

RBI Press Release

RBI issues Guidelines on Exchange Traded Interest Rate Derivatives (June 3, 2003)

The Reserve Bank of India today issued guidelines to participants on exchange traded interest rate derivatives. The guidelines enable Scheduled Commercial Banks (SCBs) (excluding Regional Rural Banks and Local Area Banks), Primary Dealers (PDs) and specified All India Financial Institutions (AIFIs), to transact in interest rate derivatives on the Indian exchanges.

In the first phase, these entities are permitted to transact in interest rate futures for hedging the interest rate risk in their underlying government securities portfolio. The Reserve Bank of India is concurrently permitting SCBs, PDs and AIFIs to seek membership of the Futures and Options (F&O) segment of the stock exchanges for the limited purpose of undertaking proprietary transactions for hedging interest rate risk. Those not seeking membership of stock exchanges can transact through approved F&O members of the exchanges. As trading members of the F&O segment, SCBs, PDs and AIFIs would have to settle their derivative trades directly with the clearing corporation/clearing house. Other participants would settle proprietary trades as participant clearing members or through approved professional/custodial clearing members.

In the next phase, the Reserve Bank of India would consider the possibilities of expanding the scope of hedging to other items of the balance sheet as also permit select entities having adequate capital and appropriate risk management systems to hold trading positions.

The Reserve Bank of India will hold discussions with market participants at a later stage to review the current guidelines and move to the next phase.

It may be recalled that the Reserve Bank of India had, on April 24, 2003 released draft guidelines on exchange traded interest rate derivatives. The guidelines issued today take into account the feedback received from market participants.