



भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA

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December 28, 2023

RBI releases Draft Directions on Bond Forwards under Section 45W of the RBI Act, 1934

The Reserve Bank of India today released the [Draft Reserve Bank of India \(Bond Forwards\) Directions, 2023](#). Comments on the draft directions are invited from banks, market participants, investors and other interested parties by January 25, 2024.

Feedback on the draft directions may be forwarded to:

The Chief General Manager
Reserve Bank of India
Financial Markets Regulation Department
9th Floor, Central Office Building
Shahid Bhagat Singh Marg, Fort
Mumbai – 400001

Or by [email](#) with subject line “Feedback on Draft Directions on Bond Forwards”.

Background

The Reserve Bank of India has been expanding the suite of interest rate derivative products available to market participants to manage interest rate risks. The Reserve Bank has received suggestions on the need to introduce bond forwards in government securities. The draft directions on contracts to deliver government securities on a forward basis seek to enable market participants, especially long-term investors, to manage their cash flows and interest rate risk.

Press Release: 2023-2024/1557

(Yogesh Dayal)
Chief General Manager



RESERVE BANK OF INDIA
FINANCIAL MARKETS REGULATION DEPARTMENT
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Reserve Bank of India (Bond Forwards) Directions, 2023 - Draft

In exercise of the powers conferred under section 45W of the Reserve Bank of India Act, 1934 (hereinafter called the Act) read with section 45U of the Act, the Reserve Bank of India (hereinafter called the Reserve Bank) hereby issues the following Directions.

A reference is also invited to the Foreign Exchange Management Act, 1999 (42 of 1999) and Foreign Exchange Management (Debt Instruments) Regulations, 2019 ([Notification No. FEMA. 396/2019-RB dated October 17, 2019](#)).

1. Short title, commencement and applicability of Directions:

- (i) These Directions shall be called the Reserve Bank of India (Bond Forwards) Directions, 2023.
- (ii) These Directions shall apply to transactions in Bond Forwards undertaken in Over-the-Counter (OTC) markets in India.
- (iii) These Directions shall come into force with effect from < *specified date*>.

2. Definitions

- (i) For the purpose of these Directions, unless the context otherwise requires:
 - (a) **Bond forwards** mean derivative contracts in which one counterparty (buyer) agrees to buy a specific debt instrument from another counterparty (seller) on a specified future date and at a price determined at the time of the contract.
 - (b) **Cash settlement** of bond forwards means a settlement process in which the cash settlement value of the bond forward as on the maturity/ termination date is exchanged between the counterparties under the terms of the contract.
 - (c) **Company** shall have the same meaning assigned to it in Section 2 (20) of the Companies Act, 2013.



- (d) **Covered Short** means a position in bond forwards in which the seller of a bond forward holds an equivalent amount of the underlying debt instrument.
- (e) **Electronic Trading Platform (ETP)** shall have the meaning assigned in para 2(1) (iii) of [the Electronic Trading Platforms \(Reserve Bank\) Directions, 2018 dated October 05, 2018](#) or as modified from time to time.
- (f) **Financial Benchmark Administrator (FBA)** means a person who controls the creation, operation and administration of financial benchmark(s).
- (g) **Foreign Portfolio Investor (FPI)** means a person registered in accordance with the provisions of the Securities and Exchange Board of India (Foreign Portfolio Investors) Regulations, 2014.
- (h) **Government Security** shall have the same meaning as defined in Section 2(f) of the Government Securities Act, 2006.
- (i) **Market-maker** means an entity which provides prices to users and other market-makers.
- (j) **Net worth** shall have the same meaning as assigned to it in Section 2(57) of the Companies Act, 2013.
- (k) **Over-the-Counter (OTC)** markets refers to markets where transactions in bond forwards are undertaken in any manner other than on exchanges and shall include those undertaken on electronic trading platforms (ETPs).
- (l) **Physical settlement** of bond forwards means a settlement process in which the seller transfers the underlying debt instrument to the buyer, against the receipt of the contracted price from the buyer.
- (m) **Repo** shall have the same meaning as defined in Section 45U (c) of the RBI Act, 1934.
- (n) **Standalone Primary Dealer (SPD)** means a Non-Banking Financial Company that holds a letter of authorisation issued by the Reserve Bank to act as a Primary Dealer, in terms of the "[Guidelines for Primary Dealer in Government Securities Market](#)" dated March 29, 1995, as amended from time to time.
- (o) **Uncovered Short** means a short position in bond forwards other than a covered short position.



- (p) **User** means a person that undertakes transactions in bond forwards other than as a market-maker.

3. Eligible Market Participants

The following persons shall be eligible to undertake transactions in bond forwards to the extent permitted under these Directions:

- (a) A resident; and
- (b) A non-resident, who is eligible to invest in Government Securities under the [Foreign Exchange Management \(Debt Instruments\) Regulations, 2019 dated October 17, 2019](#), as amended from time to time.

4. Underlying Debt Instrument

Transactions in bond forwards shall be undertaken on Central Government dated securities and State Government Securities.

5. Market-makers and Users

5.1 Market-makers

(i) The following entities shall be eligible to undertake transactions in bond forwards as market-makers:

- (a) Scheduled Commercial Banks, except Small Finance Banks, Payment Banks, Local Area Banks and Regional Rural Banks; and
- (b) Standalone Primary Dealers (SPDs).

(ii) At least one of the parties to a transaction in bond forwards shall be a market-maker or a central counter party authorised by the Reserve Bank as an approved central counterparty for bond forward transactions.

