

**December 31, 2007**

To,

All Authorised Dealer Category - I banks

Madam /Sir,

**Permission for Short selling of Equity Shares by SEBI registered FIIs**

Attention of Authorised Dealer Category - I (AD Category - I) banks is invited to A. P. (DIR Series) Circular No.53 dated December 17, 2003 wherein SEBI registered FIIs / sub-accounts of FIIs were permitted to buy / sell equity shares / debentures of Indian companies. In terms of para 5 of the Annex to the circular, FIIs are not allowed to engage in short selling and are required to take delivery of securities purchased and give delivery of securities sold.

2. It has now been decided in consultation with Government of India and SEBI, to permit Foreign Institutional Investors (FIIs) registered with SEBI and sub-accounts of FIIs to short sell, lend and borrow equity shares of Indian companies. Short selling, lending and borrowing of equity shares of Indian companies shall be subject to such conditions as may be prescribed in that behalf by the Reserve Bank and the SEBI / other regulatory agencies from time to time.

3. The above permission is subject to the following conditions:

(i) The FII participation in short selling as well as borrowing / lending of equity shares will be subject to the current FDI policy and short selling of equity shares by FIIs shall not be permitted for equity shares which are in the ban list and / or caution list of Reserve Bank.

(ii) Borrowing of equity shares by FIIs shall only be for the purpose of delivery into short sale.

(iii) The margin / collateral shall be maintained by FIIs only in the form of cash. No interest shall be paid to the FII on such margin/collateral.

4. The designated custodian banks shall separately report all transactions pertaining to short selling of equity shares and lending and borrowing of equity shares by FIIs in their daily reporting with a suitable remark (short sold / lent / borrowed equity shares) for the purpose of monitoring by the Reserve Bank.

5. Necessary amendments to the Foreign Exchange Management (Transfer or issue of Security by a Person Resident outside India) Regulations, 2000 (Notification No.FEMA.20/2000-RB dated May 3, 2000) are being issued separately.

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

7. 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 are without prejudice to permissions / approvals, if any, required under any other law..

Yours faithfully,

**(Salim Gangadharan)**  
**Chief General Manager**