

RBI//2012-13/554 A.P. (DIR Series) Circular No.121

Risk Management and Inter Bank Dealings

Attention of Authorized Dealers Category - I (AD Category - I) banks is invited to section C of the Annex to A.P.(DIR Series) Circular No. 32 dated December 28, 2010 on Comprehensive Guidelines on 'Over the Counter (OTC) Foreign Exchange Derivatives and Overseas Hedging of Commodity Price and Freight Risks' in terms of which FIIs have been permitted to hedge the currency risk on the market value of their entire investment in equity and/or debt in India.

2. Under the provisions of the said section, AD Category I banks are required to verify on a periodical basis that the forward cover outstanding is supported by underlying exposures. In this context, it is clarified that in case an FII intends to hedge the exposure of one of its sub-account holders, (cf paragraph 4 of schedule 2 to Notification No. FEMA 20 /2000-RB dated 3rd May 2000) it will be required to produce a clear mandate from the sub-account holder in respect of the latter's intention to enter into the derivative transaction. Further, the AD Category I banks shall have to verify the mandate as well as the eligibility of the contract vis-a-vis the market value of the securities held in the concerned sub-account.

3. AD Category - I banks may bring the contents of this circular to the notice of their constituents and customers concerned.

4. The directions contained in this circular have been issued under sections 10(4) and 11(1) of the Foreign Exchange Management Act 1999 (42 of 1999) and are without prejudice to permissions /approvals, if any required under any other law.

Yours faithfully

(Rudra Narayan Kar)
Chief General Manager in-Charge