



भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA

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Reserve Bank of India (Local Area Banks - Prudential Norms on Capital Adequacy) Amendment Directions, 2026

Please refer to paragraph 29 of the [Reserve Bank of India \(Local Area Banks - Prudential Norms on Capital Adequacy\) Directions, 2025](#) which *inter alia* specifies the requirement for maintenance of capital charge on foreign exchange risk. Upon a review and to ensure greater alignment with international standards and consistent implementation across Local Area Banks, there is a felt need to amend these instructions.

2. Accordingly, in exercise of the powers conferred by Section 35A of the Banking Regulation Act, 1949 and all other provisions / laws enabling the Reserve Bank of India (RBI) to issue instructions in this regard, the Reserve Bank being satisfied that it is necessary and expedient in the public interest so to do, hereby, issues the Amendment Directions hereinafter specified.

3. (i) These instructions shall be called the Reserve Bank of India (Local Area Banks - Prudential Norms on Capital Adequacy) Amendment Directions, 2026.

(ii) These Amendment Directions shall come into effect from April 1, 2027.

4. The [Reserve Bank of India \(Local Area Banks - Prudential Norms on Capital Adequacy\) Directions, 2025](#) are amended as provided below:

i) In the extant Directions, the paragraph 29 is hereby substituted by the following, namely:

‘Measurement of capital charge for foreign exchange and gold open positions



29. An LAB shall compute capital charge for foreign exchange risk as per the following method.

Scope of Application

- (1) An LAB shall meet the capital requirements for foreign exchange risk on a continuous basis, i.e., at the close of each business day.

Exclusions from net open position

- (2) An LAB shall not apply foreign exchange risk capital requirement to any position that is deducted from the LAB's regulatory capital, including a position that is hedging such a position.
- (3) An LAB shall not apply forex risk capital requirements to securities which are a) already matured and remain unpaid; or b) have been classified as a non-performing asset / investment. Such securities shall attract capital only for credit risk.

Calculation of Net Open Position

- (4) For calculating the capital requirement for foreign exchange risk, an LAB shall include all positions, within the 'Scope of Application' above, in foreign currencies, including gold, regardless of whether these are in the trading book or banking book.
- (5) The Net Open Position shall be calculated as under:
 - (i) Measure the exposure in a single currency as set out in sub-paragraphs (6) to (10) below.
 - (ii) Measure the risks inherent in an LAB's mix of long and short positions in different currencies as set out in sub-paragraphs (11) to (14) below.

Measuring the exposure in a single currency

- (6) An LAB's net open position in each currency shall be calculated by summing:
 - (i) the net spot position (i.e., all asset items less all liability items, including accrued interest, denominated in the currency in question);
 - (ii) the net forward position (i.e., all amounts to be received less all amounts to be paid as indicated in sub-paragraph (7) below);



- (iii) guarantees (and similar instruments) that are certain to be called and are likely to be irrecoverable;
 - (iv) net future income / expenses not yet accrued / due but where the amounts are certain and have been fully hedged by the LAB, at its discretion;
 - (v) any other item representing a profit or loss in foreign currencies; and
 - (vi) the net delta-based equivalent of the total book of foreign currency options.
- (7) The net forward position includes:
- (i) tom and spot transactions which are not yet settled;
 - (ii) forward and futures transactions; and
 - (iii) principal on currency swaps and any other derivative transactions not included in the spot position.
- (8) Positions in composite currencies need to be separately maintained but, for measuring an LAB's net open position, may be either treated as a currency in their own right or split into their component parts on a consistent basis. Positions in gold (spot plus forward) shall be first expressed in terms of the standard unit of measurement (tonnes / kilos / ounces, etc.), with the net position being valued at current spot rates.
- Explanation:* Where gold is part of a forward contract (quantity of gold to be received or to be delivered), any interest rate or foreign currency exposure from the other leg of the contract shall be reported as set out in paragraphs 24 to 26 and 29(6) above.
- (9) Interest, other income and expenses shall be treated as follows: Interest accrued (i.e., earned but not yet received) and accrued expenses shall be included as a spot position. Unearned but expected future interest and anticipated expenses may be excluded unless the amounts are certain and the LAB has taken the opportunity to hedge them. If an LAB includes future income / expenses it shall do so on a consistent basis, and it would not be permitted to select only those expected future flows which reduce its position.



- (10) Measurement of derivative positions: An LAB shall use the net present values of derivative positions, including forward exchange contracts, discounted using current interest rates and valued at current spot rates. An LAB may select the yield curve for the purpose of present value adjustments, provided the same is selected in a manner which is representative of the funding cost. An LAB shall have an internal policy approved by its Asset Liability Committee (ALCO) regarding the yield curve / (s) to be used and apply it on a consistent basis.

Measuring the foreign exchange risk in a portfolio of foreign currency positions and gold

- (11) The capital requirement for foreign exchange positions, including gold, shall be 9 per cent of the overall net open position. For measuring the overall net open position in a portfolio of foreign currency positions and gold, an LAB shall use a shorthand method which treats all currencies equally.
- (12) Under the shorthand method, the nominal amount (or net present value) of the net position in each foreign currency and in gold is converted at spot rates into the reporting currency. The overall net open position is measured by aggregating:
- (i) the sum of the net short positions or the sum of the net long positions, whichever is greater; plus
 - (ii) the net position (short or long) in gold, regardless of sign.

Explanation: The spot rates to be used for this purpose shall be determined based on the extant FEDAI guidelines.

Illustration: See example in Table below.

Table: Example of the shorthand measure of net open position

	JPY	EUR	GBP	CAD	USD	Gold
Net position per currency	+50	+100	+150	-20	-180	-35
Net open position	+300			-200		35

Overall net open position is the higher of either the net long currency positions or the net short currency positions (i.e., 300) and of the net position in gold (35) = 335. The capital requirement will be 9 per cent of the overall net open position.



Thus, the capital requirement = $335 \times 9 \text{ per cent} = 30.15$.

(13) Transactions undertaken by an LAB till the end of business day shall be included for calculation of Net Open Position. The transactions undertaken after the end of business day may be taken into the positions for the next day. For this purpose, an LAB may define its own end of business day timings but the same shall be determined as per a duly approved internal policy and followed on a consistent basis.

(14) This capital requirement is in addition to the capital requirement for credit risk, interest rate risk or any other risks on the on-balance sheet and off-balance sheet items pertaining to foreign exchange and gold transactions.'

ii) In the extant Directions, the paragraph 21(5) shall be deleted, as given below:

~~'21(5) Risk weights for open positions~~

Sr. No.	Item	Risk weight %
1.	Foreign exchange open position.	100
2.	Open position in gold Note - The risk weighted position both in respect of foreign exchange and gold open position limits shall be added to the other risk weighted assets for calculation of CRAR	100'

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