Remarks by Smt. Shyamala Gopinath on the occasion of the launch of currency futures by NSE on August 29, 2008

Honourable Finance Minister, Chairman SEBI Shri Bhave, Chairman NSE, Shri Mathur, MD & CEO NSE, Shri Ravi Narain, DMD, NSE Smt. Chitra Ramakrishnan, ladies and gentlemen.

2. We are gathered here to mark an event of great significance in the context of Indian financial markets. This event is in fulfillment of the announcement made by the Hon. Finance Minister as part of the Budget Speech in February 2008. It may be recalled that the preparatory work in this regard had commenced with the setting up of an Internal Group on Currency Futures in RBI as announced in the Annual Policy, April 2007. Today is the culmination of a process of extensive consultations and deliberations intended to design a framework for introduction of currency futures in conjunction with the existing vibrant OTC market.

3. Let me say a few words on the impressive growth of forex markets in India in the recent past. As per the BIS Triennial Survey on the global foreign exchange and derivatives market activity (2007), the foreign exchange market in India has grown into the 16th largest market in the world in terms of total daily turnover which was US$34 billion in 2007. The OTC derivatives segment of the foreign exchange market has also increased significantly to register a daily average turnover of USD 24 billion, which is 17th largest among all countries. The daily turnover has increased to US$48 billion in 2007-08. The bid-offer spreads are narrow reflecting the liquidity and efficiency of the market. There is a wide menu of products available in the OTC market which serves a distinct economic purpose.

4. The biggest challenge in designing a framework for currency futures in India, I may say, was the contextual setting in which the foreign exchange market operates in India. There was no ready template available internationally that we could draw upon since most of the countries that have active currency futures markets are those which are relatively more convertible on the capital account. The endeavour was to have a framework which genuinely sought to provide an additional avenue for risk management while maintaining the integrity of the existing market microstructure.

5. The Report of the Internal Group was discussed extensively in the meetings of the Technical Advisory Committee on financial markets which consists of market participants, experts and regulators. We have also had the benefit of an array of expert views, including those of the Ministry of Finance which were indeed valuable in giving final contours to the framework. The operational

aspects were commendably dealt with by the RBI-SEBI Standing Technical Committee and I must highlight the exemplary inter-regulatory coordinative approach that has been the hallmark of the entire process. A similar approach is now being adopted in respect of interest rate futures as well and we may see a fruition of efforts in this regard in a short time. In this regard, I express deep appreciation of the contribution made by SEBI, and in particularly the Chairman, in bringing this to fruition.

6. I congratulate NSE for putting in place the platform in a short time and ensuring a sizeable number of members at the initial start itself. I believe the currency futures market will seamlessly complement the existing OTC market. As you may be aware, in all countries, including developed markets, OTC segment dominates foreign exchange transactions.

7. The introduction of currency futures, I am sure, will provide further depth and breadth to the market and fulfill their intended objective as an effective risk management instrument. I would also like to take this opportunity to urge all the market participants to leverage this significant milestone for skill development within as well as at a broader industry level.

8. On behalf of RBI, I would like to assure our continued commitment to orderly and well thought out development of financial markets, while maintaining financial stability and integrity.