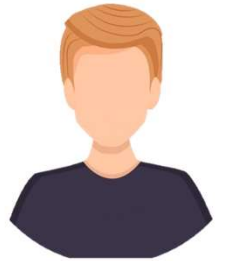
Issue no: 134





**Aakash
(Indian resident)**

Hello Mr. FEMA Gyani, I am Aakash an Indian resident. I run a company called 'bronze Ltd.', which imports copper from overseas. Lately, we've been struggling with the fluctuating prices of copper. Can you explain how we can protect ourselves from such price volatility under the RBI's guidelines?"



The FEMA Gyani

Hello Aakash! You're talking about hedging. It is the activity of undertaking a derivative transaction to reduce an identifiable and measurable risk. Companies like bronze Ltd. can hedge their commodity price risk in overseas markets.



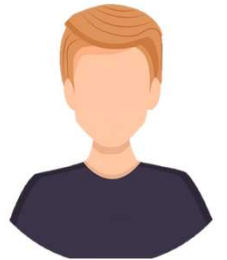
**Aakash
(Indian resident)**

Got it. Which entities are eligible for hedging?



Eligible entities includes:

- listed on recognized domestic stock exchanges or
- fully owned subsidiaries of such entities or
- unlisted entities whose net worth is higher than INR 200 crore, subject to the conditions.



The FEMA Gyani

Understood. Which commodities can we hedge under these guidelines?



**Aakash
(Indian resident)**



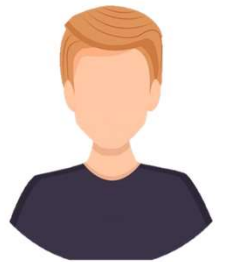
The RBI allows you to hedge the price risk of all commodities except gems and precious stones in case of direct exposure and Other commodities such as gold, aluminum, and Lead, Zinc, Nickel, and Tin. In case of indirect exposure.



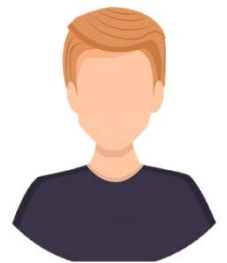
**Aakash
(Indian resident)**

. Okay , so what are direct and indirect exposures?

Direct Exposure to Commodity Price Risk – An eligible entity will be said to have direct exposure to commodity price risk if (a) It purchases/sells a commodity (in India or abroad) whose price is fixed by reference to an international benchmark; or
(b) It purchases/sells a product (in India or abroad) which contains a commodity and the price of the product is linked to an international benchmark of the commodity.



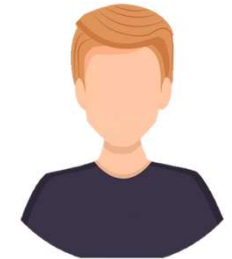
The FEMA Gyani



The FEMA Gyani



Indirect Exposure to Commodity Price Risk – An eligible entity will be said to have indirect exposure to commodity price risk if it purchases/sells a product (in India or abroad) which contains the commodity and the price of the product is not linked to an international benchmark of the commodity.



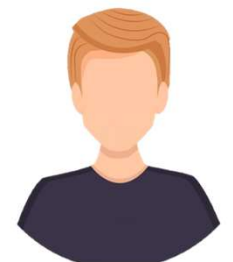
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Okay, so what are the permitted financial products?



**Aakash
(Indian resident)**

Companies can use a range of financial products for hedging such as, These include futures, forwards, vanilla options, and swaps.



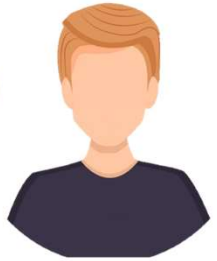
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Aakash
(Indian resident)

Got it! So, how do these regulations help businesses like ours?

By allowing you to hedge commodity price and freight risks, the RBI helps you protect your business from the volatility of international markets. This ensures that your financial exposure remains controlled, even when market conditions fluctuate.



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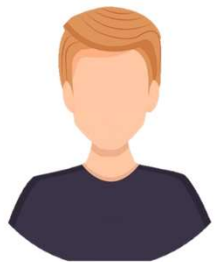


Aakash
(Indian resident)

How does the RBI ensure that everything is in compliance with the guidelines?



The RBI requires that Banks shall obtain an annual certificate from the statutory auditors of the entity confirming that the hedge transactions and the margin remittances are in line with the exposure of the entity. The statutory auditor shall also comment on the risk management policy of the entity for hedging exposure to commodity price risk and freight risk.



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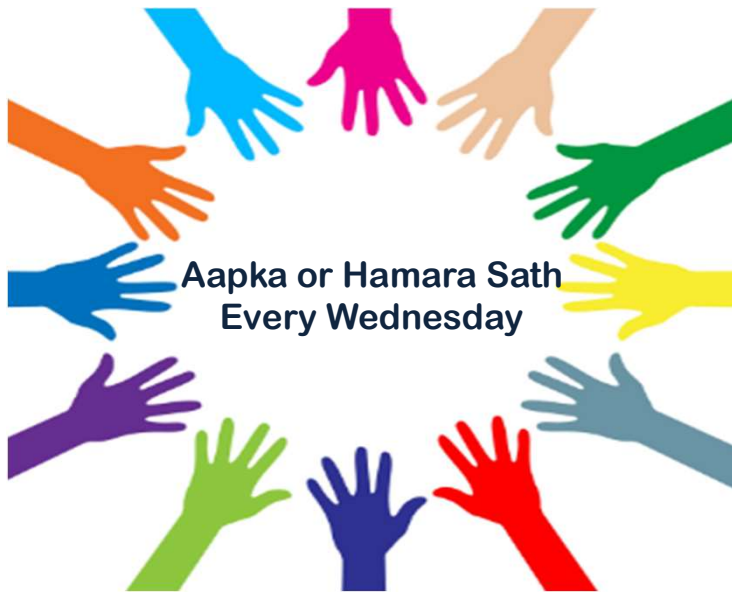
That clears it up! Thank you, FEMA Gyani. now I understand how the RBI's hedging guidelines can benefit bronze Ltd. in managing our commodity and freight risks.



Aakash
(Indian resident)



Thank You



The FEMA Gyani

Comments

Feedbacks

Suggestions



<https://in.linkedin.com/company/jscoa>

WEBSITE

<https://jainshrimal.com/>



International Tax Gyan
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