INDIALAW

BANKING AND FINANCE

Price Transparency in FX Markets: RBI's Proposed Mandate on Transaction-Cost Disclosure

AUTHOR Shrishail Kittad, Rahul Sundaram

PUBLISHED 11 December 2025

The foreign-exchange market in India has long operated under a disclosure regime that obliged authorised dealers to reveal only the mid-market mark or bid-offer spread when transacting in derivatives with retail users. While this partial transparency, introduced in January 2024, addressed one layer of information asymmetry, it left untouched the cash, tom and spot segments where retail remitters incur the bulk of hidden charges. Recognising that opacity in upfront pricing can distort consumer choice and impede effective competition, the Reserve Bank of India has now moved to extend the disclosure obligation to the most routinely used FX contracts. On 9 December 2025 the Bank published a draft circular inviting comments from banks, market participants and the public until 9 January 2026, signalling a decisive shift toward an “all-in cost” paradigm for retail foreign-exchange transactions.

The draft circular is anchored in the Master Direction on Risk Management and Inter-Bank Dealings dated 5 July 2016, as amended from time to time. That compendium presently permits authorised dealers to offer five broad categories of FX products: cash, tom, spot, FX derivatives and foreign-currency interest-rate derivatives. Paragraph 2 of the existing framework already mandates that, before entering into a derivative contract with a retail user, a dealer must communicate the mid-market reference rate and the bid-ask spread and must reproduce those figures in the deal confirmation or term sheet. The proposed amendment adds a parallel duty for cash, tom and spot transactions, thereby closing the regulatory gap between derivative and plain-vanilla FX trades.

Under the proposed paragraph 3, an authorised dealer must furnish the retail user with a granular break-up of the “total transaction cost” prior to execution. The disclosure must enumerate all relevant components: sending and receiving fees, including any intermediary bank charges; the foreign-exchange rate applied; and the currency conversion margin embedded in that rate. The same particulars must be reiterated in the deal confirmation issued to the customer. The obligation is framed in peremptory language “shall provide” leaving no room for selective or partial disclosure.

The measure is expressly made applicable to contracts denominated in Indian rupees or any foreign currency, provided the counter-party qualifies as a retail user under the Master Direction. Non-retail users, who typically possess greater bargaining power and access to market data, are not within the immediate scope of the proposal, although the RBI has reserved the right to revisit the distinction in future.

Legal authority for the directive is drawn from section 45W of the Reserve Bank of India Act, 1934 and sections 10(4) and 11(1) of the Foreign Exchange Management Act, 1999. Section 45W empowers the Bank to issue directions to authorised dealers in the public interest, while the FEMA provisions enable the regulation of dealing practices in foreign-exchange markets. The circular expressly states that the directions are “without prejudice” to any other permissions or approvals that may be required under separate statutes, thereby preserving the supremacy of sector-specific legislation such as the Banking Regulation Act, 1949 or consumer-protection laws.

The draft stipulates a three-month gestation period from the date of the final circular’s issuance, affording banks adequate time to reconfigure their pricing systems, customer-facing interfaces and back-office documentation. The phased implementation also anticipates the need for upgrades to core-banking software so that cost computations can be generated automatically and appended to confirmations without manual intervention.

Importantly, the proposal does not cap or prescribe the quantum of any fee; it merely requires that whatever charges are levied be transparently communicated. The regulatory philosophy is therefore disclosure-based rather than price-controlled, aligning India with international best practices advocated by the Basel Committee on Banking Supervision and the Foreign Exchange Committees of major jurisdictions.

In sum, the draft circular marks a calibrated evolution in the RBI’s consumer-protection architecture. By extending the mid-market disclosure logic to the entirety of transaction costs in cash, tom and spot trades, the Bank seeks to eliminate the information gap that has historically allowed cross-subsidisation and opaque mark-ups. Stakeholders have until 9 January 2026 to offer empirical or policy-oriented feedback, after which the final norms are expected to be issued with a three-month runway. Authorised dealers should therefore treat the consultation window not as a passive procedural formality but as the final opportunity to shape the granularity, format and operational modality of what will soon become a binding statutory obligation.

For further details write to contact@indialaw.in

Related Practice Areas