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

FEPD-1 Circular No. 34 Date: September 13, 2026

All Authorized Dealers in
Foreign Exchange in Bangladesh

Hedging of Commodity Price Risk for Import Trades in International Markets

Dear Sirs,

In view of the evolving dynamics of global commodity markets, which highlight the importance of effective price risk management for importers in Bangladesh, the adoption of appropriate risk management practices may facilitate better cost planning and enhance business competitiveness.

02. Bangladesh Bank, in exercise of the powers conferred under Section 20(3) of the Foreign Exchange Regulation (FER) Act, 1947, hereby issues enclosed the Guidelines on Hedging of Commodity Price Risk for import trades in international markets to promote prudent risk management practices and align with international standards.

03. Authorized Dealers (ADs) are permitted to facilitate and offer commodity price risk hedging products to eligible importers, irrespective of whether such importers operate within designated specialized zones or outside such zones, within a structured, transparent, and supervised framework, subject to the terms and conditions set out in these guidelines.

04. In light of the above decision, the instructions contained at paragraph 14, chapter 4 of the Guidelines for Foreign Exchange Transactions (GFET)-2018, Vol-1, shall stand amended.

Please bring the contents of this circular to the notice of all concerned.

Yours faithfully,

Encl. As stated.

(Dr. Md. Abu Bakkar Siddique)
Director (FEPD-1) (Current Charge)
Phone: 9530123

Guidelines on

Hedging of Commodity Price Risk for Import Trades in International Markets

In exercise of the powers conferred under Section 20(3) of the FER Act, 1947, Bangladesh Bank hereby issues the following Guidelines.

1. Short title

These instructions shall be known as the Guidelines on Hedging of Commodity Price Risk for Import Trades in International Markets, 2026. These instructions shall come into force with immediate effect.

2. Definitions

(a**) Exposure to commodity price risk**

"Exposure to Commodity Price Risk" means any direct or indirect exposure to fluctuations in commodity prices arising from import transactions in international markets.

(i**) Direct exposure** – An importer shall be deemed to have direct exposure where the imported commodity, or any component thereof, is priced based on an internationally recognized benchmark.

(ii) **Indirect exposure** – An importer shall be deemed to have indirect exposure where the imported product contains a commodity that is not explicitly benchmark-linked but whose price remains subject to price.

(b) Hedging – "Hedging" means the activity of entering into a derivative transaction to mitigate an identifiable and measurable commodity price risk.

(c) Eligible importers – "Eligible Importers" means importers who meet the criteria set out in paragraph 3 of these guidelines.

(d) **Hedge classification** –

(i) **Procurement hedge** – A hedge undertaken prior to import or purchase in order to manage the risk of an increase in commodity price.

(ii) **Structured hedge** – A hedge undertaken by using a combination of permitted hedging instruments in order to improve cost efficiency or define a price band, without creating net open speculative exposure.

3. Eligible importers

Eligibility shall be established on the basis of verifiable underlying exposure supported by confirmed import orders, letters of credit, or purchase agreements denominated in foreign currency. Eligible importers include:

(a) Importers of raw materials or intermediate goods such as crude oil, edible oil, metals, grains, fertilizer, and other primary commodities;

(b) Importers of essential commodities for domestic consumption; and

(c) Public sector entities engaged in strategic or large-scale import operations.

4. Permissible hedging instruments

Eligible importers may undertake hedging transactions linked to their underlying import exposures using the following instruments:

(a) Commodity futures on internationally recognized exchanges (Schedule-I);

(b) Forward contracts linked to reference commodity indices (Schedule-II);

(c) Commodity swaps to lock in price differentials (Schedule-III);

(d) Commodity options and permitted option structures for price protection (Schedule-IV).

