



भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA
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FINANCIAL MARKETS REGULATION DEPARTMENT
Notification No. FMRD.DIRD.XX /2020 dated June XX, 2020
Draft Rupee Interest Rate Derivatives (Reserve Bank) Directions, 2020

In exercise of the powers conferred under section 45W of the Reserve Bank of India Act, 1934 (hereinafter called the Act) read with section 45U of the Act and in supersession of [Directions No. FMRD.DIRD.19/14.03.046/2018-19 dated June 26, 2019](#) and [FMRD.DIRD.6/14.03.001/2017-18 dated March 01, 2018](#), the Reserve Bank of India (hereinafter called the Reserve Bank) hereby issues the following Directions.

1. Short title, scope and commencement of the directions

(a) These Directions may be called the Rupee Interest Rate Derivatives (Reserve Bank) Directions, 2020 and shall be applicable to Rupee interest rate derivatives transactions undertaken in Over-the-Counter (OTC) markets and on recognized stock exchanges in India.

(b) These Directions shall come into force with effect from *<a specified date>*.

2. Definitions

In these Directions, unless the context otherwise requires:

- (i) **Benchmark Interest Rates** means interest rates administered by Financial Benchmark Administrators.
- (ii) **Company** shall have the same meaning assigned to it in Section 2 (20) of the Companies Act, 2013.
- (iii) **Electronic Trading Platform (ETP)** shall have the meaning assigned in para 2(1) (iii) of the [Electronic Trading Platforms \(Reserve Bank\) Directions, 2018 dated October 05, 2018](#), as modified from time to time.
- (iv) **European Interest Rate Options** means interest rate option contracts that can be exercised only on the expiration date.



- (v) **Exchanges** shall mean 'recognised stock exchange' and shall have the meaning assigned in Section 2 (f) of the Securities Contract Regulation Act, 1956.
- (vi) **Financial Benchmark Administrator (FBA)** means a person who controls the creation, operation and administration of financial benchmark(s) authorized under [Financial Benchmark Administrators \(Reserve Bank\) Directions, dated June 26, 2019](#).
- (vii) A **Foreign counterpart** means a foreign branch/parent/group entity of a market-maker in India, acting as a market-maker offshore.
- (viii) **Forward Rate Agreement (FRA)** means to an interest rate derivative contract that involves exchange of interest payments on a notional principal amount, on a future date, at agreed rates, for a defined forward period.
- (ix) **Hedging** means the activity of undertaking a derivative transaction to reduce Rupee interest rate risk at the balance sheet level or the portfolio level or at individual asset or liability level.
- (x) **Interest Rate Derivative (IRD)** means a financial derivative contract whose value is derived from one or more interest rates, prices of interest rate instruments, or interest rate indices.
- (xi) **Interest Rate Future (IRF)** means a standardized interest rate derivative contract, traded on a recognized stock exchange, to buy or sell a notional security or any other interest-bearing instrument or an index of such instruments or interest rates at a specified future date, at a price determined at the time of the contract.
- (xii) **Interest Rate Option (IRO)** means an option contract whose value is based on Rupee interest rates or interest rate instruments.
- (xiii) **Interest Rate Cap** means a series of interest rate call options (called caplets) in which the buyer of the option receives a payment at the end of each period when the underlying interest rate is above a rate agreed in advance (strike rate).

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- (xiv) **Interest Rate Floor** means a series of interest rate put options in which the buyer of the option receives a payment at the end of each period when the underlying interest rate is below the strike rate.
- (xv) **Interest Rate Collar** means a derivative contract where a market participant simultaneously purchases an interest rate cap and sells an interest rate floor on the same interest rate for the same maturity and notional principal amount.
- (xvi) **Reverse Interest Rate Collar** means a derivative contract which involves simultaneous purchase of an interest rate floor and sale of an interest rate cap on the same interest rate for the same maturity and notional principal amount.
- (xvii) **Interest Rate Swap (IRS)** means a derivative contract that involves exchange of a stream of agreed interest payments on a 'notional principal' amount during a specified period.
- (xviii) **Interest Rate Swaption** means an option on interest rate swaps which gives the buyer the right, but not the obligation, to enter into an interest rate swap.
- (xix) **Leveraged Derivative** means a financial derivative contract whose potential pay-out during the tenure of the contract can be more than the notional amount of the contract or whose pay-out calculation involves effective multiplication, by a factor of more than 1.0, of either the notional amount or the underlying interest rate (or price, or index).
- (xx) **Market makers** means entities which provide bid and offer prices to users in order to provide liquidity to the market.
- (xxi) **Net worth** shall have the same meaning assigned to it in Section 2(57) of the Companies Act, 2013 (as amended).
- (xxii) A **Non-resident** means and includes a 'person resident outside India' as defined in section 2 (w) of Foreign Exchange Management Act, 1999 (42 of 1999).
- (xxiii) An **Option** means a financial derivative contract that gives the buyer the right, but not the obligation, to either buy (call option) or sell (put option) an asset at a pre-determined price (known as the strike price) by a specified date (known as the expiration date).

