RBI releases Rupee Interest Rate Derivatives (Reserve Bank) Directions, 2019

The Reserve Bank of India today released the Rupee Interest Rate Derivatives (Reserve Bank) Directions, 2019.

Regulations on Interest Rate Derivatives have so far been issued separately for each product, including for products traded on exchanges. These regulations were framed with a view to guide the initial evolution of the market through prescriptive requirements. Given the evolution of the market, there is now a need to permit flexibility for exchanges and market-makers in the design and innovation of products while ensuring that relatively less informed participants using these derivatives markets are adequately protected.

The directions being issued today are in line with this approach. The directions consolidate, rationalize and simplify all previous regulations issued on interest rate derivatives. Exchanges have been provided with the flexibility to design and structure standardized products based on market requirements. Similarly, in the Over-the-Counter (OTC) market, market-makers such as banks have been permitted to offer products tailored to the needs of corporates and other non-retail entities. At the same time, the directions also seek to protect small and retail participants, such as Small and Medium Enterprises (SMEs), by ensuring that customized products are only offered to large, sophisticated, non-retail users, who are capable of managing attendant risks better. The Reserve Bank is putting in place an internal arrangement to periodically review the structured products offered by market makers.

Background

The Reserve Bank of India (RBI) in its Statement on Developmental and Regulatory Policies dated February 7, 2019 announced that RBI will issue simplified comprehensive guidelines to rationalise regulations for interest rate derivatives to achieve consistency and ease of access with the eventual objective of fostering a thriving environment for management of interest rate risk in the Indian economy. Accordingly, a draft Rupee Interest Rate Derivatives (Reserve Bank) Directions, 2019 was issued for feedback on April 03, 2019. Based on the feedback received, the final guidelines are now being issued.

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