

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:2629
ANSWERED ON:09.12.2011
SPECULATION IN CURRENCY MARKET
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Will the Minister of FINANCE be pleased to state:

- (a) whether the Government has any mechanism to monitor speculation activities in the currency market;
- (b) if so, the details thereof; and
- (c) the steps being taken by the Government to check such speculation activities?

Answer

The Minister of State in the Ministry of Finance (Shri Namu Narain Meena)

(a) to (c): Under Foreign Exchange Management Act, (FEMA) 1999, all residents are required to conduct foreign exchange transactions with a person authorised under the Act (Authorised Dealer). The transactions are carried out within the framework of the rules and regulations framed under the Act and the Authorised Dealers are required to ensure compliance with the same.

As regards foreign exchange derivatives (forwards, options etc), market participants (exporters, importers, etc) are allowed to enter into such transactions with Authorised Dealers only on the basis of their underlying exposure, which the Authorised Dealers are required to verify while booking contracts. Non-residents (including FIs) are also allowed to enter into foreign exchange derivative transactions subject to their underlying exposure. While exporters and importers are allowed to cancel and rebook their forward contracts to dynamically hedge their underlying exposures, this facility is not available to the FIs who, if they cancel their contracts, can rebook only to the extent of 10 per cent of the market value of the portfolio as at the beginning of the financial year.

RBI has prescribed limits on the foreign exchange position that can be taken by the banks who are Authorised Dealers. This position limit is monitored closely. Reserve Bank of India (RBI) keeps a close watch on the position of the banks as well as activities and behaviour of market participants with respect to their foreign exchange transactions with a view to ascertaining whether there is any large scale deviation from their usual behaviour pattern with respect to hedging activities. RBI also conducts inspections of banks to ensure that they are adhering to the regulations under FEMA / RBI guidelines.