



Policy on Foreign Risk Management  
&  
SOP of External Commercial Borrowings (ECB)

## DOCUMENT CONTROL

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### Key for R-A-C-I Matrix

Abbreviation	Particulars
R	Responsible
A	Approver
C	Consulted
I	Informed

### Acronyms

Acronym	Name
INV	Foreign Investor
DH	Department Head (Accounts & Finance)
FH	Functional Head (Finance)
FE	Executive (Finance)
KMP	Key Management
AD	Accounts Department

## **Introduction**

Midland Mircofin Ltd. (MML), a company registered as non-deposit taking NBFC-MFI with Reserve Bank of India, is predominantly engaged in the business of lending microfinance to women in rural areas for business development purposes under JLG model. External Commercial Borrowings (ECB) and Non-convertible debentures are also a source of funding for the company. Hence, it may be exposed to various risks such as currency risk, interest rate risk etc. The company must follow the guidelines issued by RBI for raising external commercial loans such as minimum average maturity period, end-uses for which ECB proceeds cannot be used etc.

## **Objective**

While raising funds in foreign currency, the company is exposed to various sorts of risks such as foreign currency risk, interest rate risk etc. The objective of this policy is to create an institutional mechanism for ascertaining and managing foreign currency risks and ensuring all the precautions against these risks. This policy also states standard operating procedure while entering any foreign transactions. Hedging reduces and eliminates the risk of uncertainty. The aim of this strategy is to restrict the losses that may arise due to unknown fluctuations in the exchange rate or interest rate.

## **Risk Management & Financial Objective**

Risk is an integral part of the Company's business and sound risk management is critical to its success. While raising funds in foreign currency, the company is exposed to various sorts of risk associated with it. The Company continuously identifies potential risks in advance, analyzes them and takes precautionary steps such as hedging to reduce/curb the risk. Various risks have been enlisted below that are critical in raising the funds in the foreign currency:

## **Type of Risks**

- 1) **Exchange Rate Risk**- Exchange rate risk is the risk caused by changes in the Value of Currency. It is based on the effect of continuous and usually volatile shifts in the worldwide supply and demand balance. It can impact on the Statement of Profit & Loss by increasing the liability of the company at the payouts.
- 2) **Interest Rate Risk**- Interest Rate risk refers to the risk associated with the fluctuation in the interest rate. Generally, the funds which are raised through ECB have certain guidelines as prescribed by the Reserve Bank of India (RBI) mentioning the linkage of the interest rate with the interbank rate or alternative reference rate (ARR) of 6-month tenor. These rates are floating rates that can have negative impacts if they increase in future.
- 3) **Transaction Risk**- Transaction risks are the simplest currency risk to measure and manage. These occur because of timing differences between a contractual commitment and actual cash flows.

Transaction risks can be hedged with financial instruments, forward contracts including currency futures, swaps, or options.

- 4) **Credit Risk-** Credit risk refers to the possibility that an outstanding currency position may not be repaid as agreed, due to a voluntary or involuntary action by a counterparty. Credit risk is usually something that is a concern of companies and banks. This risk generally depends upon the creditability of the institution that can be severely impacted due to unascertained future events that can't be anticipated and mitigated.
- 5) **Liquidity Risk-** Liquidity risk refers to the risk that the company may not meet its financial obligations. Liquidity risks arise due to the unavailability of adequate funds at an appropriate time. The objective of liquidity risk management is to maintain sufficient liquidity and funds are available for repayment as and when it is due.
- 6) **Compliance Risk-** Compliance risk is associated with fulfilling the requirements as prescribed by RBI with respect to ECB such as reporting requirement, minimum average maturity period or end uses of funds raised. The link to RBI circular on ECB- [https://rbi.org.in/Scripts/BS\\_ViewMasDirections.aspx?id=11510](https://rbi.org.in/Scripts/BS_ViewMasDirections.aspx?id=11510) . However, with respect to raising the funds through NCD route, funds will be come in INR, and it must comply with the requirements of Companies Act 2013, SEBI regulations, RBI guidelines and under other acts like stamp duty etc.

### **Managing the Foreign Currency Risk**

Foreign exchange risk is a financial risk that exists when a financial transaction is denominated in a currency other than the domestic currency of the company. The company is exposed to certain risks relating to its ongoing business operations. The primary risks managed using derivative instruments are interest rate risk and foreign currency risk. To manage the risk associated with fluctuation in the exchange rate or interest rate, the company enters hedging contract.

