



**Reserve Bank of India
Foreign Exchange Department
Central Office
Mumbai – 400 001**

RBI/ 2013-14/649

A .P. (DIR Series) Circular No. 147

June 20, 2014

To

All Category - I Authorised Dealer banks

Madam / Sir,

Risk Management and Inter-bank Dealings: Guidelines relating to participation of Residents in the Exchange Traded Currency Derivatives (ETCD) market

Attention of Authorized Dealers Category – I (AD Category – I) banks is invited to the Foreign Exchange Management (Foreign Exchange Derivative Contracts) Regulations, 2000 dated May 3, 2000 ([Notification No. FEMA. 25/RB-2000 dated May 3, 2000](#)), as amended from time to time, the Currency Futures (Reserve Bank) Directions, 2008 dated August 6, 2008 and Exchange Traded Currency Options (Reserve Bank) Directions, 2010 dated July 30, 2010 as amended from time to time and also AP (Dir Series) circular No.5 dated August 6, 2008 and No.5 dated July 30, 2010 in terms of which persons resident in India may participate in the ETCD market in India subject to the terms and conditions mentioned in the aforementioned notifications and guidelines, *ibid*. Attention is also drawn to [A.P. \(DIR Series\) circular No. 86 dated March 1, 2013](#) and [A.P. \(DIR Series\) circular no. 7 dated July 8, 2013](#) in terms of which restrictions on the proprietary trading by AD Category – I banks in the currency futures and ETCD markets were imposed.

2. In terms of the present regulatory framework, domestic participants in the currency futures and exchange traded options markets are not required to have any underlying exposure while requirement of underlying is mandatory for taking a position in the over-the-counter (OTC) derivatives markets. With a view to bringing about an alignment between the two markets, henceforth domestic participants in the currency futures and exchange traded currency options will be subject to the following terms and conditions:

- a. Domestic participants shall be allowed to take a long (bought) as well as short (sold) position upto USD 10 million per exchange without having to establish the existence of any underlying exposure. For the purpose of convenience, exchanges may prescribe a fixed limit for the contracts in currencies other than USD such that the limit is within the equivalent of USD 10 million.
- b. Domestic participants who want to take a position exceeding USD 10 million in the ETCD market will have to establish the existence of an underlying exposure. The procedure for the same shall be as under:
 - i. For participants who are exporters or importers of goods and services, the eligible limit up to which they can take appropriate hedging positions in ETCDs will be determined as (a) higher of the (I) average of the last three years' export turnover, or (II) previous year's export turnover, in case they are exporters and (b) fifty per cent of the higher of the (I) average of their last three years' imports turnover or (II) the previous year's turnover, in case they are importers.
 - ii. The participants shall furnish, to the trading member of the exchange, a certificate(s) from their statutory auditors regarding the limit(s) mentioned above along with an undertaking signed by the Chief Financial Officer (CFO) to the effect that at all time, the sum total of the outstanding OTC derivative contracts and the outstanding ETCD contracts shall be corresponding to the actual exports or imports contracted, as the case may be.
 - iii. Based on the above certificate, a trading member can book ETCD contracts upto fifty per cent of the eligible limit [as at paragraph (i) above] on behalf of the concerned customer. If a participant wishes to take position beyond the fifty per cent of the eligible limit in the ETCD, it has to produce a certificate from the statutory auditors certifying that the sum total of the outstanding OTC derivative contracts and outstanding ETCD contracts has generally been in correspondence with the eligible limits. Based on such a certificate, the trading member can book ETCD contracts beyond fifty per cent of the limit and up to limit mentioned in paragraph (i) above.
 - iv. For all other participants having an underlying foreign currency exposure in respect of both current and capital account transactions as also exporters and importers who wish to access the ETCD market on the basis of contracted exposure, they will have to undertake the transaction through AD Category-I bank/s who are operating as trading members. In such cases, the responsibility for verification of the underlying exposures and ensuring that the ETCD

bought/sold is in conformity with the underlying exposure and that no OTC contract has been booked against the same underlying exposure shall rest with the concerned (AD Category I bank) trading member.

- v. All participants in the ETCD market, except those covered by paragraph (iv) above, will be required to submit to the concerned trading member of the exchange a half-yearly certificate from their statutory auditors as on March 31st and September 30th, within fifteen days from the said dates, to the effect that during the preceding six months, the derivative contracts entered into by the participant in the OTC and the ETCD markets put together did not exceed the actual exposure.
 - c. It may be noted that the onus of complying with the provisions of this circular rests with the participant and in case of any contravention the participant shall render itself liable to any action that may be warranted as per the provisions of Foreign Exchange Management Act, 1999 and those of the Regulations, Directions, etc. framed thereunder.
3. In terms of [A.P. \(DIR Series\) Circular 86 dated March 1, 2013](#), AD Cat-I banks were not allowed to offset their positions in the ETCD market against the positions in the OTC derivatives market and in terms of [A.P. \(DIR Series\) Circular No. 7 dated July 8, 2013](#) they were not allowed to carry out any proprietary trading in the ETCD market. Keeping in view the evolving market conditions, it has now been decided that:
- a. AD Category-I banks may undertake proprietary trading in the ETCD market within their Net Open Position Limit (NOPL) and any limit that may be imposed by the exchanges for the purpose of risk management and preserving market integrity.
 - b. AD Category-I banks may also net / offset their positions in the ETCD market against the positions in the OTC derivatives markets. Keeping in view the volatility in the foreign exchange market, Reserve Bank may however stipulate a separate sub-limit of the NOPL (as a percentage thereof) exclusively for the OTC market as and when required.
4. Save and except as mentioned above, there will be no other upper limit on the position that can be taken by any participant, resident or non-resident, in the ETCD market. The exchanges under appropriate directions from SEBI may however impose any limit for risk management and preserving market integrity.

5. This circular has been issued under Sections 10 (4) and 11(1) of the Foreign Exchange Management Act, 1999 (42 of 1999) and is without prejudice to permissions / approvals, if any, required under any other law.

Yours faithfully,

(C D Srinivasan)
Chief General Manager