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RESERVE BANK OF INDIA
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Reserve Bank of India (All India Financial Institutions (AIFIs) – Prudential Norms on Capital Adequacy) Fourth Amendment Directions, 2026

Please refer to Annex I of the FMRD Master Direction - Risk Management and Inter-Bank Dealings (Master Direction No. 1/2016-17 dated July 5, 2016) and paragraph 192 (Section D.4) of the Reserve Bank of India (All India Financial Institutions (AIFIs) – Prudential Norms on Capital Adequacy) Directions, 2025 dated November 28, 2025, which specify the methodology for computation of Net Open Position and calculation of capital charge on foreign exchange risk. Upon a review and to ensure greater alignment with international standards and consistent implementation across All India Financial Institutions, there is a felt need to amend these instructions.

2. Accordingly, in exercise of the powers conferred by Section 45L of the Reserve Bank of India Act, 1934 and all other provisions / laws enabling the Reserve Bank of India (RBI) to issue instructions in this regard, the RBI 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 (All India Financial Institutions (AIFIs) – Prudential Norms on Capital Adequacy) Fourth Amendment Directions, 2026.

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

4. Reserve Bank of India (All India Financial Institutions (AIFIs) – Prudential Norms on Capital Adequacy) Directions, 2025 are amended as provided below.

(i) Paragraph 192 shall be substituted by the following, namely: -

“**D.4 Foreign Exchange Risk**

विनियमन विभाग,केंद्रीय कार्यालय, 12 वीं और 13 वीं मंजिल, केंद्रीय कार्यालय भवन, शहीद भगत सिंह मार्ग,फोर्ट,मुंबई-400001
दूरभाष: 022-22601000 फैक्स: 022-22705691 ई-मेल: cgmicdor@rbi.org.in

Department of Regulation, Central Office, 12th and 13th Floor, Central Office Building, Shahid Bhagat Singh Marg, Fort, Mumbai- 400 001
Tel: 022- 2260 1000 Fax: 022-2270 5691 email: cgmicdor@rbi.org.in

192. An AIFI shall compute capital charge for foreign exchange risk as per the following method.

Scope of Application

(1) An AIFI shall compute Net Open Position and maintain capital charge for foreign exchange risk at both group / consolidated level and solo / standalone level. For this purpose, an AIFI may refer to paragraph 8 of these Directions.

(2) An AIFI 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

(3) An AIFI shall not apply foreign exchange risk capital requirement to any position that is deducted from the AIFI's regulatory capital, including a position that is hedging such a position.

(4) Holdings of capital instruments that are deducted from an AIFI's capital or risk weighted at 1250 per cent are not required to be included in the forex risk capital requirements. This includes:

   (i) holdings of the AIFI's own eligible regulatory capital instruments; and

   (ii) holdings of other AIFIs' and other financial entities' eligible regulatory capital instruments, as well as intangible assets, where such assets are deducted from capital.

(5) An AIFI shall not apply forex risk capital requirements to securities which are (i) already matured and remain unpaid; or (ii) have been classified as non-performing asset / investment. Such securities shall attract capital only for credit risk.

Exclusion of certain structural foreign exchange positions from Net Open Position

(6) An AIFI shall have the option to exclude certain structural foreign currency investments from the calculation of Net Open Position, on both standalone and consolidated basis.

(7) The forex risk positions eligible for exclusion under sub-paragraph (6) above shall be structural (i.e., non-dealing) in nature, including capital investments and accumulated / unremitted surplus in overseas consolidated subsidiaries,

Joint Ventures and associates, overseas branches, IFSC Banking Units, Offshore Banking Units in Special Economic Zones denominated in foreign currencies.

(8) An AIFI may opt to exclude structural foreign exchange positions from Net Open Position on a case-to-case basis, in a consistent manner, provided the exemption meets each of the criteria mentioned in sub-paragraph (9) below.

(9) An AIFI shall comply with each of the following conditions while excluding currency risk positions under sub-paragraph (6) above:

(i) The exclusion is limited to the amount that neutralises the sensitivity of the capital ratio to movements in exchange rates.

