



**RESERVE BANK OF INDIA**  
**Financial Markets Regulation Department**  
**Central Office**  
**Mumbai - 400 001**

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RBI/2015-16/431

June 23, 2016

**A.P. (DIR Series) Circular No. 78**

To  
All Category - I Authorised Dealer Banks

Madam / Sir,

**Permitting writing of options against contracted exposures by Indian Residents**

Attention of Authorised Dealer Category - I (AD Cat - I) banks is invited to 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 and [A.P. \(DIR Series\) circular no. 32 dated December 28, 2010](#) - Comprehensive Guidelines on Over the Counter (OTC) Foreign Exchange Derivatives and Overseas Hedging of Commodity Price and Freight Risks, as amended from time to time. Attention is also invited to Reserve Bank [circular No. DBOD.No.BP.BC. 86/21.04.157/2006-07 dated April 20, 2007](#) on Comprehensive Guidelines on Derivatives as well as the modifications issued through [circular No. DBOD.No.BP.BC. 44/21.04.157/2011-12 dated November 2, 2011](#).

2. As announced in the [Bi-Monthly Monetary Policy Statement on April 7, 2015](#), in order to encourage participation in the Over the Counter (OTC) currency options market and improve its liquidity, it has been decided to permit resident exporters and importers of goods and services to write (sell) standalone plain vanilla European call and put option contracts against their contracted exposure, i.e. covered call and covered put respectively, to any AD Cat-I bank in India subject to operational guidelines, terms and conditions given in Annex I to this circular.

3. Necessary amendments (Notification No. FEMA 365 /2016-RB dated June 1, 2016) 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. 571 (E) dated June 1<sup>st</sup>, 2016, a copy of which is enclosed (Annex II).

4. AD Cat-I banks may bring the contents of this circular to the notice of their constituents and customers.

5. The directions contained in this circular have been issued under Sections 10(4) and 11(1) of the Foreign Exchange Management Act, 1999 (42 of 1999) and are without prejudice to permissions/ approvals, if any, required under any other law.

6. These guidelines will be reviewed after one year based on experience.

Yours faithfully

(R Subramanian)  
Chief General Manager

**Writing of Covered Call and Put Currency Option contracts by Indian exporters and importers of goods and services**

**1. Participants**

- a. Market-makers: AD Category-I banks in India who have Reserve Bank's approval to run cross-currency and foreign currency-Indian Rupee options books.
- b. Users: Listed companies and their subsidiaries/joint ventures/associates having common treasury and consolidated balance sheet or unlisted companies with a minimum net worth of Rs. 200 crore provided appropriate disclosures are made in the financial statements as prescribed by the Institute of Chartered Accountants of India (ICAI).

**2. Product**

- a. Covered Call: A resident exporter may write (sell) a standalone plain vanilla European call option contract to an AD Category-I bank in India against the cover of contracted exposure arising out of exports of goods and services from India.
- b. Covered Put: A resident importer may write (sell) a standalone plain vanilla European put option contract to an AD Category-I bank in India against the cover of contracted exposure arising out of imports of goods and services into India.
- c. The use of Covered option shall not be considered as a hedging strategy.
- d. Being a combination of an underlying cash instrument and a generic derivative product, covered call and covered put options shall be treated as structured derivative products in terms of the Comprehensive Guidelines on Derivatives issued vide [Circular DBOD.No.BP.BC. 86/21.04.157/2006-07 dated April 20, 2007](#), as amended from time to time.

