



International Financial Services Centres Authority

E-file no: IFSCA-FMPP0BR/14/2024-Banking

June 27, 2024

To,
All IFSC Banking Units

Dear Sir/Madam,

Permission to offer OTC derivatives on Gold and Silver: Amendment to OTDE Module (Module no. 13) of IFSCA Banking Handbook COB Directions v6.0

1. It has been decided to permit IFSC Banking Units (IBUs) to undertake OTC derivatives on Gold and Silver and offer such derivatives to their clients.
2. The updated OTC derivatives (OTDE) Module of the IFSCA Banking Handbook, with the necessary changes marked in bold, is enclosed. The updated module shall be included in the IFSCA Banking Handbook subsequently.
3. The content of the circular shall come in to force with immediate effect.

Yours faithfully

(Supriyo Bhattacharjee)
Chief General Manager
Department of Banking

MODULE NO. 13

OTC DERIVATIVES

(OTDE)

1. Application

- i. These directions are the IFSCA OTC Derivatives Directions (or OTDE).
- ii. These directions set out the requirements for undertaking OTC derivatives (OTC) in IFSC and clearing and reporting of such derivatives.
- iii. The term “derivative” used in the rest of this document shall mean OTC derivatives in foreign exchange, interest rate, credit, Offshore Derivative Instruments (ODIs)¹, **Gold and Silver** specified in Annex 2 and shall include such derivatives denominated in INR but settled in FCY.
- iv. **ODIs and OTC derivatives on Gold and Silver** are ‘Qualified Financial Contracts’ under Bilateral Netting of Qualified Financial Contracts Act, 2020.

2. Definitions

- i. “Booked in IFSC” means the entry of the derivatives contract on the books of a person –:
 - (a) who is a party to the uncleared derivatives contract; and
 - (b) whose place of business for which the book relates to is in IFSC
- ii. ‘Initial margin’ means the collateral collected by a counterparty to cover its current and potential future exposure in the interval between the last collection of margin and the liquidation of positions or hedging of market risk following a default of the other counterparty
- iii. “Professional client” means a client who possesses the experience, knowledge, and expertise to make his own decisions about undertaking a derivative and properly assess the risk of such derivative and includes a client classified as a “deemed professional client”.
- iv. “Deemed professional client” means the clients listed in Annex 1
- v. “Retail client” means a client that is not a professional client.
- vi. “Counterparties” means clients who would otherwise be classified as “professional clients” but who are dealing with the market makers on a principal-to-principal basis.

¹ As defined in the Securities and Exchange Board of India (Foreign Portfolio Investors) Regulations, 2019 dated September 23, 2019 (as amended).

- vii. “Recognised credit rating agency” shall mean the following rating agencies and include their subsidiary rating agencies in various jurisdictions:
 - a. Moody’s
 - b. Fitch
 - c. S & P Global ratings
- viii. ‘Variation margin’ means the collateral collected by a counterparty to reflect the results of the daily marking-to-market or marking-to-model of outstanding contracts.
- ix. “Market maker” means a financial institution (as defined in section 3(1)(c) of the IFSCA Act,2019) that undertakes derivatives on its own account and at his own risk and at prices quoted by him and who is so designated by the Authority.
- x. “Netting set’ means a set of non-centrally cleared derivative contracts between two counterparties that is subject to a legally enforceable bilateral netting agreement.
- xi. “IFSC covered entity” means an entity engaged in financial business, a significant non-financial entity and any other entity designated by the Authority as an IFSC Covered entity but excludes the entities listed in Annex 3.
- xii. “Entity engaged in financial business” means an entity that is engaged in the business of finance if the entity itself or the group to which it belongs has an aggregate month-end average notional amount (AANA) of non-centrally cleared derivatives outstanding for March, April, and May of 2021 exceeds €50 billion.
- xiii. “Significant non-financial entity” means any entity other than an entity engaged in financial business if the entity itself or the group to which it belongs has an average aggregate notional amount of non-centrally cleared derivatives outstanding for March, April, and May of 2021 exceeding \$ €75 billion.
- xiv. “Group “means a holding company, subsidiary, associate company (including a joint venture company) and a subsidiary of a holding company to which the entity is also a subsidiary.
- xv. “Foreign Covered Entity” means a person operating outside IFSC who, is required, under the regulations laid down by its home regulator, to exchange margin for uncleared derivative contracts.
- xvi. “Uncleared derivatives contract” means a derivative contract that is not, or is not intended to be, cleared or settled by a person operating a clearing facility through which parties to a contract substitute, through novation or otherwise, the credit of the person operating the clearing facility for the credit of the parties;
- xvii. “Specified derivatives contract” means any derivatives contract that meets all of the following criteria:

- (a) the derivatives contract is not an exchange traded derivatives contract;
- (b) the parties to the derivatives contract are not related corporations;
- (c) the derivatives contract is booked in IFSC by both parties to the derivatives contract;
- (d) the parties to the derivatives contract are persons who are not exempt from providing margin for uncleared derivatives contracts.
- (e) the derivatives contract as specified by the Authority in Annex 7.

- xviii. "Specified person" means
- a. An IBU acting as a market maker to a specified derivatives contract booked in IFSC.
 - b. Any other "financial institution" as defined u/s 3(1)(c) of the IFSCA Act,2019.
 - c. Any person resident in India or a person resident outside India who enters into a specified derivatives contract booked in IFSC with a market maker.

