

*Press Releases***June 2008****Introduction of Credit Derivatives in India : Review of Status****June 19, 2008**

It has been decided to keep in abeyance the issuance of the final guidelines on introduction of credit derivatives in India. The decision has been taken so as to be able to draw upon the experience of the financial sector of some of the developed countries, particularly in the current circumstances, in which the entire dimensions of the recent credit market crisis have not yet been gauged.

It may be recalled that the Reserve Bank of India had issued the 'Draft Guidelines for Introduction of Credit Derivatives in India', on March 26, 2003, inviting comments from banks and other stake holders. However, taking into account the status of the risk management practices then prevailing in the banking system, the issuance of final guidelines had been deferred.

Subsequently, it was announced in the Annual Policy Statement for 2007-08 (paragraph 175) that as a part of the gradual process of financial sector liberalisation in India, it was considered appropriate to introduce credit derivatives in a calibrated manner. Modified draft guidelines on Credit Default Swaps were, therefore, issued on May 16, 2007. Based on the feedback received on draft guidelines, these were revised and a second draft

of the guidelines was issued, on October 17, 2007, for another round of consultation.

However, in view of certain adverse developments witnessed in different international financial markets, particularly the credit markets, resulting in considerable volatility in the recent past, such as mounting losses suffered by banks on account of sub-prime crisis, need for the central banks of those countries to inject liquidity into the system, as also the level of risk management systems and possible non-adherence to the regulatory guidelines on complex products such as credit derivatives, time is not considered opportune to introduce the credit derivatives in India, for the present.

Signing of the Bilateral Swap Arrangement between Japan and India

Joint Press Release

June 30, 2008

The Bank of Japan (BOJ), acting as the agent for the Minister of Finance of Japan, and the Reserve Bank of India (RBI) concluded a Bilateral Swap Arrangement (BSA) between Japan and India. The BSA was signed by Governor Masaaki Shirakawa of the

BOJ and Governor Yaga Venugopal Reddy of the RBI in Basel, Switzerland and became effective as of June 29, 2008.

The BSA enables both countries to swap their local currencies (*i.e.*, either Japanese yen or Indian rupee) against US dollar for an amount up to USD 3 billion.

The arrangement aims at addressing short-term liquidity difficulties and supplementing the existing international financial arrangements, as one of the efforts in strengthening mutual cooperation between Japan and India.

The BSA will be activated when an IMF-support programme already exists or is expected to be established in the near future. Nevertheless, up to 20 per cent of the maximum amount of drawing could be disbursed without an IMF-support program.

Both countries shall have biannual consultations on economic and financial conditions of each country with the BSA in effect.

This arrangement is a milestone in mutual cooperation between Japan and India and is expected to contribute to the stability of financial markets.