

RBI/2023-24/108

A. P. (DIR Series) Circular No. 13

January 5, 2024

Authorised Persons

Madam / Sir,

**Risk Management and Inter-Bank Dealings – Hedging of foreign exchange risk**

Please refer to paragraph 1 of the [Statement on Developmental and Regulatory Policies](#), issued as a part of the [Bi-monthly Monetary Policy Statement for 2023-24 dated December 08, 2023](#) on review of the regulatory framework for hedging of foreign exchange risks. Attention of Authorised Persons is invited to the Foreign Exchange Management (Foreign Exchange Derivative Contracts) Regulations, 2000 dated May 03, 2000 ([Notification No. FEMA.25/RB-2000 dated May 03, 2000](#)), as amended from time to time and [Master Direction – Risk Management and Inter-Bank Dealings dated July 05, 2016](#), as amended from time to time.

2. The Foreign Exchange Management (Foreign Exchange Derivative Contracts) (First Amendment) Regulations, 2020 ([Notification no. FEMA.398/RB-2020 dated February 18, 2020](#)) and [A. P. \(DIR Series\) circular no. 29 dated April 07, 2020](#) (which came into effect from September 01, 2020) were issued after a comprehensive review and public consultation. The foreign exchange risk management facilities have been further reviewed based on the feedback received from market participants and experience gained since the revised framework came into force. Also, the Directions in respect of all types of foreign exchange transactions (including cash, tom and spot) have been consolidated. Further, the Directions contained in the Currency Futures (Reserve Bank) Directions, 2008 ([Notification No. FED.1/DG\(SG\)-2008 dated August 06, 2008](#)), as amended from time to time, and Exchange Traded Currency Options (Reserve Bank) Directions, 2010 ([Notification No. FED.01/ED\(HRK\)-2010 dated July](#)

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बढ़ाइए

[30, 2010](#)), as amended from time to time, are now being incorporated in the [Master Direction – Risk Management and Inter-Bank Dealings](#).

3. The revised Directions are provided at Annex-I to this circular. **These Directions shall come into effect from April 05, 2024**, replacing the existing Directions in Part A (Section I) of the Master Direction – Risk Management and Interbank Dealings dated July 5, 2016, as amended from time to time, and in supersession of the notifications listed in the Annex-II.

4. Authorised Persons shall mean Authorised Dealer Category - I banks and for the purpose of exchange traded currency derivatives, Recognised Stock Exchanges and Recognised Clearing Corporations, authorised under Section 10 (1) of the Foreign Exchange Management Act, 1999 (42 of 1999).

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 Section 45W of the Reserve Bank of India, 1934 (02 of 1934) and are without prejudice to permissions/ approvals, if any, required under any other law.

Yours faithfully,

(Dimple Bhandia)  
Chief General Manager

**PART – A**

**FOREIGN EXCHANGE TRANSACTIONS**

**SECTION I**

**Facilities for Persons Resident in India (other than Authorised Dealers) and for Persons Resident outside India**

**1. Definitions**

(i) In these Directions, unless the context otherwise requires:

(a) 'Anticipated exposure' means currency risk arising on account of current or capital account transactions permissible under the FEMA, 1999 or any rules or regulations made thereunder, that are proposed to be entered into in future.

(b) 'Contracted exposure' means currency risk arising on account of current or capital account transactions permissible under the FEMA, 1999 or any rules or regulations made thereunder, that have been entered into.

Explanation for the purpose of (a) and (b):

(i) The term 'exposure' shall also include exposures arising out of transactions between residents that are denominated in a foreign currency or are linked to a foreign currency or are linked to a benchmark denominated in foreign currency, but settled in INR; and

(ii) The term 'exposure' shall not include exposures arising from foreign exchange derivative and foreign currency interest rate derivative transactions undertaken for purposes other than hedging.

(c) 'Currency risk' means the potential for loss on account of movement in exchange rates of INR against a foreign currency or on account of movement in exchange rates of one foreign currency against another or on account of movement of interest rate applicable to a foreign currency.

(d) 'Deliverable foreign exchange derivative contract' means an OTC foreign exchange derivative contract other than a non-deliverable foreign exchange derivative contract (NDDC).

