₹ trade volumes may get a fillip post RBI's IFSC ruling

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The Reserve Bank of India (RBI)'s decision to allow banks having a presence in the International Financial Services Centre (IFSC) to offer non-deliverable derivatives contracts (NDDC) to domestic non-retail segments will boost INR trade volumes, experts said.

So far, only residents outside India were allowed to sell these contracts. Now Residents - Non-Retail can also be offered the NDDC. Since it is a non-deliverable contract no delivery of foreign currency of the notional amount will have to be made. The settlement (difference in the two rates) will be in cash either in the foreign currency or in INR.

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"The price discovery of INR was through the NDF Market outside India. The volumes outside India were also double than that of in India. RBI wants the price discovery to be from the country itself," said Anil Kumar Bhansali, Head of Treasury, Finrex Treasury Advisors LLP.

"Volumes of INR trading in India should increase as market participants get a 24-hour market and will be able to trade in INR against foreign currency in New York timings when a lot of data releases happen and also during the time of FED meeting at night when volatility is at the highest. So now Indian participants (non-retail) get a chance to hedge their payables and receivables after-market hours. Gift-City volumes in NDF get a boost and Indian Non-Retail can open accounts there and trade/hedge their payments," Bhansali said.

RBI had said that in order to develop the onshore INR NDDC and to provide residents with the flexibility to efficiently design their hedging programmes, it was decided to permit banks with International Financial Services Centre (IFSC) Banking Units (IBUs) to offer INR NDDCs to resident users in the onshore market.