3. Participants

- i. For an OTC derivative contract booked in IFSC to be valid, at least one of the parties to the contract must be a "market maker".
- ii. IBUs shall be market makers in OTC derivatives (except ODIs) booked in IFSC.
- iii. IBUs holding a Foreign Portfolio Investor (FPI) certificate under the provisions of the Securities and Exchange Board of India (Foreign Portfolio Investors) Regulations,2019 dated September 23,2019 (as amended) shall be market makers for ODIs.
- iv. The following persons shall be treated as "clients" with respect to derivatives booked in IFSC:
 - a. Financial institutions (other than BUs) as defined u/s section 3(1)(c) of the IFSCA Act, 2019
 - b. Persons resident in India as defined u/s 2(v) of FEMA,1999, if specifically permitted (see 5 (iii) below)
 - c. Persons resident outside India as defined u/s 2(w) of FEMA,1999.

4. Obligation to classify clients

- i. Client classification requirements specified in the Client Classification module (CLIC) of COB shall not be applicable to this module.
- ii. Market makers shall classify their clients into the following categories:
 - a. Professional clients
 - b. Counterparties

- c. Retail clients
- iii. Market makers shall undertake the classification in para 4(ii) at the start of the relationship and review the same at regular intervals not less than annually. If so warranted, in the opinion of the BU, reclassification on the basis of information received may be undertaken by IBUs between scheduled intervals.
- iv. Clients shall be informed about their classification before offering derivative contracts to them.
- v. A client categorised as a “retail client”, may request the IBU to be treated as a “professional client”. Such request should be appropriately documented and signed by appropriate authority of the client.
- vi. A client categorised as a “professional client” by the market maker, may request the IBU to be treated as a “retail client”. Such request should be appropriately documented and signed by appropriate authority of the client.

5. Products

- i. Market makers shall offer derivatives of the following asset classes:
 - a) Foreign exchange
 - b) Interest rate
 - c) Credit
 - d) Offshore Derivative Instruments (ODIs)²
 - e) **Gold**
 - f) **Silver**
- ii. Market makers may offer the following derivatives, hereinafter called “Generic derivatives”, to all categories of clients:
 - a) forward rate agreement.
 - b) foreign exchange forward;
 - c) interest rate swap;
 - d) foreign exchange swap;
 - e) currency swap;
 - f) credit event/default swap;
 - g) interest rate option (European)

² As defined in the Securities and Exchange Board of India (Foreign Portfolio Investors) Regulations, 2019 dated September 23, 2019 (as amended)

- h) interest rate cap (European)
 - i) interest rate floor (European)
 - j) foreign exchange option (European)

 - k) **Gold forwards**
 - l) **Gold swaps**
 - m) **Gold options (European)**
 - n) **Silver forwards**
 - o) **Silver swaps**
 - p) **Silver options (European).**
- iii. In addition to generic derivatives, market makers may offer structured derivatives to their professional clients and undertake structured derivatives with counterparties. For this purpose, the following shall be treated as structured derivative products:
- a) Derivatives other than “Generic derivatives” listed above
 - b) Instruments that are a combination of one or more “Generic derivatives” and cash instruments
- iv. **Market makers may offer OTC derivatives on Gold and Silver to entities resident in India in compliance with the provisions of the relevant circulars³ issued by the Reserve Bank of India, from time to time. Other than the above, market makers shall not offer OTC derivatives to persons resident in India, unless specifically permitted.**

6. Suitability obligation of market makers

- i. Market makers may offer only those derivatives to their clients which they can price independently.
- ii. Irrespective of the classification of a customer as retail or professional, market makers should act honestly, fairly and professionally and take reasonable steps to manage or mitigate conflicts of interest (see IFSCA Conduct of Business Directions – Conflict of Interests) including by implementing appropriate procedures in the distribution of structured derivative products, and where there

³ A. P. (DIR Series) Circular No. 01 (Hedging of Gold Price Risk in Overseas Markets) dated April 15, 2024

exists a potential risk of damage to the client's interest, the market makers should clearly disclose such risk to the client.

- iii. Clients should receive or have access to material information to evaluate the features, costs and risks of the structured derivatives product. Any information communicated by market makers to their clients regarding structured derivatives product should be communicated in a fair, comprehensible and balanced manner.
- iv. Whenever a market maker recommends the purchase of a particular structured derivative product, including where the market maker advises or otherwise exercises investment management discretion, the market maker shall take reasonable steps to ensure that recommendations, advice or decisions to trade on behalf of such client are based upon a reasonable assessment that the structure and risk-reward profile of the financial product is consistent with such client's experience, knowledge, investment objectives, risk appetite and capacity for loss.
- v. A market maker must have sufficient information in order to have a reasonable basis for any recommendation, advice or exercise of investment discretion made to a customer in connection with the distribution of a structured derivative product.
- vi. Market makers shall establish a compliance function and develop appropriate internal policies and procedures that support compliance with suitability requirements, including when developing or selecting new structured derivative product for clients.
- vii. Market makers shall develop and apply appropriate incentive policies designed to ensure that only suitable structured derivative products are recommended to customers.
- viii. While offering the products (see 5 above) to their clients, market makers shall take due care to ensure that the products offered to their clients are not being used to circumvent or violate the existing laws or regulations, issued by any financial sector regulator in India or Government of India, relating to investments in India by persons resident outside India.
- ix. **While offering derivatives on Gold and Silver to their clients, market makers shall also comply with the additional requirements specified in Annex 8 (Part A).**

7. Mandatory clearing of derivatives contracts

- i. Every specified person who is a party to a specified OTC derivatives contract shall, within one business day after the day on which the specified derivatives contract is entered into, cause the specified derivatives contract to undergo clearing by a clearing facility operated by an approved clearing house or a

recognised clearing house, as specified by the Authority in Annex 7, in accordance with the business directions of the approved clearing house or recognised clearing house, as the case may be.

