

RESERVE BANK OF INDIA
FINANCIAL MARKETS REGULATION DEPARTMENT
1ST FLOOR, CENTRAL OFFICE, FORT
MUMBAI 400 001

Notification No. FMRD.DIRD. /CGM (TRS)-2018 dated December 05, 2018

Non-resident Participation in Rupee Interest Rate Derivatives Markets (Reserve Bank) Directions, 2018

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, 2018.
- (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) 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 multiple occasions during a specified period. Such contracts generally involve exchange of 'fixed to floating' or 'floating to floating' rates of interest.
- iii. **Non-resident** is a person resident outside India as defined in section 2 (w) of Foreign Exchange Management Act, 1999 (42 of 1999).
- iv. **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).
- v. **Recognized stock exchanges** shall have the meaning assigned under Section 2 (f) of the Securities Contract Regulation Act, 1956.

3. Purpose-

Non-resident can participate in Rupee interest rate derivatives for the following purposes:

- i. To hedge exposure to Rupee interest rate risk; and,
- ii. For the purpose other than hedging as stipulated in Para 4 (2) below.

4. Terms and conditions-

Non-resident undertaking Rupee interest rate derivatives transactions shall adhere to the following terms and conditions:

(1) Transactions undertaken to hedge exposure:

- i. Non-resident may undertake any Over-the-Counter (OTC) interest rate derivative contract that is based on a domestic Rupee benchmark interest rate administered by FBIL.
- ii. Non-resident may contract any interest rate derivative on a recognized stock exchange.
- iii. Market makers shall ensure that transactions are being carried out for the purpose of hedging.

(2) Transactions undertaken for purposes other than hedging:

- i. Foreign Portfolio Investors (FPIs) collectively may take net long position in interest rate futures (IRF) upto the limit of INR 5000 crore in terms of [RBI circular No. FMRD.DIRD.6/14.03.001/2017-18 dated March 01, 2018](#).
- ii. A non-resident, other than an individual, may also undertake Overnight Indexed Swaps (OIS) for any purpose other than hedging, subject to the following conditions:
 - (a) The gross Price Value of Basis Point (PVBP) of all outstanding OIS transactions undertaken by all non-residents for purposes other than hedging shall not exceed the Rupee equivalent amount of USD 50 million (PVBP cap).
 - (b) Non-residents shall not undertake any further swaps after PVBP exceeds USD 50 million.
 - (c) The PVBP of outstanding OIS contracts for any non-resident shall not exceed 20% of the PVBP cap.
- iii. Clearing Corporation of India Ltd. (CCIL) shall publish the methodology for calculation of the PVBP and monitor as well as publish its utilization on daily basis.

5. All payments related to interest rate derivative transactions shall be routed through Rupee account of the non-resident maintained with an Authorised Dealer.

6. Reporting

- i. All trades shall be reported by market makers and ETPs to the trade repository of CCIL.
- ii. 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 (month)/ (year):

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