



भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA
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RBI/2013-14/402

IDMD.PCD. 08/14.03.01/2013-14

December 5, 2013

To

All market participants

Dear Sir/Madam

Exchange-Traded Interest Rate Futures

As announced in the [Second Quarter Review of Monetary Policy 2013-14](#), it has been decided to introduce cash settled Interest Rate Futures (IRF) on 10-year Government of India security.

2. The Reserve Bank of India has accordingly issued a Notification IDMD.PCD.07 /ED (RG) - 2013 dated December 5, 2013 introducing cash settled IRF on 10-year Government of India security. With a view to consolidating and revising existing instructions, these directions are issued superceding the Interest Rate Futures (Reserve Bank) Directions, 2009 dated August 28, 2009 (as amended till December 30, 2011).

3. A copy of the Interest Rate Futures (Reserve Bank) Directions, 2013 which is placed on the RBI Website, is enclosed.

Yours faithfully

(Rajendra Kumar)
General Manager

**RESERVE BANK OF INDIA
INTERNAL DEBT MANAGEMENT DEPARTMENT
23rd FLOOR, CENTRAL OFFICE FORT
MUMBAI 400 001**

Notification No. IDMD.PCD. 07 /ED(RG) - 2013 dated December 5, 2013

Interest Rate Futures (Reserve Bank) Directions, 2013

The Reserve Bank of India 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 and of all the powers enabling it in this behalf, hereby gives the following directions :

1. Short title and commencement of the directions

1.1 These directions shall be referred to as the Interest Rate Futures (Reserve Bank) Directions, 2013.

1.2 These directions shall, come into force with immediate effect.

2. Definitions

2.1 Interest Rate Futures means a standardized interest rate derivative contract traded on a recognized stock exchange to buy or sell a notional security or any other interest bearing instrument or an index of such instruments or interest rates at a specified future date, at a price determined at the time of the contract.

2.2 Interest Rate Futures market means the market in which Interest Rate Futures are traded.

2.3 The words and expressions used but not defined in these directions shall have the meaning assigned to them in the Reserve Bank of India Act, 1934.

3. Eligible instruments

The Interest Rate Futures deriving value from the following underlying are permitted on the recognised stock exchanges:

- (i) 91-Day Treasury Bills;
- (ii) 2-year, 5-year and 10-year coupon bearing notional Government of India security, and
- (iii) Coupon bearing Government of India security.

4. Eligible entities and conditions

4.1 Persons resident in India are permitted to purchase or sell Interest Rate Futures referred to in paragraph 3 above both for hedging an exposure to interest rate risk or otherwise.

4.2 Foreign Institutional Investors, registered with Securities and Exchange Board of India, are permitted to purchase or sell Interest Rate Futures referred to in

paragraph 3 of these directions, subject to the condition that the total gross long (bought) position in the spot Government securities market and Interest Rate Futures markets taken together does not exceed the aggregate permissible limit for investment in Government securities and the total gross short (sold) position of each Foreign Institutional Investor in Interest Rate Futures, does not exceed their long position in the Government securities and in Interest Rate Futures at any point in time.

4.3 Notwithstanding anything contained in paragraph 4.1 of these directions, no scheduled bank or such other agency falling under the regulatory purview of the Reserve Bank under the Reserve Bank of India Act, 1934, the Banking Regulation Act, 1949 or any other Act or instrument having the force of law shall participate in the Interest Rate Futures market until such participation has been permitted by the Reserve Bank.

4.4 (a) Regulated entities or agencies other than those referred under sub paragraph 4.3 falling under the regulatory purview of any other regulator established by law shall not participate in Interest Rate Futures market except with the permission of their respective regulators.

(b) Participation of such entities or agencies referred in clause (a) of this sub paragraph, or of any other person, in the Interest Rate Futures market on the permitted platform of the stock exchange, whether as members or clients shall be subject to such conditions or limits as they are subject to by the stock exchange or the guidelines issued by the regulator concerned, in addition to compliance with these directions.

Explanation: - (i) The expression 'Person resident in India' shall have the meaning assigned to it in sub-section (v) of section 2 of the Foreign Exchange Management Act, 1999;

(ii) Permission of the Reserve Bank referred to in sub paragraph 4.3 for participation of regulated entities in the Interest Rate Futures market refers to the permission granted by the respective regulatory department of the Reserve Bank of India.

5. Necessary conditions of the Interest Rate Futures contract

5.1 Contracts for settlement by Physical Delivery

The 10-year Interest Rate Futures contract shall satisfy the following requirements:

- (a) The contract shall be on coupon bearing notional 10-year Government of India security.
- (b) The coupon for the notional 10-year Government of India security shall be 7% per annum with semi-annual compounding.
- (c) The contract shall be settled by physical delivery of deliverable grade securities using the electronic book entry system of the existing Depositories, namely, National Securities Depositories Ltd. and Central Depository Services (India) Ltd. and Public Debt Office of the Reserve Bank.
- (d) Deliverable grade securities shall comprise Government of India securities maturing at least 7.5 years but not more than 15 years from the

first day of the delivery month with a minimum total outstanding stock of ₹ 10,000 crore.

- (e) Subject to clause (d) of this sub paragraph, exchanges may select their own basket of securities for delivery from the deliverable grade securities in accordance with guidelines issued by the Securities Exchange Board of India from time to time.