- ii. Except where the parties to a specified derivatives contract have entered into an express agreement to the contrary, the specified derivatives contract shall not, by reason only of a contravention of subsection 7(i) in relation to the specified derivatives contract, be voidable or void.
- iii. The following specified persons are exempt from the requirement of section 7(i):
 - (a) Any market maker whose average aggregate outstanding notional amount (AANA) does not exceed €5,000,000,000 — :
 - (i) for the last day of the most recently completed quarter; and
 - (ii) for last day of each of the 3 consecutive quarters immediately preceding that quarter;
 - (b) any “market maker” that has been carrying on operations for less than one year in IFSC.
- iv. IBUs may, at their option, cause contracts other than specified derivatives contracts to undergo clearing by a clearing facility operated by an approved clearing house or a recognised clearing house, as specified by the Authority in Annex 7, in accordance with the business directions of the approved clearing house or recognised clearing house, as the case may be.

8. Margin placement for non-centrally cleared derivatives

- i. An IFSC covered entity should undertake the exchange of margins with a counterparty to an uncleared derivatives contract if that counterparty is:
 - (a) an IFSC Covered Entity; or
 - (b) a Foreign Covered Entity.
- ii. An IFSC Covered Entity need not undertake exchange of margins if the uncleared derivatives contract is entered into with a counterparty who is:
 - (a) a person specified in Annex 3; or
 - (b) an entity belonging to the same group as the IFSC Covered Entity.
- iii. Prior to entering into an uncleared derivatives contract, an IFSC Covered Entity should ensure that all of the following are in place:
 - (a) confirmation from its counterparty about its status as an IFSC Covered Entity or a Foreign Covered Entity.

- (b) legally enforceable agreements in relation to the exchange of margins for the transactions.
 - (c) appropriate policies, procedures and controls for dispute resolution (including collateral valuation processes and escalation of material disputes to senior management, or to the Board, as may be appropriate);
- iv. Subject to paragraph 8(vi), the exchange of margins applies to uncleared derivatives contracts booked in IFSC
- v. The exchange of margin requirement shall not apply to the following types of uncleared derivative contracts:
 - a) a physically-settled foreign exchange (FX) forward or swap
 - b) a fixed physically settled FX transaction associated with the exchange of principal of a cross-currency swap ⁴
 - c) an uncleared derivatives contract without a legally enforceable netting agreement;
 - d) an uncleared derivatives contract without a legally enforceable collateral arrangement
- vi. For the purpose of sub-paragraphs 8(v)(c) and (d), an IFSC Covered Entity should undertake a legal review and document the basis of determining a netting agreement or collateral arrangement as non-legally enforceable. Before determining that a collateral arrangement is not legally enforceable, the IFSC Covered Entity should explore alternative arrangements to safeguard IM collateral, taking into account the legal constraints and the market practices of each relevant jurisdiction.
- vii. Notwithstanding the exclusions in paragraph 8(v) an IFSC Covered Entity should appropriately manage its risk exposure in uncleared derivatives contracts.

9. Exchange of Margin

- i. In undertaking the exchange of margins, an IFSC Covered Entity should exchange IM on a gross basis (i.e., there should be no netting of IM amounts owing between counterparties).
- ii. Initial margin requirements will apply to all new contracts entered into after the phase in period mentioned in para 16 below. Initial margin requirements shall not be applicable to derivative contracts existing as on December 31,2021.
- iii. All IFSC Covered Entities that engage in non-centrally cleared derivatives must exchange, on a bilateral basis, the full amount of variation margin (i.e., a zero threshold) on daily basis.

⁴ A cross-currency swap refers to a swap in which one party exchanges with another party principal and interest rate payments in one currency for principal and interest rate payments in another currency.

- iv. An IFSC Covered Entity shall apply the following exclusions when undertaking exchange of margins:
 - a) IM threshold of not more than €50,000,000 (or equivalent in a specified foreign currency). The threshold is to be applied at the level of the consolidated group to which the threshold is being extended and is based on all non-centrally cleared derivatives between the two consolidated groups.
 - b) A minimum transfer amount of not more than €500,000 (or equivalent in a specified foreign currency) for all margin (combination of IM and VM) transfers. If the minimum transfer amount is exceeded, the entire margin amount should be transferred.
- v. The threshold at iii(a) shall be applied at the level of the consolidated group to which the threshold is being extended and is based on all non-centrally cleared derivatives between the two consolidated
- vi. Margin calls by an IFSC Covered Entity should be made at the earliest time possible after the transaction date (“T”) or margin recalculation date (“R”), but no later than the end of the next local business day (“T+1” or “R+1”);
- vii. The exchange of margins should take place within the standard settlement cycle for the relevant collateral type but no later than three local business days from the transaction date (“T+3”) or from the day that margins have to be recalculated (“R+3”).

