



भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA

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RBI/2026-27/156

DOR.MRG.REC.No.142/21-01-002/2026-27

June 24, 2026

Reserve Bank of India (Small Finance Banks - Prudential Norms on Capital Adequacy) Seventh Amendment Directions, 2026

Please refer to Annex I of the FMRD [Master Direction - Risk Management and Inter-Bank Dealings \(Master Direction No. 1/2016-17 dated July 5, 2016\)](#) which *inter alia* prescribes the methodology for computation of Net Open Position. In order to ensure greater alignment with international standards and consistent implementation across Small Finance Banks, there is a felt need to review and specify the methodology for computation of Net Open Position by amending the [Reserve Bank of India \(Small Finance Banks - Prudential Norms on Capital Adequacy\) Directions, 2025](#).

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 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 (Small Finance Banks - Prudential Norms on Capital Adequacy) Seventh Amendment Directions, 2026.

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

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

(i) The beginning of Chapter IV - Calculation of risk weighted assets (RWAs) shall be substituted with the following, namely: –



“Market risk and operational risk capital charges shall not be applicable to an SFB. However, an SFB shall compute the Net Open Position for its foreign exchange and gold positions as per methodology specified in Annex VII.”.

(ii) The following Annex VII shall be inserted after Annex VI, namely: –

“Annex VII

Calculation of Net Open Position

1. Currently, an SFB is not required to calculate and maintain capital charge for foreign exchange risk. However, an SFB which is operating as an Authorised Dealer Category I bank, in terms of the applicable RBI guidelines, is required to *inter alia* monitor its Net Open Position. For this purpose, Net Open Position shall be calculated as per the paragraphs below.

A. Scope of Application

2. An SFB shall calculate the Net Open Position on a continuous basis, i.e., at the close of each business day.

Exclusions from Net Open Position

3. An SFB shall not include in the Net Open Position any position that is deducted from the SFB’s regulatory capital, including a position that is hedging such a position.

4. Holdings of capital instruments that are deducted from an SFB’s capital or risk weighted at 1250 per cent are not required to be included in the Net Open Position. This includes:

- (i) holdings of the SFB’s own eligible regulatory capital instruments; and
- (ii) holdings of other banks’ and other financial entities’ eligible regulatory capital instruments, as well as intangible assets, where such assets are deducted from capital.

5. An SFB 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..

B. Calculation of Net Open Position

6. For calculating the Net Open Position, an SFB shall include all positions, within the



‘Scope of Application’ in section A above, in foreign currencies, including gold, regardless of whether these are in the trading book or banking book.

7. The Net Open Position shall be calculated as under:

- (i) Measure the exposure in a single currency position as set out in sub-paragraphs 8 to 13.
- (ii) Measure the risks inherent in an SFB’s mix of long and short positions in different currencies as set out in sub-paragraphs 14 to 18.

Measuring the exposure in a single currency

8. The SFB’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 9 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 SFB, 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.

9. 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.

10. 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.

11. Where gold is part of a forward contract (quantity of gold to be received or to be



delivered), any foreign currency exposure from the other leg of the contract shall be reported as set out in sub-paragraph 8 above.

12. 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 SFB has taken the opportunity to hedge them. If an SFB 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.

13. Measurement of derivative positions: An SFB shall use the current spot rates, without present value adjustment, for measuring derivative positions.

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

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

15. 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.

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

16. An SFB shall use spot rates based on financial benchmarks administered by



benchmark administrators authorised under the relevant directions issued by FMRD.

17. Transactions undertaken by an SFB 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 SFB 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.

18. An SFB which is subject to the 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).”.

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