

July 19, 2007

To

All Category - I Authorised Dealer Banks

Madam / Sir,

Maintenance of collateral by FIs for transactions in derivative segment- Opening of demat accounts by Clearing Corporations and Clearing Members

Attention of Authorised Dealer Category – I (AD Category - I) banks is invited to Foreign Exchange Management (Transfer or Issue of any foreign Security) Regulations, 2004 notified vide Notification No. FEMA 120/RB-2004 dated July 7, 2004, as amended from time to time, and A. P. (Dir Series) Circular No. 4 dated July 28, 2006 permitting Foreign Institutional Investors (FIIs) to offer foreign sovereign securities with AAA rating as collaterals to recognized Stock Exchanges in India for their transactions in the derivatives segment.

2. With a view to further liberalise the procedure, it has been decided in consultation with the Government of India and SEBI to permit SEBI approved clearing corporations of stock exchanges and their clearing members to undertake the following transactions subject to the guidelines issued from time to time by SEBI in this regard :

- i) to open and maintain demat accounts with foreign depositories and to acquire, hold, pledge and transfer the foreign sovereign securities, offered as collateral by FIIs;
- ii) to remit the proceeds arising from corporate action, if any, on such foreign sovereign securities; and
- iii) to liquidate such foreign sovereign securities if the need arises.

3. Clearing Corporations shall report, on a monthly basis, the balances of foreign sovereign securities, held by them as non-cash collaterals of their clearing members to the Chief General Manager, Reserve Bank of India, Foreign Exchange Department, Foreign Investment Division, Central Office, Mumbai. The report should be submitted by the 10th of the following month to which it relates.

4. Necessary amendments to the Foreign Exchange Management (Transfer or Issue of Any Foreign Security) Regulations, 2004 notified vide FEMA Notification No.FEMA 120/RB-2004 dated July 7, 2004 will be issued separately.

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

6. 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 is without prejudice to permissions/approvals, if any, required under any other law.

Yours faithfully,

(Salim Gangadharan)
Chief General Manager

Withdrawn w.e.f. August 22, 2022