

TRU Flash Alert

1 April 2019

Highlights of Hedging Regulation 2075

Introduction

With an objective to eliminate risk of foreign exchange fluctuation in foreign debt investment and to foster foreign investment in priority sectors in Nepal, Government of Nepal has issued Hedging Regulation, 2075 on 25 February 2019(13 Falgun 2075) with immediate implementation.

Such regulation has covered some of the priority sectors such as hydroelectricity, transmission line, expressway, railways etc. The regulation has relieved foreign investor as they will no longer be exposed to risk of currency devaluation at the time of repatriation.

The major highlights for the hedging regulations are as follows:

Hedging	Hedging has been defined as an arrangement in which investors investing in Nepal in foreign currency loan can repatriate the principal amount at the same exchange rate in which it had initially been exchanged at the time of deposit with Nepal Rastra Bank (NRB).
Projects that can obtain hedging facility pursuant to this regulation	<ul style="list-style-type: none"> a) Hydroelectricity projects with capacity of 100 megawatt or more. b) Construction of electricity transmission lines in excess of 30 kilometres and capacity of 220 KVA or more. c) Construction of rail, metro or monorail of more than 10 kilometres. d) Construction of expressways of more than 50 kilometres. e) Other projects as decided by Council of Ministers, GON.
Procedure to take hedging facility	<p>The project which requires hedging facility should have obtained necessary prior approval to invest and bring foreign currency as per the prevailing laws and regulations.</p> <p>The investor shall make an application before NRB in the prescribed format along with the following documents:</p> <ul style="list-style-type: none"> a) Copy of approval letter obtained from the respective department for implementation of project; b) Copy of agreement related to investment of project; c) Copy of approval letter for foreign investment and bringing foreign currency, d) Copy of memorandum and articles of association of the company, e) Copy of decision of council of ministers or Nepal Government if hedging is provided in pursuance of such decision. <p>NRB shall vet the completeness of the application and may request for additional clarifications and information to be furnished within 15 days. If NRB considers that the hedging facilities cannot be provided, it shall issue a written notice within 7 days from the date of obtaining the additional information.</p> <p>On verification of application, if NRB finds it appropriate to provide hedging facility, it may do so along with following conditions:</p> <ul style="list-style-type: none"> a) Loan to be obtained in convertible foreign exchange as determined by NRB, b) Amount such received shall be deposited in bank account within time prescribed by NRB.
Depositing foreign currency	Applicant shall make application to deposit foreign currency brought as foreign investment. NRB shall deposit equivalent NPR in any account maintained in commercial bank by the project by converting foreign currency as per exchange rate prevailing on that date.

Fixation of exchange rate	NRB shall fix the exchange rate and such rate shall be equal to rate which is used to convert foreign currency into NPR upon deposit. NRB shall provide the hedging facility by locking the exchange rate and applicant shall be allowed to withdraw the amount at the same exchange rate at the time of repatriation.
Hedging fees	Ministry of Finance, GON shall fix hedging fees by taking into consideration the foreign exchange risk, inflation, equity in the project, proportion, tenure of loan and nature of project and as mutually agreed between the MOF, project, NRB and investor. Applicable hedging fees should be paid to NRB and accordingly NRB should provide "Hedging Solution Certificate" to the project in the format prescribed in Annexure-2 of the regulation.
Hedging period	Maximum of 10 years However, NRB may renew the hedging period for up to 5 years upon receipt of application of renewal from the project before 30 days from the expiry of original hedging period. On such renewal NRB shall fix the revised exchange rate based on the exchange rate of US Dollars of last ten years.
Currency for which hedging is available	In convertible foreign currency as prescribed by NRB.

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