5.2 Contracts to be Cash Settled

5.2.1 The 91-Day Treasury Bill Futures shall satisfy the following requirements:

- (a) The contract shall be on 91-Day Treasury Bills issued by the Government of India.
- (b) The contract shall be cash settled in Indian Rupees.
- (c) The final settlement price of the contract shall be based on the weighted average price/yield obtained in the weekly auction of the 91-Day Treasury Bills on the date of expiry of the contract.

5.2.2 The 2-year and 5-year Interest Rate Futures contract shall satisfy the following requirements:

- (a) The 2-year and 5-year Interest Rate Futures contracts shall be on coupon bearing notional 2-year and 5-year Government of India security respectively.
- (b) The coupon for the notional 2-year Government of India security shall be 7% per annum and that of the notional 5-year Government of India security shall be 7% per annum with semi-annual compounding.
- (c) The contracts shall be cash-settled in Indian Rupees.
- (d) The final settlement price of the 2-year and 5-year Interest Rate Futures contracts shall be based on the yields on basket of securities for each Interest Rate Futures contract specified by the respective stock exchange in accordance with guidelines issued by the Securities Exchange Board of India from time to time.
- (e) The yields of the Government of India securities [indicated at paragraph 5.2.2 (d) above] shall be polled and the same shall be as per the guidelines issued by the Reserve Bank of India from time to time.

5.2.3 The cash settled Interest Rate Futures on 10-year Government of India security shall have as underlying:

(i) coupon bearing Government of India security

Or

(ii) coupon bearing notional 10-year Government of India security with settlement price based on basket of securities.

5.2.3.1 The 10-year Interest Rate Futures with coupon bearing Government of India security as underlying shall satisfy the following requirements:

- (a) The underlying shall be a coupon bearing Government of India security of face value Rs. 100 and residual maturity between 9 and 10 years on the expiry of futures contract. The underlying security within these parameters shall be, as decided by stock exchanges in consultation with the Fixed Income Money Market and Derivatives Association (FIMMDA).

- (b) The contract shall be cash-settled in Indian rupees.
- (c) The final settlement price shall be arrived at by calculating the weighted average price of the underlying security based on prices during the last two hours of the trading on Negotiated Dealing System-Order Matching (NDS-OM) system. If less than 5 trades are executed in the underlying security during the last two hours of trading, then FIMMDA price shall be used for final settlement.

5.2.3.2. The 10-year Interest Rate Futures with coupon bearing notional 10-year Government of India security as underlying and settlement price based on basket of securities shall satisfy the following requirements:

- (a) The underlying shall be coupon bearing notional 10-year Government of India security with face value of Rs. 100. For each contract, there shall be basket of Government of India securities, with residual maturity between 9 and 11 years on the day of expiry of futures contract, with appropriate weight assigned to each security in the basket. Exchanges shall determine criteria for including securities in the basket and determining their weights.
- (b) The underlying security shall have coupon with semi-annual compounding.
- (c) The contract shall be cash-settled in Indian rupees.
- (d) The final settlement price shall be based on average settlement yield which shall be weighted average of the yields of securities in the underlying basket. For each security in the basket, yield shall be calculated by determining weighted average yield of the security based on last two hours of the trading in NDS-OM system. If less than 5 trades are executed in the security during the last two hours of trading, then FIMMDA price shall be used for determining the yields of individual securities in the basket.

6. Membership of the Stock Exchange

6.1 Interest Rate Futures contracts on instruments referred to in paragraph 3 shall be traded on the segment as determined by the recognized stock exchange in accordance with the guidelines issued by the Securities and Exchange Board of India.

6.2 Membership as client, trading and clearing members, in the segment for trading of Interest Rate Futures as determined by the respective stock exchanges, shall be subject to the guidelines issued by the Securities and Exchange Board of India.

7. Position limits

7.1. All regulated entities shall operate within the prudential limits set by the regulator concerned.

7.2. The position limits for the various categories of participants in the Interest Rate Futures market shall be subject to the guidelines issued by the Securities and Exchange Board of India.

8. Risk Management measures

8.1 The trading of Interest Rate Futures contracts permitted under these directions shall be subject to maintaining initial, extreme loss and calendar spread margins.

8.2 The Clearing Corporations / Clearing Houses of the exchanges shall ensure the maintenance of the respective margins by the participants in accordance with the guidelines issued by the Securities and Exchange Board of India from time to time.

9. Disclosure and Surveillance requirements

The disclosure and surveillance of all transactions in the Interest Rate Futures market shall be carried out in accordance with the guidelines issued by the Securities and Exchange Board of India and the Reserve Bank of India from time to time.

10. Powers of Reserve Bank

The Reserve Bank may from time to time modify the eligibility criteria for the participants, modify participant-wise position limits, prescribe margins and / or impose specific margins for identified participants, fix or modify any other prudential limits, or take such other actions as deemed necessary in public interest, in the interest of financial stability and orderly development and maintenance of interest rate market in India.

11. All existing directions¹ stand superceded with immediate effect but shall continue to apply to contracts undertaken in accordance with the said directions till the expiry of the said contracts.

(R. Gandhi)
Executive Director

¹ Permitted vide RBI notifications: [Notification No. FMD. 1 /ED\(VKS\) - 2009 dated August 28, 2009](#), [Notification IDMD.PCD.27/ED \(HRK\) - 2010 dated March 7, 2011](#) and [Notification IDMD.PCD.15/ED \(RG\) - 2011 dated December 30, 2011](#)