Annex XVII

Conditions for allowing users to enter into a combination of OTC option strategies involving a simultaneous purchase and sale of options for overseas Commodity hedging

Users – Listed companies and their subsidiaries/joint ventures/associates having common treasury and consolidated balance sheet or unlisted companies with a minimum net worth of Rs. 200 crore

provided

a. All such products are fair valued on each reporting date;

b. The companies follow the Accounting Standards notified under section 211 of the Companies Act, 1956 and other applicable Guidance of the Institute of Chartered Accountants of India (ICAI) for such products/ contracts as also the principle of prudence which requires recognition of expected losses and non-recognition of unrealized gains;

c. Disclosures are made in the financial statements as prescribed in ICAI press release dated 2nd December 2005; and

d. The companies have a risk management policy with a specific clause in the policy that allows using the type/s of cost reduction structures.

(Note: The above accounting treatment is a transitional arrangement till AS 30 / 32 or equivalent standards are notified.)”

Operational Guidelines, Terms and Conditions

a. Writing of options by the users, on a standalone basis is not permitted. Users can however, write options as part of cost reduction structures, provided, there is no net receipt of premium.

b. Leveraged structures, Digital options, Barrier options and any other exotic products are not permitted.

c. The delta of the options should be explicitly indicated in the term sheet.

d. The portion of the structure with the largest notional should be reckoned for the purpose of underlying.

e. AD Category I banks may, stipulate additional safeguards, such as continuous profitability, etc. depending on the scale of operations and risk profile of the users.