

Regulation Related to Hedging, 2075

(This regulation has been made to provide guidelines relating to hedging of foreign currency loan availed by eligible projects)

24th February 2019

Projects Eligible for Hedging Purpose: GON shall provide hedging facility to the following projects being funded with foreign currency loan:

1. Hydro Projects with the output capacity of 100 MW or greater
2. Construction of (220 K.V.A. or 220 K.V.A.+) Transmission line with length greater than 30 km
3. Construction of Rail, Metro and Mono Rail of length greater than 10 km
4. Construction of Fast track with length greater than 50 km
5. Other projects as approved by GON and Cabinet of Ministers.

Regarding Approval: To avail hedging facility, the eligible project shall obtain approval to bring in foreign investment as per prevailing federal law of Nepal.

Application: NRB shall review the application and verify whether the necessary documents have been presented. Upon supervision of the documents, if the project is deemed unfit for availing hedging facility, NRB shall provide written notice of the same to the applicant within 7 days. The required documentation shall follow:

- A copy of approval document from the concerned authority regarding the project implementation.
- A copy of agreement concerning the investment in the project.
- A copy of approval letter relating to foreign investment and bringing in of foreign currency.
- A copy of company's AOA and MOA.
- A copy of public information issued related to the availability of hedging facilities as approved by GoN and Cabinet of Ministers.

Foreign Currency to be deposited: As per Regulation 8, projects that have obtained approval to bring in foreign currency via FDI shall submit an application to NRB to deposit the foreign currency. Further as per Sub-Regulation 2 & 3 of Regulation 8, the investors should park the foreign currency in the bank account made available by NRB within stipulated time.

Upon receipt of foreign currency in the corresponding bank account, NRB shall convert the foreign currency thus received into Nepali currency on the basis of exchange rate prevailing on the day when foreign currency is parked. Subsequently, NRB shall transfer this converted amount into bank account of the project maintained in a commercial bank in Nepal.

Pegging of Exchange rate: NRB shall lock the rate at which the conversion is made from foreign currency to NPR and shall not tamper with this rate. NRB shall provide hedging facility to the investors such that they will be entitled to receive the foreign loaned amount at the pegged rate.

Hedging Fee: As per Sub-Regulation 1 of Regulation 10, Ministry of Finance, after considering foreign currency fluctuation risk, inflation risk, equity of the project concerned, debt ratio, tenure of loan, nature of the project and in consultation with the ministry related with the project, investors and NRB, determines the Hedging Fee. As per Sub-Regulation 2, the project shall provide the designated hedging fee to NRB. Further, as per Sub-Regulation 3, the bank, upon receipt of hedging fee, shall provide the document showcasing the proof of hedging to the concerned project. As per the Sub-Regulation 4 of Regulation 10, irrespective of provision made in Sub Regulation 1, the hedging fee is to be prevailed for those kind of projects that had already been agreed upon before this Regulation came into effect.

Hedging Period: The period of hedging, depending on the nature of project, shall stretch till the period of ten years.

Renewal: As per Sub Regulation 1 of Regulation 12, projects that have received certificate as per the Sub regulation 3 of Regulation 10, the project desirous of renewing the proof of hedging document shall submit an application to the bank 30 days prior to the expiry of the proof of hedging document. Should the bank receive an application

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pertaining to renewal, the bank shall delineate the new exchange rate on the basis of exchange rate prevalent between NPR and USD for the past 10 years and extend the hedging period to a maximum of 5 years depending on the nature of project.

Hedging Facility Currency: The hedging facility shall only be provided for convertible foreign currency as specified by the bank via public notice.

Establishment of Hedging Fund: The separated fund will be created and it shall be constituent of the foreign currency received and hedging fee received as per the Regulation 10. NRB shall designate the limit of the fund. NRB shall act as a fund manager of the hedging fund established pursuant to Sub-Regulation 1 of Regulation 14. The return obtained from the management of the fund shall be added to the same fund without conversion in other currencies.