Frequently Asked Questions

on the

Foreign Exchange Risk Reserve (FERR)

(Ref**:** A.P. (DIR Series) Circular No. 26 dated October 10, 2026 and A.P. (DIR Series) Circular No. 27 dated October 12, 2026)

1. What is the Foreign Exchange Risk Reserve (FERR)?

The FERR is a reserve required to be maintained by Authorised Dealers with the Reserve Bank of India in respect of:

(a) Specified foreign exchange derivative contracts involving INR (as explained in 2 below) undertaken by Authorised Dealers with users; and

(b) Foreign exchange derivative contracts involving INR undertaken by an Authorised Dealer for hedging the currency risks of its own assets and liabilities where the Authorised Dealer is purchasing foreign currency against the INR.

2. Which foreign exchange derivative contracts undertaken by Authorised Dealers with users[1] are subject to the FERR requirement, in terms of the A.P. (DIR Series) Circular No. 26 dated October 10, 2026?

The FERR requirement applies to foreign exchange derivative contracts undertaken by Authorised Dealers with users that meet the following conditions:

- The contract involves INR;
- The contract is undertaken with a user;
- The user is purchasing foreign currency against INR;
- The notional value of the contract exceeds USD two million equivalent; and
- The contract is undertaken for hedging current account transactions.

[1] In terms of paragraph 1 (1) of Section 1 of Part A of Master Direction on Risk Management and Interbank Dealings dated July 5, 2016, as amended from time to time, 'User' shall mean any person as defined in the Section 2(u) of the FEMA, 1999 (42 of 1999), whether resident in India or resident outside India, other than an Authorised Dealer.

3. In terms of the A.P. (DIR Series) Circular No. 27 dated October 12, 2026, will the FERR be applicable for the transactions undertaken by Authorised Dealers for market-making and / or assuming proprietary positions.

No. In terms of the A.P. (DIR Series) Circular No. 27 dated October 12, 2026, FERR will be applicable only for foreign exchange derivative contracts undertaken by Authorised Dealers for the purpose of hedging the currency risk of their own assets and liabilities, where the Authorised Dealers are purchasing foreign currency against the INR.

4. Does the FERR requirement apply to derivative contracts where users sell foreign currency against INR?

No. The FERR requirement applies only to derivative contracts where the user purchases foreign currency against INR.

5. Does the FERR requirement apply to foreign exchange derivative contracts undertaken by users for hedging capital account transactions?

No. The FERR requirement applies only to specified foreign exchange derivative contracts undertaken by users for hedging current account transactions.

6. Will the FERR apply to derivative contracts undertaken by users for hedging their current account outflows that arise from a capital account transaction, such as interest on External Commercial Borrowings (ECBs) or coupons on resident debt instruments held by non-residents, or dividends payable to non-resident investors?

No. Payments due such as interest on loans and other debt instruments are current account transactions under Section 2(j) of FEMA, 1999. However, such flows arise from an underlying capital account transaction. Accordingly, foreign exchange derivative contracts undertaken by users to hedge such flows shall be excluded from the requirement of FERR in terms of A.P. (DIR Series) Circular No. 26 dated October

10, 2026. However, the FERR shall be applicable for Authorised Dealers undertaking transactions for hedging their currency risks on such exposures in terms of A.P. (DIR Series) Circular No. 27 dated October 12, 2026

7. Does the FERR requirement apply to foreign exchange derivative contracts not involving INR?

No. The FERR requirement applies only to foreign exchange derivative contracts involving INR.

8. What is the threshold for applicability of the FERR requirement for foreign exchange derivative contracts undertaken by Authorised Dealer with users?

The FERR requirement applies to specified derivative contracts undertaken by Authorised Dealers with users having a notional value exceeding USD two million equivalent. Accordingly, a derivative contract having a notional value of USD two million equivalent or less undertaken by an Authorised Dealer with a user is not subject to the requirement. However, the Authorised Dealers shall guard against any attempt towards structuring of derivative transactions for avoidance of these provisions.

9. What is the notional amount to be considered for determining the threshold for applicability of the FERR requirement where the user undertakes an option contract /combination of option contracts?

The threshold for the applicability of the FERR requirement shall be on the notional amount of the option contract undertaken with a user.

In case of derivative contracts where two or more options are undertaken together in a single structure, the structure shall be treated as one derivative contract, The notional amount of the single option with the highest notional value shall be reckoned for applying the USD two million threshold and computing the FERR.

