



भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA

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March 27, 2019

To

All participants in rupee interest rate derivative markets

Dear Sir/Madam

Non-resident Participation in Rupee Interest Rate Derivatives Markets (Reserve Bank) Directions, 2019

Please refer to the [Bi-monthly Monetary Policy Statement in April 2018](#) wherein it was announced that non-residents shall be given access to the Rupee Interest Rate Derivative (IRD) market in India.

2. The draft directions were released for public comments on [December 05, 2018](#). Based on the feedback received from market participants, the Non-resident Participation in Rupee Interest Rate Derivatives Markets (Reserve Bank) Directions, 2019 have since been finalized. The Directions are enclosed herewith.

3. These Directions have been issued by RBI in exercise of the powers conferred under section 45W of the Reserve Bank of India Act, 1934 and of all the powers enabling it in this behalf.

Yours faithfully

(T. Rabi Sankar)

Chief General Manager

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हिन्दी आसान है, इसका प्रयोग बढ़ाइए

RESERVE BANK OF INDIA
FINANCIAL MARKETS REGULATION DEPARTMENT
CENTRAL OFFICE, FORT
MUMBAI 400 001

Notification No. FMRD.DIRD.14/2019 dated March 27, 2019

Non-resident Participation in Rupee Interest Rate Derivatives Markets (Reserve Bank) Directions, 2019

The Reserve Bank of India (hereinafter called “the Reserve Bank”) having considered it necessary in public interest and to regulate the financial system of the country to its advantage, in exercise of the powers conferred by section 45W of the Reserve Bank of India Act, 1934, (herein after called ‘the Act’) read with section 45U of the Act and of all the powers enabling it in this behalf, hereby issues the following Directions to all entities including the non-residents, eligible to participate or transact in interest rate derivatives in India.

1. Short title and commencement of the Directions

- (1) These Directions shall be called the ‘Non-resident Participation in Rupee Interest Rate Derivatives Markets (Reserve Bank) Directions, 2019’.
- (2) These Directions shall be applicable to Rupee interest rate derivative transactions in India, undertaken on recognized stock exchanges, electronic trading platforms (ETP) and Over-the-Counter (OTC) markets to the extent stated herein.
- (3) These Directions shall come into force with immediate effect.

2. Definitions

For the purpose of these directions, unless the context otherwise requires,

- i. **Hedging** is the activity of undertaking a derivative transaction to reduce an identifiable and measurable risk. For the purpose of these directions, the relevant risk is Rupee interest rate risk.

- ii. An **interest rate swap** is a financial contract between two parties exchanging or swapping a stream of interest payments for a 'notional principal' amount on regular occasions during a specified period.
- iii. A **market-maker** is an entity regulated by the Reserve Bank that provides bid and offer prices to non-residents.
- iv. **Related entities** are entities as defined under Para-9 of International Accounting Standards -24 (IAS-24).
- v. **Non-resident** is a person resident outside India as defined in section 2 (w) of Foreign Exchange Management Act, 1999 (42 of 1999).
- vi. **Overnight Indexed Swap** (OIS) is an interest rate swap based on the Overnight Mumbai Interbank Outright Rate (MIBOR) benchmark published by Financial Benchmarks India Pvt. Ltd (FBIL).
- vii. **Recognized stock exchanges** have the meaning assigned under Section 2 (f) of the Securities Contract Regulation Act, 1956.
- viii. **Users** refer to all non-resident participants in Rupee interest rate derivative markets.

3. A non-resident can undertake transactions in the Rupee interest rate derivatives markets for the following purposes:

- i. To hedge an exposure to Rupee interest rate risk as stipulated in para 4; and,
- ii. For purposes other than hedging, to the extent stipulated in para 5.

