

RBI Announces Regulatory Measures for the Foreign Exchange Derivatives Market

The Reserve Bank of India (RBI), vide **press release dated October 10, 2026 (Press Release: 2026-2027/1305)**, has announced regulatory measures for the foreign exchange market through **A.P. (DIR Series) Circular No. 25 and Circular No. 26**. The measures are stated to be taken in view of evolving conditions and to ensure the orderly functioning of the foreign exchange market. They restrict the rebooking of cancelled contracts, reduce the threshold for transactions without underlying exposure, require additional documentation and introduce a Foreign Exchange Risk Reserve (FERR).

Analysis

- **Authorised Dealers (ADs)** shall not permit users to rebook any foreign exchange derivative contract involving INR, whether deliverable or non-deliverable, that has been cancelled with any AD after the issuance of the Directions. Rollover of contracts on maturity continues to be permitted, subject to the extant regulatory provisions.
- The threshold for undertaking foreign exchange derivative transactions to hedge contracted exposures without establishing the underlying exposure has been reduced from USD 100 million to USD 5 million equivalent, across all ADs.
- The corresponding threshold for positions in exchange-traded currency derivatives involving INR, without establishing underlying exposure, has also been reduced from USD 100 million to USD 5 million equivalent, across all Recognised Stock Exchanges taken together.
- ADs must obtain and retain an undertaking from users entering into foreign exchange derivative contracts involving INR to hedge contracted exposures. The undertaking must confirm that the same underlying exposure has not been hedged with any other AD.
- For all foreign exchange derivative contracts involving INR with a notional value exceeding USD 2 million equivalent, ADs must maintain with the RBI an FERR in cash, equal to 20 per cent of the INR equivalent of the notional amount of each transaction.
- The FERR applies to contracts involving INR undertaken to hedge current account exposures where the user purchases foreign currency against the INR.



- The RBI states that the measures are intended to strengthen market discipline and ensure appropriate risk management, while maintaining an orderly and transparent market environment.

Key Takeaways

- Cancelled INR foreign exchange derivative contracts cannot be rebooked, though rollover on maturity remains permitted.
- The limit for hedging without establishing underlying exposure falls from USD 100 million to USD 5 million equivalent, for both OTC and exchange-traded INR derivatives.
- Users must give ADs an undertaking that the same exposure has not been hedged with any other AD.
- ADs must maintain a cash FERR with the RBI equal to 20 per cent of the INR notional for contracts above USD 2 million equivalent.
- The FERR applies to contracts hedging current account exposures where foreign currency is purchased against INR.
- The notification is attached herein.

[Click Here](#)