5. Operational modality

Eligible importers having exposure to commodity price risk for any permissible commodity may hedge such exposure in international markets through Authorized Dealers (ADs) using any of the permitted instruments in accordance with the provisions contained in Schedules I to IV. ADs may arrange hedging and related foreign exchange transactions under the following conditions:

(a) The instruments shall be used strictly for hedging genuine exposures and not for speculative or leveraged trading;

(b) The notional amount and tenor of the hedge shall not exceed the value or maturity of the underlying import transaction;

(c) Importers may use fixed-for-floating swaps to lock in a fixed price while receiving a floating market price;

(d) Importers may purchase call options to cap the maximum purchase price for procurement-related exposures;

(e) Importers may use collar structures, including zero-cost collars, provided such structures are linked to underlying import exposure and do not create net open speculative positions;

(f) In any structure involving a written option, including collars, the written leg shall be fully covered by the corresponding underlying exposure and shall not exceed the quantity or tenor of the hedgeable exposure;

(g) Importers shall furnish documentary evidence of underlying exposure, including LCs, import contracts, or confirmed purchase orders specifying commodity type, quantity, quality, and expected shipment/delivery dates;

(h) In case of over-the-counter (OTC) derivative contracts, justification for using OTC instruments instead of exchange-traded products shall be properly documented;

(i) Where hedging uses a benchmark price different from the underlying commodity, justification including the economic rationale and basis relationship shall be properly documented;

(j) Proxy hedging using a correlated internationally recognized benchmark may be permitted where direct hedging instruments are not available or not liquid, subject to proper documentation and internal approval;

(k) Hedging shall be undertaken under a Board-approved Risk Management Policy of the importer;

(l) All margin, premium, and settlement payments related to hedging transactions shall be routed through the concerned AD in compliance with existing foreign exchange regulations, including deduction and payment of applicable tax/VAT;

(m) ADs shall maintain full documentation for each hedge transaction, including deal ticket, confirmation, underlying documents, premium or margin remittances, and settlement records;

(n) ADs shall ensure margin practices following accepted international norms, including daily mark-to-market valuation and reconciliation of outstanding positions;

(o) ADs shall transact only with internationally recognized exchanges, brokers, or counterparties having acceptable credit standing and operational capability;

(p) ADs shall obtain an annual certificate from the importer's statutory auditors confirming:

(i) Hedge transactions align with underlying exposures;

(ii) Margin and premium remittances are consistent with such exposures;

(iii) The risk management policy and exposure-calculation methodology are appropriate;

(q) ADs may issue Standby Letters of Credit or Guarantees on behalf of clients in lieu of margin remittance for hedging transactions, subject to:

(i) Maximum validity of one year;

(ii) Use strictly for hedging-related margin obligations;

(r) Where necessary for effective risk mitigation, ADs may facilitate associated foreign exchange transactions in accordance with existing regulations;

(s) ADs shall ensure that importers are made aware of potential mark-to-market, premium, margin, settlement, and contingent liability implications before execution of any hedging transaction.

6. Hedge limits

Importers may hedge up to 100 percent of their underlying commodity exposure, including partial coverage where appropriate. Multiple hedge contracts may be executed provided the aggregate value does not exceed the import exposure. ADs shall ensure that each hedge is closely matched in terms of timing, quantity, and contract specifications with the underlying transaction, as the case may be.

7. Prudential and documentation requirements

(a) Importers shall maintain detailed records of each hedging transaction including:

(i) Contract details: notional amount, maturity, strike price, settlement terms; benchmark, and premium where applicable;

(ii) Evidence of corresponding import exposure;

(iii) Hedge classification as procurement hedge and/or structured hedge;

(iv) Internal approvals and risk management policy references.

(b) Importers shall submit to ADs a written declaration confirming that the hedge has been undertaken solely for risk mitigation and not for speculative gain.

(c) ADs shall retain all related records for inspection by Bangladesh Bank and for compliance with prudential supervision.

(d) ADs shall ensure that hedge effectiveness is demonstrable through price correlation, economic offset or other appropriate internal methodology.

8. Accounting and valuation

(a) Hedging gains or losses shall be accounted for in accordance with International Financial Reporting Standards (IFRS-9), where applicable.

(b) Hedging gains or losses shall be properly recognized in financial statements in line with the matched exposure principle in the importer’s financial statements.

(c) Importers are responsible for accounting treatment in their financial statements consistent with applicable local regulations and auditing requirements.

9. Supervisory and reporting arrangements

(a) ADs shall report all importer-linked hedging transactions to Bangladesh Bank on a monthly basis as per Annexure I, detailing commodity type, hedge classification, instrument, amount, maturity, and counterparties.