- 1) **Review of operating Cycle:** - Firstly, we need to review the operating cycle to assess where foreign exchange risks exist. This will help in opting for a suitable hedging strategy and managing your liquidity risk.
- 2) **Manage and measure your exposure to currency Risk:** - This includes the risk exposure before a transaction is agreed upon and the actual risk that exists after a completed transaction. A clear understanding of pre and post transaction risk will help in deciding the needed level of hedging. Transaction risks are the simplest currency risk to measure and manage. These occur because of timing differences between contractual commitment and actual cash flows. Transaction risks can be hedged with financial instruments, including currency futures, swaps, or options.
- 3) **Hedging the Currency Risk:** - Hedging means using financial instruments such as currency swaps or forward contracts to lock in currency rate so that it remains the same over specified period. Although, RBI has reduced the mandatory hedging of overseas borrowings to 70%, still various factors need to be considered such as interest rates, world market condition etc. while deciding

the hedge ratio as the company may face higher debt costs consequently in the depreciation in the rupee. Few of the hedging instruments are mentioned below: -

- **Currency Swaps:** - To hedge long-term transactions to currency rate fluctuations, currency swaps are used. When the interest payments are subject to floating rate, the company may use Full currency swaps to hedge its risk associate with principal and coupon payments on underlying exposure. Fixed interest payments are frequently exchanged for floating payments.
  - **Forward Contracts:** - Currency forward contracts are other options to mitigate currency risks. Forward contracts can also be used for hedging purposes and enable the borrower to lock in a specific currency exchange rate. These contracts can be customized by amount and date of interest and principal payment and offer a complete hedge. Forwards are traded over the counter.
  - **Futures:** - Future contracts are like forwards contracts with a difference that they are traded on an exchange and are highly standardized whereas forward contracts can be privately negotiated.
  - **Currency Options:** - A currency option (forex option) is a derivative financial instrument that gives the right but not the obligation to exchange (buy or sell) money denominated in one currency into another currency at a pre-agreed exchange rate on a specified date. The risk associated with currency options is limited to the premium paid. There is no obligation required on the part of the buyer.
- 4) **Don't let hedges squeeze the working capital:** - Although the essential advantage of hedging is that it protects your profit from unfavorable movements in the foreign exchange rate. The bank requires security for issuing any foreign exchange facility. It will usually be carved out from the operating line, hence reducing the working capital.

Hence, all the above-mentioned points are required to be taken into consideration while managing your foreign currency risk and choosing an appropriate hedging strategy for the same.

### **External Commercial Borrowings**

An **ECB** is an instrument used in India to facilitate Indian companies to raise money outside the country in foreign currency. ECB can be raised by automatic route or under approval route. Under automatic route, the government has permitted some eligibility norms with respect to industry, amounts, end-use etc. If a company passes all the prescribed norms, it can raise money without any prior approval.

For specific pre-specified sectors, the borrowers must take explicit permission of the government/The Reserve bank of India (RBI) before borrowing through ECB. RBI has issued formal guidelines and circulars specifying these rules for borrowing.

The company must follow certain guidelines as prescribed by RBI in its circular while raising funds through ECB mode such as: -

- The minimum average maturity period of the loan should be 3 years. Call and put options, if any, shall not be exercisable prior to completion of minimum average maturity.
- Currency of borrowing-Any freely convertible foreign currency.
- All entities eligible to receive FDI can raise funds through ECB mode.
- All-in-cost ceiling per annum (500 bps over the ARR)
- RBI also prescribes a negative list for which ECB proceeds cannot be utilized.
- Issuance any type of guarantee by NBFC's relating to ECB is not permitted
- ECB proceeds can be parked in India or Abroad as per the manner prescribed by RBI.
- RBI also prescribes reporting requirement for the entity.

