

**FIMCIR/2025-26/18**

**August 25, 2025**

## **Interest Rate Swaptions**

### **Operational Guidelines**

Reserve Bank of India has issued Rupee Interest Rate Derivatives (IRD) directions, vide notification No FMRD.DIRD.20/2019 dated 26<sup>th</sup> June 2019 (Updated as on August 08, 2022), (*the Directions*).

Relevant extracts- The Directions, *inter alia*, have defined Interest Rate Swaption and provided that Market Makers may offer SWAPTIONS to non-retail users.

Relevant extracts are listed below:

#### Quote:

#### Para- 2. Definitions:

(viii) Interest Rate Derivative (IRD) is a financial derivative contract whose value is derived from one or more interest rates, prices of interest rate instruments, or interest rate indices.

(x) Interest Rate Option (IRO) is an option contract whose value is based on Rupee interest rates or interest rate instruments.

(xvi) An Interest Rate Swaption is an option on interest rate swaps. A swaption gives the buyer the right, but not the obligation, to enter into an interest rate swap.

(xxiii) Overnight Indexed Swap (OIS) is an interest rate swap based on the Overnight Mumbai Interbank Outright Rate (MIBOR) benchmark published by Financial Benchmarks India Pvt. Ltd (FBIL).

#### Para- 6: Interest Rate Derivatives in the OTC Market

IRD Transactions in the OTC market shall be subject to the following Directions:

- (a) Scheduled Banks, Standalone Primary Dealers (SPDs) and All India Financial Institutions (AIFIs) are eligible to act as market makers for IRD products in the OTC market.
- (b) Market-makers may offer the following products to retail users:
  - i. Forward Rate Agreement (FRA),
  - ii. Interest Rate Swap (IRS), and
  - iii European Interest Rate Options (IRO) including caps, floors, collars and reverse collars.
- (c) In addition to the products listed in (b) above, market-makers may offer **Swaptions** and structured derivative products, excluding leveraged derivatives, only to non-retail users.

- (d) Any floating interest rate or price or index used in IRDs in the OTC market shall be a benchmark published by an FBA or approved by The Fixed Income Money Market and Derivatives Association of India (FIMMDA) for this purpose. FIMMDA shall ensure that the floating rate approved by them is determined transparently, objectively and in arm's length transactions.
- (e) IRD transactions shall be settled bilaterally or through any clearing arrangement approved by the Reserve Bank for the purpose.
- (f) Settlement basis and other market conventions for IRD transactions shall be specified by FIMMDA, in consultation with market participants.

Unquote:

Based on RBI directions and consultation with Market Participants, FIMMDA has issued Operational Guidelines for Swaptions (European Swaption), vide circular no. **2021-22/008** dated June 26, 2021 and were made effective from August 17, 2021 (***The FIMMDA Guidelines***).

On a review and as per market participants' request, it has been decided to include Bermudan and American Swaption variants. Accordingly, the FIMMDA Operational Guidelines for Swaptions (***The FIMMDA Guidelines***) have now been comprehensively revised to include European, Bermudan and American Swaption variants and to ensure better readability and alignment with *the Directions*. (**Annexure-I**)

***The FIMMDA Guidelines*** are issued, supplementing the applicable Reserve Bank Directions, providing standard conventions / processes and documentation, for the benefit of all Market Participants.

These are to be read with RBI Directions on Interest Rate Derivatives vide FMRD.DIRD.20/2019 dated 26<sup>th</sup> June 2019 (*the Directions*) and such other Directions as may be issued by RBI from time to time (together referred to as "***the Guidelines***").

All Market Participants are advised to ensure meticulous compliance of *the Guidelines* as above. In case of any conflict between *the Directions* as updated from time to time, and the provisions of *the FIMMDA Guidelines*, Market Participants are advised to ensure meticulous compliance of *the Directions*.

In respect of client transactions, Members and Stakeholders are requested to ensure that all relevant RBI guidelines and internal policies are adhered to.

The operating guidelines are intended to bring in uniformity and standardization in the market and does not intend to restrict the freedom of the parties to bilaterally decide terms and conditions different from as suggested herein subject to such terms being not in contravention of any law / regulatory guidelines.

