



SEBI Guidelines for issuance of ODIs, with derivative as underlying, by the ODI issuing FPIs

On 29 May 2017, the Securities Exchange and Board of India (SEBI) had issued a consultation paper to streamline the process of monitoring Offshore Derivative Instruments (ODIs)/ Participatory notes. In the said consultation paper SEBI proposed to prohibit ODIs from being issued against derivatives for speculative purpose. Further, SEBI proposed that the ODI issuers would be given time till 31 December 2020 to wind up the ODIs issued against derivatives which are not for hedging purpose. ODI issuing FPI to ensure that ODI is issued against those derivatives which are purely for hedging purpose and not for naked speculation. The ODI issuing FPI shall put in place necessary system to ensure the same. SEBI issued this paper inviting public comments and rationale by 12 June 2017.

Further to the said consultation paper, SEBI has now issued a circular no. CIR/IMD/FPI&C/76/2017 dated 7 July 2017 setting revised guidelines for issuance of ODIs, with derivative as underlying, by the ODI issuing Foreign Portfolio Investors (FPIs).

The FPIs issuing ODIs (hereinafter referred to as ODI Issuers) are required to comply with the below conditions for issuance of ODIs with immediate effect:

- ODI issuing FPIs shall not be allowed to issue ODIs with derivative as underlying, - except those derivative positions that are taken by the ODI issuing FPI for hedging the equity shares held by it, on a one to one basis.
- Where the underlying derivatives position are **not** for the purpose of hedging the equity shares, the issuing FPI has to liquidate such ODIs by earlier of:
 - the date of maturity; or
 - 31 December 2020.

ODI-issuing FPIs to endeavor to liquidate such ODI instruments prior to the timeline.

- In the case of issuance of fresh ODIs with derivatives as underlying, a certificate has to be issued by the compliance officer (or equivalent) of the ODI issuing FPI, certifying that the derivatives position, on which the ODI is being issued, is only for hedging the equity shares held by it, on a one to one basis.

The said certificate shall be submitted along with the monthly ODI reports.

- It is clarified that the term “hedging of equity shares” means taking a one-to-one position in only those derivatives which have the same underlying as the equity share.

This circular is effective on immediate basis.

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