भारतीय प्रतिभूति और विनिमय बोर्ड
Securities and Exchange Board of India

CIRCULAR

CIR/MRD/DP/20/2014 June 20, 2014

To

All Stock exchanges and Clearing corporations,
All Depositories,
All Designated Depository Participants (DDPs) through Depositories,
All Custodians of Securities,
All Foreign Portfolio Investors (FPIs) through their DDPs.

Dear Sir / Madam,

Sub: Participation of FPIs in the Currency Derivatives segment and Position limits for currency derivatives contracts

The Hon'ble Finance Minister in his Budget 2013-2014 speech on February 28, 2013 had announced that "FIIs will be allowed to participate in the exchange traded currency derivative segment to the extent of their Indian rupee exposure in India".

2. Pursuant to notification dated May 21, 2014 on Foreign Exchange Management (Foreign Exchange Derivative Contracts) (Amendment) Regulations, 2014, Reserve Bank of India (RBI) vide A.P. (DIR Series) Circular no. 148 dated June 20, 2014 has allowed FPIs, who are eligible to invest in securities as laid down in Schedules 2, 5, 7 and 8 of Foreign Exchange Management (Transfer or Issue of Security by a person resident outside India) Regulations, 2000, to enter into currency futures or exchange traded currency options contracts, subject to terms and conditions mentioned in the said circular. Copy of the RBI circular is enclosed for reference.

Participation of FPIs in the Currency Derivatives segment

3. In view of the above, FPIs are permitted to trade in the currency derivatives segment of stock exchanges, subject to terms and conditions mentioned in this circular and aforesaid RBI circular.

4. Accordingly, para I.1.d. of the SEBI Circular SEBI/DNPD/Cir-38/2008 dated August 06, 2008 regarding Exchange Traded Currency Derivatives is modified as under:

> Appropriate mechanisms are implemented to prevent participation in Exchange Traded Currency Derivatives of "persons resident outside India", as defined in Section 2(w) of the Foreign Exchange Management Act, 1999, except persons allowed under regulation 5B of Foreign

Exchange Management (Foreign Exchange Derivative Contracts) (Amendment) Regulations, 2014.

5. Within the applicable position limits specified in para 12, positions taken by the FPIs in the currency derivatives segment of a recognised stock exchange shall be subject to the following conditions:

(a) FPIs may take long as well as short positions in the permitted currency pairs upto USD 10 million / EUR 5 million / GBP 5 million / JPY 200 million, as applicable, per stock exchange without having to establish the existence of any underlying exposure.

(b) FPIs shall ensure that their short positions at a stock exchange across all contracts in a permitted currency pair do not exceed USD 10 million / EUR 5 million / GBP 5 million / JPY 200 million, as applicable. In the event a FPI breaches the short position limit, stock exchanges shall restrict the FPI from increasing its existing short positions or creating new short positions in the currency pair till such time FPI complies with the said requirement.

(c) To take long positions in the permitted currency pair in excess of USD 10 million / EUR 5 million / GBP 5 million / JPY 200 million, as applicable, FPIs shall be required to have an underlying exposure in Indian debt or equity securities, including units of equity/debt mutual funds.

6. Primary onus for ensuring compliance with the above provisions shall rest with the FPI.

7. With regard to enabling monitoring of positions of FPIs as per the provisions of the RBI A.P. (DIR Series) Circular no. 148 dated June 20, 2014, the following shall be implemented by the clearing corporations and the custodians of securities of the FPIs:

(a) The clearing corporation shall provide details on the FPI's day-end and day's highest open positions at end of day to the custodians of securities of the FPI.

(b) The custodian of securities of the FPI shall aggregate the positions taken by the FPI on the currency derivatives segments of all the stock exchanges and forward such details to the designated bank of the FPI as defined at regulation 2(1)(e) of the Securities and Exchange Board of India (Foreign Portfolio Investors) Regulations, 2014. The custodian of securities of the FPI shall also provide the market value of applicable underlying exposure of the FPI to the designated bank of the FPI.

Participation of domestic clients in the currency derivatives segment

8. RBI vide A.P. (DIR Series) Circular no. 147 dated June 20, 2014 has revised the participation requirements for the domestic participants in the currency derivatives segment. Copy of the RBI circular is enclosed for reference.

9. Accordingly, within the applicable position limits specified in para 12, positions taken by the domestic clients shall be subject to the following conditions:

(a) Domestic clients may take long or short positions in the permitted currency pairs upto USD 10 million / EUR 5 million / GBP 5 million / JPY 200 million, as applicable, per stock exchange without having to establish the existence of any underlying exposure.