(ii) The exclusion from the calculation is made for at least six months.

(iii) The establishment of a structural foreign exchange position and any changes in its position shall follow the AIFI's risk management policy for structural foreign exchange positions.

(iv) The exclusion from the calculation shall be applied consistently, with the exclusionary treatment of the hedge remaining in place for the life of the assets or other items.

(v) The AIFI shall document and have available for supervisory review the positions and amounts to be excluded from market risk capital requirements.

(10) A matched currency risk position will protect an AIFI against loss from movements in exchange rates, but will not necessarily protect its capital adequacy ratio. If an AIFI has its capital denominated in its domestic currency and has a portfolio of foreign currency assets and liabilities that is completely matched, its capital / asset ratio will fall if the domestic currency depreciates. By running a short risk position in the domestic currency, the AIFI can protect its capital adequacy ratio, although it would result in a loss in the event of appreciation of the domestic currency. An illustration of the exclusion of structural foreign currency investments from Net Open Position is provided in sub-paragraph (11) below.

(11) *Illustration of exclusion of structural foreign currency investments from Net Open Position:*

(i) The paragraphs below provide an example of the exclusion of structural foreign currency investments from Net Open Position. The example uses a simplified scenario and is for illustrative purposes only.

(ii) An AIFI may adopt an alternative methodology, with reasonable assumptions, to determine its maximum Net Open Position to be excluded. The methodology shall be documented in the AIFI's risk management policy for structural foreign exchange positions.

(iii) Assume an AIFI with the below balance sheet consisting of domestic currency (DC) assets / liabilities and foreign currency (FC) assets / liabilities.

Case 1: The forex assets and liabilities are perfectly matched.

Forex Assets in FC	300	Forex Liabilities in FC	300
Exchange Rate	1		
Forex Assets in DC (a)[1]	300	Forex Liabilities in DC (c)	300
Domestic Assets (b)	700	Domestic Liabilities (d)	540
		Capital (e = a + b – c - d)	160
Total Assets (f = a + b)	1000		
Forex exposure (g = a - c)	0		
Total RWA (h = f * 100%)	1000		
Capital Ratio (i = e / h)	**16.00%**		

Assume that the foreign currency appreciates, with exchange rate increasing from 1 to 1.2. Although, the forex assets and liabilities increase by the same percentage (20 per cent) and hence continue to be perfectly matched, the AIFI's capital ratio will decline since forex RWAs increase by 20 per cent, while capital amount remains unchanged.

Forex Assets in FC	300	Forex Liabilities in FC	300
Exchange Rate	1.2		

[1] Calculated as Forex Assets in FC * Exchange Rate = 300 * 1 = 300

Forex Assets in DC (a)	360	Forex Liabilities in DC (c)	360
Domestic Assets (b)	700	Domestic Liabilities (d)	540
		Capital (e = a + b - c - d)	160
Total Assets (f = a + b)	1060		
Forex exposure (g = a - c)	0		
Total RWA (h = f * 100%)	1060		
Capital Ratio (i = e / h)	**15.09%**		

Case 2: The AIFI takes a structural long position (i.e., structural forex positions listed in sub-paragraph (7) above) in the foreign currency (i.e., short position in the domestic currency).

Forex Assets in FC	300	Forex Liabilities in FC	200
Exchange Rate	1		
Forex Assets in DC (a)	300	Forex Liabilities in DC (c)	200
Domestic Assets (b)	700	Domestic Liabilities (d)	640
		Capital (e = a + b - c - d)	160
Total Assets (f = a + b)	1000		
Forex exposure (g = a - c)	100		
Total RWA (h = f * 100%)	1000		
Capital Ratio (i = e / h)	**16.00%**		

Assume that the foreign currency appreciates, with exchange rate increasing from 1 to 1.2. Forex assets and liabilities increase 20 per cent. RWAs increase from 1000 to 1060 whereas the capital amount increases from 160 to 180. Overall, the AIFI's capital ratio improves from 16 per cent to 16.98 per cent.

