



RESERVE BANK OF INDIA
Foreign Exchange Department
Central Office
Mumbai - 400 001

RBI/2010-11/147

A.P. (DIR Series) Circular No. 05

July 30, 2010

To

All Category – I Authorised Dealer Banks

Madam / Sir,

**Guidelines on trading of Currency Options on
Recognised Stock / New Exchanges**

Attention of Authorised 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 and A.P. (DIR Series) Circular No. 05 dated August 6, 2008 in terms of which persons resident in India were permitted to participate in the currency futures market in India subject to directions contained in the Currency Futures (Reserve Bank) Directions, 2008.

2. In order to expand the existing menu of exchange traded hedging tools, it was announced in the Monetary Policy Statement 2010-11 (para 62) that recognised stock exchanges would be permitted to introduce plain vanilla currency options on spot US Dollar/ Rupee exchange rate for residents. Accordingly, it has been decided to permit trading of currency options on spot USD-INR rate in the currency derivatives segment of the stock exchanges, recognized by the Securities and Exchange Board of India (SEBI). The currency options market would function subject to the directions, guidelines, instructions, rules, etc issued by the Reserve Bank and the SEBI from time to time.

3. Persons resident in India are permitted to participate in the currency options market, subject to the directions contained in the Exchange Traded Currency Options (Reserve Bank) Directions, 2010, [Notification No.FED.01 / ED

(HRK)-2010 dated July 30, 2010] (Directions) issued by the Reserve Bank of India, a copy of which is annexed (Annex-I).

4. Necessary amendments 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. 635(E) dated July 27, 2010, a copy of which is annexed (Annex-II).

5. The above Directions have been issued under Section 45W of the Reserve Bank of India Act, 1934 and the above Regulations have been issued under clause (h) of sub-Section (2) of Section 47 of the Foreign Exchange Management Act, 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,

(Salim Gangadharan)
Chief General Manager-In-Charge

Annex – I
[A.P. (DIR Series) Circular No. 05 dated July 30, 2010]

Exchange Traded Currency Options (Reserve Bank) Directions, 2010
Notification No. FED.01 / ED (HRK) - 2010 dated July 30, 2010

The Reserve Bank of India having considered necessary in public interest and having regard to the need for regulating 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 options on recognised stock exchanges.

1. Short title and commencement of the directions

These directions may be called the Exchange Traded Currency Options (Reserve Bank) Directions, 2010 and they shall come into force with effect from July 30, 2010.

2. Applicability

These directions shall apply to currency options traded on a stock exchange recognised under Section 4 of the Securities Contract (Regulation) Act, 1956.

3. Permission

(i) Currency option contracts are permitted in US Dollar - Indian Rupee spot rate, or any other currency pairs, as may be approved by the Reserve Bank from time to time.

(ii) Only 'persons resident in India', as defined in section 2(v) of the Foreign Exchange Management Act, 1999 (Act 42 of 1999) are permitted to buy or sell exchange traded currency options to hedge an exposure to foreign exchange rate risk or otherwise.

4. Features of currency option contracts

Standardized exchange traded currency options shall have the following features:

a) The underlying for the currency option shall be US Dollar – Indian Rupee (USD-INR) spot rate.

- b) The options shall be premium styled European call and put options.
- c) The size of each contract shall be USD 1000.
- d) The premium shall be quoted in Rupee terms. The outstanding position shall be in USD.
- e) The maturity of the contracts shall not exceed twelve months.
- f) The contracts shall be settled in cash in Indian Rupees.
- g) The settlement price shall be the Reserve Bank's Reference Rate on the date of expiry of the contracts.

5. Participants

- i) No person other than 'a person resident in India', as defined in section 2(v) of the Foreign Exchange Management Act, 1999 (Act 42 of 1999) shall participate in the exchange traded currency options market.
- ii) Notwithstanding sub-paragraph (i), no scheduled bank or such other agency falling under the regulatory purview of the Reserve Bank under the Reserve Bank of India Act, 1934, the Banking Regulation Act, 1949 or any other Act or instrument having the force of law shall participate in the exchange traded currency options market without the permission from the respective regulatory Departments of the Reserve Bank.
- iii) Entities falling under the regulatory purview of any other regulators established by law shall participate in the exchange traded currency options market only with the prior permission of their regulators concerned and participation of such entities as members or clients shall be in accordance with the guidelines issued by the regulator concerned.