(e) 'Electronic Trading Platform (ETP)' shall have the same meaning as assigned to it in the Para 2(1)(iii) of the [Electronic Trading Platforms \(Reserve Bank\) Directions, 2018 dated October 05, 2018](#), as amended from time to time.

(f) 'Exchange traded currency derivative' shall have the same meaning as assigned to it in the Regulation 2(xvi) of the [Foreign Exchange Management \(Foreign exchange derivative contracts\) Regulations, 2000 \(Notification no. FEMA.25/2000-RB dated May 03, 2000\)](#), as amended from time to time.

(g) 'Foreign currency interest rate derivative contract' means a financial contract which derives its value from the change in the interest rate of a foreign currency and which is for settlement at a future date, i.e. any date later than the spot settlement date, provided that contracts involving currencies of Nepal and Bhutan shall not qualify under this definition.

(h) 'Foreign exchange derivative contract' means a financial contract which derives its value from the change in the exchange rate of two currencies at least one of which is not Indian Rupee and which is for settlement at a future date, i.e. any date later than the spot settlement date, provided that contracts involving currencies of Nepal and Bhutan shall not qualify under this definition.

(i) 'Hedging' means the activity of undertaking a foreign exchange derivative / foreign currency interest rate derivative transaction to offset the impact of an anticipated or a contracted exposure.

(j) 'Leveraged derivative' means an OTC derivative whose potential pay-out during the tenure of the derivative can be more than the notional amount of the contract or whose pay-out calculation involves effective multiplication, by a factor of more than 1.0 of either the notional amount or the underlying rate / price / index.

(k) 'Mid-market mark' means the price of the derivative that is free from profit, credit reserve, hedging, funding, liquidity, or any other costs or adjustments.

(l) 'Net worth' shall have the same meaning as assigned to it in the Section 2(57) of the Companies Act, 2013.

(m) 'Non-deliverable foreign exchange derivative contract (NDDC)' means an OTC foreign exchange derivative contract in which there is no delivery of the notional amount of the underlying currencies of the contract and which is cash-settled.

(n) 'Over-the-counter (OTC) derivative' means a derivative (deliverable or non-deliverable) other than those which are traded on Recognised Stock Exchanges and shall include those traded on electronic trading platforms (ETPs).

(o) 'Recognised clearing corporation' shall have the same meaning as assigned to it in Regulation 2(1)(p) of the Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2018 dated October 03, 2018, as amended from time to time.

(p) 'Recognised stock exchange' shall have the same meaning as assigned to it in Regulation 2(1)(q) of the Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2018 dated October 03, 2018, as amended from time to time.

(q) 'Turnover' shall have the same meaning as assigned to it in the Section 2(91) of the Companies Act, 2013.

(r) 'User' shall mean any person as defined in the Section 2(u) of the FEMA, 1999 (42 of 1999), whether resident in India or resident outside India, other than an Authorised Dealer.

(ii) For the purpose of these Directions, Authorised Dealer shall mean Authorised Dealer Category - I banks, unless stated otherwise.

(iii) Specific types of foreign exchange derivative contracts and foreign currency interest rate derivative contracts shall have the meaning as provided at Annex XXII of the Master Direction – Risk Management and Inter-Bank Dealings (set out in the Addendum to this Annex).

(iv) Words and expressions used but not defined in these Directions shall have the meaning as assigned to them in the Foreign Exchange Management Act, 1999, Reserve Bank of India Act, 1934, and [Foreign Exchange Management \(Foreign Exchange Derivative Contracts\) Regulations, 2000](#), as amended from time to time.

## **2. Directions for OTC foreign exchange transactions**

### **2.1 User Classification Framework**

(i) Authorised Dealers shall classify users as retail or non-retail for the purpose of offering foreign exchange derivative contracts and foreign currency interest rate derivative contracts.

(ii) The following users shall be eligible to be classified as non-retail users:

(a) All India Financial Institutions (AIFIs) and Non-Banking Finance Companies (NBFCs) (including Standalone Primary Dealers (SPDs) and Housing Finance Companies (HFCs));

(b) Insurance Companies regulated by the Insurance Regulatory and Development Authority of India (IRDAI);

(c) Pension Funds regulated by the Pension Fund Regulatory and Development Authority (PFRDA);

(d) Mutual Funds and Alternative Investment Funds regulated by the Securities and Exchange Board of India (SEBI);

(e) Resident users with (a) minimum net worth of ₹500 crore; or (b) minimum turnover of ₹1000 crore, as per the latest audited financial statements; and

(f) Persons resident outside India other than individuals.

