



भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA
www.rbi.org.in

RBI/2013-2014/565

FMD.MSRG.No.102/02.18.002/2013-14

April 16, 2014

All Scheduled Commercial Banks and Primary Dealers

Dear Sir/ Madam,

Financial Benchmarks- Governance Framework for Benchmark Submitters

As you are aware, the [Committee on Financial Benchmarks](#) (Chairman: Shri P. Vijaya Bhaskar, Executive Director) had submitted its Report on February 7, 2014 recommending several measures/principles to be adopted in respect of major Indian Rupee interest rate and Foreign exchange benchmarks to strengthen their quality, setting methodology and the governance framework. The Reserve Bank has accepted the recommendations of the Committee and as per the announcements made in the [First Bi-monthly Monetary Policy Statement 2014-15 on April 1, 2014](#), the Bank has set in motion the process to implement the recommendations of the Committee in consultation with the Fixed Income Money Market and Derivatives Association of India (FIMMDA) and Foreign Exchange Dealers' Association of India (FEDAI).

2. The Bank has since advised the FIMMDA and FEDAI to act as the Administrator of the Indian Rupee interest rate and Foreign exchange benchmarks respectively and to take necessary steps to implement the recommendations of the Committee. In order to overcome the possible conflicts of interest in the benchmark setting process arising out of the current governance structure of the FIMMDA and FEDAI, an independent body, either separately or jointly, may be formed by the FIMMDA and FEDAI for administration of the benchmarks. In case of benchmarks determined based on polled submissions, the FIMMDA and FEDAI may select the Benchmark Submitters on the basis of their standing, market-share in the benchmark/instrument linked to the benchmark and representative character and may put in place a Code of Conduct specifying various provisions including hierarchy of data inputs for

submissions as recommended by the Committee. The Benchmark Submitters thus selected by the respective Administrator, have to necessarily participate in the polling process and comply with the various provisions specified in the Code of Conduct. The Benchmark Submitters may extend necessary support and cooperation to the respective Benchmark Administrator in strengthening the benchmark determination process.

3. In order to strengthen the governance framework for benchmark submission, the Benchmark Submitters are advised to implement the following measures:

- i) The Benchmark Submitters may put in place an internal Board approved policy on governance of the benchmark submission process. The policy may ensure that clearly accountable personnel at appropriate senior positions with requisite knowledge and expertise are responsible for benchmark submissions.
- ii) They may put in place an effective conflicts of interest policy which facilitates identification of potential and actual conflicts of interest with respect to benchmark submissions and lays down procedures to be followed for management, mitigation or avoidance of such conflicts.
- iii) They may establish a maker-checker system to ensure integrity of the submissions. The submissions may be periodically reviewed by appropriate senior level officials in terms of minimum variance threshold¹ with respect to the published benchmark levels.
- iv) They may establish appropriate internal controls to secure compliance with the benchmark submission procedures. The transactions which are taken as the basis for submission may be recorded so as to verify that they represent bonafide arm's length commercial transactions, and are not undertaken solely for the purpose of benchmark submission. The personnel involved in benchmark submissions may document the verifiable basis for their qualitative assessment in absence of actual transaction data.

¹ threshold variance of the submission with respect to the final benchmark level, as stipulated in the internal policy of the Benchmark Submitters

- v) They may establish an effective whistleblowing policy to facilitate early detection of any potential misconduct or irregularities in the benchmark data submissions.
- vi) They may retain all records relating to benchmark submissions including those containing procedures and methodologies governing the submissions; names and roles of personnel responsible for submissions and oversight of submissions; declaration of conflicts of interest by the related personnel; relevant communications between submitting parties; interactions with Benchmark Administrator; exposure of individual traders as well as the aggregate exposures of the Benchmark Submitters to the instruments referenced to the benchmark; findings of internal and external audits and remedial actions taken thereof for a minimum period of eight years.
- vii) They may subject the benchmark submissions to periodic internal audit, and where appropriate, to external audit.
- viii) They may undertake submissions by way of written communications or through robust contribution devices which leave an audit trail to eliminate possibilities of errors.
- ix) They may conduct a reality self-check of their existing governance framework vis-à-vis the above guidelines and report the status to the respective Benchmark Administrator by May 31, 2014.
- x) They may periodically (periodicity to be specified by the respective Benchmark Administrator) submit a confirmation to the Benchmark Administrator for having complied with the regulatory guidelines as well as the provisions of the Code of Conduct to be issued by the respective Benchmark Administrator.

Yours sincerely

(G. Mahalingam)
Principal Chief General Manager