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RESERVE BANK OF INDIA

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RBI Announces Regulatory Measures for the Foreign Exchange Market

In view of the evolving conditions and to ensure orderly functioning of the foreign exchange market, the Reserve Bank of India has today issued two circulars - [A.P. \(DIR Series\) Circular No. 25](#) and [A.P. \(DIR Series\) Circular No. 26](#) announcing the following regulatory measures.

- 1. Restrictions on rebooking of cancelled foreign exchange derivative contracts:** Authorised Dealers shall not permit users to rebook any foreign exchange derivative contract involving INR, whether deliverable or non-deliverable, which has been cancelled with any Authorised Dealer after the issuance of the Directions. Rollover of foreign exchange derivative contracts on maturity shall continue to be permitted, subject to compliance with the extant regulatory provisions.
- 2. Reduction in the threshold for undertaking foreign exchange derivative transactions without establishing underlying exposure:** The existing threshold of USD 100 million equivalent for undertaking foreign exchange derivative transactions to hedge contracted exposures without establishing the existence of the underlying exposure has been reduced to USD 5 million equivalent, across all Authorised Dealers. The corresponding threshold for taking positions in exchange-traded currency derivatives involving INR, without establishing the existence of underlying exposure, has also been reduced from USD 100 million to USD 5 million equivalent, across all Recognised Stock Exchanges taken together.
- 3. Additional documentation for verification of underlying exposures:** Authorised Dealers will be required to obtain and retain an undertaking from users entering into foreign exchange derivative contracts involving INR to hedge contracted exposures, confirming that the same underlying exposure has not been hedged with any other Authorised Dealer.
- 4. Introduction of Foreign Exchange Risk Reserve (FERR):** In respect of all foreign exchange derivative contracts involving INR that are for notional value exceeding USD two million equivalent, Authorised Dealers shall be required to maintain with the Reserve Bank an FERR in cash, equal to 20 per cent of the INR equivalent of the notional amount of each transaction. This FERR shall be applicable for foreign exchange derivative contracts involving INR undertaken to

hedge current account exposures where the user purchases foreign currency against the INR.

The above measures are intended to strengthen market discipline and ensure appropriate risk management in the foreign exchange market, while maintaining an orderly and transparent market environment.

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