(iii) Any user who is not eligible to be classified as a non-retail user shall be classified as a retail user.

(iv) Any user who is otherwise eligible to be classified as a non-retail user shall have the option to get classified as a retail user.

(v) Any user who is otherwise eligible to be classified as a retail user shall have the option to get classified as a non-retail user subject to the condition that the user makes a request to an Authorised Dealer in this regard and the Authorised Dealer is satisfied that the user has the risk management capabilities suitable for classification as a non-retail user.

## **2.2 Products**

(i) Authorised Dealers may offer the following foreign exchange contracts, involving INR or otherwise, to users (both retail and non-retail):

- (a) foreign exchange cash;
- (b) foreign exchange tom; and
- (c) foreign exchange spot.

Note: Money changing transactions are not in the scope of these Directions and shall be governed by the Master Direction – Money Changing Activities dated January 01, 2016, as amended from time to time, or any other rule, regulation or Direction issued in this regard.

(ii) Authorised Dealers may offer the following foreign exchange derivative contracts, involving INR or otherwise, to retail users:

- (a) foreign exchange forward;
- (b) foreign exchange swap;
- (c) currency swap;
- (d) purchase of foreign exchange call option (European);
- (e) purchase of foreign exchange put option (European);
- (f) purchase of foreign exchange call spread; and
- (g) purchase of foreign exchange put spread.

(iii) Authorised Dealers may offer the following foreign exchange derivative contracts, involving INR or otherwise, to non-retail users:

- (a) all foreign exchange products permitted to be offered to the retail users;

- (b) covered foreign exchange call option;
- (c) covered foreign exchange put option;
- (d) option to undertake / cancel a foreign exchange forward / foreign exchange swap / currency swap / foreign exchange option; and
- (e) any other foreign exchange derivative contract including derivatives having cash instrument(s) and/or permitted derivative(s) as components, but excluding leveraged derivatives and derivatives containing a derivative instrument as underlying other than those specifically permitted.

(iv) Authorised Dealers may offer the following foreign currency interest rate derivative contracts to retail users:

- (a) forward rate agreement;
- (b) interest rate swap;
- (c) purchase of interest rate call option (European);
- (d) purchase of interest rate put option (European);
- (e) purchase of interest rate cap;
- (f) purchase of interest rate floor;
- (g) purchase of interest rate collar; and
- (h) purchase of interest rate reverse collar.

(v) Authorised Dealers may offer the following foreign currency interest rate derivative contracts to non-retail users:

- (a) all foreign currency interest rate products permitted to be offered to the retail users;
- (b) option to undertake / cancel a forward rate agreement / interest rate swap / interest rate option; and
- (c) any other foreign currency interest rate derivative contract including derivatives having cash instrument(s) and/or permitted derivative(s) as components, but excluding leveraged derivatives and derivatives containing a derivative instrument as underlying other than those specifically permitted.

(vi) NDDCs involving INR can be offered to residents and non-residents by an Authorised Dealer Category-I bank, provided the Authorised Dealer Category-I bank (or its non-resident parent bank) has an operating International Financial Services Centre (IFSC) Banking Unit (IBU) as specified in [circular no. RBI/2014-](#)



[15/533.DBR.IBD.BC.14570/23.13.004/2014-15 dated April 1, 2015](#), as amended from time to time.

(vii) NDDCs involving INR offered to resident users shall be cash-settled in INR. Such derivatives offered to non-resident users shall be cash-settled in INR or any foreign currency.

(viii) Foreign exchange derivative contracts not involving INR and foreign currency interest rate derivative contracts offered to resident users for purposes other than hedging shall be cash-settled in INR. Such derivatives offered to non-resident users for purposes other than hedging shall be cash-settled in INR or any foreign currency.

### **2.3 Purpose**

(i) Authorised Dealers may offer foreign exchange cash, tom and spot contracts, involving INR or otherwise, to users for permissible current or capital account transactions.

(ii) Authorised Dealers may offer deliverable foreign exchange derivative contracts involving INR to users for the purpose of hedging.