The revised guidelines will be effective immediately.

*The FIMMDA Guidelines* are an integral part of FIMMDA Handbook of Market Practices.

Yours faithfully,

Sd/-

G. Ravindranath  
Chief Executive Officer

## **Interest Rate Swaptions**

### **Operational Guidelines:**

#### **1. Definitions:**

- a. Interest Rate Derivative (IRD) is a financial derivative contract whose value is derived from one or more interest rates, prices of interest rate instruments, or interest rate indices.
- b. Interest Rate Swaption is an option on interest rate swaps. A swaption gives the buyer the right, but not the obligation, to enter into an interest rate swap.
- c. Interest Rate Option (IRO) is an option contract whose value is based on Rupee interest rates or interest rate instruments.
- d. Overnight Indexed Swap (OIS) is an interest rate swap based on the Overnight Mumbai Interbank Outright Rate (MIBOR) benchmark published by Financial Benchmarks India Pvt. Ltd (FBIL).

#### **2. Product Details:**

European, Bermudan and American swaptions on OIS are permitted.

##### **a. European OIS Swaption Contract**

A European Swaption contract between two parties gives the buyer of the swaption the right but not the obligation to enter into an INR OIS at the expiry of the Swaption at a predetermined strike rate. (Refer Annexure-II)

The Strike Rate is the Fixed Rate of the underlying swap exchanged for an INR OIS.

- i. Payer Swaption: Gives the buyer the right but not the obligation to pay a fixed rate (strike rate) and receive floating Overnight MIBOR for the tenor of the swap, **if rate of the underlying OIS at expiry is greater than the strike rate.** The long party hence benefits from an upward movement in rates.
- ii. Receiver Swaption: Gives the buyer the right but not the obligation to receive a fixed rate (strike rate) and pay floating Overnight MIBOR for the tenor of the swap, **if the rate of the underlying OIS at expiry is less than the strike rate.** The buyer hence benefits from a downward movement in rates.

##### **b. Bermudan OIS Swaption Contract**

A Bermudan Swaption contract is a European Swaption Contract with multiple expiry dates instead of a single expiry of a European Swaption Contract. These expiry dates are defined or agreed at inception of the transaction.

The Strike Rate is the Fixed Rate of the underlying swap exchanged for an INR OIS.

Bermudan Swaption Contract can be either Payer Swaption or Receiver Swaption as agreed between the counterparties.

**c. American OIS Swaption Contract**

An American Swaption contract between two parties gives the buyer of the swaption the right but not the obligation to enter into an INR OIS anytime from inception till expiry of the Swaption Contract.

The Strike Rate is the Fixed Rate of the underlying swap exchanged for an INR OIS.

American Swaption Contract can be either Payer Swaption or Receiver Swaption as agreed between the counterparties.

**d. Contract Specifications**

- i. European Swaption: A European Swaption is specified by the expiry date of the swaption, the maturity of the underlying swap on which the swaption is written, the strike of the swaption and whether it is a payer or a receiver. For instance, a 1-year expiry on a 5-year OIS.
- ii. Bermudan Swaption: A Bermudan Swaption is specified by the series of expiry dates of the swaption, the initial non exercisable period, the expiry date of the swap, the strike of the swaption and whether it is a payer or a receiver. For instance, on an underlying swap maturing in 10 years, swaption that can be exercised every 6 months after 6 months from Effective Date on a swap of maturity which is for the tenor remaining of the underlying swap. If the swaption is exercised after 2 years, the swap will be for  $10-2=8$  years. Where such a swap is for a maturity other than a standard OIS, the swap will be with upfront stub or as decided mutually between the counterparties. To be clear, the initial non exercisable period can be shorter / longer than the frequency of subsequent expiry dates.
- iii. American Swaption: An American Swaption is specified by the expiry date of the swap, the expiry date of the swaption, the strike of the swaption and whether it is a payer or a receiver. The expiry date of the swaption can be earlier than or same as expiry date of the swap. For instance, on an underlying swap maturing in 10 years, swaption that can be exercised any day from the start date of the swaption till the expiry date of the swaption (say 2 years) on a swap of maturity which is for the tenor remaining of the underlying swap. If the swaption is exercised after 1 year 2 months and 6 days, the swap will be for  $10 \text{ years} - 1 \text{ year } 2 \text{ months } 6 \text{ days} = 8 \text{ years } 9 \text{ months } 24 \text{ days}$ . Where such a swap is for a maturity other than a standard OIS, the swap will be with upfront stub or as decided mutually between the counterparties.