10. How is the amount of FERR to be maintained calculated?

The FERR shall be equal to 20 per cent of the INR equivalent of the notional amount of each applicable derivative contract. For example, for a derivative contract with a notional amount of USD 10 million against INR undertaken at a contracted rate of ₹95 per USD, the notional amount is ₹95 crore. The applicable FERR shall be ₹19 crore.

11. Where and how will the FERR be maintained with the Reserve Bank?

The FERR shall be deposited and maintained in the Authorised Dealer's current account with the Reserve Bank. The FERR is required to be maintained on a daily basis. The FERR applicable for a particular derivative contract shall be maintained from the working day immediately following the date of undertaking the contract on a gross basis viz. on each such derivative transaction. Granular details of the qualifying transactions and associated FERR shall be maintained by the Authorised Dealer and subjected to audit.

12. As the FERR is maintained in the bank's current account with Reserve Bank of India, will the same be fungible with the cash reserve being maintained in the same account against bank's CRR obligations under Section 42(1) of Reserve Bank of India Act, 1934?

The daily minimum balance maintained in the current account with Reserve Bank of India shall not be less than the aggregate of (i) obligation under Section 42(1) of RBI Act, 1934; (ii) FERR as prescribed vide Directions dated October 10 and October 12, 2026; and (iii) any other obligation where cash reserve is required to be maintained with Reserve Bank.

13. Will the FERR maintained with the Reserve Bank earn interest?

No. The FERR maintained by Authorised Dealers with the Reserve Bank shall not earn any interest.

14. For how long is an Authorised Dealer required to maintain the FERR?

The FERR applicable for a particular derivative contract is required to be maintained until a day after the termination of the derivative contract.

15. How will be FERR be maintained in case of a derivative contract which is partially cancelled, but the notional still qualifies for maintenance of FERR?

Upon part cancellation of the derivative contract, FERR shall be maintained, from the next day, on pro-rata basis on the notional amount of the derivative contract which still remains.

16. Will the FERR continue to be maintained in case the notional amount of a derivative contract undertaken by a user falls below the threshold of USD 2 million after partial cancellation of the derivative contract by the user?

Upon part cancellation of the derivative contract, if the notional amount of the derivative contract which is still valid falls below the applicable threshold, the FERR requirement for such derivative contracts will cease, from the day following such reduction.

17. Does the FERR requirement apply to derivative contracts entered into before the issuance of the Directions?

No. The FERR requirement applies only to foreign exchange derivative contracts undertaken after the issuance of the respective Directions on October 10, 2026, and October 12, 2026.

18. A foreign exchange derivative contract involving INR entered into before the issuance of these directions (for which the FERR was not applicable) is rolled over after the issuance of the directions on October 10 and October 12. Will the FERR be applicable to the rolled over transaction?

Yes. The FERR will be applicable on the derivative contract rolled over after the issuance of the Directions on October 10, 2026, and October 12, 2026, if the derivative

contract upon rollover otherwise meets the prescribed conditions for applicability of the FERR**,** as rolled over contracts are essentially fresh contracts.

19. What are the reporting requirements for Authorised Dealers?

Authorised Dealers are required to report the details of the FERR maintained on a daily basis through the Reserve Bank's Centralised Information Management System (CIMS). Details of FERR maintained shall be reported both for derivative contracts undertaken by Authorised Dealers with users and derivative contracts undertaken by Authorised Dealers for hedging their own currency risk. The format for reporting is available in CIMS.

20. What is the timeline for reporting the FERR to the Reserve Bank?

Authorised Dealers shall report details of FERR on a daily basis through the CIMS. The report for a particular day (T date) shall be submitted by 5 PM on the following working day (T+1 basis). The report will include details of the derivative contracts undertaken on T date as well as all derivative contracts outstanding with their current notional as on the reporting date against which FERR is maintained.

21. Can the FERR balance with the RBI be included in stock of High Quality Liquid Assets (HQLA) under Liquidity Coverage Ratio (LCR) framework?

No. FERR balances required to be maintained with RBI shall not be eligible to be reckoned as HQLA.

22. Will the requirement of FERR be applicable for foreign currency derivative contracts undertaken by Authorised Dealers with the Reserve Bank of India?

No. The FERR requirements will not be applicable for foreign currency derivative contracts involving INR undertaken by Authorised Dealers with the Reserve Bank of India.