



RESERVE BANK OF INDIA
Foreign Exchange Department
Central Office
Mumbai - 400 001

RBI/2013-14/169

A.P. (DIR Series) Circular No. 18

August 1, 2013

To,

All Category - I Authorised Dealer Banks

Madam / Sir,

Risk Management and Inter-bank Dealings

Attention of Authorised Dealers Category – I (AD Category I) banks is invited to [AP \(DIR\) Circular No. 121 dated June 26, 2013](#) wherein it was clarified that if an FII wishes to hedge the Rupee exposure of one of its sub-account holders, it should be done on the basis of a mandate from the sub-account holder for the purpose and that the AD bank should verify the same along with the eligibility of the contract vis-a-vis the market value of the securities held in the concerned sub-account.

2. In this context, the Reserve Bank has been receiving enquiries as to the applicability of the clarifications issued in the aforesaid circular to Participatory Notes(PN) /Overseas Derivative Instruments(ODI) issued by the FIIs. It is therefore clarified that if an FII wishes to enter into a hedge contract for the exposure relating to that part of the securities held by it against which it has issued any PN/ODI, it must have a mandate from the PN/ODI holder for the purpose. Further, while AD Category bank is expected to verify such mandates, in cases where this is rendered difficult, they may obtain a declaration from the FII regarding the nature/structure of the PN/ODI establishing the need for a hedge operation and that such operations are being undertaken against specific mandates obtained from their clients.

3. AD category banks may bring the content of this circular to the notice of their constituents.

4. 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,

(Rudra Narayan Kar)
Chief General Manager-in-Charge