

Forward Cover for Foreign Institutional Investors

**Reserve Bank of India
Exchange Control Department
Central Office
Mumbai 400 001**

A.P. (DIR Series) Circular No.50

November 16, 2002

To

All Authorised Dealers in Foreign Exchange

Madam/Sirs,

Forward Cover for Foreign Institutional Investors

Attention of authorised dealers is invited to Regulation 5 of Notification No.FEMA.25/RB-2000 dated May 3, 2000. In terms of paragraph 1(b) of Schedule II to the Notification, a registered Foreign Institutional Investor (FII) has been permitted to enter into a forward contract with rupee as one of the currencies with an authorised dealer in India, provided that the value of the hedge does not exceed 15 per cent of the market value of the equity as at the close of business on 31st March 1999, converted at the rate of US \$ 1= Rs. 42.43 plus the increase in the market value/inflows thereafter.

2. With a view to further liberalise and simplify the facility, it has been decided to permit the FIIs to hedge the market value of their entire investment in equity as on a particular date without any reference to a cut-off date. If a hedge becomes naked in part or full owing to shrinking of the portfolio, it may be allowed to continue to the original maturity, if so desired.

3. All other instructions contained in Schedule II of the notification remain unchanged.

4. Necessary amendments to the Foreign Exchange Management (Foreign Exchange Derivatives Contracts) Regulations, 2000 are being notified separately.

5. Authorised Dealers may bring the contents of this circular to the notice of their constituents concerned.

6. The directions contained in this circular have been issued under Section 10 (4) and Section 11 (1) of the Foreign Exchange Management Act, 1999 (42 of 1999).

Yours faithfully,

**Grace Koshie
Chief General Manager**