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RESERVE BANK OF INDIA
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Reserve Bank of India (Small Finance Banks - Prudential Norms on Capital Adequacy) Second Amendment Directions, 2026

Please refer to Annex I of the FMRD Master Direction No. 1/2016-17 - Master Direction - Risk Management and Inter-Bank Dealings which *inter alia* prescribes the methodology for computation of Net Open Position. In order to ensure greater alignment with international standards and consistent implementation across Small Finance Banks, there is a felt need to review and specify the methodology for computation of Net Open Position by amending the Reserve Bank of India (Small Finance Banks - Prudential Norms on Capital Adequacy) Directions, 2025.

2. Accordingly, in exercise of the powers conferred by Section 35A of the Banking Regulation Act, 1949 and all other provisions / laws enabling the Reserve Bank of India (RBI) to issue instructions in this regard, the Reserve Bank being satisfied that it is necessary and expedient in the public interest so to do, hereby issues the Amendment Directions hereinafter specified.

3. (i) These instructions shall be called the Reserve Bank of India (Small Finance Banks - Prudential Norms on Capital Adequacy) Second Amendment Directions, 2026.

(ii) These Amendment Directions shall come into effect from April 1, 2027.

4. The Reserve Bank of India (Small Finance Banks - Prudential Norms on Capital Adequacy) Directions, 2025 are amended as provided below:

i. In the extant Directions, the beginning of Chapter IV - Calculation of risk weighted assets (RWAs) stands amended with the insertions as highlighted, namely:-

‘Market risk and operational risk capital charges shall not be applicable to a bank. **However, a bank shall compute the Net Open Position (NOP) for its foreign exchange and gold positions as per methodology specified in Annex VII.**’

ii. In the extant Directions, Annex VII shall be inserted after Annex VI as given below:

'Annex VII

Calculation of Net Open Position

1. Currently, an SFB is not required to calculate and maintain capital charge for foreign exchange risk. However, an SFB which is operating as an Authorised Dealer Category I bank, in terms of the applicable RBI guidelines, is required to *inter alia* monitor its Net Open Position. For this purpose, Net Open Position shall be calculated as per the paragraphs below.

A. Scope of Application

2. An SFB shall calculate the net open position on a continuous basis, i.e., at the close of each business day.

Exclusions from net open position

3. An SFB shall not include in the net open position any position that is deducted from the SFB’s regulatory capital, including a position that is hedging such a position.

4. Holdings of capital instruments that are deducted from an SFB’s capital or risk weighted at 1250 per cent are not required to be included in the net open position. This includes:

(i) holdings of the SFB’s own eligible regulatory capital instruments; and

(ii) holdings of other banks’ and other financial entities’ eligible regulatory capital instruments, as well as intangible assets, where such assets are deducted from capital.

5. An SFB shall not include in the net open position calculation, securities which are a) already matured and remain unpaid; or b) have been classified as a non-performing asset / investment.

B. Calculation of Net Open Position

6. For calculating the net open position, an SFB shall include all positions, within the 'Scope of Application' in section A above, in foreign currencies, including gold, regardless of whether these are in the trading book or banking book.

7. The net open position shall be calculated as under:

(i) Measure the exposure in a single currency position as set out in sub-paragraphs 8 to 12.

(ii) Measure the risks inherent in an SFB's mix of long and short positions in different currencies as set out in paragraphs 13 to 15.

Measuring the exposure in a single currency

8. The SFB's net open position in each currency shall be calculated by summing:

(i) the net spot position (i.e., all asset items less all liability items, including accrued interest, denominated in the currency in question);

(ii) the net forward position (i.e., all amounts to be received less all amounts to be paid, as indicated in sub-paragraph 9 below);

(iii) guarantees (and similar instruments) that are certain to be called and are likely to be irrecoverable;

(iv) net future income / expenses not yet accrued / due, but where the amounts are certain and have been fully hedged by the SFB, at its discretion;

(v) any other item representing a profit or loss in foreign currencies; and

(vi) the net delta-based equivalent of the total book of foreign currency options.

9. The net forward position includes:

(i) tom and spot transactions which are not yet settled;

(ii) forward and futures transactions; and

(iii) principal on currency swaps and any other derivative transactions not included in the spot position.

10. Positions in composite currencies need to be separately maintained but, for measuring an SFB's net open position, may be either treated as a currency in their own right or split into their component parts on a consistent basis. Positions in gold (spot plus forward) shall be first expressed in terms of the standard unit of measurement (tonnes / kilos / ounces, etc.), with the net position being valued at current spot rates.

Explanation: Where gold is part of a forward contract (quantity of gold to be received or to be delivered), any foreign currency exposure from the other leg of the contract shall be reported as set out in sub-paragraph 8 above.

11. Interest, other income and expenses shall be treated as follows: Interest accrued (i.e., earned but not yet received) and accrued expenses shall be included as a spot position. Unearned but expected future interest and anticipated expenses may be excluded unless the amounts are certain and the SFB has taken the opportunity to hedge them. If an SFB includes future income / expenses it shall do so on a consistent basis, and it would not be permitted to select only those expected future flows which reduce its position.

12. Measurement of derivative positions: An SFB shall use the net present values of derivative positions, including forward exchange contracts, discounted using current interest rates and valued at current spot rates. An SFB may select the yield curve for the purpose of present value adjustments, provided the same is selected in a manner which is representative of the funding cost. An SFB shall have an internal policy approved by its Asset Liability Committee (ALCO) regarding the yield curve / (s) to be used and apply it on a consistent basis.

Measuring the foreign exchange risk in a portfolio of foreign currency positions and gold

13. For measuring the foreign exchange risk in a portfolio of foreign currency positions and gold, an SFB shall use a shorthand method which treats all currencies equally.

14. Under the shorthand method, the nominal amount (or net present value) of the net position in each foreign currency and in gold is converted at spot rates into the reporting currency. The overall net open position is measured by aggregating:

(i) the sum of the net short positions or the sum of the net long positions, whichever is greater; plus

(ii) the net position (short or long) in gold, regardless of sign.

Explanation: The spot rates to be used for this purpose shall be determined based on the extent FEDAI guidelines.

<u>Illustration</u>: See example in Table below.

Table: Example of the shorthand measure of net open position

	JPY	EUR	GBP	CAD	USD	Gold
Net position per currency	+50	+100	+150	-20	-180	-35
Net open position		+300		-200		35

Overall net open position is the higher of either the net long currency positions or the net short currency positions (i.e., 300) and of the net position in gold (35) = 335

15. Transactions undertaken by an SFB till the end of business day shall be included for calculation of Net Open Position. The transactions undertaken after the end of business day may be taken into the positions for the next day. For this purpose, an SFB may define its own end of business day timings, but the same shall be determined as per a duly approved internal policy and followed on a consistent basis.’

(Sunil T S Nair)
Chief General Manager