**Procedure for raising ECB:**

Sr No.	Process Steps	R	A	C	I
1.	<b><i>Mandate for the prospective investor</i></b> <ul style="list-style-type: none"> <li>• Firstly, a mandate will be given to the arranger for the proposed foreign investor by FE.</li> </ul>	FE	FH	DH	
2.	<b><i>Operation and Financial data sharing</i></b> <ul style="list-style-type: none"> <li>• If INV shows interest in the deal and wants to proceed, then as per requirement the arranger/INV will demand financial &amp; operational data, which will be shared by MML considering the data confidentiality.</li> </ul>	FE			
3.	<b><i>Term sheet sharing by the INV and Discussion with Authorised Dealer Banks</i></b> <ul style="list-style-type: none"> <li>• The arranger will share the indicative term sheet received from the INV.</li> <li>• The following terms will be analysed before giving ok for the term sheet: <ul style="list-style-type: none"> <li>- ARR</li> <li>- Spread over the ARR, whether it is within the ceiling limit as prescribed by RBI</li> <li>- Commitment fees</li> </ul> </li> </ul>	FE/FH	DH	KMP	

Sr No.	Process Steps	R	A	C	I
	<ul style="list-style-type: none"> <li>- Arranger fees</li> <li>- Disbursement date</li> <li>- Maturity date (Minimum average maturity period)</li> <li>- Principal &amp; Interest payment frequency</li> <li>- Collateral</li> <li>- Covenants (Financial/Non-Financial)</li> </ul> <ul style="list-style-type: none"> <li>• The terms must comply with the RBI guidelines (<a href="https://rbi.org.in/Scripts/BS_ViewMasDirections.aspx?id=11510">https://rbi.org.in/Scripts/BS_ViewMasDirections.aspx?id=11510</a> ). FH will update and check the compliance with guidelines as amended from time to time.</li> <li>• As it is ECB, the hedging cost is also a contributory factor in the acceptance of the term sheet.</li> <li>• The discussions with the Authorised Dealer (AD) Banks approved by RBI will be initiated to get an idea of the hedging cost.</li> <li>• All the terms will be shared with the AD Bank over the email. The hedging cost will be communicated by the AD Bank. If it is within the acceptance limit of MML, only then the deal can be executed. If there is any FLDG that is to be taken by AD bank, then this factor is also to be considered while taking decision over the term sheet.</li> <li>• After getting approval from DH over the email, the arranger/INV will be informed to proceed further for due diligence.</li> <li>• This whole process will be done after due diligence where the INV shares only</li> </ul>				



Sr No.	Process Steps	R	A	C	I
	final term sheet, not indicative term sheet prior to due diligence.				
4.	<b><i>Due Diligence</i></b> <ul style="list-style-type: none"> <li>The INV will conduct due diligence. They will visit the branches and Head Office.</li> <li>FE will co-ordinate with the arranger/INV and ensure that everything must be done smoothly. The agenda of the meeting will be taken from the INV.</li> <li>For the branch visit, proper emails will be sent to all the branches, Cluster managers, Divisional Managers, Regional Managers and COO.</li> <li>Cluster Manager or above must accompany the INV during branch or field visit. From the Finance team also, one person will accompany the INV.</li> <li>The INV will also visit Head Office. So, the emails to be sent to all the HODs by FE and confirm the itinerary.</li> <li>For management meet, availability of MD and COO must be checked before conforming to the INV. If yes, then agenda of the meeting will be shared with MD, COO, and their personal assistant.</li> </ul>	FE		FH	KMP/HODs/B ranches
5.	<b><i>Final term sheet</i></b> <ul style="list-style-type: none"> <li>After getting approval from the Investment Committee, the INV will share the final term sheet.</li> <li>In some cases, even the final term sheet can be shared after Due Diligence and no indicative term sheet.</li> <li>Final terms will be compared with the indicative term sheet. In case there is difference in any of terms then the same needs to be verified.</li> </ul>	FH	DH		


Sr No.	Process Steps	R	A	C	I
	<ul style="list-style-type: none"> <li>Then the acceptance of the Final term sheet will be given to the arranger/INV.</li> <li>If there is any ROI change, then the approval of DH is to be taken.</li> </ul>				
6.	<p><b>Approval of AD</b></p> <ul style="list-style-type: none"> <li>Required operational/financial data for credit limit will be shared by FE with the AD Bank.</li> <li>Final terms will be shared with the AD Bank.</li> <li>The following documents will be executed for credit limit sanction: <ul style="list-style-type: none"> <li>Board Resolution (by MML's CS)</li> <li>KYCs of the company</li> <li>Any other document as required by the AD Bank.</li> </ul> </li> <li>AD will put the proposal to its committee for hedging limit and once the limit is sanctioned, then the execution will start.</li> <li>The Sanction letter will be shared by the INV.</li> <li>ISDA Agreement will be executed with the AD Bank which is mandatory for appointment of AD bank.</li> </ul>	FE			
7.	<p><b>Documentation</b></p> <ul style="list-style-type: none"> <li>Appointments of legal counsel and trustee will be done by MML as per the preference of the INV.</li> <li>Draft versions of the documents will be shared by the legal counsel.</li> <li>The documents are as below: <ul style="list-style-type: none"> <li>Loan Agreement</li> <li>INV's Repayment Schedule</li> <li>Commitment Fee letter</li> </ul> </li> </ul>	FE	FH		

