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

RBI/2012-13/185

A. P. (DIR Series) Circular No. 21 **August 31, 2012**

To

All Category-I Authorised Dealer Banks

Madam / Sir,

Foreign investment by Qualified Foreign Investors (QFIs) – Hedging facilities

Attention of Authorized Dealers Category – I (AD Category – I) banks is invited to the Foreign Exchange Management (Foreign Exchange Derivative Contracts) Regulations, 2000 dated May 3, 2000 [Notification No. FEMA/25/RB-2000 dated May 3, 2000] and A.P. (DIR Series) Circular No.32 dated December 28, 2010, as amended from time to time.

2. In terms of A.P. (DIR Series) Circular No.8 dated August 9, 2011, A.P. (DIR Series) Circular No. 42 dated November 3, 2011, A.P. (DIR Series) Circular No. 66 dated January 13, 2012 and A.P. (DIR Series) Circular No. 89 dated March 1, 2012, Qualified Foreign Investors (QFI) are allowed to invest in rupee denominated units of domestic Mutual Funds and listed equity shares and allowing SEBI registered FIIs to invest in to be listed debt securities subject to the terms and conditions mentioned therein.

Further, in terms of A.P. (DIR Series) Circular No. 7 dated July 16, 2012, Qualified Foreign Investors (QFIs) have been permitted to purchase on repatriation basis debt securities subject to the various terms and conditions. As per para 2(x) of the circular, QFIs would be permitted to hedge their currency risk on account of their permissible investments (in equity and debt instruments) in terms of the guidelines issued by the Reserve Bank from time to time.

3. It has now been decided to allow QFIs to hedge their currency risk on account of their permissible investments (in equity and debt instruments), as per the details given in the Annex.

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

5. AD Category - I banks may bring the contents of this circular to the notice of their constituents and customers.

6. 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

Annex

[Annex to A.P. DIR Circular No.21
dated August 31 , 2012]

Facilities for Qualified Foreign Investors (QFIs)

Purpose

i) To hedge the currency risk on the market value of entire investment in equity and/or debt in India as on a particular date.
ii) To hedge Initial Public Offers (IPO) related transient capital flows under the Application Supported by Blocked Amount (ASBA) mechanism.

Products

Forward foreign exchange contracts with rupee as one of the currencies and foreign currency-INR options. Foreign Currency – INR swaps for IPO related flows.

Operational Guidelines, Terms and Conditions

a) QFIs are allowed to hedge the currency risk on account of their permissible investments with the AD Category-I bank with whom they are maintaining the Rupee Account opened for the purpose of investment.
b) The eligibility for cover may be determined on the basis of the declaration of the QFI with periodic review undertaken by the AD Category I bank based on the investment value as provided / certified by QDP of the QFI at least at quarterly intervals, on the basis of market price movements, fresh inflows, amounts repatriated and other relevant parameters to ensure that the forward cover outstanding is supported by underlying exposures.
c) If a hedge becomes naked in part or in full owing to contraction of the market value of the portfolio, for reasons other than sale of securities, the hedge may be allowed to continue till the original maturity, if so desired.
d) The contracts, once cancelled cannot be rebooked. The forward contracts may, however, be rolled over on or before maturity.
e) The cost of hedge should be met out of repatriable funds and /or inward remittance through normal banking channel.

f) All outward remittances incidental to the hedge are net of applicable taxes.

g) For IPO related transient capital flows

   i. QFIs can undertake foreign currency- rupee swaps only for hedging the flows relating to the IPO under the ASBA mechanism.
   ii. The amount of the swap should not exceed the amount proposed to be invested in the IPO.
   iii. The tenor of the swap should not exceed 30 days.
   iv. The contracts, once cancelled, cannot be rebooked. Rollovers under this scheme will also not be permitted.