Forex Assets in FC	300	Forex Liabilities in FC	200
Exchange Rate	1.2		
Forex Assets in DC (a)	360	Forex Liabilities in DC (c)	240
Domestic Assets (b)	700	Domestic Liabilities (d)	640
		Capital (e = a + b - c - d)	180
Total Assets (f = a + b)	1060		
Forex exposure (g = a - c)	120		

Total RWA (h = f * 100%)	1060		
Capital Ratio (i = e / h)	**16.98%**		

(iv) To determine the maximum amount of the risk position that can be excluded from Net Open Position, the amount of additional capital required to maintain the capital ratio unchanged, for a unit change (1 per cent) in the exchange rate is to be calculated.

Step 1

Calculate the new RWA position with the revised exchange rate. For the illustration provided in Case 2 above, assume the foreign exchange rate increases from 1 to 1.01.

Forex Assets in DC = 300*1.01 = 303

Domestic Assets in DC = 700

Total Assets = 303 + 700 = 1003

Total RWAs = 1003 * 100% = 1003

Step 2

Now, calculate the new capital amount required and the increase in capital amount required in order to keep the capital ratio unchanged.

Initial capital ratio = 16.00%

New capital amount required = Initial capital ratio * New Total RWAs = 16% * 1003 = 160.48

Increase in capital amount required = New capital amount required – Initial capital amount = 160.48 – 160.00 = 0.48

Step 3

Amount of structural foreign exchange position that can be excluded from Net Open Position = (Increase in capital amount required) / 1% = 0.48 / 0.01 = 48

Initial NOP from the structural foreign exchange position = Foreign currency assets - Foreign currency liabilities = 300 – 200 = 100

Hence, amount of structural foreign exchange position to be included in Net Open Position = Initial Net Open Position - Amount of structural foreign exchange position that can be excluded from Net Open Position = 100 – 48 = 52

Alternate method:

An alternate method which provides the same result for the maximum amount of structural foreign exchange position that can be excluded from Net Open Position is to multiply the capital ratio with the forex RWAs.

Maximum amount of structural foreign exchange position that can be excluded from Net Open Position = (Capital / Total RWAs) * Forex RWAs = (160 / 1000) * 300 = 48

(12) In determining the maximum amount of exemption to structural positions as per sub-paragraph (11)(iv) above, an AIFI shall adhere to the following:

(i) An AIFI shall use the CET1 ratio on quarter end basis for calculating the maximum amount of exemption to structural positions.

(ii) Forex RWAs used in the calculation of structural exemption includes all RWAs denominated in the particular foreign currency, other than the RWAs used for calculation of forex market risk (as per paragraph 192). For operational convenience, an AIFI may, alternatively, include only the credit RWAs denominated in the particular foreign currency.

(iii) The amount of structural exemption in a foreign currency shall be capped at the eligible amount of structural positions in that foreign currency.

(iv) An AIFI shall re-calculate the amount of structural exemptions on a quarterly basis.

(v) An AIFI may note that the above example uses certain assumptions and simplifications (such as Risk weight = 100 per cent and equal for forex assets and domestic assets, operational RWAs not considered, etc.).

(vi) The above example considers the maximum amount of structural foreign exchange position for a single foreign currency. In practice, an AIFI would have to separately calculate the maximum amount of structural foreign exchange position for each foreign currency for which it seeks an exclusion from Net Open Position.

(vii) The illustration only provides the maximum amount of structural foreign exchange position that can be excluded from Net Open Position. In order to be eligible for such exclusion, an AIFI shall meet all the conditions mentioned in sub-paragraphs (6) to (9) above.

Calculation of Net Open Position

(13) For measuring the capital requirement for foreign exchange risk, an AIFI 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.

(14) The Net Open Position shall be calculated as under:

(i) Measure the exposure in a single currency as set out in sub-paragraphs (15) to (25) below.

