



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

RBI/ 2013-14/650

A .P. (DIR Series) Circular No. 148

June 20, 2014

To

All Category - I Authorised Dealer banks

Madam / Sir,

Risk Management and Inter-bank Dealings: Guidelines relating to participation of Foreign Portfolio Investors (FPIs) 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 [A.P. \(Dir Series\) circular No.5 dated August 6, 2008](#) and [circular No.5 dated July 30, 2010](#) in terms of which only persons resident in India shall participate in the currency futures and exchange traded currency options market in India subject to the terms and conditions mentioned in the aforementioned notifications and guidelines, *ibid*.

2. It has now been decided to allow foreign portfolio investors (FPIs) eligible to invest in securities as laid down in Schedules 2, 5, 7 and 8 of the Foreign Exchange Management (Transfer or Issue of Security by a person resident outside India) Regulations, 2000 ([FEMA 20/2000-RB dated May 3, 2000](#)) (GSR 406 (E) dated May

3, 2000)) as amended from time to time to enter into currency futures or exchange traded currency options contracts subject to the following terms and conditions:

- a. FPIs will be allowed access to the currency futures or exchange traded currency options for the purpose of hedging the currency risk arising out of the market value of their exposure to Indian debt and equity securities.
- b. Such investors can participate in the currency futures / exchange traded options market through any registered / recognised trading member of the exchange concerned.
- c. FPIs can take position – both long(bought) as well as short(sold) – in foreign currency up to USD 10 million or equivalent per exchange without having to establish existence of any underlying exposure. The limit will be both day-end as well as intra-day.
- d. An FPI cannot take a short position beyond USD 10 million at any time and to take a long position beyond USD 10 million in any exchange, it will be required to have an underlying exposure. The onus of ensuring the existence of an underlying exposure shall rest with the FPI concerned.
- e. The exchange will, however, be free to impose additional restrictions as prescribed by the Securities and Exchange Board of India (SEBI) for the purpose of risk management and fair trading.
- f. The exchange/ clearing corporation will provide FPI wise information on day-end open position as well as intra-day highest position to the respective custodian banks. The custodian banks will aggregate the position of each FPI on the exchanges as well as the OTC contracts booked with them (i.e. the custodian banks) and other AD banks. If the total value of the contracts exceeds the market value of the holdings on any day, the concerned FPI shall be liable to such penal action as may be laid down by the SEBI in this regard and action as may be taken by Reserve Bank of India under the Foreign Exchange Management Act (FEMA), 1999. The designated custodian bank will be required to monitor this and bring transgressions, if any, to the notice of RBI / SEBI.

3. Accordingly, the Notifications No.FED.1 / ED (GP) - 2014 dated June 10, 2014 and No. FED. 2/ ED (GP) – 2014 dated June 10, 2014 viz. Currency Futures (Reserve Bank) Amendment Directions, 2014 and Exchange Traded Currency Options (Reserve Bank) Amendment Directions, 2014 amending the Directions notified vide Notification No.FED.1/DG (SG) – 2008 dated August 6, 2008 and Notification No. FED.1 / ED (HRK) - 2010 dated July 30, 2010 respectively have been issued. Copies of the Directions are enclosed (Annexes I & II).

4. Necessary amendments ([Notification No. FEMA 303/2014-RB dated May 21, 2014](#)) to Foreign Exchange Management (Foreign Exchange Derivatives Contracts) Regulations, 2000 (Notification No. FEMA.25/RB-2000 dated May 3, 2000) (Regulations) have been notified in the Official Gazette vide G.S.R. No. 374(E) dated June 2, 2014, a copy of which is also enclosed (Annex III).

5. The above directions have been issued under section 45W of the Reserve Bank of India Act, 1934 and the regulations have been issued under clause (h) of sub-Section (2) of Section 47 of FEMA, 1999 (42 of 1999).

6. 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

[A. P. (DIR Series) Circular No. 148 dated June 20, 2014]

Currency Futures (Reserve Bank) (Amendment) Directions, 2014
Notification No. FED. 1 /ED(GP)-2014 dated June 10, 2014

The Reserve Bank of India having considered necessary in public interest and to regulate the financial system of the country to its advantage, in exercise of its powers conferred by section 45W of the Reserve Bank of India Act, 1934 and of all the powers enabling it in this behalf, hereby gives the following directions to all the persons dealing in currency futures.

1. Short title and commencement of the directions

These directions may be called the Currency Futures (Reserve Bank) Amendment Directions, 2014 and they shall come into force with effect from June 10, 2014.

2. Amendment to Currency Futures (Reserve Bank) Directions, 2008

(i) In para 3, for sub-para (ii), the following shall be substituted, namely:

“Persons resident in India, as defined in section 2 (v) of Foreign Exchange Management Act, 1999 (Act 42 of 1999) may purchase or sell currency futures to hedge an exposure to foreign exchange rate risk or otherwise.”

(ii) In para. 3, after sub-para (ii), the following new sub-para shall be added, namely:

“(iii) Persons resident outside India, as defined in section 2 (w) of Foreign Exchange Management Act, 1999 (Act 42 of 1999), who are eligible to invest in securities as laid down in Schedules 2, 5, 7 and 8 of Foreign Exchange Management (Transfer or Issue of Security by a person resident outside India) Regulations, 2000 (FEMA 20/2000-RB dated May 3, 2000 (GSR 406 (E) dated May 3, 2000)) as amended from time to time, may purchase or sell currency futures to hedge an exposure to foreign exchange rate risk or otherwise, subject to such conditions as Reserve Bank of India may stipulate.

