

# RBI's forex risk move may not hit ₹ for now

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Market participants do not expect any immediate impact on the rupee from the Reserve Bank of India's (RBI's) a "comprehensive" master direction aimed at strengthening the framework for hedging foreign exchange risks.

RBI Governor Shaktikanta Das, in his monetary policy statement, revealed that the central bank is poised to issue a master direction to consolidate guidelines for all types of forex transactions.

But this development, according to market players, is more of a directional guidance than a mandatory directive. This gives banks the flexibility to review and adjust their internal policies, and even provide advisory services to customers regarding the hedging of their investments.

"In the short term, there won't be any effect on the rupee because it is not a rule that a certain amount is to be hedged; it is just a directional guidance," said Amit Pabari, managing director at CR Forex.

The regulatory framework for forex derivative transactions has been refined and consolidated, integrating various transaction types into a unified master direction.

This initiative, driven by market developments and valuable feedback from participants, represents a significant enhancement since the last

review in 2020.

Under this revamped framework, both over-the-counter and exchange-traded transactions, will be encompassed within a single master direction. The objective is to improve operational efficiency and facilitate simplified access to foreign exchange derivatives, particularly benefiting users with smaller exposure, as highlighted by the RBI. "After the release of the final circular which should be

next week, we will have a clearer picture," said Kunal Sodhani, vice-president, Shinhan Bank.

Das emphasised the potential for this initiative to deepen the forex derivatives market, citing the expected improvements in operational efficiency and accessibility for users.

The forthcoming release of the master direction is anticipated to bring clarity and coherence to the regulatory landscape, further advancing the effectiveness of forex derivative transactions in the market.

"The framework has also been refined to enhance operational efficiency and ease access to foreign exchange derivatives, especially for users with small exposure.

"This will also ensure that a broader set of customers with the necessary risk management expertise are given the flexibility to manage their exposures efficiently. The master direction will be issued separately," said Das.