### 3. Operational guidelines, terms and conditions

- a. All the guidelines governing derivative products in general and structured products in particular of the circular mentioned in para. (2)(d) above and subsequent amendments thereof will apply, mutatis mutandis, to covered options.
- b. AD Category-I banks may enter into covered options with their exporter or importer constituents only after obtaining specific approval in this regard from their competent authority (Board / Risk Committee / ALCO) and as per the terms and conditions contained in [A.P. \(DIR Series\) Circular No. 32 dated December 28, 2010](#), as amended from time to time, on running Cross Currency and Foreign Currency – INR options book.
- c. The responsibility of assessing the strength of risk management systems, financial soundness of the option writer shall rest with the concerned AD Cat-I bank. AD Category I banks may stipulate safeguards, such as, continuous profitability, higher net worth, turnover, etc. depending on the scale of forex operations and risk profile of the option writers.
- d. Covered options may be written against either a portion or the full value of the underlying.
- e. AD Cat-I banks shall treat the exposures against which a covered option has been written as an “unhedged exposure”. Accordingly, the guidelines issued vide Reserve Bank [Circular DBOD.No.BP.BC. 85/21.06.200/2013-14 dated January 15, 2014](#) on Capital and Provisioning Requirements for Exposures to entities with Unhedged Foreign Currency Exposure shall apply.
- f. Covered option contracts may be written for a period up to the maturity of the underlying subject to a maximum maturity period of 12 month.
- g. Covered options may be freely cancelled and rebooked subject to the verification of the underlying by the AD Cat-I bank concerned.
- h. For eligible underlying contracted exposures, the option seller may write the covered option either as a single FCY-INR option or as separate options for the FCY-USD and USD-INR legs.

- i. The operational guidelines and terms and conditions as laid down under “Contracted Exposures” – Forward Foreign Exchange Contracts, Cross Currency Options (not involving Rupee) and Foreign Currency-INR Options of the [A.P. \(DIR Series\) No. 32 dated December 28, 2010](#), as amended from time to time, shall be applicable to covered options to the extent relevant.
  - j. Except as mentioned in these guidelines, covered options shall not be undertaken in combination with any other derivative or cash instrument.
  - k. As provided under Comprehensive Guidelines on Derivatives, as amended from time to time, authorised dealers may maintain cash margin / liquid collateral in respect of covered options sold to them by exporters and importers, if necessary.
  - l. AD Cat-I banks entering into covered options with their constituents may report the same to CCIL’s reporting platform for OTC foreign exchange derivatives in terms of our [circular FMD.MSRG.No.75/02.05.002/2012-13 dated March 13, 2013](#), as amended from time to time.
4. In addition to the above, “General Instructions for OTC forex derivative contracts entered by Residents in India,” as laid down under Section (I)(B) of the [A.P. \(DIR Series\) No. 32 dated December 28, 2010](#), as amended from time to time, shall be applicable, mutatis mutandis, to covered options.

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Notification No. FEMA.365/2016-RB

June 1, 2016

**Foreign Exchange Management (Foreign Exchange Derivative Contracts)  
(Amendment) Regulations, 2016**

**G.S.R. 571(E).**- 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, 2016.
- (ii) They shall come in to force from the date of their publication in the Official Gazette.

**2. Amendment of Regulations:**

- (i) The existing Regulation 4 shall be substituted by the following:  
*“A person resident in India may enter into a foreign exchange derivative contract in accordance with provisions contained in Schedule I, to hedge an exposure to risk or otherwise, in respect of a transaction permissible under the Act, or rules or regulations or directions or orders made or issued thereunder.”*
- (ii) In Schedule I, after the existing paragraph ‘B’, the following shall be added, viz.:  
**“(C) Writing of standalone options against underlying exposure**

*A person resident in India may enter into cross-currency option contract (not involving the rupee as one of the currencies) and / or foreign currency – rupee option contract with an authorised dealer against an underlying foreign exchange exposure in respect of a transaction for which sale and / or purchase of foreign currency is permitted under the*

*Act or the rules or regulations or directions or orders made or issued thereunder subject to such terms and conditions as may be stipulated by the Reserve Bank from time to time.”*

[F.No.1/15/EM-2015]

(R Subramanian)  
Chief General Manager

**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  
G.S.R.No. 374(E) dated 02.06.2014