

ANNEX I

MEMORANDUM

RESERVE BANK OF INDIA

Working Group on Interest Rate Futures

The Reserve Bank of India constitutes a Working Group on Interest Rate Futures. The Group would analyse the experience with Interest Rate Futures so far and focus, *inter alia*, on product design issues.

Interest Rate Futures products were introduced in India in June 2003. In the context of continued financial market development, the need for making available a credible choice of risk management instruments to market participants to cope with interest rate risk was discussed in the 25th and the 26th meeting of the Technical Advisory Committee (TAC) on Money, Foreign Exchange and Government Securities Markets in December 2006 and July 2007, respectively. On the suggestion of the TAC, the Reserve Bank has now set up a Working Group.

The Group would analyse the experience with Interest Rate Futures so far and focus on product design issues, including the choice between cash settled and delivery based contracts, ZCYC, YTM or actual price based settlement, enabling banks to widen its participation in the products and homogenising the OTC market with exchange traded futures. The Group would revisit the recommendations of the earlier Committees in this area, including the (i) Working Group on Rupee Derivatives (Chairman: Shri Jaspal Bindra) which submitted its Report in January 2003, and (ii) Committee on Rupee Interest Rate Derivatives (Chairman: Shri G Padmanabhan), which submitted its Report at end-December 2003. It would also revisit the work done by SEBI and FIMMDA with a view to arrive at a more suitable product design. Considering the above, the Working Group would make recommendations on way ahead on Interest Rate Futures with necessary operational details.

The composition of this Working Group is as follows:

Members:

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| 1. Shri V.K. Sharma
Executive Director
Reserve Bank of India | Chairman |
| 2. Shri Neeraj Ghambhir
Chairman, Fixed Income Money Market and
Derivatives Association of India | Member |
| 3. Shri Uday Kotak
Managing Director & Chief Executive Officer
Kotak Mahindra Bank Ltd. | Member |
| 4. Shri A.P. Kurian
Chairman
Association of Mutual Funds in India | Member |
| 5. Shri M.M. Lateef
Deputy Managing Director
& Chief Financial Officer
State Bank of India | Member |
| 6. Dr. T.C. Nair
Whole Time Member,
Securities & Exchange Board of India | Member |
| 7. Shri Ravi Narain
Managing Director
National Stock Exchange | Member |
| 8. Dr. Susan Thomas
Assistant Professor, Indira Gandhi Institute
of Development Research | Member |

Terms of Reference:

- (i) To review the experience with the Interest Rate Futures so far, with particular reference to product design issues and make recommendations for activating the Interest Rate Futures.
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- (ii) To examine whether regulatory guidelines for banks for Interest Rate Futures need to be aligned with those for their participation in Interest Rate Swaps.
- (iii) To examine the scope and extent of the participation of non-residents, including Foreign Institutional Investors (FIIs), in Interest Rate Futures, consistent with the policy applicable to the underlying cash bond market.
- (iv) To consider any other issues germane to the subject matter.

The Working Group would have its secretariat at the Financial Markets Department, Reserve Bank of India. Shri Salim Gangadharan, CGM, Foreign Exchange Department (FED), Shri G. Padmanabhan, CGM-in-Charge, Department of Information Technology (DIT), Smt. Meena Hemchandara, CGM, Department of External Investment and Operations (DEIO), Shri Chandan Sinha, CGM, Financial Markets Department (FMD) and Shri G. Mahalingam, CGM, Internal Debt Management Department (IDMD) will assist the Group as permanent invitees. If required, the Group could invite representatives from financial markets and other experts to its deliberations. The Group would submit its report to the Reserve Bank within three months of its first meeting.



(Rakesh Mohan)
Deputy Governor
August 8, 2007