

RBI issues norms for setting up FBAs for administering 'Significant Benchmarks' for financial instruments

RBI has released 'Financial Benchmarks Administrators (FBAs) Directions, 2019' and shall come into force with effect from June 26, 2019. These directions shall apply to Financial Benchmark Administrators (FBAs) administering 'Significant Benchmarks' in the markets for financial instruments regulated by the Reserve Bank under Section 45 W of the Act. Benchmarks administered outside India do not fall under the scope of these directions.

Eligibility criteria for FBAs: FBA shall be a company incorporated in India. FBAs shall maintain a minimum net worth of ₹ 1 crore at all times.

Authorization of FBA: The Reserve Bank shall notify a benchmark as a 'significant benchmark' taking into consideration its use, efficiency and relevance in domestic financial markets. On the Reserve Bank notifying a benchmark as a 'significant benchmark', the person administering that benchmark shall make, within a period of three months from the date of the notification, an application for authorization to continue administering that benchmark. No FBA shall administer a 'significant benchmark' without obtaining authorization of the Reserve Bank under these directions. However, FBAs that were already administering the 'significant benchmark' may continue to do so till the disposal of their applications by the Reserve Bank.

Grant of authorization to administer a 'significant benchmark': The administrator of a benchmark notified as a 'significant benchmark' shall make an application to the Chief General Manager, Financial Markets Regulation Department, Reserve Bank of India, 1st Floor, Main Building, Shaheed Bhagat Singh Marg, Mumbai – 400001, for grant of authorization.

Overall Responsibility of FBAs -Formulation of the benchmark calculation methodology; determination of the benchmark values; dissemination of the benchmark values; ensuring transparency in the benchmark administration; periodic review of the benchmark; and, putting in place necessary organizational and process controls for effectively carrying out the above

responsibilities.

Significant Benchmarks': Formulation, Determination and Review –

- FBAs shall ensure that a 'significant benchmark' is designed to be an accurate and reliable representation of the referenced (specified) financial instrument.
- FBAs shall ensure that the data used to construct a 'significant benchmark' is based on an active market involving arm's length transactions. Where such transactions are not available, it shall record justification for any data, information or expert judgment used to construct the benchmark.
- FBAs shall establish and publish the procedure regarding the hierarchy of data inputs and exercise of expert judgment used for the determination of 'significant benchmarks'.
- FBAs shall document the methodology of calculating the 'significant benchmarks' that they are administering with illustrations and publish the same on their official website. The document shall, at the minimum, contain the following details:
 - a) the inputs for calculation of the benchmark;
 - b) the sources of inputs;
 - c) the basis and manner of selection of the sources of inputs;
 - d) the method of calculation including the mathematical formulae used;
 - e) instances where the methodology would not or cannot be adhered to and the alternatives adopted to calculate the benchmark in such exceptional cases; and,
 - f) the rationale underlying the methodology and treatment of exceptions.
- Any amendment to the methodology that FBAs decide to make shall be announced in their official websites at least 15 days prior to coming into effect of such amendments. The announcement shall delineate all aspects of the methodology that would be amended and explain the amended methodology with illustrations.
- FBAs shall establish a formal process for interacting with market participants at any stage in the benchmark administration process.

The detailed Financial Benchmark Administrators Directions, 2019 released by RBI is enclosed for your kind reference.

Please contact for any query related to this mail to Ms. Surbhi Sharma, Associate Economist at surbhi@phdcci.in with a cc to Dr. S P Sharma, Chief Economist at spsharma@phdcci.in of PHD Chamber.



Warm Regards,
Dr S P Sharma
Chief Economist
PHD Chamber of Commerce and Industry
PHD House, 4/2 Siri Institutional Area
August Kranti Marg, New Delhi-110016, India
Tel: +91 49545454
Fax: +91 11 26855450
Email: spsharma@phdcci.in
Website: www.phdcci.in

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PHD CHAMBER OF COMMERCE AND INDUSTRY

PHD House, 4/2 Siri Institutional Area, August Kranti Marg, New Delhi - 110 016 (India) • Tel. : +91-11-2686 3801-04, 49545454, 49545400
Fax : +91-11-2685 5450 • E-mail : phdcci@phdcci.in • Website : www.phdcci.in, CIN: U74899DL1951GAP001947

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