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- (xxiv) An **Overnight Indexed Swap (OIS)** means an interest rate swap based on the Overnight Mumbai Interbank Outright Rate (MIBOR) benchmark published by Financial Benchmarks India Pvt. Ltd (FBIL).
- (xxv) **Over-the-Counter (OTC) markets** refers to markets where derivative transactions undertaken in any manner other than on exchanges, and shall include those undertaken on electronic trading platforms (ETPs).
- (xxvi) A **Person resident in India** shall have the same meaning assigned to it in Section 2 (v) of the Foreign Exchange Management Act, 1999.
- (xxvii) A **Person resident outside India** shall have the same meaning assigned to it in section 2(w) of the Foreign Exchange Management Act, 1999.
- (xxviii) **Related entities** means entities as defined under Para-9 of International Accounting Standards - 24 (IAS-24).
- (xxix) A **Resident User** is a user who is 'Person resident in India'.
- (xxx) A **Structured derivative** means a financial derivative contract which is a combination of cash and/ generic derivative instrument but excludes derivatives on derivatives.
- (xxxi) **Users** refers to persons that undertake derivative transactions other than as a market-maker.
- (xxxii) Words and expressions used but not defined in these Directions shall have the meaning assigned to them in the Reserve Bank of India Act, 1934.

3. Eligible Participants

- (a) The following persons would be eligible to participate in Rupee Interest Rate Derivatives (IRDs) markets:
- A person resident in India;
 - A non-resident, to the extent specified in these Directions;
- (b) A parent company or any group company or its centralised treasury, whether a person resident in India or a non-resident, can transact in Rupee IRDs on behalf of their group companies or wholly owned subsidiaries.

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4. Interest rate derivatives on exchanges

IRD transactions carried out on exchanges shall be subject to the following directions:

- (a) Exchanges are permitted to offer any standardised IRD product;
- (b) The product design, eligible participants and other details of the IRD product may be finalised by the exchanges;
- (c) Exchanges shall obtain prior approval of the Reserve Bank before introducing any new IRD product or before carrying out modifications to an existing product;
- (d) Exchanges shall ensure that users participating on exchanges are adequately made aware of the risks associated with the derivative instruments; and
- (e) Foreign Portfolio Investors (FPIs) may transact in permitted exchange-traded IRDs subject to the conditions that, at any point in time:
 - i. The net long position of FPIs, collectively, and across all exchanges, in exchange-traded IRDs shall not exceed ₹ 5,000 crore;
 - ii. The net short position of an FPI on exchange-traded IRDs shall not exceed its long position in Government securities and other Rupee debt securities.

5. Interest rate derivatives in OTC markets

(a) **Market-makers:** Scheduled Banks and Primary Dealers (PDs) are eligible to act as market-makers in IRD market. Foreign counterparts of market-makers in India may offer Rupee IRD transactions to non-residents as provided for under para 5 (d) of these directions.

(b) User classification framework

- i. For the purpose of offering Rupee IRD contracts to a user, the market-maker shall classify the user either as a retail user or as a non-retail user.
- ii. The following users shall be eligible to be classified as non-retail users:
 - I. Entities regulated by Reserve Bank of India, Securities and Exchange Board of India, Insurance Regulatory and Development

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Authority of India or Pension Fund Regulatory and Development Authority;

- II. Resident companies with a minimum net worth of ₹500 crore; and
- III. Non-residents, other than individuals.

- iii. Any user who is not eligible to be classified as a non-retail user shall be classified as a retail user.
- iv. Any user who is otherwise eligible to be classified as a non-retail user shall have the option to get classified as a retail user.
- v. Retail users can undertake transactions in permitted Rupee IRD products for hedging an exposure to Rupee interest rate risk, as specified in para 5(c)(i) below. Market-makers shall ensure that all IRD transactions undertaken by retail users are for the purpose of hedging. To ensure this, market-makers may call for any relevant information from the retail user, who, in turn, is obliged to provide such information.
- vi. Non-retail users can undertake transactions in IRD for both hedging and other purposes.

(c) Permitted products- Users are permitted to undertake transactions in IRDs, as specified below:

- i. **Retail users:** Forward Rate Agreement (FRA), Interest Rate Swap (IRS), European Interest Rate Options (IRO) including caps, floors, collars and reverse collars.
- ii. **Non-retail users:** In addition to the products listed in para 5(c) (i) above, swaptions and structured derivative products, excluding leveraged derivatives and derivatives on derivatives.

(d) Trading arrangements for non-residents in OTC markets

Transactions by non-residents in OTC markets shall be in terms of the following arrangements:

- i. These transactions may be undertaken directly with a market-maker in India, or by way of a 'back-to-back' arrangement through a foreign counterpart of the market-maker in India.