(b) Any irregularity, default, speculative use or misuse of these instructions will be reported immediately to Bangladesh Bank.

(c) Non-compliance may result in suspension of hedging facility or other regulatory actions.

10. Risk awareness

ADs shall advise importers that hedging is a risk-management tool and not a profit-generating mechanism. It reduces uncertainty but cannot eliminate market risk. Adverse price movements opposite to the hedged position may result in losses. Importers shall, therefore, fully understand product features, premium, margin requirements, potential mark-to-market obligations, contingent liabilities under written options, and settlement procedures before entering into any contract.

11. Internal systems and controls

ADs shall align their internal risk management systems, due diligence procedures and control mechanisms with best international standards for commodity derivative transactions.

12. Client accommodation

ADs shall accommodate importers' hedging requests upon receipt of the required documentation, along with importers' internal approvals.

13. Periodic return

ADs shall submit a quarterly report to Foreign Exchange Policy Department-1, Bangladesh Bank, in the prescribed format (Annexure II). In case of no transactions, a “Nil” report shall be submitted.

14. Prior concurrence of Bangladesh Bank

ADs intending to offer commodity price hedging services under this circular shall obtain prior concurrence from Bangladesh Bank by submitting Board-approved specification of the proposed products, along with the standard operating procedures (SOP).

Annexure I: Monthly returns

Table 1: Customer-wise hedging position

Sl	Name of Client	Sector	Hedge Classification	Underlying Commodity	Exposure Amount (USD/Equivalent)	Hedge Instrument	Hedge Amount	Tenor	Start Date	Maturity Date

Table 2: Instrument-wise details

Sl	Client Name	Instrument Type (Futures/Options/ SWAP/Forwards)	Exchange/ OTC	Counterparty	Contract Reference	Notional Amount	Strike / Fixed Price	Premium Paid/Net Premium

Table 3: Hedge effectiveness and coverage

Sl	Client Name	Underlying Exposure	Hedge Amount	Hedge Ratio (%)	Effectiveness Status	Basis Risk (Y/N)

Table 4: Exception/red flag reporting

Sl	Client Name	Nature of Exception	Details	Action Taken

Table 5: Top exposures (Top 10 Clients)

Rank	Client Name	Total Exposure	Total Hedge	Instrument Type	Risk Category

Declaration:

We hereby confirm that:

- All hedging transactions reported above were undertaken against genuine underlying import exposures;
- The notional amount and maturity of each hedge are aligned with the corresponding import transaction, as applicable; and
- No speculative or leveraged transactions have been conducted.

Certification

Authorized Signatory : ____________________________
Name : ____________________________
Designation : ____________________________
Signature & Seal : ____________________________
Date : ____________________________

Submission instruction

This statement shall be submitted within 10 days from the end of each month to Foreign Exchange Policy Department-1, Bangladesh Bank, Head Office, Dhaka.
(In case of no transactions, a “Nil” statement shall be submitted.)

Annexure II: Quarterly returns

Table 1: Aggregate exposure

Total Underlying Exposure	Total Hedged Exposure	Net Open Exposure	% Hedged	Remarks

Table 2: Instrument mix

Futures	
Options	
SWAPs	
Forwards	
Others	

Table 3: Sectoral distribution

Energy	
Agriculture	
Metals	
Others	

Table 4: MTM position

Total MTM Gain	
Total MTM Loss	
Net MTM	
Remarks	

Certification:

We hereby certify that:

- The above information is true and correct to the best of our knowledge.
- The reported hedging transactions were undertaken strictly against genuine import exposures.
- All transactions were conducted in compliance with prevailing foreign exchange regulations of Bangladesh Bank.

Authorized Signatory : ___________________________
Name : ___________________________
Designation : ___________________________
Signature & Seal : ___________________________
Date : ___________________________
Place : ___________________________

Submission instruction

This statement shall be submitted within 15 days of the end of each quarter to Foreign Exchange Policy Department-1. Bangladesh Bank, Head Office, Dhaka
(In case of no transactions, a "Nil" statement shall be submitted.)