10. Margin calculation and methodologies – Initial margin:

- i. The amount of IM to be exchanged should be calculated by reference to either:
 - (a) a quantitative portfolio margin model; or
 - (b) a standardised margin schedule outlined in Annex 4
- ii. An IFSC Covered Entity may opt for either approach without restricting itself to one approach for all its uncleared derivatives contracts. However, the IFSC Covered Entity should be consistent in its approach for all contracts within the same asset class, and reasons behind the choice of approach should be based on fundamental considerations, such as differing models approved in foreign jurisdictions or the inability of certain counterparties to use certain models or approaches.
- iii. IM should be exchanged on a routine and consistent basis upon changes in measured potential future exposure. At a minimum, IM should be calculated and exchanged in each of the following circumstances:
 - (a) a new contract is executed with a counterparty.
 - (b) an existing contract with a counterparty terminates or expires.
 - (c) occurrence of a significant market disruption;

- (d) the IM model (if applicable) is recalibrated.
 - (e) changes to the asset classification of existing trades (if they are computed under the standardised approach);
 - (f) no IM recalculation has been performed in the last 10 local business days.
- iv. Prior to execution of the transaction, the IFSC Covered Entity should agree with its counterparty, in writing or other equivalent permanent electronic means, the specific margin calculation method and if applicable, the quantitative portfolio margin model to be used.
 - v. In the event that a margin dispute arises, any amount that is not under dispute should first be exchanged, while the matters under dispute are investigated, documented, and all necessary and appropriate efforts, including timely initiation of dispute resolution protocols, are taken to resolve the dispute and collect the remaining required amount of IM in a timely fashion.
 - vi. Quantitative portfolio margin models may either be internally developed or developed by a third party. Where third-party models are being used, the responsibility for ensuring compliance with these directions remains with the IFSC Covered Entity.
 - vii. Any quantitative portfolio margin model should be appropriately risk-sensitive, capture all material risk drivers and reflect the nature, scale and complexity of the risks inherent in the underlying derivatives for which IM is being calculated. Such risks should include, where applicable, material drivers arising from correlation risks, basis risks, idiosyncratic risk for credit underlying and main non-linear dependencies. The model should also account for, in a conservative manner, the risk arising from illiquid positions or positions with limited price transparency.
 - viii. Before using a quantitative portfolio margin model, an IFSC Covered Entity should provide to the Authority the relevant documentation, which includes the model methodology, model specifications and validation reports. The Authority may stipulate further testing or improvements to the model for continued usage of the model.
 - ix. Before making any subsequent material changes to an existing model, an IFSC Covered Entity should provide to the Authority relevant documentation to show that the revised model would continue to comply with these Guidelines.
 - x. If a model ceases to comply with these Guidelines, an IFSC Covered Entity should notify the Authority that it will compute the required IM amount using the standardised schedule outlined in Annex 4;
 - xi. An IFSC Covered Entity should subject a quantitative portfolio margin model to independent validation before use (and annually thereafter).

- xii. An IFSC Covered Entity should undertake continual assessment on a model's compliance with these Guidelines, including assessing the value of the model's risk assessments and validating the applicability of the model to the uncleared derivatives contracts for which it is being used.
- xiii. An IFSC Covered Entity should subject a model to a regular back- testing programme – testing the model's assessments against realised data and experience – to monitor the performance of the model. Adequate documentation such back-testing exercise should be maintained, which should include the back-testing methodology, back-testing results, and policies for remediation of the model.
- xiv. An IFSC Covered Entity should recalibrate a quantitative margin model at least annually. There should be written recalibration policies which include circumstances that would trigger an earlier recalibration, such as changing market conditions.
- xv. Senior management of an IFSC Covered Entity should ensure ongoing compliance of a model with these Guidelines, review the back-testing and validation of the model at least once a year, and decide the course of action that would be taken to address model compliance issues.
- xvi. IM calculated under the quantitative portfolio margin model should meet all the following standards:
 - (a) one-tailed 99 per cent confidence interval over a margin period of risk (MPOR) of at least 10 days⁵ to reflect an extreme but plausible estimate of an increase in the value of the uncleared derivatives contracts.
 - (b) the MPOR of a netting set for the calculation of IM using an IM model should include –
 - i.the period that may elapse from the last margin exchange to the default of the counterparty; and
 - ii.the estimated period needed to replace the derivatives contracts or hedge the risks taking into account the level of liquidity, the total volume of the derivatives contracts, and the number of participants in that market where that type of contracts or risks are traded;
 - (c) the IM model should be calibrated based on historical data of not more than five years, which incorporates a period of significant financial stress to ensure sufficient margin during stress; the period of financial stress should be identified and applied separately for each broad asset class for which portfolio margining is allowed;

⁵ If VM is exchanged at less than daily frequency, the minimum horizon should be set equal to 10 days plus the number of days in between VM collection.

(d) data within the identified period should be equally weighted for calibration purposes.

xvii. Quantitative IM models may account for risk on a portfolio basis subject to the following conditions:

(a) IM models may consider all uncleared derivatives contracts that are agreed for model use and are subject to the same legally enforceable netting agreement;

(b) IM models may account for diversification, hedging and risk offsets within well-defined asset classes such as currency/rates⁶, equity, credit, or commodities, but not across such asset classes, and provided these instruments are covered by the same legally enforceable netting agreement (i.e., the total IM amount required is a simple summation of IM requirements at each underlying asset class);

(c) uncleared derivatives contracts for which a firm faces zero counterparty risk require no IM to be collected and may be excluded from the IM calculation.

11. Margin calculation and methodologies – Variation margin:

- i. VM should be posted or collected to fully collateralise the changes in the mark-to-market exposure of the uncleared derivatives contracts entered into by an IFSC Covered Entity. In the event that the exposures cannot be marked-to-market due to market conditions, IFSC Covered Entities may use an alternative process or approach.
- ii. VM should be calculated and collected on an aggregate net basis across all uncleared derivatives contracts, subject to the provisions of these directions, that are executed under a single, legally enforceable netting agreement.
- iii. In the event that a margin dispute arises, IFSC Covered Entities should first collect the non-disputed amount while taking all necessary and appropriate efforts, including timely initiation of dispute resolution protocols to resolve the dispute and collect the remaining VM amount in a timely fashion.

