

## RBI releases Rupee Interest Rate Derivatives Directions, 2019

Regulations on Interest Rate Derivatives have so far been issued separately for each product, including for products traded on exchanges. These regulations were framed with a view to guide the initial evolution of the market through prescriptive requirements. Given the evolution of the market, there is now a need to permit flexibility for exchanges and market-makers in the design and innovation of products while ensuring that relatively less informed participants using these derivatives markets are adequately protected.

In line with this approach, RBI issued Rupee Interest Rate Derivatives (Reserve Bank) Directions, 2019. The directions consolidate, rationalize and simplify all previous regulations issued on interest rate derivatives. Exchanges have been provided with the flexibility to design and structure standardized products based on market requirements. Similarly, in the Over-the-Counter (OTC) market, market-makers such as banks have been permitted to offer products tailored to the needs of corporates and other non-retail entities.

At the same time, the directions also seek to protect small and retail participants, such as Small and Medium Enterprises (SMEs), by ensuring that customized products are only offered to large, sophisticated, non-retail users, who are capable of managing attendant risks better. The Reserve Bank is putting in place an internal arrangement to periodically review the structured products offered by market makers.

**Eligible Participants :** Any person resident in India and any non-resident, to the extent specified in these Directions, is eligible to participate in IRDs. All regulated entities shall participate in Interest Rate Derivatives (IRDs) with the permission of and subject to the terms and conditions, if any, fixed by their respective regulators. Indian or non-resident parent company or any group company or centralised treasury can transact in IRDs on behalf of their wholly owned subsidiaries or group companies provided they meet the criteria for non-retail users.

**Trading Venues:** IRD contracts can be transacted either (i) on Recognized Stock Exchanges

(referred hereafter as exchanges), or, (ii) Over-the-Counter (OTC). OTC transactions shall refer to all transactions done outside of recognized stock exchanges and shall include transactions on Electronic Trading Platforms (ETPs). The directions governing activities in IRDs in each of these trading venues, viz., exchanges or OTC markets, are laid down separately.

**Interest Rate Derivatives on Recognized Stock Exchanges:** IRD transactions carried out on exchanges shall be subject to the following directions: Exchanges are permitted to offer any standardized Interest Rate Derivatives product. The product design, eligible participants and other details of the IRD product may be finalized by the exchanges. Exchanges shall obtain prior approval of the Reserve Bank before introducing any new IRD product or before carrying out modifications to an existing product.

**Interest Rate Derivatives in the OTC Market :** IRD transactions in the OTC market shall be subject to the following directions: (a) Scheduled Banks, Primary Dealers (PDs) and All-India Financial Institutions (AIFIs) are eligible to act as market-makers for IRD products in OTC markets. Market-makers may offer the following products to retail users: Forward Rate Agreement (FRA); Interest Rate Swap (IRS), and European Interest Rate Options (IRO) including caps, floors, collars and reverse collars.

**Transactions by non-residents for the purpose of hedging interest rate risk:** A non-resident may undertake Rupee interest rate derivatives transactions in India to hedge its interest rate risk using any product transacted on recognized stock exchanges 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.

**The detailed Rupee Interest Rate Derivatives Directions, 2019 released by RBI is enclosed for your kind reference.**

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Warm Regards,  
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