



भारतीय रिज़र्व बैंक

RESERVE BANK OF INDIA



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October 11, 2022

All Standalone Primary Dealers (SPDs)

Dear Sir/ Madam,

Diversification of activities by SPDs – Review of permissible non-core activities – Prudential regulations and other instructions

Please refer to the [circular DOR.FIN.REC.No.72/03.10.117/2022-23 dated October 11, 2022](#) allowing SPDs to undertake foreign exchange activities as part of their non-core activities. In this connection, SPDs shall adhere to the prudential regulations and other instructions contained in this circular and other associated guidelines applicable to SPDs.

2. The foreign exchange activities permitted to SPDs shall continue to be part of their non-core activity. SPDs desirous of undertaking this activity may approach the Reserve Bank of India, Foreign Exchange Department, Central Office, Mumbai for necessary authorization. It may be noted that in case of failure of SPDs to meet the obligations of Primary Dealership (PD) business in the Government securities market or any other violations on regulations on conducting the PD business, the Reserve Bank reserves the right to impose restrictions or withdraw permission to undertake the foreign exchange business.

3. The SPDs shall adhere to the following prudential regulations:

- a. As prescribed in the existing capital adequacy guidelines for SPDs, the capital charge for market risk in foreign exchange exposures shall be higher of the charges worked out by the standardised approach and the internal risk management framework-based Value at Risk (VaR) model. Further, under the standardised approach, SPDs shall maintain a market risk capital charge of 15% for net open positions (limits or actual, whichever is higher) arising out of forex business with a risk weight of 100%. The net open position for foreign exchange exposures shall be calculated as per the methodology prescribed in para 8.5 of [Master Circular – Basel III Capital Regulations dated April 01, 2022](#) (as amended from time to time) to the extent applicable to SPDs. Capital charge for market risk shall be over & above the capital charge for credit risk of 15% as per directions

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हिंदी आसान है, इसका प्रयोग बढ़ाईये

prescribed in [Master Directions – Standalone Primary Dealers \(Reserve Bank\) Directions, 2016 dated August 23, 2016](#) (as amended from time to time).

- b. In addition to the foreign exchange exposure limits prescribed under [Master Direction – Risk Management & Inter-Bank Dealings dated July 05, 2016](#) (as amended from time to time), the capital charge for market risk (calculated as per provisions of [Master Direction – Standalone Primary Dealers \(Reserve Bank\) Directions, 2016](#)) for all the permissible non-core activities, including foreign exchange activities, shall not be more than 20% of the Net Owned Fund of the SPD as per last audited balance sheet.

4. SPDs shall continue to comply with the provisions of FEMA and all rules, regulations and directions issued thereunder; and also, the following directions to the extent applicable:

- a. [Master Direction – Risk Management and Inter-Bank Dealings dated July 05, 2016](#) (as amended from time to time).
- b. [Master Direction – Reserve Bank of India \(Market-makers in OTC Derivatives\) Directions, 2021 dated September 16, 2021](#) (as amended from time to time).
- c. [Guidelines for Internal Control over Foreign Exchange Business - FE.CO.FMD.No.18380/02.03.137/2010-11 dated February 03, 2011](#) (as amended from time to time).

5. Further, reference is also drawn to sub-clause (i)(a) of para 12(5) of [Master Direction – Standalone Primary Dealers \(Reserve Bank\) Directions, 2016](#) in terms of which SPDs are permitted to undertake investment/ trading in equity and equity derivatives market as a part of their non-core activity. On a review, it has been decided to permit SPDs to take up trading and self-clearing membership with SEBI approved stock exchanges/ clearing corporations for undertaking proprietary transactions in equity and equity derivatives market as permitted in sub-clause (i)(a) of para 12(5) of the aforementioned Master Direction for SPDs. While doing so, SPDs shall comply with all the regulatory norms laid down by SEBI and all the eligibility criteria/ rules of stock exchanges and clearing corporations.

6. The [Master Direction – Standalone Primary Dealers \(Reserve Bank\) Directions, 2016 dated August 23, 2016](#) is being modified accordingly.

Yours faithfully,

(J.P. Sharma)
Chief General Manager