

भारतीय रिज़र्व बैंक RESERVE BANK OF INDIA



नत महोत्सव

RBI/2023-24/36 A. P. (DIR Series) Circular No. 05

June 06, 2023

All Authorised Dealer Category – I Banks

Madam / Sir,

Risk Management and Inter-Bank Dealings - Non-deliverable derivative contracts (NDDCs)

Please refer to Paragraph 1 of the <u>Statement on Developmental and Regulatory</u> <u>Policies</u> announced as a part of the <u>first Bi-monthly Monetary Policy Statement for</u> <u>2023-24 dated April 06, 2023</u> regarding development of the onshore non-deliverable derivative market. Attention of Authorised Dealers Category – I (AD Cat-I) banks is invited to the Foreign Exchange Management (Foreign Exchange Derivative Contracts) Regulations, 2000 dated May 3, 2000 (<u>Notification No. FEMA.25/RB-2000</u> <u>dated May 3, 2000</u>), as amended from time to time, and <u>Master Direction – Risk</u> <u>Management and Inter-Bank Dealings dated July 5, 2016</u>, as amended from time to time.

2. As per the extant regulatory framework, AD Cat-I banks operating International Financial Services Centre (IFSC) Banking Units (IBUs) are permitted to offer nondeliverable derivative contracts (NDDCs) to persons resident outside India. Such derivatives are cash-settled in foreign currency. With a view to developing the onshore INR NDDC market and providing residents the flexibility to efficiently design their hedging programmes, it has been decided to permit:

(a) AD Cat-I banks operating IBUs to offer NDDCs involving INR to resident non-retail users for the purpose of hedging. Such transactions shall be cash settled in INR; and

(b) The flexibility of cash settlement of NDDCs transactions between two AD Cat-I banks, and between an AD Cat-I bank and a person resident outside India in INR or any foreign currency.



3. Accordingly, the amendments being made to the <u>Master Direction – Risk</u> <u>Management and Inter-Bank Dealings dated July 5, 2016</u>, as amended from time to time, are placed at <u>Annex</u> herewith.

4. The directions contained in this circular have been issued under Sections 10(4) and 11(1) of the Foreign Exchange Management Act, 1999 (42 of 1999) and are without prejudice to permissions/ approvals, if any, required under any other law.

Yours faithfully,

(Dimple Bhandia) Chief General Manager



Annex

S. no.	Existing directions	Revised/Additional directions		
The exis	The existing para 1(xii) of Part-A (Section-I), shall be substituted			
i.	Non-deliverable derivative	Non-deliverable derivative contract		
	contract (NDDC) means a foreign	(NDDC)' means an OTC foreign		
	exchange derivative contract	exchange derivative contract in which		
	involving the Rupee, entered into	there is no delivery of the notional		
	with a person resident outside	amount of the underlying currencies		
	India and which is settled without	of the contract and which is cash		
	involving delivery of the Rupee.	settled.		
The end	uning contaneous of the evicting nerg	2(A)(ii) of Dort A (Conting I), shall be		
The opening sentences of the existing para 2(A)(ii) of Part-A (Section-I), shall be substituted				
ii.	Authorised Dealers shall offer	Authorised Dealers shall offer		
	derivative contracts to a user as	derivative contracts to a user as per		
	per the user's classification in para	the users' classification in para (i)		
	(i) above. While offering a	above. While offering a derivative		
	derivative contract involving INR,	contract involving INR to a user, other		
	other than NDDCs, to a user, and	than NDDCs offered to persons		
	during the life of such contracts,	resident outside India, and during the		
	Authorised Dealers shall ensure	life of such contracts, Authorised		
	that:	Dealers shall ensure that:		
The exis	ting para 2(A)(x) of Part-A (Section-	I), shall be substituted		
iii.	Banks in India having an	Banks in India having an Authorised		
	Authorised Dealer Category-1	Dealer Category-I license under		
	license under FEMA, 1999, and	FEMA, 1999, and operating		
	operating International Financial	International Financial Services		
	Services Centre (IFSC) Banking	Centre (IFSC) Banking Units (IBUs)		
	Units (IBUs) (as specified in	(as specified in <u>circular no. RBI/2014-</u>		
	circular no. RBI/2014-	15/533.DBR.IBD.BC.14570/23.13.00		
	15/533.DBR.IBD.BC.14570/23.13	<u>4/2014-15 dated April 1, 2015</u> , as		
	.004/2014-15 dated April 1, 2015	amended from time to time, shall be		



	(as amended from time to time)),	eligible to offer NDDCs involving the
	shall be eligible to offer non-	Rupee or otherwise to persons
	deliverable derivative contracts	resident outside India. Banks can
	involving the Rupee, or otherwise,	undertake such transactions through
	to persons not resident in India.	their IBUs or through their branches in
	Banks can undertake such	India or through their foreign
	transactions through their IBUs or	branches (in case of foreign banks
	through their branches in India or	operating in India, through any branch
	through their foreign branches (in	of the parent bank). Such transactions
	case of foreign banks operating in	can be cash-settled in INR or any
	India, through any branch of the	foreign currency.
	parent bank).	
A nov -	are shall be incented after the anistin	α pero $Q(\Lambda)(\alpha)$ of Port Λ (Continue 1)
A new para shall be inserted after the existing para 2(A)(x) of Part-A (Section-I)		
iv.	-	xi. Banks in India having an
		Authorised Dealer Category-I license
		under FEMA, 1999, and operating
		IBUs shall also be eligible to offer
		NDDCs involving INR to resident non-
		retail users from their branches in
		India subject to compliance with the
		directions set out in para 2A(ii) above.
		Such transactions shall be cash-
		settled in INR.
The exis	ting para 3A of Part C, shall be subs	stituted.
۷.	Authorised dealers having an	Authorised Dealers having an IFSC
	IFSC Banking Unit (IBU) (as	Banking Unit (IBU) (as specified in
	specified in circular no. RBI/2014-	circular no. RBI/2014-
	15/533.DBR.IBD.BC.14570/23.13	15/533.DBR.IBD.BC.14570/23.13.00
	.004/2014-15 dated April 1, 2015	<u>4/2014-15 dated April 1, 2015</u> (as
	(as amended from time to time))	amended from time to time)) may
	may transact in Non-deliverable	transact in NDDCs with other AD
	derivative contracts (NDDCs) with	Category-I banks having IBUs and



other AD Category 1 banks having	banks overseas. Banks can
IBUs and banks overseas. Banks	undertake such transactions through
can undertake such transactions	their IBUs or through their branches in
through their IBUs or through their	India or through their foreign
branches in India or through their	branches (in case of foreign banks
foreign branches (in case of	operating in India, through any branch
foreign banks operating in India,	of the parent bank). Such transactions
through any branch of the parent	can be cash-settled in INR or any
bank).	foreign currency.