**e. Premium:**

Premium to be paid Upfront (T+1).

For client transactions, (for swaptions and swaption structures) premium may be paid by clients on a deferred basis. All such deferred premium transactions and premium paid thereof shall be in line with the guidance issued by RBI vide RBI/2012-13/535 DBOD.No.BP.BC.102/21.04.157/2012-13 dated June 18, 2013 or as amended from time to time.

For Bermudan Swaption, the last date for deferred premium value date shall be the first date on which the swaption can possibly be exercised, or as decided mutually between counterparties

(Consequently, no deferred premium for American swaptions unless otherwise decided mutually between counterparties)

f. **Expiry Time:**

**For European and Bermudan Swaption Contracts:** 11:30am IST

**For American Swaption Contracts:** Start of OIS normal market hours – 2 hours earlier than close of OIS normal market hours or as agreed bilaterally between the counterparties.

**Expiry Process:** The Strike Rate is compared to the prevailing rate for the corresponding tenor of OIS at the time of expiry and the Swaption is then either In-The-Money (“ITM”) or Out-of-the-Money (“OTM”). The Buyer of the swaption has to intimate the seller of the option at time of expiry whether the option is getting exercised or not.

**Physical / Gross Settlement:** Gross Settled on T+1 basis; If the buyer chooses to exercise the swaption, a Swap will be generated between the counterparties.

**Cash / Net Settlement:** If the swaption is cash/net settled, no swap will be written on the expiry. The net settlement of swaption will be as per the prevailing market price of the underlying swap at the time of expiry, as mutually agreed upon between the counterparties to the agreement.

3. **Standard Tenors:**

The standard Market Tenors are defined as 1M, 3M and 12M for Interest Rate Swaptions for OIS maturities 1Y, 2Y and 5Y. This will facilitate uniform data being available on the CCIL platform.

**European Swaptions:** The interbank participants should endeavour to trade in standard tenors, however interbank participants can also trade on non-standard tenors as per requirement.

Interest Rate Swaption deals with customers can be for tenors as per customer’s requirements.

**Bermudan and American Swaptions:** These transactions are more bespoke and hence do not lend themselves to standardization.

4. **Unwind transactions:**

Banks may unwind transactions either with interbank counterparties or their clients on a mutually agreed basis.

5. **Internal Policies**

All Banks shall have internal policies / procedures duly approved by Board/ Equivalent Committee / Equivalent Forum/ relevant Management Committee for dealing in Interest Rate Swaptions. These should cover policies / processes related to permitted products, risk limits, system capabilities, valuation, accounting, reporting, Client Suitability and Appropriateness etc. Banks to ensure that all client transactions are conducted in consonance with the comprehensive derivative guidelines or its equivalent published by RBI with strong focus on client suitability & appropriateness and pricing transparency and disclosures.

## 6. Reporting:

- All counterparties of Swaption deal to report the deal to CCIL, within 30 mins of the execution of the trade, irrespective of being a member of CCIL clearing / settlement or otherwise.
- The Swap which will be generated at the time of expiry of swaption must be reported to CCIL at historical rate mentioning identifier as SWAPTION. The same Swap will be excluded from the calculation of for the day trades of OIS.
- Banks to decide individually regarding participation in Portfolio compression of OIS deals generated via swaption deals.
- Data Dissemination:
  - ⊖ **European Swaptions:** Data dissemination would be done on ticket-by-ticket level (only for interbank deals) and not on consolidated level for European Swaptions. The counterparties will not be disclosed but other parameters will be disclosed (only for interbank deals). The ticket-by-ticket data will help to generate more independent points for the market and the same may be used by banks to consume internally for creation of EOD valuation as per their internal policies. Data dissemination to include ATM vol which both the parties will agree for the trade.
  - ⊖ Bermudan and American Swaptions being more customized, the data dissemination can be on a consolidated basis to start with.
  - ⊖ For customer deals, data dissemination will be done as per market standard as per Regulator's approval.