Sr No.	Process Steps	R	A	C	I
	<ul style="list-style-type: none"> <li>- Term Sheet</li> <li>- Board resolution for authorized signatory of MML</li> <li>- Security Trustee Agreement</li> <li>- Deed of Hypothecation</li> <li>- Customer Request Letter for NOC by MML to AD Bank for security creation</li> <li>- NOC letter from AD Bank for Security Creation</li> <li>- Conditions precedent (CP) certificate by MML and Trustee.</li> <li>- Loan Registration Number (LRN) -refer point 8</li> <li>- Stamp papers to be procured by FE</li> </ul> <p>The above list can be varied based upon the INV.</p> <ul style="list-style-type: none"> <li>• All the above documents will be thoroughly checked by FE/FH.</li> <li>• After taking confirmations from all the parties, executable versions of documents will be circulated.</li> <li>• Then the documents will be signed by the authorized signatory of MML, INV &amp; trustee.</li> <li>• In case of signing scanned documents, scanned copies will be shared to the INV/trustee for signing.</li> <li>• Then the INV/trustee will share the signed copies of the documents through email.</li> <li>• The scanned copies of the signed documents will be kept by FE and FH.</li> </ul>				

Sr No.	Process Steps	R	A	C	I
8.	<p><b><i>LRN application by AD Bank</i></b></p> <ul style="list-style-type: none"> <li>Once the Loan Agreement is signed, LRN will be applied for by the AD Bank. This process will be run parallelly by the AD bank along with the documentation.</li> <li>Form ECB and Customer Request Letter will be filled in by FE, approved by FH and shared with the AD Bank.</li> </ul> <div data-bbox="371 703 427 764" data-label="Image"> </div> <p>Form ECB</p> <ul style="list-style-type: none"> <li>AD Bank will file Form ECB &amp; other documents with RBI.</li> <li>LRN will be shared by AD Bank once it is approved by RBI.</li> <li>LRN will be shared with the arranger, INV and trustee.</li> </ul>	FE	FH		
9.	<p><b><i>Trade Settlement with the AD Bank</i></b></p> <ul style="list-style-type: none"> <li>On the disbursement date, trade will be settled with the AD Bank. While trading, type of swap, exchange rate and hedging rate will be finalized.</li> <li>Once finalized, trade confirmation call will be done with the authorised signatory of MML by AD Bank over the recorded line to close the final rates.</li> <li>Then the signed Derivative Term Sheet and Contract will be shared by the AD Bank.</li> </ul>	FH	DH		
10.	<p><b><i>Disbursement</i></b></p> <ul style="list-style-type: none"> <li>On the disbursement date, the INV will transfer the loan amount to the AD Bank in the account details shared by the AD Bank in foreign currency.</li> </ul>	FE	FH		

Sr No.	Process Steps	R	A	C	I
	<ul style="list-style-type: none"> <li>• Post trade confirmation, an inward remittance letter (for receiving the disbursed amount) will be provided by MML to the AD Bank wherein the foreign currency amount, bank account detail and other details as required will be filled in.</li> <li>• FE will take the bank account detail from AD in which the disbursement is to be taken. It will be signed by the authorised signatory.</li> <li>• Then AD Bank will convert the received foreign currency into INR and disburse into the MML's bank account. Inward remittance advice will be shared by the AD Bank.</li> <li>• For making commitment fees payment, an outward remittance letter (Form A2), Form 15 CA CB &amp; INV's invoice (Fee letter) will be given to the AD Bank by MML. Withholding tax must be deducted after grossing up the fee amount at the prevailing tax rate.</li> <li>• The required payment in INR will be made by MML to the AD bank in the bank account as provided. Then the AD Bank will convert the amount into foreign currency and transfer to the INV. Confirmation will be given by the AD Bank through debit advice.</li> <li>• After receiving and making payment, confirmation email will be shared to the INV by FE/FH.</li> <li>• Journal entries for recording the loan and fee payment will be given by FH to the AD.</li> </ul>				