12. Eligible Collateral and Haircuts

- i. For the purpose of these directions, the following shall be the eligible collateral to meet IM and VM requirements:

⁶ Currency and interest rate derivatives contracts may be portfolio margined together as being part of a single asset class for the purposes of IFSC margin requirements.

- a) Cash (in the form of money credited to an account or similar claims for the repayment of money, such as certificates of deposit or comparable instruments issued by an IFSC Covered Entity)
 - b) Gold
 - c) Debt securities rated by a recognised credit rating agency where these are either:
 - i. at least BB- when issued by sovereigns or Public Sector Enterprises (PSEs) that are treated as sovereigns by the national supervisor; or
 - ii. at least BBB- when issued by other entities (including banks and securities firms); or
 - iii. at least A-3/P-3 for short-term debt instruments
 - d) Unrated debt securities which are:
 - i. issued by a sovereign, or PSE treated as a sovereign by the national supervisor, that has an issuer rating of BB- or better; or
 - ii. issued by a bank; and
 - listed on a recognised exchange; and
 - classified as senior debt; and
 - all rated issues of the same seniority by the issuing bank must be rated at least BBB- or A-3/P-3 by a recognised credit rating agency; and
 - the IFSC Covered Entity holding the securities as collateral has no information to suggest that the issue justifies a rating below BBB- or A-3/P-3 (as applicable).
- ii. Notwithstanding the list of eligible collateral set out above, an IFSC Covered Entity shall be entitled to not recognise a collateral as eligible collateral in cases where:
 - (a) the IFSC Covered Entity determines that it would not be able to liquidate such collateral in a timely manner in case of default of the posting counterparty; or
 - (b) the securities are issued by the IFSC Covered Entity (or its related entities) or a counterparty (or its related entities).
 - iii. An IFSC Covered Entity should perform daily valuation of collateral exchanged to meet IM and VM requirements and apply haircuts to the value of the eligible collateral, to account for the fact that certain collateral may not be readily liquidated at full value at the time of counterparty default (or termination of contracts or any other specified events), particularly during periods of financial stress.

- iv. An IFSC Covered Entity should apply standardised schedule-based haircuts (set out in Annex 5), based on the type of collateral posted or received, to the value of eligible collateral for the purpose of meeting margin requirements. Internal or third-party quantitative model-based haircuts should not be used for determining the haircuts to be applied to the value of eligible collateral.
- v. For the purpose of meeting VM requirements, an IFSC Covered Entity should apply an additive currency mismatch haircut of 8% to all non-cash collateral that is posted or received in a currency other than the ones agreed in the relevant contract.

13. Managing collateral risks

- i. To manage risks associated with collateral exchanged to meet IM and VM requirements, an IFSC Covered Entity should ensure that –
 - (a) the value of the collateral posted or received does not exhibit a significant correlation with the creditworthiness of the counterparty or the value of the underlying uncleared derivatives portfolio so that the effectiveness of the protection offered by the collateral collected is not undermined (i.e., “wrong way risk”);
 - (b) policies, procedures and controls are established to ensure that the collateral collected is reasonably diversified, and is not overly concentrated in an individual issuer, issuer type or asset type; and
 - (c) in the event of a dispute over the value of eligible collateral, any undisputed amount should first be exchanged while all necessary and appropriate efforts are being undertaken (including timely initiation of dispute resolution protocols) to resolve the dispute and exchange the disputed margin in a timely fashion.

14. Substitution and rehypothecation of collateral

- i. An IFSC Covered Entity may substitute the collateral that has been posted or received for IM or VM purposes, subject to meeting the following conditions:
 - (a) consent from its counterparty is obtained and is supported by the relevant contracts;
 - (b) the substituted collateral meets all the requirements (including the applicable haircuts) set out in these directions

- ii. An IFSC Covered Entity should ensure that the IM collected from counterparties is maintained in a manner such that –
 - (a) IM collected is available to the collecting party on a timely basis, where legally possible, following a default or early termination by the posting party;
 - (b) IM collected is segregated from the proprietary moneys and assets of the collecting party (or held with an independent third-party custodian) under trust or custody account arrangement to address the insolvency risk of the collecting party; and
 - (c) IM collected is subject to legally enforceable collateral arrangements that protect the posting party to the extent possible under applicable law in the event that the collecting party enters insolvency or bankruptcy.

- iii. An IFSC Covered Entity may, with the consent of the counterparties, re-hypothecate, re-pledge or re-use the non- cash IM collected from counterparties subject to the following conditions:
 - (a) The collateral of counterparties that have consented to the re-hypothecation of their collateral must be segregated from that of counterparties that have not so consented
 - (b) Where the initial margin collector re-hypothecates initial margin, the agreement with the recipient of the collateral (i.e., the third party) must prohibit the third party from further rehypothecating the collateral.
 - (c) Where collateral is re-hypothecated, the initial margin collector must notify the counterparty of that fact. Upon request by the counterparty and where the counterparty has opted for individual segregation the initial margin collector must notify the customer of the amount of cash collateral and the value of non-cash collateral that has been re-hypothecated.