(iii) Authorised Dealer Category-I banks with an operating IFSC Banking Unit may offer NDDCs involving INR to resident users for the purpose of hedging and to non-resident users without any restriction in terms of purpose.

(iv) Authorised Dealers may offer deliverable and non-deliverable foreign exchange derivative contracts not involving INR to users without any restriction in terms of purpose.

(v) Authorised Dealers may offer foreign currency interest rate derivatives to users without any restriction in terms of purpose.

(vi) Authorised Dealers may offer currency swaps to resident users, other than individuals, for the purpose of converting their INR liability into a foreign currency liability. In case of resident retail users, such conversion shall be subject to the existence of a natural hedge.

## 2.4 Other Directions

(i) While offering a foreign exchange derivative contract involving INR to a user, other than NDDCs involving INR offered to non-resident users, and during the life of such contracts, Authorised Dealers shall ensure that:

(a) The same exposure has not been hedged using any another derivative contract;

(b) The notional amount and tenor of the derivative contract does not exceed the value and tenor of the exposure;

(c) In case the exposure ceases to exist, in full or in part, the user has appropriately adjusted the hedge to ensure adherence to (b) above, unless the original derivative contract is assigned against any other unhedged exposure. No adjustment to the hedge is required to be made if, in the considered opinion of the Authorised Dealer, the change in exposure is not material;

(d) In cases where the value of the exposure falls below the notional of the derivative, the notional should be suitably adjusted unless such divergence has occurred on account of changes in the market value of the exposure, in which case the user may, at his discretion, continue with the derivative contract till its original maturity. No adjustment to the hedge is required to be made if, in the considered opinion of the Authorised Dealer, the change in exposure is not material;

(e) Where the value of the exposure is not ascertainable with certainty, derivative contracts may be booked on the basis of reasonable estimates. Such estimates should be reviewed periodically to ensure compliance with (c) and (d) above.

Provided that Authorised Dealers shall permit users to take position up to USD 100 million equivalent of notional value (outstanding at any point of time), across all Authorised Dealers, for hedging contracted exposure without the requirement to establish the existence of underlying exposure. Authorised Dealers shall inform users that while they are not required to establish the

existence of underlying exposure, they must ensure the existence of a valid underlying contracted exposure which has not been hedged using any other derivative contract and should be in a position to establish the same, if required.

(ii) Authorised Dealers shall allow users to freely cancel and rebook derivative contracts. However, net gains (gains over and above losses, if any) on derivative contracts booked to hedge an anticipated exposure shall be passed on to the eligible user only at the time of the cash flow of the anticipated transaction. In case of part delivery, net gains shall be transferred on a pro-rata basis.

(iii) Authorised Dealers may, in exceptional cases, pass on the net gains, if any, on derivative contracts booked to hedge an anticipated exposure whose underlying cash flow has not materialised, provided the Authorised Dealer is satisfied that the absence of cash flow is on account of factors which are beyond the control of the user. Such instances along with specific justification, shall be kept on record by the Authorised Dealer.

(iv) Authorised Dealers may call for such documents from users as they deem necessary for complying with the requirements of these Directions.

(v) While offering foreign exchange derivative / foreign currency interest rate derivative to the retail user, Authorised Dealers shall provide the mid-market mark / bid and ask price of the derivative before entering into the contract and the same must also be included in the deal confirmation / term sheet.

(vi) While offering a foreign exchange derivative contract involving INR to a non-resident (or its central treasury / group entity, where applicable), Authorised Dealers may deal with a non-resident user either directly or on a back-to-back basis through overseas entities (including overseas branches, IFSC Banking Units, wholly owned subsidiaries and joint ventures of Authorised Dealers) subject to the following conditions:

(a) The overseas entity is eligible to deal with the product concerned in the capacity of a dealer / market-maker as per the host jurisdiction's laws and regulations;

(b) The wholly owned subsidiary / joint venture of Authorised Dealers incorporated in India can undertake such transactions provided the wholly owned subsidiary / joint venture is a banking entity;

(c) In case of a central treasury / group entity of the non-resident user, the Authorised Dealer shall ensure that the central treasury / group entity is appropriately authorised by the user to deal for and on its behalf; and

(d) Authorised Dealers shall provide information, data or any other particular required by the Reserve Bank of India in respect of the aforesaid transactions in the manner and time prescribed.

