

RBI/2008-09/123
DBOD.No.FSD.BC. 29 /24.01.001/2008-09

August 6, 2008

All Scheduled Commercial Banks
(excluding RRBs)

Dear Sir,

Introduction of Currency Futures –
Permitting banks to become trading /clearing
members of SEBI-approved exchanges

As announced in the Annual Policy Statement for the year 2007-08, an Internal Working Group was set up by the Reserve Bank of India to study the international experience and suggest a suitable framework to operationalise the proposal to introduce exchange traded Currency Futures in India. The Working Group has in its report, recommended the introduction of currency futures in the domestic foreign exchange market. The Group has also recommended that banks may be allowed to become direct members of the currency futures exchanges as trading-cum-clearing members subject to prudential criteria such as minimum net worth, CRAR, profitability etc.,

2. The above recommendations have been examined and accepted by the Reserve Bank of India and directions have been issued, vide Notification No. FEMA177/RB-2008 dated August 1, 2008. Accordingly, it has been decided to permit scheduled commercial banks (AD Category I) to become trading / clearing members of the currency derivatives segment to be set up by the Stock Exchanges recognized by SEBI, subject to their fulfilling the following prudential requirements.

- (i) Minimum networth of Rs. 500 crores,
- (ii) Minimum CRAR of 10%
- (iii) Net NPA not exceeding 3%
- (iv) Net Profit for last 3 years

3. Banks which fulfil the conditions mentioned above should lay down detailed guidelines with Board's approval for conduct of this activity and management of risks. It should be ensured that the bank's position is kept distinct from the clients' position. In case of supervisory discomfort with the functioning of a bank, the Reserve Bank may impose restrictions on the bank regarding the conduct of this business as it deems fit.

4. The banks which do not meet the above minimum prudential requirements are permitted to participate in the currency futures market only as clients.

Yours faithfully,

(**P. Vijaya Bhaskar**)
Chief General Manager