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Exchange Traded Currency Derivatives

In the recent period, some concerns have been expressed about participation in the exchange traded currency derivatives (ETCD) market in the light of the Reserve Bank of India's (RBI) [A.P. \(DIR Series\) Circular No. 13 dated January 05, 2024](#).

It may be noted that the regulatory framework for participation in ETCDs involving the Indian rupee (INR) is guided by the provisions of the Foreign Exchange Management Act (FEMA), 1999 and regulations framed thereunder which mandate that currency derivative contracts involving the INR – both over-the-counter (OTC) and exchange traded – are permitted only for the purpose of hedging of exposure to foreign exchange rate risks. The regulatory framework has been reiterated in the Foreign Exchange Management (Foreign Exchange Derivative Contracts) Regulations, 2000 dated May 03, 2000 ([Notification No. FEMA.25/RB-2000 dated May 03, 2000](#)) amended on February 18, 2020 which states that a person may enter into an ETCD contract involving the INR only for the purpose of hedging a contracted exposure.

For the purpose of ease of doing business, the RBI's [A.P. \(DIR Series\) Circular No. 147 dated June 20, 2014](#) permitted users of ETCDs to take positions up to USD 10 million per exchange without having to provide documentary evidence to establish the underlying exposure but did not provide any exemption from the requirement of having the exposure. Accordingly, users are expected to ensure compliance with the requirement of having underlying exposure. The limit of USD 10 million per exchange was subsequently amended and currently stands at a single limit of USD 100 million combined across all exchanges.

As announced in the [Statement on Developmental and Regulatory Policies dated December 08, 2023](#) the regulatory framework governing the hedging of foreign exchange risks was comprehensively reviewed in 2020 with a view to ushering in a principle-based regime. Based on this comprehensive review, public consultations, feedback received from market participants and experience gained since then, the regulatory framework has been made more comprehensive in respect of all types of transactions – OTC and exchange traded - under a single Master Direction to enhance operational efficiency and ease access to foreign exchange derivatives.

The [A.P. \(DIR Series\) Circular No. 13 dated January 05, 2024](#) sets out the Master Direction and reiterates the regulatory framework for participation in ETCDs involving the INR without any change. As hitherto, participants with a valid underlying contracted exposure can continue to enter into ETCDs involving the INR up to a limit

of USD 100 million without having to produce documentary evidence of the underlying exposure.

Thus, it is emphasised that the regulatory framework for ETCDs has remained consistent over the years and that there is no change in the RBI's policy approach.

The [A.P. \(DIR Series\) Circular No. 13 dated January 05, 2024](#) had stated that these comprehensive and consolidated Directions shall come into effect from April 05, 2024. In view of feedback received and recent developments, it has been decided that these Directions will now come into effect from Friday May 03, 2024.

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