

September 1, 2009

All Stand-alone Primary Dealers

Dear Sir

Guidelines on Exchange Traded Interest Rate Derivatives

Please refer to the directions contained in Interest Rate Futures (Reserve Bank) Directions, 2009 [[Notification No.FMD.1 / ED\(VKS\) - 2009 dated August 28, 2009](#)] issued by the Reserve Bank of India.

2. Guidelines on risk management, accounting norms, etc. to be followed by the Primary Dealers (PDs) were issued vide our circulars [IDMC.PDRS. 4802 / 03.64.00 / 2002-03](#) dated June 3, 2003 and [IDMD.PDRS. 4802\(A\) / 03.64.00 / 2002-03](#) dated June 11, 2003. Further, comprehensive guidelines on derivatives were issued by our Department of Banking Operations and Development vide circular [DBOD.No.BP.BC.86/21.04.157/2006-07](#) dated April 20, 2007. In terms of these guidelines, Primary Dealers are allowed to transact in Exchange Traded Interest Rate Futures for the purpose of hedging the interest rate risk of their underlying government securities portfolio and hold trading positions in Interest Rate Futures, subject to the terms and conditions indicated therein.

3. In the context of the Interest Rate Futures (Reserve Bank) Directions, 2009 dated August 28, 2009 issued by the Reserve Bank of India, it is clarified that stand-alone Primary Dealers (PDs) are allowed to deal in Interest Rate Futures (IRFs) for both hedging and trading **on own account and not on client's account**, subject to adherence to the prudential norms contained in the aforesaid circulars.

4. Banks undertaking PD activities departmentally may be guided by the extant guidelines issued by our Department of Banking Operations & Development in this regard.

Yours faithfully

(K.V.Rajan)
Chief General Manager