Schedule I

Commodity Futures

Description:

Commodity futures are standardized contracts traded on exchanges that enable importers to lock in a future price for a commodity. To manage the risk of price fluctuations between the contract date and the shipment or payment date, the importer or its bank takes a futures position.

Operational flow:

(a) Importer signs commodity purchase contract with exporter.

(b) Importer requests LC from a Bangladeshi commercial bank, where applicable.

(c) AD bank issues the LC through international banking networks.

(d) Importer requests price hedging through the AD bank.

(e) AD bank executes a futures contract through an international broker or exchange member.

(f) Futures position is held until shipment or price exposure period ends.

(g) Gains or losses from futures offset commodity price movement.

Operational flowchart (LC-linked):

Operational flowchart (Without LC linkage):

Importer

↓ Commodity purchase contract

International futures broker

↓

Commodity futures exchanges

↓

Futures profit/loss offsets import price risk

Example:

A Bangladeshi importer has agreed to purchase 10,000 tons of wheat at the market price in three months. The current market price is USD 350 per ton. To secure this price, the importer, through its bank, buys wheat futures at USD 350 per ton.

Outcome:

- If the price rises to USD 420 per ton, the import cost will increase, but the futures will gain approximately USD 70 per ton, which helps offset the increase.
- If the price falls to USD 320 per ton, the importer will buy the wheat at a lower price but will incur a loss on the futures, which helps stabilize the total cost.

Schedule II

Commodity Forward Contracts

Description:

A commodity forward contract is a customized agreement between two parties to buy or sell a commodity at a predetermined price on a specific future date. Unlike futures contracts, which are standardized and traded on exchanges, forwards are typically traded over-the-counter (OTC) through banks and are tailored to meet the specific needs of the importer.

Operational flow:

(a) Importer signs commodity purchase agreement with the supplier.

(b) Importer asks the AD bank to lock the future commodity price.

(c) AD Bank quotes forward price.

(d) Forward contract is agreed.

(e) AD Bank offsets risk in the international market, where applicable.

(f) Importer financing and LC opening (optional).

(g) Commodity delivery and forward contract settlement take place on the agreed date

Operational flowchart (LC-linked):

Importer

↓ Import contract

LC Issuing Bank

↓ LC opening and forward contract agreement

International commodity supplier/bank counterparty

↓

Commodity delivered at pre-agreed forward price

Operational flowchart (Without LC linkage):

Importer

↓ Import contract

International commodity supplier/bank counterparty

↓

Commodity delivered at pre-agreed forward price

Example:

A Bangladeshi importer has agreed to import 5,000 tons of wheat in three months. The current market price is USD 360 per ton. To manage future price fluctuations, the importer has entered into a forward contract with a bank at a price of USD 365 per ton.

Outcome:

- If the market price rises to USD 420 per ton, the importer will still be able to purchase the wheat for the agreed price of USD 365 under the forward contract, thereby avoiding the higher market price.

- If the market price falls to USD 330 per ton, the importer is still obligated to buy at USD 365, which provides protection against price increases but does not allow the importer to benefit from price decreases.

Schedule III

Commodity Swaps

Description:

Commodity swaps are over-the-counter agreements between an importer and a financial institution in which the importer exchanges a floating market price for a fixed price. These swaps are commonly used to hedge against price risks for various commodities purchased from overseas markets.

Operational flow:

(a) Importer signs long-term commodity purchase agreement.

(b) Importer opens LC for shipment payments, where applicable.

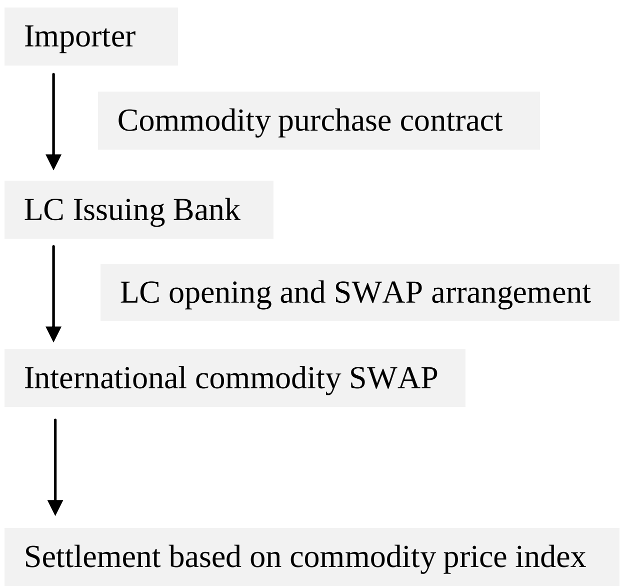
(c) Importer enters commodity swap agreement through the AD.