## 7. Settlement:

- **Physical (Gross) or Cash (Net) Settlements:**

The market participants may opt for:

- Physical / Gross settlements on T+1 basis.
- Cash / Net settlements as per mutual agreement between the counterparties. Rates to be decided bilaterally.
- When gross settled into a Swap, if both parties are guaranteed settlement members of OIS segment, CCIL to automatically clear that trade. **Such trades are not to be part of TR dissemination providing details of trades dealt in the day (as the swap rates can be different from ongoing market)/ to be disseminated differently.**

## **8. Valuation**

Banks have to adopt their own method of valuation, (in respect of all permitted Swaption variants) as approved by their internal valuation or any other appropriate committee, based on externally available rates or internal models or any hybrid combination or trader marks etc suitably validated internally.

For European Swaptions, Annexure III details an approach for calculating the premiums based on which data dissemination of ATM vols can be done.

For other permitted Swaption variants, Banks may make appropriate modifications for calculation of premium.

FIMMDA and market participants would work closely with FBIL to evolve an appropriate valuation methodology based on market volumes and for providing benchmark valuation by FBIL.



## Annexure II:

### **Illustration of the product: [European Swaption]**

Banks to be allowed to negotiate trades with clients on mutually agreed basis

#### **Example Receiver Swaption Trade:**

Derivative: Receiver Swaption with expiry in **1 month**  
Underlying: Vanilla INR OIS Swap with tenor of **5 years**  
Strike Rate: 5.00% p.a. receivable semiannually  
Notional: INR 100crores  
Fixed Rate of Swap: Strike Rate  
Floating Rate of Swap: FBIL INR overnight MIBOR  
Party A: Long  
Party B: Short

Premia Paid Upfront by Long Party to Short Party: A pays upfront premium to B.

Pay-off on expiry Date: If the rate at 11.30 a.m. for underlying is < strike rate then Party A will exercise the Swaption resulting in a Vanilla INR OIS trade being booked between Party A (the Fixed Rate Receiver) and Party B (the Fixed Rate Payer) which will give an immediate MTM gain to Party A.

#### **Example Payer Swaption Trade:**

Derivative: Payer Swaption with expiry in **1 month**  
Underlying: Vanilla INR OIS Swap with tenor of **5 years**  
Strike Rate: 5.00% p.a. payable semi annually  
Notional: INR 100crores  
Fixed Rate of Swap: Strike Rate  
Floating Rate of Swap: FBIL INR overnight MIBOR  
Party A: Long  
Party B: Short

Premia Paid Upfront by Long Party to Short Party: A pays upfront premia to B

In case of Bermudan Swaption, at 11:30 AM (exercise time) on every exercise date as agreed in the contract, the party who has bought the swaption can choose to exercise the swaption resulting in a vanilla OIS between the two parties.

In case of American Swaption, as per the exercise cut off time as bilaterally agreed by the parties on each date, the party who has bought the swaption can choose to exercise the swaption resulting in a vanilla OIS between the two parties.



### Annexure III

**Illustrative Formula for calculating premium European SWAPTION (Black's Model) (Bilateral contracts can agree on mechanisms as per the calculation agent chosen methodology):**

$$\text{premium for payer swaption} = XA\{FN(d1) - SN(d2)\}$$

$$\text{premium for receiver swaption} = XA\{SN(-d2) - FN(-d1)\}$$

Where,

*X: Underlying Swap Notional*

$$A = \frac{1}{mn} \sum_{i=1}^{mn} DF_{mn}$$

*i. e. discount factors (DF) for*

*“n” swap payments made “m” number of time in the year*

*F: Forward Swap Rate/Reference Rate*

*S: Strike Rate*

$$d1 = \frac{\ln\left(\frac{F}{S}\right) + \sigma^2 T/2}{\sigma\sqrt{T}}$$

$$d2 = \frac{\ln\left(\frac{F}{S}\right) - \sigma^2 T/2}{\sigma\sqrt{T}}$$

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