6. Membership

- i) Members registered with the SEBI for trading in currency futures market shall be eligible to trade in the exchange traded currency options market of a recognised stock exchange. Membership for both trading and clearing, in the exchange traded currency options market shall be subject to the guidelines issued by the SEBI.

ii) Banks authorized by the Reserve Bank under section 10 of the Foreign Exchange Management Act, 1999 as 'AD Category - I bank' are permitted to become trading and clearing members of the exchange traded currency options market of the recognized stock exchanges, on their own account and on behalf of their clients, subject to fulfilling the following minimum prudential requirements:

- a) Minimum net worth of Rs. 500 crores.
- b) Minimum CRAR of 10 per cent.
- c) Net NPA should not exceed 3 per cent.
- d) Made net profit for last 3 years.

The AD Category - I banks, which fulfil the prudential requirements, should lay down detailed guidelines with the approval of their Boards for trading and clearing of the exchange traded currency options contracts and management of risks.

iii) AD Category - I banks, which do not meet the above minimum prudential requirements and AD Category - I banks, which are Urban Co-operative banks or State Co-operative banks, can participate in the exchange traded currency options market only as clients, subject to approval therefor from the respective regulatory Departments of the Reserve Bank.

7. Position limits

i) The position limits for various classes of participants for the currency options shall be subject to the guidelines issued by the SEBI.

ii) The AD Category - I banks shall operate within prudential limits, such as Net Open Position (NOP) and Aggregate Gap (AG) limits. The option position of the banks, on their own account, in the exchange traded currency options shall form part of their NOP and AG limits.

8. Risk Management measures

The trading of exchange traded currency options shall be subject to maintaining initial, extreme loss and calendar spread margins and the Clearing Corporations / Clearing Houses of the exchanges should ensure maintenance of such margins

by the participants on the basis of the guidelines issued by the SEBI from time to time.

9. Surveillance and disclosures

The surveillance and disclosures of transactions, in the exchange traded currency options market, shall be carried out in accordance with the guidelines issued by the SEBI.

10. Authorisation to the Exchanges / the Clearing Corporations for dealing in Currency Options

Recognized stock exchanges and their respective Clearing Corporations / Clearing Houses shall not deal in or otherwise undertake the business relating to the exchange traded currency options unless they hold an authorisation issued by the Reserve Bank under section 10 (1) of the Foreign Exchange Management Act, 1999.

11. Powers of Reserve Bank

The Reserve Bank may from time to time modify the eligibility criteria for the participants and 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 the foreign exchange market in India.

(H.R.Khan)
Executive Director

Annex – II
[A.P. (DIR Series) Circular No. 05 dated July 30, 2010]

Notification No. FEMA 210 /RB-2010

dated July 19, 2010

**Foreign Exchange Management (Foreign Exchange Derivative Contracts)
(Amendment) Regulations, 2010**

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 of India makes the following amendments in the Foreign Exchange Management (Foreign Exchange Derivative Contracts) Regulations, 2000, (Notification No. FEMA 25/RB-2000 dated May 3, 2000) namely:-

1. Short Title and Commencement

- (i) These Regulations may be called the Foreign Exchange Management (Foreign Exchange Derivative Contracts) (Amendment) Regulations, 2010.
- (ii) They shall come into force from the date of their publication in the Official Gazette.

2. Amendment of the Regulations

In the Foreign Exchange Management (Foreign Exchange Derivative Contracts) Regulations, 2000 (Notification No. FEMA 25/RB-2000 dated May 3, 2000), for Regulation 5A, the following shall be substituted, namely:--

“5A. Permission to a person resident in India to enter into currency futures or currency options

A person resident in India may enter into currency futures or currency options on a stock exchange recognized under section 4 of the Securities Contract (Regulation) Act, 1956, to hedge an exposure to risk or otherwise, 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.”

(Salim Gangadharan)
Chief General Manager-in-Charge

Footnote:-

- 1. The principal regulations were published in the Official Gazette vide GSR No.411(E) dated May 8, 2000 in Part II, Section 3, sub-section (i) and subsequently amended vide -

GSR No.756(E) dt. 28.9.2000,
GSR No.264(E) dt. 09.4.2002,
GSR No.579(E) dt. 19.8.2002,
GSR No.222(E) dt. 18.3.2003,
GSR No.532(E) dt. 09.7.2003,
GSR No.880(E) dt. 11.11.2003,
GSR No.881(E) dt. 11.11.2003,
GSR No.750(E) dt. 28.12.2005,
GSR No.222(E) dt. 19.4.2006,
GSR No.223(E) dt. 19.4.2006,
GSR No.760(E) dt. 07.12.2007,
GSR.No.577(E) dt. 05.08.2008,
GSR.No.440(E) dt. 23.06.2009 and
GSR.No.895(E) dt. 14.12.2009

Published in the Official Gazette of Government
of India- Extraordinary – Part-II, Section 3,
Sub-section(i) dated 27.07.2010-G.S.R. No.635(E)