(d) Importer pays fixed commodity price under the swap.

(e) Swap counterparty pays floating market price.

(f) Net payment offsets price fluctuations.

Operational flowchart (LC-linked):



Operational flowchart (Without LC linkage):

Importer

↓ SWAP agreement

International bank/swap dealer

↓

Commodity price index settlement

Example:

An importer plans to purchase fuel linked to a global benchmark. The current market price is USD 80 per barrel. The importer enters into a swap contract with a bank, agreeing to a fixed price of USD 80 per barrel.

Outcome:

- If the market price rises to USD 100, the swap counterparty pays the difference of USD 20 per barrel.
- If the market price falls to USD 70, the importer pays the difference of USD 10 per barrel.

Schedule IV

Commodity Options

Description:

Commodity options provide price protection. The importer purchases the right, but not the obligation, to buy or sell the commodity at a predetermined strike price. To obtain this protection, the importer pays an option premium except where the structure has been arranged on a zero-cost basis through a permitted collar strategy.

Types of Option-Based Hedging Structures:

(a) Procurement hedge using call option

A call option may be used by an importer to hedge against an increase in commodity prices prior to procurement. This enables the importer to secure a maximum purchase price while retaining the benefit of any price decline.

(b) Zero-Cost collar structure

A collar structure involves the simultaneous purchase of a call option and sale of a put option, or such other permitted combination of option legs, in order to reduce or eliminate upfront premium cost. The structure shall be constructed such that it provides a defined price band and does not result in speculative exposure.

Operational flow:

(a) Importer signs commodity supply contract.

(b) Importer opens LC with issuing bank, where applicable.

(c) Importer requests a call option, put option, or collar structure through the AD bank depending on the nature of exposure.

(d) AD bank executes the option transaction through an international derivatives broker, exchange, or bank counterparty.

(e) If market price moves adversely (increase), the option payoff offsets the increase in procurement cost, as the case may be.

(f) If market prices move favorably (decrease), the importer may benefit from market movement subject to the premium paid or collar range agreed.

Operational flowchart (LC-linked):

Importer

↓ Import contract

LC issuing bank

↓ LC opening and option contract agreement

International derivatives broker/bank

↓

Settlement of gain/loss arising from option contract

Operational flowchart (Without LC linkage):

Importer

↓ Option contract (cap/call)

International commodity supplier/bank counterparty

↓

Commodity delivered at pre-agreed forward price

Example 1: Procurement hedge using call option

An importer plans to purchase crude oil in three months. Current market price: USD 82 per barrel. The importer purchases a call option with a strike price of USD 82 by paying a premium of USD 2.

Outcome:

- If the market price rises to USD 100 per barrel, the importer exercises the option and effectively caps the purchase price at USD 82.
- If the market price falls to USD 70 per barrel, the importer purchases at market price and only incurs loss of the premium cost USD 2.

Operational flowchart for zero-cost collar hedge structure:

Importer

↓ Importer enter into a Call Option contract and simultaneously a Put Option contract

International commodity supplier/bank counterparty

↓

Commodity delivered at pre-agreed forward price

Example 2: Zero-Cost collar structure

An importer plans to import copper in three months. Current market price: USD 9,000 per ton. The importer purchases a call option at USD 9,200 and simultaneously sells a put option at USD 8,800. The premium received from the put option offsets the cost of the call option, resulting in zero net premiums.

Outcome:

Market price	Effective price	Outcome
USD 10,000	USD 9,200	Importers are protected (Price capped)
USD 9,000	USD 9,000	Market price applies
USD 8,000	USD 8,800	Importers must buy at USD 8,800 per ton (Floor) (minimum obligation)