5.2 Users

The following entities shall be eligible to undertake transactions in bond forwards as users:

- (a) Small Finance Banks, Payment Banks and Regional Rural Banks;



- (b) Urban Cooperative Banks;
- (c) Non-Banking Financial Companies (NBFCs), including Housing Finance Companies (HFCs);
- (d) Export Import Bank of India, National Bank for Agriculture and Rural Development, National Housing Bank, Small Industries Development Bank of India and National Bank for Financing Infrastructure and Development;
- (e) Insurance Companies regulated by Insurance Regulatory and Development Authority of India (IRDAI);
- (f) Pension Funds regulated by Pension Fund Regulatory and Development Authority (PFRDA);
- (g) Mutual Funds and Alternative Investment Funds regulated by Securities and Exchange Board of India (SEBI);
- (h) Foreign Portfolio Investors (FPIs) registered with SEBI; and
- (i) Resident Companies (other than as specified in 5.2 (a) to (g)) with net-worth of ₹500 crore or above as per the latest audited balance sheet.

6. Directions for Market Makers

- (i) Market-makers may undertake long positions in bond forwards without any limit.
- (ii) Market-makers may undertake covered short positions in bond forwards without any limit. Debt instruments underlying such positions in bond forwards may be used in a repo transaction subject to the condition that the maturity of the repo should not exceed the maturity of the bond forward.
- (iii) Market-makers shall not undertake any uncovered short position in bond forwards.

7. Directions for Users

- (i) Users, other than FPIs, may undertake long positions in bond forwards without any limit.
- (ii) Users, except for resident companies, are permitted to undertake covered short positions. Debt instruments underlying such positions in bond forwards may be used in a repo transaction, if the user is otherwise eligible to undertake repo transactions, subject to the condition that the maturity of the repo should not exceed the maturity of the bond forward.



- (iii) Resident companies shall not undertake any short position in bond forwards.
- (iv) Users shall not undertake any uncovered short position in bond forwards. Market-makers shall ensure that the users undertake only covered short positions in bond forwards. To ensure this, market-makers may call for any relevant information/documents from the eligible users, who, in turn, shall be obliged to provide such information.
- (v) Users with short positions in bond forwards shall inform the market-makers in case they cease to hold the underlying debt instrument. Users shall exit their short position in bond forwards at the earliest but not later than one week from the date they cease to hold the underlying debt instrument.
- (vi) FPI participation in bond forwards shall be subject to the provisions of A.P. (DIR Series) Circular No. _ dated December xx, 2023 on Transactions in Bond Forwards by Foreign Portfolio Investors – Operational Instructions (to be issued).

8. Permissible Venues

Bond forwards shall be traded in over the counter (OTC) markets, including on Electronic Trading Platforms (ETPs).

9. Settlement and Unwinding

- (i) Bond forwards can be physically settled or cash settled.
- (ii) The settlement of physically settled bond forwards shall be through any clearing agency approved by the Reserve Bank for the purpose.
- (iii) Bond forwards which are cash settled, can be settled bilaterally or through any clearing agency approved by the Reserve Bank for the purpose.
- (iv) Market participants can exit their position in bond forwards by unwinding the position with the original counterparty or assigning the position to any other eligible market participant through novation¹ subject to the provisions of the circular on Novation of OTC Derivative Contracts dated December 9, 2013 issued vide [Notification No. DBOD.No.BP.BC.76/21.04.157/2013-14](#). However, provisions under Para 2, Para 5.1

¹ Novation is the replacement of a contract between two counterparties to an OTC derivatives transaction (the transferor, who steps out of the existing contract, and the remaining party) with a new contract between the remaining party and a third party (the transferee). The transferee becomes the new counterparty to the remaining party.



and Para 5.2 of the above circular shall not apply to transactions in bond forwards undertaken in terms of these Directions.

(v) The settlement basis and market conventions for bond forwards shall be specified by FIMMDA, in consultation with market participants. FIMMDA shall also prescribe standard documentation procedures for bond forwards. Market participants may use a standard master agreement for bond forwards.

10. Reporting

Market-makers shall report all transactions in bond forwards within 60 minutes of entering into the transactions, to the Trade Repository of Clearing Corporation of India Limited (CCIL). The reporting shall include, *inter alia*, underlying debt instrument, settlement type, etc., Market-makers shall also report instances of unwinding, novation, bilateral settlement and settlement default to the Trade Repository of CCIL.

11. Valuation Methodology

The valuation and accounting of bond forwards by market participants shall be as per notified and applicable accounting standards read with regulatory guidelines/instructions issued by the respective regulators. In case the applicable accounting standards have not been notified or the respective regulator have not prescribed the accounting treatment for transactions in bond forwards, guidance, if any, issued by the Institute of Chartered Accountants of India (ICAI) shall be followed in this regard.

12. Prudential Norms and Capital Requirements

Market participants shall follow the applicable prudential norms including those related to capital adequacy, exposure norms, related party transactions, etc. issued by their respective regulators for transactions in bond forwards.

13. Dissemination of Data

The Reserve Bank, or any other agency authorised by the Reserve Bank, may in public interest, publish information related to transactions in bond forwards.



14. Other Conditions

The [Master Direction - Reserve Bank of India \(Market-makers in OTC Derivatives\) Directions, 2021, dated September 16, 2021](#), as updated from time to time, shall be complied with, mutatis mutandis, by all market-makers. Market participants shall also comply with the [Reserve Bank of India \(Prevention of Market Abuse\) Directions, 2019](#).

15. Violation of Directions

In the event of any market participant violating any provision of these Directions or the provisions of any other applicable law, the Reserve Bank may, in addition to taking any penal or regulatory action in accordance with law, disallow the market participant from undertaking bond forward transactions for a period not exceeding one month at a time, after providing reasonable opportunity to the person or agency to defend its action. Such action shall be made public by the Reserve Bank.

Yours faithfully

(Dimple Bhandia)
Chief General Manager