



26 April 2019

To,

The Chief General Manager, Reserve Bank of India

Financial Markets Regulation Department

1st Floor, Main Building

Shahid Bhagat Singh Marg,

Mumbai – 400001

Via email to: [fmrdfedback@rbi.org.in](mailto:fmrdfedback@rbi.org.in)

**Sub: Draft Rupee Interest Rate Derivatives (Reserve Bank) Directions, 2019**

At the outset, we, at Indian Association of Investment Professionals (IAIP), a member society of the CFA Institute appreciate the opportunity to submit our response to the **Draft Rupee Interest Rate Derivatives (Reserve Bank) Directions, 2019.**

IAIP is an association of over 2000 local investment professionals who are CFA charter holders and about 4000+ professionals who have cleared exams, eligible and awaiting charter. The Association consists of valuation professionals, portfolio managers, security analysts, investment advisors, and other financial professionals who promote ethical and professional standards within the investment industry, facilitate the exchange of information and opinions among people within the local investment community and beyond, and work to further the public's understanding of the CFA designation and investment industry.

CFA Institute is a global non-profit association of investment professionals with over 149,000 members in over 140 countries. In India, the community of CFA charter holders is represented by IAIP.

Through our global research and outreach efforts, CFA Societies around the world endeavour to provide resources for policy makers, financial services professionals and their customers in order to align their interests. Our members engage with regulators in all major markets.

With regards to the above mentioned consultative paper, we have proposed a few suggestions. We hope that our comments would add value to your efforts.

We would be happy to hear and discuss the merits / demerits of suggestions proposed by other practitioners and request to be included in the deliberation process.

Our responses to the various points are in the table below.



Details of Responder			
<b>Organisation:</b>	Indian Association of Investment Professionals (CFA Society India)		
<b>Contact number:</b>	+91 98196 30042		
<b>Email address:</b>	<a href="mailto:advocacy@iaipirc.org">advocacy@iaipirc.org</a>		
<b>Postal address:</b>	One BKC Tower, Bandra Kurla Complex, Mumbai		
Comments on the proposals in the draft directions			
Sr. No.	Section No.	Direction	Rationale
1.	2  6 (f)	Benchmark Interest Rates refer to interest rates administered by a benchmark administrator.  Any floating interest rate or price or index used in IRDs in the OTC market shall be a benchmark published by FBIL or any other authorised benchmark administrator.	We fully agree and support the view that the benchmark used for any derivative contract should be transparently calculated by an independent agency.  Given that, apart from Overnight Indexed Swaps (OIS), other interest rate swaps have seen thin volumes, we suggest that yields / prices of Government of India securities, as valued or calculated by a benchmark administrator, be allowed as Benchmark Interest Rates.
2.	2	Non-retail users include listed companies/entities or unlisted companies/entities with net-worth of ₹5 billion or equivalent.	We invite your attention to the existing RBI's Master Direction - Risk Management and Inter-Bank Dealings. As per this direction, unlisted corporates can enter into certain foreign exchange products or avail or certain facilities provided their net-worth exceeds ₹2 billion.  We understand that the IRD draft proposes that non-retail users can use IRDs for hedging and otherwise. Conversely, since IRDs are Rupee denominated, their potential risk, for the same amount of notional, would be lower than foreign exchange products.  Hence, we suggest that in the case of IRDs, a similar net-worth number of ₹2 billion be directed. Further we suggest that in case the final Risk Management guidelines (the draft



			of which was issued on 15 Feb 2019) do not mandate any net-worth number for foreign exchange products, the same may be extended to Rupee IRDs as well.
3.	2	Non-retail users include listed companies/entities or unlisted companies/entities with net-worth of ₹5 billion or equivalent.	We suggest that “listed companies” should include companies listed either on an exchange in India or any FATF compliant jurisdiction. We also suggest that the subsidiaries/joint ventures/associates of listed companies having common treasury and consolidated balance sheet” be added in the definition of “Non-retail users”.
4.	6 (e) and (f)	Interest Rate Derivative Products	<p>The definition of interest derivative products includes:</p> <ol style="list-style-type: none"> <li>1. Forward Rate Agreement (FRA)</li> <li>2. Interest Rate Swap (IRS)</li> <li>3. European Interest Rate Options (IRO) including Calls and Puts, Caps, Floors, Collars, and Reverse Collars</li> <li>4. Interest Rate Swaptions</li> </ol> <p>However, the Comprehensive Guidelines on Derivatives dated 20 Apr 2007 and its subsequent modifications do not cover some of the above-mentioned products. We suggest that uniformity be brought about to ensure clarity in the market place.</p>

If you or your staff have questions or seek further clarification, please do not hesitate to contact Mr. Rajendra Kalur, CFA @ +91 98196 30042 or at [advocacy@iaipirc.org](mailto:advocacy@iaipirc.org)

Sincerely yours,

Rajendra Kalur, CFA

Director - Research and Advocacy Committee

Indian Association of Investment Professionals, Member Society of CFA Institute