

**GENERAL MANAGER  
DERIVATIVES AND NEW PRODUCTS DEPARTMENT**

SEBI/DNPD/Cir- 38 /2008  
August 06, 2008

To,

Recognized Stock Exchanges  
and their Clearing Corporations / Clearing Houses, Clearing Members and  
Trading Members

**SUB: EXCHANGE TRADED CURRENCY DERIVATIVES**

A RBI-SEBI Standing Technical Committee (“Committee”) was constituted to evolve norms and oversee implementation of Exchange Traded Currency and Interest Rate Derivatives. To begin with, the Committee has looked at Exchange Traded Currency Derivatives and submitted a Report on Exchange Traded Currency Futures (“Report”). The Report, which was submitted on May 29, 2008, is also available on the SEBI website [www.sebi.gov.in](http://www.sebi.gov.in).

The Report lays down the framework for the launch of Exchange Traded Currency Futures in terms of the eligibility norms for existing and new Exchanges and their Clearing Corporations/Houses, eligibility criteria for members of such Exchanges/Clearing Corporations/Houses, product design, risk management measures, surveillance mechanism and other related issues.

**I. EXCHANGE TRADED CURRENCY DERIVATIVES**

For trading in Exchange Traded Currency Derivatives, Recognized Stock Exchanges and their Clearing Corporations / Clearing Houses, Clearing Members and Trading Members have to comply with the following:

1. **Exchange:** A Recognized Stock Exchange fulfilling the conditions mentioned under paras 5.1 and 5.2 of the Report may apply to SEBI for grant of approval for starting trading in Currency Derivatives. The application shall be accompanied by the details pertaining to the derivatives product proposed to be introduced (mentioned under para 7.2 of the Report), the proposed Bye-laws of the Exchange/ Clearing Corporation / Clearing House and the model documents for Currency Derivatives Segment (in accordance with para 7.1 of Report).

Further, a Recognized Stock Exchange shall ensure that;

- a. Chapter 2 of the Report on product design is complied with. In addition, the last day for trading of the contract shall be two working days prior to the final settlement day, with the settlement price on the last trading day being the Reserve Bank's Reference Rate on that date.
  - b. Chapter 4 of the Report on surveillance and disclosures is complied with.
  - c. Membership of the Currency Derivatives Segment is separate from the membership of the other segments of the Exchange as mentioned under para 6.1 of the Report.
  - d. Appropriate mechanisms preventing participation of "persons resident outside India" as defined in Section 2(w) of the Foreign Exchange Management Act, 1999 in Exchange Traded Currency Derivatives be put in place.
2. **Clearing Corporation / Clearing House:** Clearing Corporation / Clearing House fulfilling the conditions mentioned under paras 5.3 and 5.4 of the Report may apply to SEBI for grant of approval for undertaking clearing and settlement related to trades in Currency Derivatives. The Clearing Corporation / Clearing house shall comply with the risk management measures detailed under Chapter 3 of the Report.
  3. After obtaining SEBI's approval, the Recognized Stock Exchange and its Clearing Corporation / Clearing House shall make an application to RBI to obtain permission under FEMA for trading, clearing and settlement of Currency Derivatives.
  4. **Clearing Member and Trading Member:** A person desirous of becoming a Clearing Member and / or a Trading Member and fulfilling the conditions detailed under paras 6.2 and 6.3 of the Report may apply to SEBI for registration under SEBI (Stock Brokers and Sub-Brokers) (Amendment) Regulations, 2008.

## II. PARTICIPATION OF BANKS

To enable Banks to become Clearing Member and / or Trading Member of the Currency Derivatives Segment of an Exchange, an Exchange shall amend its bye-laws, as under:

1. "Any bank, -

included in the Second Schedule to the Reserve Bank of India Act, 1934, and specifically authorized by RBI for this purpose,

- i. is eligible to become Clearing Member and / or Trading Member of the Currency Derivatives Segment of an Exchange, on the recommendation of the governing body of the Exchange.
- ii. such bank can act as member for their proprietary dealings, to act on their own account, in the Currency Derivatives Segment of the Exchange.
- iii. such bank can also act as member or an agent for any other person, client or customer in the Currency Derivatives Segment of an Exchange.
- iv. such bank shall abide by circulars and directions issued by RBI and SEBI in respect of dealing of such banks in the Exchange."

### **III. CERTIFICATION PROGRAMME**

A Trading Member shall have approved users and sales personnel who have Certification as applicable to Exchange Traded Equity Derivatives. However, this requirement shall not be applicable in respect of a Trading Member, which is a bank, for a period of one year from the date of this circular.

### **IV. POSITION LIMIT**

The gross open position of a Trading Member, across all contracts, shall not exceed 15% of the total open interest or 25 million USD, whichever is higher. However, the gross open position of a Trading Member, which is a bank, across all contracts, shall not exceed 15% of the total open interest or 100 million USD, whichever is higher.

This circular is being issued in exercise of the powers conferred under Section 11 (1) of the Securities and Exchange Board of India Act 1992, read with Section 10 of the Securities Contracts (Regulation) Act, 1956 to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.

This circular is available on SEBI website at [www.sebi.gov.in](http://www.sebi.gov.in)., under the category "Derivatives- Circulars".

Yours faithfully,

**SUJIT PRASAD**