(i) (iii) In para. 5, for sub-para (i), the following shall be substituted:

“ (i) No person other than as mentioned in paragraphs 3 (ii) and 3(iii) of these Directions shall participate in the currency futures market.”

(G Padmanabhan)
Executive Director

[A. P. (DIR Series) Circular No. 148 dated June 20, 2014]

**Exchange Traded Currency Options (Reserve Bank) (Amendment) Directions, 2014
Notification No. FED.2 / ED (GP) - 2014 dated June 10, 2014**

The Reserve Bank of India having considered necessary in public interest and to regulate the financial system of the country to its advantage, in exercise of its powers conferred by section 45W of the Reserve Bank of India Act, 1934 and of all the powers enabling it in this behalf, hereby gives the following directions to all the persons dealing in exchange traded currency options.

1. Short title and commencement of the directions

These directions may be called the Exchange Traded Currency Options (Reserve Bank) (Amendment) Directions, 2014 and they shall come into force with effect from June 10, 2014.

2. Amendment to the Exchange Traded Currency Options (Reserve Bank) Directions, 2010

(ii) In para 3, for sub-para (ii), the following shall be substituted, namely:

“Persons resident in India as defined in section 2(v) of Foreign Exchange Management Act, 1999 (Act 42 of 1999) may purchase or sell exchange traded currency options to hedge an exposure to foreign exchange rate risk or otherwise.”

(iii) In para. 3, after sub-para (ii), the following new sub-para shall be added, namely:

“(iii) Persons resident outside India, as defined in section 2 (w) of Foreign Exchange Management Act, 1999 (Act 42 of 1999), who are eligible to invest in securities as laid down in Schedules 2, 5, 7 and 8 of Foreign Exchange Management (Transfer or Issue of Security by a person resident outside India) Regulations, 2000 (FEMA 20/2000-RB dated May 3, 2000 (GSR 406 (E) dated May 3, 2000)) as amended from time to time, may purchase or sell exchange traded currency options to hedge foreign exchange rate risk or otherwise, subject to such conditions as Reserve Bank of India may stipulate.”

(iv) In para. 5, for sub-para (i), the following shall be substituted:

“(i) No person other than as mentioned in sub-paragraphs (ii) and (iii) of paragraph 3 of these Directions shall participate in the exchange traded currency options market.”

**(G Padmanabhan)
Executive Director**

[A. P. (DIR Series) Circular No. 148 dated June 20, 2014]

Notification No. FEMA 303/2014-RB

May 21, 2014

Foreign Exchange Management (Foreign Exchange Derivative Contracts) (Amendment) Regulations, 2014

In exercise of the powers conferred by clause (h) of sub-section (2) of Section 47 of the Foreign Exchange Management Act, 1999 (42 of 1999), the Reserve Bank hereby makes the following amendments in the Foreign Exchange Management (Foreign Exchange Derivative Contracts) Regulations, 2000 ([Notification No. FEMA. 25/2000-RB dated 3rd May 2000](#)) namely:-

1. Short Title and Commencement

(i) These Regulations may be called the Foreign Exchange Management (Foreign Exchange Derivative Contracts) (Amendment) Regulations, 2014.

(ii) They shall come in to force from the date of their publication in the Official Gazette.

2. Amendment of Regulations:

After Regulation 5A Regulation 5B shall be inserted as below:

“Permission to a person resident outside India to enter into currency futures or exchange traded currency options

A person resident outside India who is eligible to invest in securities as laid down in Schedules 2, 5, 7 and 8 of Foreign Exchange Management (Transfer or Issue of Security by a person resident outside India) Regulations, 2000 ([FEMA 20/2000-RB dated May 3, 2000](#) (GSR 406 (E) dated May 3, 2000)) as amended from time to time, may enter into currency futures or exchange traded currency options contracts on a stock exchange recognised under section 4 of Securities Contracts (Regulations) Act, 1956 to hedge an exposure to risk, subject to such terms and conditions as may be set forth in the directions issued by the Reserve Bank of India from time to time.”

(S M Pillai)
General Manager In-charge

Footnote:-

1. The Principal Regulations were published in the Official Gazette vide G.S.R. No.411(E) dated May 8, 2000 in Part II, Section 3, sub-section (i) and subsequently amended vide –
G.S.R.No. 756(E) dated 28.09.2000
G.S.R.No. 264(E) dated 09.04.2002
G.S.R.No. 579(E) dated 19.08.2002
G.S.R.No. 222(E) dated 18.03.2003
G.S.R.No. 532(E) dated 09.07.2003
G.S.R.No. 880(E) dated 11.11.2003
G.S.R.No. 881(E) dated 11.11.2003
G.S.R.No. 750(E) dated 28.12.2005
G.S.R.No. 222(E) dated 19.04.2006
G.S.R.No. 223(E) dated 19.04.2006
G.S.R.No. 760(E) dated 07.12.2007
G.S.R.No. 577(E) dated 05.08.2008
G.S.R.No. 440(E) dated 23.06.2009
G.S.R.No. 895(E) dated 14.12.2009
G.S.R.No. 635(E) dated 27.07.2010
G.S.R.No. 608(E) dated 03.08.2012
G.S.R.No. 799(E) dated 30.12.2012
G.S.R.No. 330(E) dated 23.05.2013

Published in the Official Gazette of Government of India Extraordinary – Part-II, Section 3, Sub-Section (i) dated 02.06.2014- G.S.R.No.374 (E)