

Annex XII

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

Hedging of commodity price risk on petroleum & petroleum Products by domestic crude oil refining companies

1. The hedging has to be undertaken only through AD Category – I banks, who have been specifically authorised by Reserve Bank in terms of A. P. (DIR Series) Circular No. 03 dated July 23, 2005, subject to conditions and guidelines annexed thereto as also given under Annex X.

2. While extending the above hedging facilities, AD Category – I banks should ensure that the domestic crude oil refining companies hedging their exposures should comply with the following:

i. to have Board approved policies which define the overall framework within which derivatives activities are undertaken and the risks contained;

ii. sanction of the company's Board has been obtained for the specific activity and also for dealing in OTC markets;

iii. the Board approval must include explicitly the mark-to-market policy, the counterparties permitted for OTC derivatives, etc.; and

iv. domestic crude oil companies should have put up the list of OTC transactions to the Board on a half yearly basis, which must be evidenced by the AD Category – I bank before permitting continuation of hedging facilities under this scheme.

3. The AD Category – I banks should also ensure “*user appropriateness*” and “*suitability*” of the hedging products used by the customer as laid down in Para 8.3 of 'Comprehensive Guidelines on Derivatives' issued vide our circular DBOD No. BP.BC. 86/21.04.157/2006-07 dated April 20, 2007.