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Explanation- For the purpose of these directions, a 'back-to-back' arrangement shall mean that a non-resident undertakes the transaction with a foreign counterpart of a market-maker and the foreign counterpart, in turn, immediately enters into an off-setting transaction with that market-maker in India.

- ii. Every Rupee interest rate derivatives transaction undertaken offshore by any related entity of a market-maker in India, shall be accounted for individually in the books of the market-maker in India.

(e) General guidelines for transaction in OTC markets

The following shall be applicable to IRD transaction undertaken in OTC markets:

- i. Any floating interest rate or price or index used in IRDs in OTC markets shall be a benchmark published by an FBA or approved by The Fixed Income Money Market and Derivatives Association of India (FIMMDA) for this purpose. FIMMDA shall ensure that the floating rate approved by them is determined transparently, objectively and in arms' length transactions.
- ii. IRD transactions shall be settled bilaterally or through any clearing arrangement approved by the Reserve Bank for the purpose.
- iii. Settlement basis and other market conventions for IRD transactions shall be specified by FIMMDA, in consultation with market participants.

6. General guidelines for non-residents

(a) Applicability of other laws, directions, regulations or guidelines: A non-resident shall ensure that its Rupee IRD transactions conform to the provisions of Section 45(V) of the RBI Act, 1934, as well as applicable provisions of Foreign Exchange Management Act, 1999 and the rules, regulations and directions issued thereunder.

(b) Remittance/payments by non-residents: All payments related to interest rate derivative transactions of a non-resident with a market-maker in India may be routed through a Rupee account of the non-resident or,

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where the non-resident does not have a Rupee account in India, through a vostro account maintained with an Authorised Dealer bank in India. The market-maker shall maintain all details of such remittances/payments.

- (c) Know Your Customer (KYC) for non-residents:** Market-makers shall ensure that non-resident users are from a Financial Action Task Force (FATF) compliant country and they comply with the KYC requirements as prescribed under [Master Direction – Know Your Customer Direction, 2016 \(DBR.AML.BC.No.81/14.01.001/2015-16\) dated February 25, 2016](#) as amended from time to time.

7. Customer protection requirement

Market-makers in OTC markets shall comply with the 'Suitability and Appropriateness' requirements contained in the [RBI Circular No. DBOD.No. BP.BC.86/21.04.157/2006-07 dated April 20, 2007](#) on Comprehensive Guidelines on Derivatives issued by the Reserve Bank, as amended from time to time.

8. Accounting, valuation and capital requirement

Accounting, valuation and capital requirement for Rupee IRD transactions shall be as per the applicable accounting standards and valuation methods prescribed by The Institute of Chartered Accountants of India (ICAI) or other standard setting organisations or as specified by the respective regulators of participants.

9. Reporting

(a) Market-makers in OTC markets shall report all transactions, including client trades, within 30 minutes of the transactions, to the trade repository of Clearing Corporation of India Ltd. (CCIL), clearly indicating whether the trade is for hedging or other purposes.

(b) Market-makers shall report details of Rupee IRD transactions, including particulars of the non-resident users under the 'back-to-back' arrangement, to the trade repository of CCIL.

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(c) All resident users whose gross notional outstanding amount across different benchmarks/curves for all outstanding Rupee IRD contracts taken together reaches ₹10,000 crore at any point of time during a quarter shall report complete details of their Rupee interest rate risk positions at the end of that quarter. The details will be submitted within two working days from the end of the quarter in the format furnished in [Annex I](#) to the Reserve Bank on [e-mail](#).

(d) Cash flows arising out of transactions in Rupee IRD undertaken by non-residents shall be reported by banks to the Reserve Bank at monthly interval in the format furnished in [Annex II](#).

10. These Directions shall apply to all Rupee IRD transactions entered into from the date the Directions come into effect. Existing Directions will continue to be applicable to Rupee IRD transactions undertaken in accordance with the said Directions till the expiry of those contracts.

(Dimple Bhandia)
General Manager-in-charge

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Annex I

Interest Rate Risk Positions for the quarter ended ____ As on ____ (Date)

A. Rupee interest rate derivatives

Rupee Interest Rate Derivatives	Price Value of a Basis Point (PVBP)				End of quarter
	Beginning of quarter	During the quarter			
		High	Low	Average	
(i) Exchange traded					
(ii) In OTC markets					
Total					

B. Rupee interest rate sensitive securities

Rupee interest rate sensitive securities	Notional Amount of cash position (in INR)				End of quarter
	Beginning of quarter	During the quarter			
		High	Low	Average	
(i) Central Govt. securities (G-Sec)					
(ii) State Development Loans (SDL)					
(iii) Corporate Bonds					
(iv) Units of mutual funds					
(v) Others (Please specify)					
Total					

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Annex II

Cash flows arising out of transactions in Rupee interest rate derivatives undertaken by non-residents during MM/YY (month of year):

	Inflow (In INR)	Outflow (In INR)
For hedging		
For purposes other than hedging		

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