

Foreign Exchange Policy Department-1
Bangladesh Bank
Head Office
Dhaka
www.bb.org.bd

FEPD-1 Circular No. 16

Date: July 02, 2026

All Authorized Dealers in
Foreign Exchange in Bangladesh

**Forward Rate Agreements to hedge interest rate
risk against imports under suppliers'/buyers' credit**

Dear Sirs,

Attention of Authorized Dealers (ADs) is invited to paragraphs 35 and 36 of FE Circular No. 33, dated August 14, 2025 regarding the provisions on usance imports under suppliers'/buyers' credit and interest rate for such credit.

02. To facilitate effective interest rate risk management for importers availing suppliers'/buyers' credit in foreign currency, it has been decided that ADs may enter into Forward Rate Agreements (FRAs) with their respective importers under following conditions and features:

- (a) **Purpose:** The FRA shall be used solely for hedging the interest rate risk of the underlying suppliers'/buyers' credit. No speculative, leveraged, or uncovered position shall be permitted.
- (b) **Eligible transactions:** Importers having initiated permissible usance imports under suppliers'/buyers' credit within the prescribed rate are eligible to hedge the floating rate portion of such credit through an FRA.
- (c) **Contract structure:** The FRA is a notional agreement between importers and ADs to fix an agreed interest rate for a future period. Settlement under the FRA shall be made in local currency (BDT) for domestic payment or in the FRA-referenced foreign currency for foreign settlement, based on the net interest differential between the contracted FRA rate and the actual realized SOFR for the relevant period. Actual loan repayment does not take place under the FRA. The notional principal shall not exceed the underlying credit amount;
- (d) **Tenor:** The FRA tenor shall correspond to the remaining interest period of the underlying borrowings, within the permissible tenure, as specified in paragraph 35 of FE Circular No. 33, dated August 14, 2025.

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03. Counter-hedging by ADs: To ensure that FRAs are used strictly as hedging instruments and do not result in the build-up of unmitigated market risk on the ADs' balance sheets, ADs shall fully offset their FRA exposures on following conditions:

- (a) ADs shall not take any market risk into its own books and shall cover the transaction on the same day on a back-to-back basis with foreign or local counterparties;
- (b) Counter-hedging instruments may be settled in foreign currency as per international market conventions. Foreign-currency inflows or outflows arising from such hedges shall be permissible strictly for the purpose of neutralizing ADs' exposure on the related FRA. The pricing spread retained by ADs in a FRA transaction shall not exceed 10 basis points;
- (c) ADs shall maintain full documentation supporting price discovery, justification of the counter-hedge rate, and linkage of all foreign-currency settlements to the underlying hedge requirement;
- (d) Temporary timing mismatches, if any, between customer FRA settlement and counter-hedge settlement shall be managed within ADs internal market-risk limits;
- (e) AD's total permissible FRA notional outstanding must be $\leq 25\%$ of its average monthly FX inflows over the past 12 months;

04. Early termination or cancellation of FRA: In the event that an importer intends to terminate an FRA prior to its maturity, the contract shall be closed at the prevailing market rate, and the importer or ADs shall settle the net difference between the contracted FRA rate and the prevailing market rate for the remaining period. ADs shall keep full records of the market rate used, the calculation of the close-out amount, and the importer's written consent.

05. Documentation and compliance:

- (a) ADs shall execute the FRA under appropriate ISDA or equivalent documentation together with a transaction-specific term sheet, clearly referencing the underlying imports. The term sheet shall specify:
 - (i) the underlying exposure being hedged,
 - (ii) the agreed FRA rate, tenor, and notional,
 - (iii) risk disclosures,
 - (iv) settlement mechanics and calculation standards.

The ISDA or equivalent documents should be suitably modified as per existing laws and regulations of Bangladesh.

- (b) ADs shall perform daily mark-to-market (MTM) valuations of all outstanding FRA positions consistent with IFRS or international market practices to monitor interest rate and foreign currency risk in real time.

- (c) ADs shall maintain full records of all FRA transactions, including ISDA schedules, confirmations, executed term sheets, computation sheets, MTM valuations, settlement records, and documents evidencing the underlying exposure, for supervisory inspection.
- (d) Customers shall acknowledge and accept the structure, risks, and MTM implications of the FRA by signing the term sheet, which shall form an integral part of the transaction documentation.
- (e) ADs shall not offer or encourage FRAs to importers without genuine underlying exposure. Misrepresentation, misleading advice, or inadequate risk disclosure by ADs leading to importers' loss may result in regulatory action against the respective ADs and officials.
- (f) Internal audit department of ADs shall periodically review FRA transactions, including counter-hedging, for compliance.
- (g) ADs shall have Board approved policies and procedures on derivative transactions and risk management framework to identify, quantify and evaluate the exposures, manage risk and monitor performances related to derivative transactions.
- (h) ADs shall ensure that appropriate expertise and capacity building are in place to engage in financial derivative transactions.
- (i) All FRAs shall comply with KYC, AML/CFT, regulations on taxes and internal risk management policies of ADs.

08. ADs are required to report each FRA transaction to Bangladesh Bank, FEPA-1 on the last day of the concern week using the format specified in Annexure-A. Additionally, a consolidated regular monthly return must be submitted at the end of each month as specified in Annexure-B.

Please bring the contents of this circular to the attention of all your relevant constituents.

Yours faithfully,



(Md. Harun-Ar-Rashid)
Director (FEPA-1)
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Annex-A

Forward Rate Agreements (FRAs) Weekly Report

| Trade Date | FRA Reference No | Client Name | FRA Start Date | FRA Maturity Date | Tenor (e.g. 3x6) | Underlying LC/Loan Reference No | Notional Amount | Currency | FRA Contract Rate (%) | Benchmark Rate | Fixed Rate | Counter-Hedge Rate (%) | Bank Spread (bps) | Hedge Counterparty (Bank Name) | Settlement Amount (by client and bank) | Remarks |
|------------|------------------|-------------|----------------|-------------------|------------------|---------------------------------|-----------------|----------|-----------------------|----------------|------------|------------------------|-------------------|--------------------------------|--|---------|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 |

Annex-B

Monthly Return on Forward Rate Agreements (FRAs)

| FRA Reference No | Trade Date | FRA Maturity Date | Notional Amount | Benchmark Rate | FRA Contract Rate (%) | MtM | Fixed Rate | Counter-Hedge Rate (%) | Bank Spread (bps) | Hedge Counterparty (Bank Name) | Settlement Amount | Settlement paid by client or by bank | Counter Hedge settlement Amount | Counter Hedge settlement Received or Paid by Bank | Net Gain/Loss of Bank from the FRA | Remarks |
|---------------------|------------|-------------------|-----------------|----------------|-----------------------|-----|------------|------------------------|-------------------|--------------------------------|----------------------------|--------------------------------------|---------------------------------|---|------------------------------------|---------|
| All Outstanding FRA | | | | | | | | | | | During the Reporting Month | | | | | |
| 1 | 2 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 |