(vii) Authorised Dealer shall ensure that in the case of non-resident users, all payables incidental to the foreign exchange transactions are met by the user out of repatriable funds and / or inward remittance through normal banking channels.

(viii) Market-makers in OTC markets shall comply with the Master Direction – Reserve Bank of India (Market-makers in OTC Derivatives) Directions, 2021 issued vide [RBI Circular No. FMRD.FMD.07/02.03.247/2021-22 dated September 16, 2021](#), as amended from time to time.

(ix) Existing contracts booked under the provisions of the earlier Directions may be continued till the date of their expiry.

### **3. Directions for exchange traded currency derivatives**

3.1 Recognised Stock Exchanges and Recognised Clearing Corporations shall not deal in or otherwise undertake the business relating to foreign exchange derivatives unless they hold an authorization issued by the Reserve Bank of India under Section 10(1) of the Foreign Exchange Management Act, 1999.

#### **3.2 Products**

(i) Recognized Stock Exchanges may offer the following foreign exchange derivative contracts, involving INR or otherwise, to persons resident in India and persons resident outside India:

- (a) Foreign exchange future;
- (b) Foreign exchange call option (European); and
- (c) Foreign exchange put option (European).

(ii) Permitted currency pairs: USD-INR, EUR-INR, GBP-INR, JPY-INR, EUR-USD, GBP-USD and USD-JPY.

(iii) The underlying for the foreign exchange option shall be the spot rate of the corresponding currency pair.

(iv) Tenor: Up to 12 months.

### **3.3 Purpose**

(i) Recognized Stock Exchanges may offer foreign exchange derivative contracts involving INR to users for the purpose of hedging contracted exposure.

(ii) Recognized Stock Exchanges may offer foreign exchange derivative contracts not involving INR without any restriction in terms of purpose.

### **3.4 Other Directions**

(i) For exchange traded foreign exchange derivative contracts involving INR, Recognized Stock Exchange shall ensure that:

- (a) The user is allowed to take positions (long or short), without having to establish existence of underlying exposure, up to a single limit of USD 100 million equivalent across all currency pairs involving INR, put together, and combined across all Recognized Stock Exchanges;

Note: Recognized Stock Exchanges shall inform users that while they are not required to establish the existence of underlying exposure, they must ensure the existence of a valid underlying contracted exposure which has been not hedged using any other derivative contract and should be in a position to establish the same, if required.

(b) Recognized Stock Exchanges shall provide a facility to users intending to take position beyond USD 100 million (or equivalent) in contracts involving INR, in all exchanges put together, to designate an Authorised Dealer / Custodian for the purpose of monitoring transactions of the user to ensure that:

(i) All positions of the user in all contracts involving INR, across all the Recognized Stock Exchanges put together, are backed by contracted exposure;

(ii) The same exposure has not been hedged using any another derivative contract;

(iii) The notional amount and tenor of the derivative contract does not exceed the value and tenor of the exposure;

(iv) In case the exposure ceases to exist, in full or in part, the user has appropriately adjusted the hedge to ensure adherence to (iii) above, unless the original derivative contract is assigned against any other unhedged exposure. No adjustment to the hedge is required to be made if, in the considered opinion of the Authorised Dealer, the change in exposure is not material;

(v) In cases where the value of the exposure falls below the notional of the derivative, the notional should be suitably adjusted unless such divergence has occurred on account of changes in the market value of the exposure, in which case the user may, at his discretion, continue with the derivative contract till its original maturity. No adjustment to the hedge is required to be made if, in the considered opinion of the Authorised Dealer, the change in exposure is not material;

(vi) Where the value of the exposure is not ascertainable with certainty, derivative contracts may be booked on the basis of reasonable estimates. Such estimates should be reviewed periodically to ensure compliance with (iv) and (v) above.

(c) For users taking positions beyond the aforesaid limit of USD 100 million, Recognized Stock Exchanges shall provide information on day-end open positions as well as intra-day highest position of the users to the designated Authorised Dealer / Custodian.

(d) Recognized Stock Exchanges shall ensure that the participants on exchanges are made adequately aware of the risks associated with exchange traded currency derivatives.