- iv. Subject to the prior written consent of the counterparty, the IFSC Covered Entity may re-invest cash IM collected from the counterparty into eligible collateral provided that the re-invested cash IM (after application of the relevant haircuts) meets the provisions set out in these directions

15. Substituted compliance

- i. An IFSC Covered Entity may be subject to margin requirements in a foreign jurisdiction for its derivatives transactions. In such cases, the Authority may consider that an IFSCA Covered Entity adhering to such margin requirements is in compliance with the requirements in these directions provided:

- (a) the margin requirements in the foreign jurisdiction are deemed to be in compliance with these directions (“deemed compliant status”) or;
 - (b) the margin requirements in the foreign jurisdiction are assessed to be comparable to the requirements in these directions;
- ii. A Foreign Covered Entity may be subject to margin requirements in IFSC for its derivatives transactions. In such cases, the Authority may consider a Foreign Covered Entity adhering to the margin requirements of its home jurisdiction, to be compliance with the requirements in these directions if:
 - (a) the margin requirements of the home jurisdiction of the foreign covered entity are deemed to be in compliance with these directions (“deemed compliant status”); or
 - (b) the margin requirements of the home jurisdiction of the foreign covered entity are assessed to be comparable to the requirements in these directions;
- iii. In considering whether the margin requirements in a foreign jurisdiction are comparable, the Authority would have regard to whether the framework in the foreign jurisdiction is implemented in line with the policy framework on Margin Requirements for Non-Centrally Cleared Derivatives issued by the Basel Committee for Banking Supervision (BCBS) and International Organization of Securities Commissions (IOSCO). The Authority may impose additional conditions to be met by an IFSCA Covered Entity intending to comply with the margin requirements of specific foreign jurisdictions.
- iv. The “deemed compliant status” shall be applicable to the margin directions issued by all relevant authorities of the concerned jurisdiction.
- v. Substituted compliance would not be available if the respective margin standards have not entered into force in a deemed compliant status jurisdiction.
- vi. List of foreign jurisdictions whose margin requirements are deemed to be in compliance of these directions is given in Annex 6.

16. Implementation schedule

- i. An IFSC Covered Entity should commence the exchange of VM in respect of uncleared derivatives contracts transacted with a

counterparty that is an IFSCA Covered Entity or a Foreign Covered Entity from January 1,2022.

- ii. An IFSC Covered Entity should commence the exchange of IM in respect of uncleared derivatives contracts entered into with a counterparty that is an IFSCA Covered Entity or a Foreign Covered Entity from the phase-in dates specified in Table 1.
- iii. The exchange of IM applies from each phase-in date where both the IFSC Covered Entity and the counterparty each belong to a consolidation group whose month-end average notional amount of non-centrally cleared derivatives for March, April, and May of 2021 exceeds the respective thresholds.⁷
- iv. From September 1, 2022, any IFSC Covered Entity whose aggregate month-end average notional amount of non-centrally cleared derivatives for March, April, and May of the year exceeds USD 10 billion will be subject to the requirements of IM during the one-year period from 1st September of that year to 31st August of the following year

Table 1: Phased-in schedule for the exchange of IM

Threshold	Phase-in Date
€ 50 billion	1 st January,2022 to 31 August, 2022
€10 billion	From 1st September 2022

17. Maintenance of records

- i. An IFSC Covered Entity should ensure that all relevant books, and all transaction information and related information for the purposes of these Guidelines, are kept –
 - (a) in the case of any relevant book, until at least five years after the last date of the expiry or termination of a contract, an agreement or a transaction to which the book relates; or
 - (b) in the case of any transaction information or related information, until at least five years after the date of the expiry or termination of the contract, agreement or transaction to which the information relates.

⁷ The exchange of IM is not required if either the IFSCA Covered Entity or the counterparty does not exceed the threshold during the phase-in date.

18. Reporting

- i. IBUs shall report the details of the OTC foreign exchange, interest rate and credit derivative transactions, both inter-bank and client, to the trade reporting platform of Clearing Corporation of India Limited (CCIL). For this purpose, IBUs shall follow the instructions issued by the Reserve Bank of India vide its circular on *Reporting Platform for OTC Derivatives – Transactions undertaken by IFSC Banking Units and non-deliverable derivative contracts (involving Rupee or otherwise)* dated May 18,2020.⁸
- ii. IBUs shall report to the Securities and Exchange Board of India (SEBI) data on ODIs issued by them as per the provisions of the Securities and Exchange Board of India (Foreign Portfolio Investors) Regulations, 2019 dated September 23,2019 (as amended)
- iii. IBUs shall also send the soft copy of the data being reported by them to CCIL and SEBI to ibu-reports@ifsc.gov.in.
- iv. **IBUs shall report OTC derivatives transactions on Gold and Silver undertaken by them in the format provided in Annex 8 (Part B) to IFSCA in soft copy to ibu-reports@ifsc.gov.in. Such report must be submitted on a monthly basis by the 10th of the month following the month to which the report pertains.**

⁸ RBI/2019-20/233 FMRD.FMID.26/02.05.002/2019-20 dated May 18,2020

Deemed professional clients

1. Entities whose operations in the financial markets are licensed or regulated including:
 - i. Banks
 - ii. Investment firms
 - iii. Other authorised or regulated financial institutions
 - iv. Insurance companies
 - v. Collective investment schemes
 - vi. Pension funds and entities managing such funds
 - vii. Large Corporates (being a company with a minimum balance sheet size of USD 10 mio as per the latest audited balance sheet available)
 - viii. National and regional governments, including public bodies that manage public debt at national or regional level, Central Banks, international and supranational institutions such as the World Bank, the IMF, the ECB, the EIB and other similar international organisations.
 - ix. Other institutional investors whose main activity is to invest in financial instruments, including entities dedicated to the securitisation of assets or other financing transactions.

