



## FORWARD CONTRACT

---

### Product Disclosure Statement ('PDS')

- **Purpose**

The purpose of this document is to provide key information about hedging products offered by Bank of Maharashtra. Bank of Maharashtra is providing Customer with this PDS (Product Disclosure Statement) so that they may have adequate information about Forward Contracts. It will help them understand the features, risks and benefits associated with Forward Contracts. The document also provides an illustration of how the product works and will assist them in making an informed decision about entering into Forward Contracts. It will also facilitate a comparison with other products. Customers are advised to please read this PDS in full, before entering into a Forward Contract.

- **Components that determine the value of a contract**

Contract value and contracted rate are determined by the prevailing exchange rate, interest rate, tenor and interest rate differential.

- **Termination**

If customer wish to terminate the Forward Contract before the maturity date, the Forward Contract will be terminated at the prevailing market rate. The termination value will be either positive (gain) or negative (loss). It would be a function of the prevailing exchange rate and swap points for the residual period, that are based on interest rate, tenor, interest rate differential, discount factors etc. Currency markets are highly volatile. The prices of underlying currencies can fluctuate rapidly and may indicate changes in existing conditions. Thus, fluctuations in the underlying currencies will affect the benefit or cost when a Forward Contract is terminated. The risks mentioned in this document are not exhaustive. There may be other risks that customer can face while entering into a Forward Contract.

- **Costs and fees**

Any specific transaction of this nature will be concluded at an all-inclusive price and separate costs, fees and charges will be levied, accordingly. The break-up of the all-inclusive price will be provided as per the Reserve Bank of India (RBI) guidelines. The statutory levies and product charges will be recovered separately as per Bank's service charge, as applicable from time to time. For detailed & applicable service charges please visit - <https://bankofmaharashtra.in/service-charges>



- **Principal Terms and other Terms**

As per applicable Terms and Condition in Sanction conveyed to borrower.

- **General Information**

Please refer to the Disclaimer at the end of this document. Note that all products are subject to regulatory risks (not just limited to any change in regulations, product discontinuation by the regulator, etc.).

### **Description and Features**

A forward exchange contract is buying or selling of foreign currency at a predetermined rate for specified delivery. Under the forward contract, the customer has right to take or give the delivery as also obligation to perform. The forward contract can be a (a) Fixed date contract or (b) Option forward contract. Under the fixed forward contract, the delivery of foreign currency is to be done on the specified date only. In case of option forward contract, the delivery of foreign currency funds is to be done during option period, which can be maximum 30 days i.e. 1st to 30th of Sept. etc.

Customers have the option to hedge their exposure under following categories:

1. Contracted Exposure
2. Anticipated Exposure.

### **Purpose of Booking Forward Contracts**

Purpose of booking forward contracts is to hedge an exposure to exchange risk in respect of transaction for which sale and/or purchase of foreign exchange is permitted under FEMA 1999. The Bank offers to its customer's forward contract as a product for hedging their foreign currency exchange risk.

### **Early Delivery of documents**

In all cases of early delivery of purchase or sale contracts swap cost shall be recovered from the customer. Such recoveries will be made at the time of actual utilization of the contract, In case of early delivery of forward sale contract; appropriate premium would be refunded to customer at the time of utilization.

### **Extension of forward contract.**

Forward contracts where extension is sought by the customer will be cancelled (at an appropriate selling or buying rate as on the date of cancellation) and rebooked simultaneously only at the current rate of exchange. The difference between the contracted rate and the rate at which the contract is cancelled will be recovered from/paid to the customer at the time of extension.



### **Cancellation and re-booking of forward contracts.**

Bank would maintain necessary record and obtain necessary document for cancellation, rebooking and rollover of forward contracts with a view to ensure strict compliance of regulatory directives.

The customer will request the Bank in writing for cancellation of forward contract. Such requests will be made on or before the maturity date of the forward contract.

1. The forward purchase contract will be cancelled at TT selling rate of the Bank
2. The forward sales contracts shall be cancelled at TT buying rate of the Bank
3. Where the contract is cancelled before maturity, the appropriate forward TT rate will be applied.

### **Recovery of losses on Cancellation.**

The Bank will recover upfront any exchange loss incurred by customer on cancellation of forward contract, whether such contract is cancelled before, on or after the maturity of contract.

### **Passing of gains on cancellation.**

The payment of exchange profit on cancellation of the forward contract before maturity will be on maturity. In case the customer desires that the exchange profit be passed on to him upfront, Bank will pass on the discounted value of exchange profit to the customer's account after deducting discount i.e. interest on exchange profit amount at MCLR + 2 %.

### **Various risks associated with the transaction:**

The counterparty acknowledges that before entering into a Derivative Contract, it understands the underlying risks of the transaction mentioned above. The counterparty acknowledges that derivative transactions are exposed to various types of risks, including but not restricted to the following:

#### **1. Credit risk:**

Credit risk is the risk of loss that arises due to the counterparty's failure to perform an obligation to the institution. Credit risk comes in two forms:

- a. **Pre-settlement risk:** It is the risk of loss that arises due to the counterparty defaulting on a contract during the life of a transaction. The level of exposure varies throughout the life of the contract and the extent of losses will only be known at the time of default.
- b. **Settlement risk:** It is the risk of loss that arises due to the counterparty's failure to perform its obligation after an institution has performed the obligation under the



contract on the settlement date. Settlement risk frequently arises in international transactions because of time zone differences. This risk is only present in transactions that do not involve delivery of the currency versus payment of the currency and generally exists for a very short time (less than 24 hours).

**2. Market risk:**

Market risk is the risk of loss that arises due to negative changes in the market value (price) of an instrument or portfolio of instruments. Such exposure occurs with derivative instruments when changes occur in market factors such as underlying interest rates, exchange rates, equity prices, commodity prices, etc., or in the volatility of these factors.

**3. Liquidity risk:**

Liquidity risk is the risk of loss that arises due to the failure of an institution to meet its funding requirements or to execute a transaction at a reasonable price. Institutions involved in derivative activities face two types of liquidity risks:

a. Market liquidity risk: It is the risk of an institution not being able to exit or offset its position quickly, at a reasonable price. This inability may be due to inadequate market depth in certain products (e.g. exotic derivatives, long-dated options), market disruption or the inability of the bank to access the market (e.g. credit downgrading of the institution or of a major counterparty).

b. Funding liquidity risk: It is the potential inability of the institution to meet funding requirements because of cash flow mismatches at a reasonable cost. Such funding requirements may arise from cash flow mismatches in swap books, implementation of dynamic hedging strategies, etc.

**4. Operational risk:**

Operational risk is the risk of loss occurring because of inadequate systems and controls, deficiencies in information systems, human errors, or management failures. Derivative activities can be a challenging operational risk because of the complexity of certain products and their evolution.

**5. Legal risk:**

Legal risk is the risk of loss arising from contracts that are not legally enforceable (e.g., the counterparty does not have the power or authority to enter into a particular type of derivative transaction) or not documented correctly.

**6. Regulatory risk:**

Regulatory risk is the risk of loss arising from the failure to comply with regulatory or legal requirements.

**7. Reputational risk:**

Reputational risk is the risk of loss arising from adverse public opinion and damage to reputation.



**DISCLAIMER:**

This document has been prepared to provide standard information about the mentioned product and for facilitating an understanding of product alternatives.

The information contained herein is not to be taken as a substitution for the exercise of judgment by the Counterparty who should obtain separate transaction, product, legal, accounting, tax and financial advice. Before entering into any transaction, the Counterparty should take steps to ensure that they understand the transactions contemplated hereunder and the risks thereof.