(ii) Price / premium of exchange traded foreign exchange derivative contracts involving INR shall be quoted in INR. Price / premium of EUR-USD and GBP-USD cross currency contracts shall be quoted in USD and USD-JPY contract shall be quoted in JPY.

(iii) Exchange traded foreign exchange derivative contracts, involving INR or otherwise, shall be cash settled in INR. The settlement price for exchange traded foreign exchange derivative contracts involving INR shall be the corresponding Financial Benchmarks India Pvt. Ltd. (FBIL) Reference Rate on the last trading day of the contract. For permitted exchange traded foreign exchange derivative contracts involving INR where FBIL Reference Rates are not available and for other currency pairs, the mechanism for arriving at the settlement price shall be decided by the Recognised Stock Exchange with the approval of SEBI.

(iv) Premium for foreign exchange option shall be payable in INR based on the FBIL Reference Rates. If the corresponding FBIL Reference Rate is not available, the mechanism for arriving at the payable amount shall be decided by the Recognized Stock Exchange with the approval of SEBI.

(v) The trading and clearing membership of the foreign exchange derivative segment of the Recognized Stock Exchange / Recognised Clearing Corporation shall be separate from the membership of other segments and shall be subject to the regulations / directions issued by the SEBI.

(vi) Recognized Stock Exchanges and Authorised Dealers may call for such documents from users as they deem necessary for complying with the requirements of these Directions.

(vii) Recognised Stock Exchanges and recognised Clearing Corporations authorised under Section 10(1) of the Foreign Exchange Management Act, 1999 shall submit to the Reserve Bank of India such returns, documents and other information as may be required, in the format and time frame specified, if any. Also, they shall report any major development relating to its functioning of the permitted products such as market abuse, market disruption, adverse finding relating its functioning or regulatory action, etc., at the earliest to the Chief General Manager, Financial Markets Regulation Department, Reserve Bank of India (via email to [cgmfmrd@rbi.org.in](mailto:cgmfmrd@rbi.org.in)).

(viii) The Reserve Bank may from time to time modify the eligibility criteria for the participants, modify participant-wise position limits, prescribe margins and / or impose specific margins for identified participants, fix or modify any other prudential limits, or take such other actions as deemed necessary in public interest, in the interest of financial stability and orderly development and maintenance of foreign exchange market in India.



**Annex XXII of Master Direction – Risk Management and Inter-bank Dealings  
- Foreign Exchange Derivative Contracts and Foreign Currency Interest  
Rate Derivative Contracts: Definitions**

In these Directions, unless the context otherwise requires:

(a) 'Currency swap' means an OTC foreign exchange derivative contract which commits two counterparties to exchange streams of interest payments and/or principal amounts in different currencies on specified dates over the duration of the swap at a pre-agreed exchange rate.

(b) 'Foreign exchange call option (European)' means an OTC / exchange traded foreign exchange derivative contract that gives the buyer the right, but not the obligation, to buy an agreed amount of a certain currency with another currency at a specified exchange rate on a specified date in the future.

(c) 'Foreign exchange call spread' means an OTC foreign exchange derivative contract involving simultaneous purchase and sale of equal number of OTC foreign exchange call options (European) of same expiry and different strike price.

(d) 'Covered foreign exchange call option' means a written OTC foreign exchange call option where the writer of the option has a long position in the asset underlying the option.

(e) 'Covered foreign exchange put option' means a written OTC foreign exchange put option where the writer of the option has a short position in the asset underlying the option.

(f) 'Foreign exchange forward' means an OTC foreign exchange derivative contract involving the exchange of two currencies on a specified date in the future (more than two business days later) at a rate agreed on the date of the contract.

(g) 'Foreign exchange future' means an exchange traded foreign exchange derivative contract involving the exchange of two currencies on a specified date in the future

(more than two business days later) at a rate agreed on the date of the contract, but does not include foreign exchange forward.

(h) 'Foreign exchange put option (European)' means an OTC / exchange traded foreign exchange derivative contract that gives the buyer the right, but not the obligation, to sell an agreed amount of a certain currency for another currency at a specified exchange rate on a specified date in the future.

(i) 'Foreign exchange put spread' means an OTC foreign exchange derivative contract involving simultaneous purchase and sale of equal number of OTC foreign exchange put options (European) of same expiry and different strike price.

