

## RBI releases directions for Central Counterparties (CCPs)

This is in reference to the announcement made in the Second Bi-monthly Monetary Policy Review dated June 06, 2018 regarding issuance of directions relating to capital requirements and governance framework of Central Counterparties (CCPs) as also providing a framework for recognition of foreign CCPs. Accordingly, the directions governing the functioning of CCPs are given below for compliance. The CCPs shall continue to ensure compliance with the Principles for Financial Market Infrastructures (PFMI).

These directions are issued under Section 18 read with Section 10(2) of the Payment and Settlement Systems Act, 2007 (Act 51 of 2007) by RBI and shall come into force with effect from the date of these directions.

### Directions for Central Counterparties (CCPs)

**Applicability:** The provisions of these directions shall apply to a domestic central counterparty authorised to operate in India under Payment and Settlement Systems Act, 2007 (Act 51 of 2007) and foreign CCPs recognised by the Reserve Bank of India (RBI) under Payment and Settlement Systems Act, 2007 for their operations including clearing and settlement in India.

**Definitions:** The key definitions used in these directions are as follows:

- "Act" means the Payment and Settlement Systems Act, 2007 (Act 51 of 2007).
- "Authorised Central Counterparty" means a CCP to whom Certificate of Authorisation is issued by RBI under sub-section 1 of Section 7 of the Act.
- "Company" shall mean a company as defined in Section 2 (20) of the Companies Act, 2013.

### Section A- Directions on Governance of domestic CCPs authorised to operate in India by the RBI

Governance provides the processes through which an organization sets its objectives, determines the means for achieving the objectives, and monitors performance against the objectives. The broad

principles underlying governance of domestic CCPs are prescribed hereunder.

**Composition of the Board:**

- The Board of every authorised CCP shall include:
  - Nominee Directors;
  - Independent Directors;
  - Managing Director; and,
  - such other Directors as may be notified by RBI from time to time.
- The Board shall have the minimum number of directors as specified in the Companies Act, 2013.

**Roles and responsibilities of the Board:** The roles and responsibilities of the Board of an authorised CCP shall include:

- establishing clear strategic aims for the CCP;
- ensuring effective monitoring of senior management;
- establishing and overseeing the risk-management function and material risk decisions;

**Section B- Directions on Networth requirements and Ownership of CCPs**

CCPs should have sufficient networth to cover potential general business losses and continue to provide services as a going concern. The specific requirements on networth for CCPs authorised / recognised by the Reserve Bank are laid down hereunder.

**Networth of CCP:**

- Every applicant seeking authorisation / recognition as a CCP under Section 5 of the Act, shall have a minimum networth<sup>1</sup> of Rs.3 billion at the time of submitting its application.
- The adequacy of networth requirement of the CCP would be reviewed by RBI from time to time. RBI may, however, based on its assessment of the CCP prescribe higher networth.

**Eligibility for acquiring or holding shares (applicable for domestic CCPs):**

- No person shall, directly or indirectly, acquire or hold equity shares of an authorised CCP unless he / she fulfils “fit and proper” criteria as mentioned hereunder.
- No person shall transfer / divest / sell / buy equity shares of an authorised CCP without prior approval of RBI –
  - If the transfer of shares is equal to or more than 5% of the shares of the CCP or
  - Where the acquisition of shares and cumulative shareholding reaches 5% or more.

## **Section C- Directions for Recognised Foreign CCPs**

The Act does not differentiate between domestic and foreign entities. Any service provided by a foreign entity shall be within the overall legal framework obtaining in India. In line with the international developments on recognising CCPs operating in multiple jurisdictions, the requirements for recognition of foreign CCPs are laid down hereunder.

### **Application for approval as a recognised CCP:**

- A foreign CCP may apply to the RBI for approval as a recognised CCP for its operations including clearing and settlement in India.
- An application shall be —
  - made in such form and manner as prescribed under Payment and Settlement Systems Regulations, 2008 and
  - accompanied by such fee as prescribed by the RBI.
- The RBI may require an applicant to furnish such information or documents as it considers necessary in relation to the application.

The recognition shall be issued in such form and manner as may be prescribed by RBI from time to time.

In addition to the requirements on complying with the Principles for Financial Market Infrastructures (PFMI)<sup>3</sup>, the recognised CCP shall comply with the following organisational requirements:

- The Directors of the recognised CCP shall possess appropriate balance of skills, experience and knowledge in one or more fields of finance, law, management, sales, marketing, administration, research, corporate governance, information technology or other disciplines related to the CCP;
- Such Directors shall be of good repute and experience.

**The detailed circular on Directions for Central Counterparties (CCPs) is attached for your kind reference.**

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Warm regards,

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