

Annex XI

[see Part A, Section I, paragraph 5 A (3)]

Commodity Hedging for Domestic Transactions - Select Metals

AD Category – I banks, which have specifically been authorised by Reserve Bank in this regard, may, permit domestic producers / users to hedge their price risk on aluminium, copper, lead, nickel and zinc in international commodity exchanges, based on their underlying economic exposures. Hedging may be permitted up to the average of previous three financial years' (April to March) actual purchases / sales or the previous year's actual purchases / sales turnover, whichever is higher, of the above commodities. Further, only standard exchange traded futures and options (purchases only) may be permitted.

Commodity Hedging for Domestic Purchases –Aviation Turbine Fuel (ATF)

AD Category – I banks, which have specifically been authorised by Reserve Bank in this regard, may also permit actual users of aviation turbine fuel (ATF) to hedge their economic exposures in the international commodity exchanges based on their domestic purchases. If the risk profile warrants, the actual users of ATF may also use OTC contracts. AD Category – I banks should ensure that permission for hedging ATF is granted only against firm orders and the necessary documentary evidence should be retained by them.

Note : (i) AD Category – I banks should ensure that the entities entering into hedging activities under para 1 and 2 above should have Board approved policies which define the overall framework within which derivatives activities should be conducted and the risks controlled.

(ii) Applications from customers to undertake hedge transactions not covered under the delegated authority may continue to be forwarded to Reserve Bank by the AD Category – I banks, for approval as hitherto.