(b) Domestic clients may take positions in the permitted currency pairs in excess of USD 10 million / EUR 5 million / GBP 5 million / JPY 200 million, as applicable, subject to the conditions specified the RBI A.P. (DIR Series) Circular no. 147 dated June 20, 2014.

10. Stock brokers shall comply with the requirements mentioned in the RBI A.P. (DIR Series) Circular no. 147 dated June 20, 2014 while dealing with domestic clients and shall bring to the notice of their clients the requirements specified in this circular and the aforementioned RBI circular.

11. The primary onus of complying with the relevant provisions of the RBI A.P. (DIR Series) Circular no. 147 dated June 20, 2014 shall rest with the client and in case of any contravention, the client shall render itself liable to any action that may be warranted by RBI as per the provisions of Foreign Exchange Management Act, 1999 and Regulations, Directions, etc. framed thereunder.

Position limits in the permitted currency pairs

12. In modification to position limits specified vide SEBI circular CIR/MRD/DP/22/2013 dated July 08, 2013 for USD-INR contracts and in partial modification to the position limits specified for EUR-INR, GBP-INR and JPY-INR contracts vide SEBI circular SEBI/DNPD/Cir-52/2010 dated January 19, 2010, the revised position limits per stock exchange shall be as follows:

(a) Position limits for Stock Brokers (bank and non-bank), Category I & II FPIs: The position limits shall be as given in the table below.

Currency Pair	Position limits
USD-INR	Gross open position across all contracts shall not exceed 15% of the total open interest or USD 100 million, whichever is higher.

EUR-INR	Gross open position across all contracts shall not exceed 15% of the total open interest or EUR 50 million, whichever is higher.
GBP-INR	Gross open position across all contracts shall not exceed 15% of the total open interest or GBP 50 million, whichever is higher.
JPY-INR	Gross open position across all contracts shall not exceed 15% of the total open interest or JPY 2000 million, whichever is higher.

(b) Proprietary positions of non-bank stock brokers: Proprietary positions of non-bank stock brokers shall be subject to position limits mentioned at para 12(c).

(c) Position limits for Clients and Category III FPIs: The position limits shall be as given in the table below.

Currency Pair	Position limits
USD-INR	Gross open position across all contracts shall not exceed 6% of the total open interest or USD 10 million, whichever is higher.
EUR-INR	Gross open position across all contracts shall not exceed 6% of the total open interest or EUR 5 million, whichever is higher.
GBP-INR	Gross open position across all contracts shall not exceed 6% of the total open interest or GBP 5 million, whichever is higher.
JPY-INR	Gross open position across all contracts shall not exceed 6% of the total open interest or JPY 200 million, whichever is higher.

13. Stock exchanges shall impose appropriate penalties for violation of position limits by stock brokers / FPIs / domestic clients.

14. In case of positions taken to hedge underlying exposure, the position limit linked to open interest shall be applicable at the time of opening a position. Such positions shall not be required to be unwound in the event a drop of total open interest in a currency pair at a stock exchange. However, participants shall not be allowed to increase their existing positions or create new positions in the currency pair till they comply with the position limits.

15. All other conditions as specified vide earlier SEBI Circulars shall remain unchanged. Stock exchanges / Clearing corporations may specify additional safeguards / conditions, as deemed fit, to manage risk and to ensure orderly trading.

16. Depositories are directed to forward this circular to the DDPs, who shall in turn bring the contents of this circular to the notice of the FPIs registered with them.

17. Stock Exchanges and Clearing Corporations are directed to:

(a) take necessary steps to put in place systems for implementation of the circular by June 27, 2014, including necessary amendments to the relevant bye-laws, rules and regulations.

(b) bring the provisions of this circular to the notice of the stock brokers / clearing members and also disseminate the same on their website;

(c) communicate to SEBI the status of implementation of the provisions of this circular.

18. This circular is being issued in exercise of powers conferred under Section 11 (1) of the Securities and Exchange Board of India Act, 1992 to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.

Yours faithfully,

Maninder Cheema
Deputy General Manager
email: maninderc@sebi.gov.in

Enclosures:

(i) Reserve Bank of India A.P. (DIR Series) Circular no. 148 dated June 20, 2014 on '*Risk Management and Inter-bank Dealings: Guidelines relating to participation of Foreign Portfolio Investors (FPIs) in the Exchange Traded Currency Derivatives (ETCD)*'.

(ii) Reserve Bank of India A.P. (DIR Series) Circular no. 147 dated June 20, 2014 on '*Risk Management and Inter-bank Dealings: Guidelines relating to participation of Residents in the Exchange Traded Currency Derivatives (ETCD) market*'.