



CIRCULAR

CIR/MRD/DRMNP/2/2014

January 20, 2014

To

Depositories,
Recognized Stock Exchanges,
Recognized Clearing Corporations,
All Foreign Institutional Investors through their designated Custodians of Securities

Dear Sir/Madam,

Sub: FII Position Limits in Exchange Traded Interest Rate Futures (IRF)

1. SEBI in consultation with RBI, vide circular CIR/MRD/DRMNP/35/2013 dated December 5, 2013 prescribed the framework for Stock Exchanges to launch cash settled Interest Rate Futures on 10-year G-sec.
2. In the said circular, the following position limits were prescribed for FIIs:

“The gross open positions of the FII across all contracts shall not exceed 10% of the total open interest or INR 600 crores, whichever is higher.

Additional restriction: The total gross short (sold) position of each FII in IRF shall not exceed its long position in the government securities and in Interest Rate Futures, at any point in time. The total gross long (bought) position in cash and IRF markets taken together for all FIIs shall not exceed the aggregate permissible limit for investment in government securities for FIIs.

FIIs shall ensure compliance with the above limits. Stringent action shall be taken against FII in case of violation of the limits."

3. SEBI vide circulars dated April 1, 2013 and July 18, 2012 has put in place mechanism for monitoring and enforcing limits of FIIs in Government Securities and corporate bonds by directing depositories to disseminate information regarding the total FII investment values in Government and corporate bonds. It has been decided in consultation with RBI that this monitoring mechanism shall also incorporate monitoring of gross long positions of FIIs in IRF as mentioned in Paragraph '2' above. The mechanism shall be as follows:
 - a. Stock exchanges shall provide information regarding aggregate gross long position in IRF of all FIIs taken together at end of the day to the depositories NSDL and CDSL and shall also publish the same on their website.



- b. NSDL and CDSL shall aggregate the gross long position of FIIs in IRF in each exchange and add it with investment of FIIs in Government Debt for monitoring adherence to the regulatory limit prescribed in paragraph 13 (d) of the SEBI Circular on IRF dated Dec 5, 2013 / paragraph 4.2 of the RBI directions on IRF dated Dec 5, 2013 and shall jointly publish/disseminate the same on their website, on daily basis.
 - c. As and when the total of cash and IRF of all FIIs as determined in sub-paragraph b above reaches 85% of the permissible limit, NSDL and CDSL shall inform RBI (CGM-in-Charge, Foreign Exchange Department), SEBI and Stock Exchanges.
 - d. Once 90% of limit is utilized, NSDL and CDSL shall inform RBI, SEBI and Stock Exchanges about the same. Stock Exchanges shall notify the same to the market and thereafter FIIs shall not further increase their long position in IRF till the time the overall long position of FIIs in cash and IRF comes below 85% of existing permissible limit.
4. This circular is issued in exercise of the powers conferred under Section 11 (1) of the Securities and Exchange Board of India Act 1992, read with Section 10 of the Securities Contracts (Regulation) Act, 1956 to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.
 5. The circular shall come into force from the date of the circular.
 6. This circular is available on SEBI website at www.sebi.gov.in., under the category “Circulars”.

Yours faithfully,

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