4. Transactions for the purpose of hedging interest rate risk

- i. A non-resident may undertake Rupee interest rate derivatives in India to hedge its interest rate risk using any permitted interest rate derivative product transacted on recognized stock exchanges, ETPs or OTC markets.
- ii. A non-resident shall ensure that its interest rate derivative transactions conform to the provisions of Section 45(V) of the RBI Act, 1934, as well as applicable

provisions of Foreign Exchange Management Act, 1999 and the rules, regulations and directions issued thereunder.

iii. Market-makers shall ensure that transactions by a non-resident are being carried out for the purpose of hedging. For this purpose, market-makers may call for any relevant information from the non-resident, who, in turn, is obliged to provide such information.

5. Transactions for purposes other than hedging interest rate risk

i. Non-residents, other than individuals, may undertake Overnight Indexed Swaps (OIS) transactions for purposes other than hedging interest rate risk in terms of the following arrangements:-

(a) These transactions may be undertaken directly with a market-maker in India, or by way of a 'back-to-back' arrangement through a foreign branch/parent/group entity (foreign counterpart) of the market-maker.

Explanation – For the purpose of these directions, a 'back-to-back' arrangement means that the non-resident undertakes the transaction with a foreign counterpart of the market-maker and the foreign counterpart, in turn, immediately enters into an off-setting transaction with the market-maker in India.

(b) A market-maker shall enter into a 'back-to-back' arrangement referred to in (a) above provided that:

i. All rupee interest rate derivatives transactions, globally, of related entities of the market-maker are accounted for in the books of the market-maker. In other words, no related entity of the market-maker shall undertake transactions in Rupee interest rate derivatives other than under the 'back-to-back' arrangement.

ii. Rupee interest rate derivatives transactions of FPIs related to the market-maker covered under para 4 above shall be exempted from the requirement in para 5(i)(b)(i) above.

(c) OIS transactions by non-residents for purposes other than hedging interest rate risk shall be subject to an overall limit, as specified below :

i. The Price Value of a Basis Point (PVBP) of all outstanding OIS positions undertaken by all non-residents shall not exceed the amount of INR 3.50 billion (PVBP cap).

Explanation – PVBP cap shall be calculated by making a gross addition, ignoring mathematical signs, of the PVBP of each non-resident.

ii. Non-residents shall not undertake any further OIS transactions for purposes other than hedging after the PVBP cap is reached.

iii. The PVBP of all outstanding OIS positions for any non-resident (including related entities) shall not exceed 10% of the PVBP cap.

iv. Clearing Corporation of India Ltd. (CCIL) shall publish the methodology for calculation of the PVBP and monitor as well as publish utilization of the PVBP limit on a daily basis.

ii. Foreign Portfolio Investors (FPIs), collectively, may also transact in interest rate futures (IRF) up to a limit of net long position of INR 50 billion in terms of [RBI circular No. FMRD.DIRD.6/14.03.001/2017-18 dated March 01, 2018](#).

6. Remittance/Payments

All payments related to interest rate derivative transactions of a non-resident may be routed through a Rupee account of the non-resident or, where the non-resident doesn't have a Rupee account in India, through a vostro account maintained with an Authorised Dealer bank in India. The market-maker shall maintain complete details of such transactions.

7. KYC for the non-resident

Market-maker shall ensure that non-resident clients are from an FATF compliant country. Market-makers shall also ensure that non-resident clients comply with the KYC requirements as prescribed under [Master Direction – Know your Customer Direction, 2016 \(DBR.AML.BC.No.81/14.01.001/2015-16\) dated February 25, 2016](#) as amended from time to time.

8. Reporting

- i. All OTC rupee interest rate derivative transactions shall be reported by market-makers and ETPs to the trade repository of CCIL, clearly indicating whether the trade is for hedging or other purposes.
- ii. Market-makers shall report trade details, including particulars of the non-resident client for OIS transactions under the 'back-to-back' arrangement, to the trade repository of CCIL.
- iii. Cross-border remittances arising out of transactions in Rupee interest rate derivatives shall be reported by banks to the Reserve Bank at monthly interval in the prescribed format as furnished in [Annex](#).

ANNEX

Cross-border remittances arising out of Rupee interest rate derivatives transactions undertaken by non-residents during MM/YY (month of year):

	Inward remittance (In USD)	Outward remittance (In USD)
For hedging		
For purposes other than hedging		