OTC Derivatives contracts (See para 1(iii) of the Directions)

1. **Foreign exchange derivatives:**

- a. **Outright forwards:** Transaction involving the exchange of two currencies at a rate agreed on the date of the contract for value or delivery (cash settlement) at some time in the future (more than two business days later). This category also includes forward foreign exchange agreement transactions (FXA), non-deliverable forwards and other forward contracts for differences.
- b. **Foreign exchange swaps:** Transactions involving the actual exchange of two currencies (principal amount only) on a specific date at a rate agreed at the time of the conclusion of the contract (the short leg), and a reverse exchange of the same two currencies at a date further in the future at a rate (generally different from the rate applied to the short leg) agreed at the time of the contract (the long leg).
- c. **Currency swaps:** Contract which commits two counterparties to exchange streams of interest payments in different currencies for an agreed period of time and/or to exchange principal amounts in different currencies at a pre-agreed exchange rate at maturity.
- d. **Currency options:** A derivative contract that gives the right to buy or sell a currency with another currency at a specified exchange rate during a specified period. This category also includes exotic foreign exchange options such as average rate options and barrier options as well as swaptions (i.e., option to enter into a currency swap contract.)

2. **Interest rate derivatives**

- a. **Forward rate agreements:** Interest rate forward contract in which the rate to be paid or received on a specific obligation for a set period of time, beginning at some time in the future, is determined at contract initiation.
- b. **Interest rate swaps:** Agreement to exchange periodic payments related to interest rates on a single currency; can be fixed for floating or floating for floating based on different indices. This group includes those swaps whose notional principal is amortised according to a fixed schedule independent of interest rates.
- c. **Interest rate options:** Option contract that gives the right to pay or receive a specific interest rate on a predetermined principal for a set period of time and includes interest rate cap, interest rate floor, interest rate collar, interest rate corridor, interest rate swaptions etc.

3. **Credit derivatives**

- a. **Forwards:** Agreement to pay or receive at some time in the future a cash payment that depends on the difference between a spread (i.e., the difference in yields between two financial assets) agreed at contract initiation and that prevailing at settlement.
- b. **Credit event/default swap (single name and basket):** Contract that commits two counterparties to exchange a periodic fee for a payment contingent on a default event or any other agreed change in the credit quality of a reference asset for an agreed period of time.
- c. **Options:** Credit options including credit spread option, defined as an option contract that gives the right to receive a cash payment if a spread, i.e., the difference in yields between two financial assets, widens beyond an agreed strike level during a specific period

4. **Offshore derivative instruments (ODIs)⁹**

- a. ODIs on Indian Government Bonds (IGBs)
- b. ODIs on State Development Loans (SDLs)
- c. ODIs on Securities listed in section 2(h)(i) of the of the Securities Contract (Regulation) Act, 1956 (as amended)

5. **Gold derivatives**

a. **Gold Forwards:** A gold forward is a contract between two parties to buy or sell gold at a specified price on a future date.

b. **Gold swap:** A gold swap is a type of swap agreement whereby a floating (or market or spot) price based on gold is traded for a fixed price over a specified period.

b. **Gold Options:** A gold option is a contract which gives the buyer (the owner or holder of the option) the right, but not the obligation, to buy or sell gold at a pre-determined price on or before the date of expiration of the contract. The seller (writer) of option, on the other hand, bears the obligation to honour the contract should the buyer choose to exercise the option.

6. **Silver derivatives**

a. **Silver Forwards:** A silver forward is a contract between two parties to buy or sell silver at a specified price on a future date.

⁹ as defined in the Securities and Exchange Board of India (Foreign Portfolio Investors) Regulations, 2019 dated September 23, 2019 (as amended)

b. **Silver swap**: A silver swap is a type of swap agreement whereby a floating (or market or spot) price based on silver is traded for a fixed price over a specified period.

c. **Silver Options**: A silver option is a contract which gives the buyer (the owner or holder of the option) the right, but not the obligation, to buy or sell silver at a pre-determined price on or before the date of expiration of the contract. The seller (writer) of option, on the other hand, bears the obligation to honour the contract should the buyer choose to exercise the option.

Person specified under section 8 (ii) (a)

1. The Government of India
2. Any State government of the Republic of India
3. Any statutory body established by Government of India or a State government
4. Any central bank in a jurisdiction other than India
5. Any central government in a jurisdiction other than India
6. Any agency (of a central government in a jurisdiction other than India) that is incorporated or established, in a jurisdiction other than India, for non-commercial purposes
7. Any of the following multilateral agencies, organisations or entities:
 - (a) the African Development Bank
 - (b) the Asian Development Bank
 - (c) the Asian Infrastructure Investment Bank
 - (d) the Bank for International Settlements
 - (e) the Caribbean Development Bank
 - (f) the Council of Europe Development Bank
 - (g) the New Development Bank
 - (h) the European Bank for Reconstruction and Development
 - (i) the European Economic Community
 - (j) the European Investment Bank
 - (k) the European Investment Fund
 - (l) the Inter-American Development Bank
 - (m) the International Finance Facility for Immunisation
 - (n) the International Monetary Fund
 - (o) the Islamic Development Bank
 - (p) the Nordic Investment Bank
 - (q) the World Bank Group, including the International Bank for Reconstruction and Development, the International Finance Corporation and the Multilateral Investment Guarantee Agency

Calculation of Initial Margin

1. The *net standardised IM* amount calculated is set out in the paragraphs below.
2. For each netting agreement, the required initial margin amount should be calculated in the following steps:

Step 1: For each derivatives contract of the asset class, the gross notional size of the derivatives contract should be multiplied by the margin rate in the table below.