(j) 'Foreign exchange swap' means an OTC foreign exchange derivative contract involving the actual exchange of two currencies (principal amount only) on a specified date (the near leg) and a reverse exchange of the same two currencies at a date further in the future (the far leg), at rates agreed at the time of the contract.

(k) 'Forward rate agreement' means a cash-settled OTC foreign currency interest rate derivative contract between two counterparties, in which a buyer will pay or receive, on the settlement date, the difference between a pre-determined fixed rate (FRA rate) and a reference interest rate, applied on a notional principal amount, for a specified forward period.

(l) 'Interest rate call option (European)' means an OTC foreign currency interest rate derivative contract that gives the buyer the right, but not the obligation, to buy an interest rate instrument or receive an interest rate on a notional principal at a pre-determined price / rate on a specified date in the future.

(m) 'Interest rate cap' means a series of interest rate call options (European) (called caplets) in which the buyer of the option receives a payment at the end of each period when the underlying interest rate is above a rate agreed in advance.

(n) 'Interest rate collar' means an OTC foreign currency interest derivative contract where a market participant simultaneously purchases an interest rate cap and sells an interest rate floor on the same interest rate for the same maturity and notional principal amount.

(o) 'Interest rate floor' means a series of interest rate put options (European) in which the buyer of the option receives a payment at the end of each period when the underlying interest rate is below a rate agreed in advance.

(p) 'Interest rate put option (European)' means an OTC foreign currency interest rate derivative contract that gives the buyer the right, but not the obligation, to sell an interest rate instrument or pay an interest rate on a notional principal at a pre-determined price/rate on a specified date in the future.

(q) 'Interest rate swap' means an OTC foreign currency interest derivative contract in which two counterparties agree to exchange one stream of future interest payments for another, applied on a notional principal amount, over a specified period.

(r) 'Reverse interest rate collar' means an OTC foreign currency interest rate derivative contract which involves simultaneous purchase of an interest rate floor and sale of an interest rate cap on the same interest rate for the same maturity and notional principal amount.

**List of notification superseded**

- (i) Currency Futures (Reserve Bank) Directions, 2008 ([Notification No. FED.1/DG\(SG\)-2008 dated August 06, 2008](#)) issued under RBIA, 1934;
- (ii) Currency Futures (Reserve Bank) (Amendment) Directions, 2010 ([Notification No. FED.2/ED\(HRK\)-2010 dated January 19, 2010](#)) issued under RBIA, 1934;
- (iii) Exchange Traded Currency Options (Reserve Bank) Directions, 2010 ([Notification No. FED.01 / ED \(HRK\) - 2010 dated July 30, 2010](#)) issued under RBIA, 1934;
- (iv) Currency Futures (Reserve Bank) (Amendment) Directions, [2014 \(Notification No. FED.1/ED\(GP\)-2014 dated June 20, 2014\)](#);
- (v) Exchange Traded Currency Options (Reserve Bank) (Amendment) Directions, 2014 ([Notification No. FED.2/ED\(GP\)-2014 dated June 20, 2014](#));
- (vi) Currency Futures (Reserve Bank) (Amendment) Directions, 2015 ([Notification No. FMRD.1/ED\(CS\)-2015 dated December 10, 2015](#));
- (vii) Exchange Traded Currency Options (Reserve Bank) (Amendment) Directions, 2015 ([Notification No. FMRD.2/ ED \(CS\)-2015 dated December 10, 2015](#));
- (viii) Currency Futures (Reserve Bank) (Amendment) Directions, 2017 ([Notification No. FMRD.13/CGM\(TRS\)-2017 dated February 2, 2017](#));
- (ix) Exchange Traded Currency Options (Reserve Bank) (Amendment) Directions, 2017 ([Notification No. FMRD.14/CGM\(TRS\)-2017 dated February 2, 2017](#));
- (x) Currency Futures (Reserve Bank) (Amendment) Directions, 2020 ([Notification No. FMRD.FMD.03/ED\(TRS\)-2020 dated January 20, 2020](#)); and
- (xi) Exchange Traded Currency Options (Reserve Bank) (Amendment) Directions, 2020 ([Notification No FMRD.FMD.04/ED\(TRS\)-2020 dated January 20, 2020](#)).