



International Financial Services Centres Authority (IFSCA)

CIRCULAR

F.No.110/IFSCA/Banking Regulation/2020-21/2

December 4, 2020

To All Banking Units

Dear Sir/Madam,

Subject : OTC Derivatives at IFSCs

As you are aware, consequent to the notification by the Government of India (Gazette Id CG-DL-E-29092020-222097 dated September 29, 2020 of Part II Section 3 Sub-section (ii) of the Extra Ordinary Gazette) the provisions of section 13 and section 33 of the International Financial Services Centres Authority Act, 2019 (the Act) have come into effect from October 1, 2020.

2. The International Financial Services Centres Authority (the Authority) has now notified the International Financial Services Centres Authority (Banking) Regulations, 2020 (the Regulations) (vide Gazette I dCG-GJ-E-20112020-223204 dated November 18, 2020) for banking and investment activities in the International Financial Services Centres.

3. In exercise of the powers section 4 of the Regulations, the Authority hereby adopts the Comprehensive Guidelines on Derivatives (Circular DBOD No.BP.BC.86/21.04.157/2006-07 dated April 20, 2007(as amended from time to time)) ("CGD") issued by the Reserve Bank of India, subject to the modifications listed in the Annex to this circular, to be applicable for all Over-the-counter (OTC) derivative transactions to be undertaken at International Financial Services Centres (IFSCs).

4. For the purpose of this direction, the term "banks" in the CGD shall mean "Banking Unit" as defined in section 2(1)(c) of the Regulation and the term "foreign banks operating in India" in the CGD shall mean "Foreign Bank Unit" as defined in section 2(1)(e) of the Regulations.

5. BUs may act as market makers for products only if they have the ability to price such products at the level of the BU. The pricing of such products should be demonstrable at the level of the BU at all times.
6. Unless stated otherwise, BUs shall undertake derivative transactions only with other BUs, Financial Institutions (as defined in Section 3(c) of the International Financial Services Authority Act, 2019) and persons resident outside India (as defined in Section 2(w) of the Foreign Exchange Management Act, 1999).
7. BUs may offer FCY-FCY derivatives (to be settled in FCY) and FCY interest rate derivatives (to be settled in FCY) to persons resident in India, subject to the provisions of FEMA, 1999.
8. BUs may undertake FCY-INR Non-deliverable derivative contracts (NDDCs) with an AD Cat-1 bank in India having a BU.
9. BUs may offer Forward Rate Agreement (FRA) on INR interest rates to persons resident outside India only for the purpose of hedging their interest rate risk.¹
10. BUs may post or receive “margin” (as defined in the FEMA (Margin for Derivative Contracts) Regulations, 2020 dated October 23, 2020 (as amended)), on their own account and on behalf of their customers, on OTC derivative transactions with persons resident in India and persons resident outside India and receive or pay interest on such margin. The form and manner of posting or receiving such margin and payment of interest thereon may, till further instructions by the Authority, be mutually decided by the BU & its counterparty through the means of internationally accepted Master Agreement.
11. BUs are directed to ensure compliance with such the provisions of this circular.
12. This direction is issued by IFSCA under the powers derived from section 45X of the Reserve Bank of India Act, 1934 read with section 13(1) of the Act.

Yours faithfully

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General Manager
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¹ See para 12 of Annex to circular no. F.No.110/IFSCA/Banking Regulation/2020-21/7 dated December 24, 2020

Para no. in the CGD	Modification
<p>Para 4.</p> <p>Purpose</p>	<p>The para in CGD shall be replaced by the following :</p> <p><i>“Users in the IFSC may undertake derivative transactions with market-makers to hedge - i.e. reduce or extinguish an existing identified risk - or for transformation of risk exposure.</i></p> <p><i>Market-makers in IFSCs may undertake derivative transactions as counterparties to users and also amongst themselves.”</i></p>
<p>Para 5</p> <p>Eligibility criteria</p>	<p>The para in CGD shall be replaced by the following :</p> <p><i>(i) Market makers</i></p> <p><i>Banking Units</i></p> <p><i>(ii) Users</i></p> <p><i>(a) Financial Institution (as defined in Section 3(c) of the International Financial Services Authority Act, 2019) and person resident outside India (as defined in Section 2(w) of the Foreign Exchange Management Act, 1999)</i></p> <p><i>(b) Person resident in India (as defined in Section 2(v) of the Foreign Exchange Management Act, 1999) if specifically allowed.</i></p>
<p>Para 6</p> <p>Broad principles for undertaking derivatives</p>	<p>Para 6.1 in CGD shall be replaced by the following :</p> <p><i>“In addition to generic derivative products, market-makers may also offer structured derivative products to users.</i></p> <p><i>a. The following shall be treated as generic derivative products:</i></p> <ul style="list-style-type: none"> <i>i. Foreign Exchange Forward contracts</i> <i>ii. Forward Rate Agreements</i> <i>iii. Interest Rate caps and floors (plain vanilla)</i> <i>iv. Call and put option (plain vanilla)</i> <i>v. Interest Rate swaps</i> <i>vi. Currency Swaps including Cross-currency swaps</i> <p><i>b. The following shall be treated as structured derivative products :</i></p> <ul style="list-style-type: none"> <i>i. Instruments that are a combination of cash instrument and one or more generic derivative products</i> <i>ii. Instruments that are a combination of two or more generic derivative products.</i>

<p>Para 7</p> <p>Permissible derivative instruments</p>	<p>Para 7 and 7.1 in CGD shall be replaced by the following :</p> <p><i>The following derivative instruments may be undertaken by BUs :</i></p> <p><i>FCY-INR derivatives (to be settled in FCY)</i></p> <p><i>Non-deliverable derivative contracts (NDDC)</i></p> <p><i>FCY-FCY derivatives (to be settled in FCY)</i></p> <p><i>FCY –FCY forwards</i></p> <p><i>Non-deliverable derivative contracts (NDDC)</i></p> <p><i>FCY-FCY currency swap</i></p> <p><i>FCY-FCY currency option</i></p> <p><i>INR interest rate derivatives (to be settled in FCY)</i></p> <p><i>Interest Rate Swap (IRS) (including Overnight Indexed Swaps (OIS))</i></p> <p><i>Forward Rate Agreement (FRA)</i></p> <p><i>FCY interest rate derivatives (to be settled in FCY)</i></p> <p><i>Interest Rate Swap (IRS) (including Overnight Indexed Swaps (OIS))</i></p> <p><i>Forward Rate Agreement (FRA)</i></p> <p>Notes :</p> <p><u><i>(a) Benchmarks for FRA/IRS</i></u></p> <p><i>In case of INR interest rate derivatives, any money market or debt market INR interest rate or INR interest rate implied in the forward foreign exchange rates including benchmarks published by Financial Benchmarks India Pvt. Limited (FBIL).In case of FCY interest rate derivatives, any widely traded money market or debt market interest rate in the respective currency.</i></p>
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