

Net Open Position & Foreign Exchange Risk Capital

A new lens for banks under RBI's
revised framework

The Reserve Bank of India's (RBI) Commercial Banks – Prudential Norms on Capital Adequacy (Tenth Amendment) Directions, 2026, dated 24 June 2026, Introduced a revised approach to measure Net Open Position (NOP) and capital requirements for foreign exchange risk.

While several changes simplify the mechanics of NOP computation, the broader impact is significant. The revised framework expands the view of forex exposure across standalone and consolidated operations, onshore and offshore positions, overseas investments and structural foreign currency exposures.

For banks with significant international operations, this could change both the reported NOP and the associated capital requirement.

What are the key changes?

1. From a solo view to a group-wide view

NOP will now be computed daily at both standalone and consolidated levels. Onshore, offshore branch and subsidiary positions will also be combined on a currency-wise basis.

This creates a more comprehensive view of the bank's forex exposure and increases the importance of timely data from overseas operations and group entities.

What it means: Banks will need stronger currency-wise aggregation, reconciliation and daily data availability across locations and entities.

2. Overseas investments become part of the forex risk lens

The revised framework considers invested capital and surplus associated with overseas subsidiaries, joint ventures and associates for the standalone bank-level NOP assessment.

At the same time, banks have an option for structural forex exemption, subject to the prescribed conditions.

What it means: Banks with sizeable overseas investments should reassess their structural forex positions and determine whether eligible positions can be excluded. This could also influence capital allocation decisions.

3. Simpler derivative measurement, but potentially different outcomes

Derivatives will now be considered without present-value adjustment, changing the mechanics of NOP computation.

The revised framework also specifies the use of applicable spot rates for conversion, with the source document identifying FBIL spot rates.

What it means: Banks should perform parallel calculations under the existing and revised methodologies to identify portfolios and currencies where the change could materially affect NOP.

4. Capital requirement is now linked to actual NOP utilisation

The forex risk capital charge is revised to 9% of NOP utilisation, rather than 9% of the higher of utilisation or the NOP limit.

For example: NOP utilisation of ₹1,000 crore will require a forex capital requirement of ₹90 crore. At a 12.5 conversion factor, this represents ₹1,125 crore of equivalent RWA.

What it means: NOP utilisation now influence capital consumption. Treasury, Risk and Finance should assess the implications jointly.

5. New exclusions and gold treatment require attention

The revised framework introduces exclusions for certain positions already deducted from regulatory capital.

Gold positions are also required to be separately captured, with the net gold position considered alongside currency positions.

What it means: Banks should revisit their regulatory exclusion inventory and ensure gold and other eligible positions are consistently captured across systems.



Where should banks focus?

The impact of the revised framework will differ significantly across banks. A bank with limited overseas operations may primarily face methodology and system changes, while banks with substantial international businesses could see implications for **NOP, capital consumption, hedging strategy and regulatory reporting**.

We see four immediate priorities:

1. Quantify the impact

Run the revised methodology alongside the existing calculation using historical data.

Assess the impact of:

1.  New NOP exclusions which are already deducted from Regulatory Capital	2.  Onshore & offshore position are merged	3.  Derivatives to be considered without Present Value adjustment
4.  Invested capital & surplus to be considered for Investment in Overseas Subsidiaries, JV & Associates	5.  Capital Charge for Foreign exchange Risk is 9% of NOP Position	6.  NOP to be computed on Solo and Consolidated basis daily.
7.  In case of non-availability of daily NOP for Subsidiaries, currency wise limit of subsidiaries can be considered.	8.  FBIL spot rate to be used for conversion to USD/INR spot rates	9.  Option for Foreign exchange Structural Exemption
10.  Gold is added in NOP regardless of sign	 May increases NOP  May reduce NOP  Mixed  Neutral	

2. Build a complete forex exposure inventory

Identify all FX exposures across on-balance sheet, off-balance sheet and structural positions covering the Bank, Branches, Subsidiaries, JVs and Associates.

Assess how individual FX exposures, including spot positions, forwards and derivatives, LC/BG exposures and structural investments, are captured within the NOP framework. Identify exposures that are included, excluded or eligible for structural exemption, and establish a clear audit trail from the underlying exposure through to the currency-wise NOP and resulting capital requirement.

3. Strengthen daily data and governance

The move to daily consolidated NOP makes data availability critical. Where subsidiary-level daily NOP is unavailable, the revised framework provides for consideration of the subsidiary's NOP limit.

Banks should therefore assess whether current Treasury, Risk and regulatory reporting systems can support reliable daily aggregation and reconciliation.

4. Integrate NOP with capital and treasury decisions

The revised framework creates a closer link between forex exposure and capital consumption.

Banks should consider NOP as part of **Treasury limits, Hedging strategy, Capital allocation and Management reporting.**

Key takeaways for banks

The revised NOP framework should not be viewed as simply another regulatory reporting change. It represents a broader shift towards understanding and managing the Bank's overall foreign currency exposure across currencies, locations and group entities.

For banks with significant overseas operations, this creates three immediate priorities:

1. Establish a complete view of FX exposure

Banks will need to identify and aggregate FX positions across the Bank, overseas branches, subsidiaries, JVs and associates, with a clear linkage between the underlying exposure and its NOP treatment.

2. Quantify the NOP and capital impact

The revised framework can change both the reported NOP and associated capital requirement. Banks should assess the impact of the revised treatment of derivatives, structural exposures, overseas positions and eligible exemptions on a currency-wise basis.

3. Strengthen data, systems and governance

Daily group-level NOP monitoring will require timely data from overseas entities, consistent definitions and taxonomy, robust aggregation mechanisms and appropriate controls and governance.

For banks, the immediate priority should therefore be to quantify the impact, identify actionable structural FX exemptions and assess readiness across data, processes, technology and governance.

How Protiviti can help

Protiviti can support banks in translating the revised RBI requirements into a fit-for-purpose NOP framework based on size, scale and complexity. Our support can span the implementation lifecycle, including:



Impact assessment

Quantify the impact of revised NOP requirements on forex positions, NOP and capital.



Entity-level assessment

Assess forex exposures across branches, subsidiaries, JVs and associates, including structural forex exemption opportunities.



Methodology and process

Develop the revised NOP methodology, policies, processes and governance framework.



Data and technology

Define data requirements and target-state architecture to enable daily standalone and consolidated NOP computation.



Parallel run and validation

Perform parallel calculations, identify gaps and validate the revised NOP and capital charge.



Implementation support

Support system implementation, controls, reporting and readiness for regulatory implementation.

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