



## **Reserve Bank of India Draft Directions – Foreign Exchange Dealings of Authorised Persons**

The draft directions issued by the RBI revise the regulatory framework governing foreign exchange dealings by Authorised Persons. The changes aim to enhance operational flexibility, expand permitted products and venues, and streamline reporting and risk management requirements.

### **Analysis**

- Authorised Dealers are permitted to undertake a wider range of foreign exchange transactions, including OTC trades, derivative contracts, and transactions with overseas branches, IFSC units, and offshore entities for hedging, balance sheet management, and market-making purposes.
- The framework allows participation in non-deliverable derivative contracts (NDDCs) involving INR, and trading on both domestic and overseas electronic trading platforms (ETPs), subject to regulatory safeguards and FATF-compliant jurisdictions.
- Authorised Dealers may undertake exchange-traded currency derivatives in India and IFSCs, and engage in overseas exchange transactions (excluding INR) through regulated markets.
- Banks are permitted to hedge gold price risk in overseas markets and deploy surplus foreign currency funds in short-term overseas instruments, reverse repos, and sovereign debt securities, subject to internal policies.
- Authorised Dealer Category-I banks can borrow in foreign currency from overseas entities, subject to limits (100% of Tier I capital or USD 10 million, whichever is higher), with certain exclusions and RBI approval requirements for higher borrowings.
- Authorised Dealers must frame board-approved policies, including limits on net open positions (capped at 25% of capital), with RBI retaining discretion to impose additional limits on INR exposure.



- Dealers are allowed to transact beyond onshore market hours and across multiple jurisdictions, enhancing operational flexibility in global markets.
- Reporting formats, including net open position reporting, have been updated with an aim to simplify compliance requirements.
- The draft directions primarily impact Authorised Dealer Category-I banks, Standalone Primary Dealers, and other authorised persons engaged in foreign exchange transactions, along with IFSC entities, overseas counterparties, and financial institutions involved in derivatives and forex markets. It also affects treasury teams, risk managers, and compliance professionals within banks and financial institutions. In practical terms, the framework makes it easier for banks and authorised entities to participate in global forex markets by expanding the range of products and trading venues available to them. It allows better management of currency and interest rate risks through derivatives and overseas transactions, while also providing flexibility in deploying surplus foreign currency funds.
- At the same time, governance and risk controls have been strengthened through internal policy requirements and exposure limits, ensuring that increased flexibility is balanced with regulatory oversight. Overall, the changes aim to create a more efficient, globally integrated, and flexible foreign exchange market environment.
- **Key Takeaways**
  - The draft directions expand the scope of permissible forex transactions and trading platforms.
  - Greater flexibility is provided for hedging, investments, and overseas borrowing.
  - Strengthened governance and risk management frameworks ensure controlled exposure.
  - Simplified reporting and operational flexibility enhance ease of doing forex business.
- The notification is attached herein.

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