Sr No.	Process Steps	R	A	C	I
11.	<b><i>Tagging of Book Debts</i></b> <ul style="list-style-type: none"> <li>Book debts must be tagged by FE within the EUC period in the system in the name of the funder.</li> <li>After tagging, the report will be shared by FE to trustee/INV.</li> </ul>	FE			
12.	<b><i>Interest &amp; Principal Repayment</i></b> <ul style="list-style-type: none"> <li>Interest will be paid as per the frequency mentioned in the loan agreement.</li> <li>Form 15 CA CB, Form A2 and INV's invoice will be given to the AD Bank.</li> <li>Withholding tax must be deducted after grossing up the INV's interest amount at the prevailing tax rate.</li> <li>FE will inform the AD about the amount to be paid to the AD Bank on the instalment sheet and the bank account detail in which the payment is to be made.</li> <li>MML will pay the interest amount (including hedging cost) to the AD Bank.</li> <li>Then AD Bank will retain the hedging cost and transfer the INV's portion to the INV in foreign currency.</li> <li>Then a debit advice will be shared by the AD Bank</li> <li>In the similar way, the principal will be repaid to the INV as per the amorisation schedule mentioned in the loan agreement.</li> </ul> <p>The journal entries for the payments will be shared by the FE/FH to the AD.</p>	FE	FH		

Sr No.	Process Steps	R	A	C	I
13.	<p><b>Monthly Reporting</b></p> <ul style="list-style-type: none"> <li>On monthly basis, Form ECB-2 and Request letter will be shared by FE to the AD Bank.</li> </ul>  <p>Form ECB 2</p> <ul style="list-style-type: none"> <li>AD Bank then will file the same with the RBI and provide the acknowledgement to MML.</li> <li>The charges for the form filing will be paid by MML to AD. FE will share the required email with the Accounts department to make the payment.</li> </ul>	FE	FH		

### Hedge Accounting

The company uses Full Currency Swap (FCS) to hedge its risks associated with interest rate fluctuations relating to interest rate risk and foreign currency risk arising from External Commercial Borrowings. FCS provides both interest rate and exchange rate hedging of principal and coupon payments on underlying exposure. These FCS contracts are stated at fair value at each reporting date. Few important terms are enlisted below: -

- 1) **Hedged Item:** - A hedged item can be a recognized asset or liability, an unrecognized firm commitment, a forecast transaction, or a net investment in a foreign operation. Hedged items must be reliably measurable.
- 2) **Hedging Instrument:** - Hedging instrument is a general term that refers to all the financial instruments used by investors/borrowers aiming to offset the potential changes in the fair value or cash flows of their hedged items. For example: - Full currency swap, Derivative contract, currency future contracts.

### Effective & Ineffective Hedging

Whether our Hedging is effective or ineffective will ultimately affect our accounting. There are basically 3 criteria's to be fulfilled to consider a hedge as effective: -

**1) There is economic relationship between hedged instruments and hedged item: -**

The requirement that economic relationship exists means that hedging instrument and hedged item have values that generally move in opposite direction because of the same risk, which is hedged risk. Hence, there must be an expectation that value of hedged item and hedging instrument will systematically change in response to movements in either same underlying or underlyings that are economically related in such a way that they respond in similar way to the risk that is being hedged.

The assessment of whether economic relations exist includes an analysis of the possible behaviour of the hedging relationship during its term to ascertain whether it can be expected to meet the risk management objective.

**Qualitative assessment**

There may be cases when critical terms (such as nominal amount, maturity and underlying) of the hedging instrument and the hedged item match or are closely aligned, it might be possible for an entity to conclude on the basis of qualitative assessment of those critical terms that the hedging instrument and the hedged item have values that will generally move in the opposite direction because of the same risk and hence that an economic relationship exists between the hedged item and the hedging instrument.

