

February 08, 2007

To,
All Category - I Authorised Dealer Banks
Madam / Sir,

**Forward cover for Foreign Institutional Investors –
Rebooking of cancelled contracts**

Attention of Authorised Dealer Category - I (AD Category - I) banks is invited to A. P. (DIR Series) Circular No.50 dated November 16, 2002 read with A. P. (DIR Series) Circular No. 63 dated December 21, 2002 and Regulation 5 of Notification No.FEMA.25/RB-2000 dated May 3, 2000, as amended from time to time. In terms of para 1(b) of Schedule II to the Notification, a registered Foreign Institutional Investor (FII) has been permitted to enter into forward contracts with rupee as one of the currencies, with an AD Category – I bank in India to hedge its exposure in India subject to the condition that forward contracts once cancelled shall not be rebooked but may be rolled over on or before maturity.

2. As announced in the Mid-Term Review of Annual Policy for the Year 2006-07 (para 104), FIIs would be allowed to rebook a part, say, 25 per cent of the cancelled forward contracts, provided such contracts are supported by underlying exposure. The modalities were to be finalised in consultation with the market participants. In view of the concerns expressed by the market participants in monitoring cancellations and rebooking within 25 per cent of the cancelled contracts, it has been decided to link the rebooking of cancelled contracts to the portfolio value. Further, keeping in view the size of the market in India and the large positions held by FIIs, it has been decided to implement the flexibility for rebooking cancelled contracts in a gradual and phased manner.

3. Accordingly, AD Category – I banks may allow FIIs to cancel and rebook forward contracts up to a limit of 2 per cent of the market value of their entire investment in equity and / or debt in India. The limit for calculating the eligibility for rebookings shall be based upon market value of the portfolio as at the beginning of

the financial year (April – March). The outstanding contracts must be duly supported by underlying exposure at all times.

4. The AD Category - I bank has to ensure that (i) total forward contracts outstanding should not exceed the market value of portfolio and, (ii) forward contracts permitted to be rebooked should not exceed 2 per cent of the market value as determined at the beginning of the financial year. The monitoring of forward cover must be done on a fortnightly basis. All other instructions contained in Schedule II of the Notification *ibid*, remain unchanged. The scheme will be reviewed on an ongoing basis.

5. In order to reflect these changes a revised reporting format is being introduced. The AD Category - I banks are advised to report the outstanding forward covers taken by their FII clients in the revised format annexed.

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

7. Necessary amendments to Notification No.FEMA.25/RB-2000 dated May 3, 2000 [Foreign Exchange Management (Foreign Exchange Derivatives Contracts) Regulations, 2000] are being notified separately.

8. 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-In-Charge

Statement – Details of Forward cover undertaken by FII clients

Month –

Part A – Details of forward cover (without rebooking) outstanding

Name of FII

Current Market Value (USD mio)

Eligibility for Forward cover	Forward Contracts Booked		Forward Contracts Cancelled		Total forward cover outstanding
	During the month	Cumulative Total – Year to Date	During the month	Cumulative total – Year to date	

Part B – Details of transactions permitted to be cancelled and rebooked

Name of FII

Market Value as determined at the beginning of the year (USD mio)

Eligibility for Forward cover	Forward Contracts Booked		Forward Contracts Cancelled		Total forward cover outstanding
	During the month	Cumulative Total – Year to Date	During the month	Cumulative total – Year to date	

Name of the AD Category – I bank :
 Signature of the Authorised official :
 Date :
 Stamp :