(ii) Measure the risks inherent in an AIFI's mix of long and short positions in different currencies as set out in sub-paragraphs (26) to (32) below.

Measuring the exposure in a single currency

(15) An AIFI'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 (18) 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 AIFI, at its discretion;

(v) any other item representing a profit or loss in foreign currencies (depending on particular accounting conventions in different countries); and

(vi) the net delta-based equivalent of the total book of foreign currency options.

(16) Options are also subject to a separately calculated capital requirement for gamma and vega risks as described in paragraph 205(1). Alternatively, options and their associated underlying are subject to one of the other methods described in paragraphs 202 to 205.

(17) All open positions from onshore and offshore operations are captured in the calculation of Net Open Position, as per sub-paragraph (15). Hence, an AIFI is not required to separately calculate onshore and offshore Net Open Positions. Positions from offshore operations include structural forex positions (after applying the structural exemption provision) and other items contributing to Net Open Position not captured in the structural forex position. For example, forward positions denominated in GBP of a US subsidiary of an AIFI will not be captured through the structural forex position and shall be included separately in Net Open Position.

(18) The net forward position includes:

(i) tom and spot transactions which are not yet settled;

(ii) forward and futures transactions; and

(iii) principal on cross-currency swaps and any other forex derivative transactions not included in the spot position.

(19) 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.

(20) 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 178 to 187 and paragraph 192(15).

(21) 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 AIFI has taken the opportunity to hedge them. If an AIFI 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.

(22) Measurement of derivative positions: An AIFI shall use the current spot rates, without present value adjustment, for measuring derivative positions.

Overseas operations in Net Open Position

(23) Treatment of capital invested in overseas operations: Subject to the 'Scope of Application' above, an AIFI shall include all capital investments in overseas operations under the net spot position for calculation of Net Open Position. For this purpose, overseas operations of an AIFI shall include overseas branches, IFSC Banking Units and Offshore Banking Units in Special Economic Zones, as well as overseas subsidiaries, associates and joint ventures.

(24) Treatment of accumulated / unremitted surplus of overseas operations: Subject to the 'Scope of Application' above, an AIFI shall include all accumulated / unremitted surplus of overseas operations under the net spot position for calculation of Net Open Position.

(25) An AIFI shall include the structural positions, i.e., capital invested in and accumulated / unremitted surplus of overseas operations [mentioned in paragraphs (23) and (24) above] in Net Open Position based on quarter end position.

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

(26) For measuring the foreign exchange risk in a portfolio of foreign currency positions and gold, an AIFI shall use a shorthand method which treats all currencies equally.

(27) Under the shorthand method, the nominal amount 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.

(28) For calculating Net Open Position as per the shorthand method, an AIFI shall use the spot rates based on financial benchmarks administered by benchmark administrators authorised under the relevant directions issued by FMRD.

(29) Where the AIFI is assessing its foreign exchange risk on a consolidated basis, it may be technically impractical, in the case of some marginal operations, to include the currency positions of a foreign branch or subsidiary of the AIFI. In such cases, the internal limit in each currency may be used as a proxy for the positions. Provided there is adequate ex post monitoring of actual positions against such limits, the limits shall be added, without regard to sign, to the Net Open Position in each currency.

(30) Transactions undertaken by an AIFI 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 AIFI 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.

(31) The capital requirement for foreign exchange positions, including gold, shall be 9 per cent of the overall Net Open Position computed using the shorthand method. 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.

Illustration: See example in Table below.

Table: Example of the shorthand measure of foreign exchange risk

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

The capital requirement will be 9 per cent of the overall Net Open Position. Thus, the capital requirement would be 9 per cent of 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 x 9 per cent = 30.15.”.

(32) An AIFI which is subject to Master Direction – Risk Management and Inter-Bank Dealings, as amended from time to time, shall be guided by the Direction *ibid*, and related directions, for other instructions related to Net Open Position

including *inter alia*, reporting, applicable limit, and limit for Net Open Position involving Rupee as one of the currencies (NOP-INR).”.

(Sunil T S Nair)
Chief General Manager