The fact that a derivative is in or out of the money when it is designated as a hedging instrument does not in itself mean that a qualitative assessment is inappropriate. It depends on the circumstances whether hedge ineffectiveness arising from the fact could have a magnitude that a qualitative assessment would not adequately capture.

**Quantitative Assessment**

On the contrary, if critical terms of the hedging instrument and the hedged item are not closely aligned, there is an increased level of uncertainty about the extent of offset. Consequently, the hedge effectiveness during the term of hedging relationship is more difficult to predict. In such a situation it might only be possible for an entity to conclude on the basis of a quantitative assessment that the economic relationship exists between the hedged item and hedging instrument. In some situations, a quantitative assessment might also be needed to assess whether the hedge ratio used for designating the hedging relationship meets the hedge effectiveness requirement. An entity can use the same or different methods for those two different purposes.

**2) The effect of credit risk does not dominate the value changes that result from that economic relationship**

Because the hedge accounting model is based on a general notion of offset between gains and losses on the hedging instrument and the hedged item, hedge effectiveness is determined not only by the economic relationship between those items (i.e., the changes in their underlyings) but also



by the effect of credit risk on the value of both the hedging instrument and the hedged item. **The effect of credit risk means that even if there is an economic relationship between the hedging instrument and the hedged item, the level of offset might become erratic.** This can result from a change in the credit risk of either the hedging instrument or the hedged item that is of such a magnitude that the credit risk dominates the value changes that result from the economic relationship (i.e. the effect of the changes in the underlyings). A level of magnitude that gives rise to dominance is one that would result in the loss from credit risk frustrating the effect of changes in the underlyings on the value of the hedging instrument or the hedged item, even if those changes were significant. Conversely, if during a particular period there is little change in the underlyings, the fact that even small credit risk-related changes in the value of the hedging instrument or the hedged item might affect the value more than the underlyings does not create dominance.

Judgement must be used in determining when the impact of credit risk is 'dominating' the value changes. But clearly, to 'dominate' would mean that there would have to be a very significant effect on the fair value of the hedged item or the hedging instrument. The standard provides guidance that small effects should be ignored even when, in a particular period, they affect the fair values more than changes in the hedged risk. In other words, it is not only a relative but also an absolute assessment.

**Example:** -If the derivative contract entered by the company with the bank is uncollateralized and bank experiences a severe deterioration in its credit standing, such that credit risk dominates the fair value changes in Hedged item and Hedging instrument.

### 3) Hedge Ratio

The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the entity hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

Example: - The notional amount of the forward contract and the amount of the foreign currency loan are identical, indicating a hedge ratio of 1:1. Therefore, the hedge ratio does not reflect an imbalance that would give rise to hedge ineffectiveness.

**IF the above 3 conditions are satisfied, the hedge is considered as Effective Hedge**

### Accounting in case of Effective Hedge

In case of effective hedge, changes in fair value of Hedged item as well Hedging instrument are recognized in "cash flow hedge reserve" under reserve and surplus. Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting.

### **Changes in Fair Value of Hedged Item**

Foreign Exchange Loss A/c Dr.

To ECB A/c

(Being borrowing reinstate as per IND AS-21)

Cash Flow Hedge Reserve A/c Dr.

To Foreign Exchange Loss A/c

(Being FX loss transferred to CFHR as per Ind AS-109)

\*Similarly, entries will be reversed in case there is foreign exchange gain

### **Changes in Fair Value of Hedging Instrument**

Derivative Asset A/c Dr

To Cash Flow Hedge Reserve A/c

(Being Derivative asset created due to positive MTM as per Ind as-109)

Cash Flow Hedge Reserve A/c Dr.

To Derivative Liability A/c

(Being Derivative Liability created due to Negative MTM as per Ind as-109)

### **Note: -**

-Changes in Fair Value of Derivative instrument is classified as Derivative Financial Instrument under Financial Asset/Financial Liability in Balance Sheet.

### **Accounting in case of an Ineffective Hedge**

In the event the hedging is ineffective, the gain or loss arising from the changes in fair value will be recognized directly in Statement of Profit and Loss otherwise through Other Comprehensive Income.

Hence it should be taken into consideration that hedging should offset the risks associated with foreign exchange rate fluctuations and should fulfill the above 3 criteria otherwise it may affect the profitability of the company to a larger extent.

**Note: -** The effectiveness of hedging will be re-valuated at each reporting date and accounting for the same will be done accordingly.