Step 2: This amount is then summed across all asset classes in the same netting agreement to obtain the *gross standardised IM* amount. Simple netting of notional amounts where contracts are matched by the same underlying and maturity is allowed.

Step 3: The gross standardised IM amount is then adjusted by the ratio of the net replacement cost to gross replacement cost (NGR). This is expressed through the following formula:

$$\text{Net standardised IM} = (0.4 + 0.6 \times \text{NGR}) \times \text{gross standardised IM}$$

3. The net replacement cost is the sum of all positive and negative mark-to-market values of all derivatives contracts in the same netting agreement. The net replacement cost is floored at zero.
4. The gross replacement cost is the sum of the mark-to-market values of all derivatives contracts with a positive mark to-market value in the same netting agreement.

Standardised Initial Margin Schedule

Asset Class		Initial Margin Requirement (% of Notional Exposure)
Credit	Residual maturity: 0 - 2 year	2
	Residual maturity: 2 - 5 years	5
	Residual maturity: > 5 years	10
Foreign Exchange		6
Gold or Silver		15
Interest rate	Residual maturity: 0 - 2 year	1
	Residual maturity: 2 - 5 years	2
	Residual maturity: > 5 years	4

Standardised haircuts table for collateral

Issuer rating for unrated sovereign securities or Issue rating for debt securities	Residual Maturity	Sovereigns¹⁰	Other issuers
AAA to AA-/A-1	≤1 year	0.5	1
	>1 year, ≤ 5 years	2	4
	> 5 years	4	8
A+ to BBB-/ A-2/A-3/P-3 and unrated bank securities	≤1 year	1	2
	>1 year, ≤ 5 years	3	6
	>5 year	6	12
BB+ to BB-	All	15	Not eligible
Gold		15	
Cash in the same currency		0	
Additional haircut on asset in which the currency of the derivative differs from the currency of the collateral		8	

The table below provides a mapping if the ratings listed in the table above to those of the “recognised credit rating agencies”

Long term rating	Moody's	S&P	Fitch
AAA to AA-	Aaa to Aa2	AAA to AA-	AAA to AA-
A+ to A-	A1 to A3	A+ to A-	A+ to A-
BBB+ to BBB-	Baa to Baa3	BBB+ to BBB-	BBB+ to BBB-
BB+ to BB-	Ba1 to Ba3	BB+ to BB-	BB+ to BB-
B+ to B-	B1 to B3	B+ to B-	B+ to B-
Below B-	Below B3	Below B-	Below B-

¹⁰ This includes public sector entities and multilateral development banks which are exempt from the margin requirements

List of foreign jurisdictions whose margin requirements are deemed to be in compliance with that of IFSCA (see para 15 – Substituted compliance)

(a) The margin and risk mitigation standards of Working Group on Margin Requirements (WGMR) member jurisdictions¹¹ are deemed as comparable from the day the respective standards have entered into force in such jurisdictions until the Authority has completed a comparability assessment (“deemed compliant status”).

(b) Such jurisdictions are:

1. Australia
2. Brazil
3. Canada
4. European Union
5. Hong Kong
6. India
7. Japan,
8. Republic of Korea
9. Russia
10. Singapore
11. Switzerland
12. The United Kingdom
13. The United States of America

¹¹ Set up by BCBS and IOSCO, in consultation with the CPSS and CGFS in October 2011

Annex 7

List of specified derivatives contracts and recognised clearing house

No.	Contract type	Reference index	Settlement currency	Maturity	Recognised third party CCPs
1.	Basis swap	EURIBOR	EUR	28D-50Y	LCH Ltd, CME(USA), Eurex Clearing (Germany), JSCC (Japan), OTC HK (Hong Kong)
2.	IRS Fixed to Float	EURIBOR	EUR	28D-50Y	LCH Ltd, CME(USA), Eurex Clearing (Germany), JSCC (Japan), OTC HK (Hong Kong)
3.	OIS	EONIA	EUR	7D-3Y	LCH Ltd, CME(USA), Eurex Clearing (Germany)
4.	OIS	Fed Funds	USD	7D-3Y	LCH Ltd, CME(USA), Eurex Clearing (Germany)
5.	OIS	SONIA	GBP	7D-50Y	LCH Ltd, CME(USA), Eurex Clearing (Germany)
6.	OIS	€ STR	EUR	7D-3Y	LCH Ltd, CME(USA), Eurex Clearing (Germany)
7.	OIS	SOFR	USD	7D-3Y	LCH Ltd, CME(USA), Eurex Clearing (Germany)

PART A**Additional conditions for market makers while offering OTC derivatives on Gold and Silver**

1. All OTC derivatives on Gold and Silver shall be settled only on cash basis.
2. IBUs offering OTC derivatives on Gold and Silver to clients shall ensure that the contracts are used for hedging the price risk faced by the client.
3. IBUs shall ensure that price series or index that is referenced as a settlement price in an OTC derivative contract on Gold and Silver is a reliable indicator of transactions in the underlying physical market, publicly available and timely.

PART B**Format for reporting of OTC derivative transactions to the Authority****1. Reporting of Forwards on Gold and Silver**

Reporting fields	Comments/ Instructions
Reference no.	
Trade date	
Seller of forward	
Buyer of forward	
Commodity	<i>Gold/Silver</i>
Number of ounces	<i>In case commodity is not priced in ounces insert the relevant units of the commodity</i>
Contract price	
Settlement date	
Reference price for commodity	
Price source	
Delivery date	

2. Reporting of Swaps on Gold and Silver

Reporting fields	Comments/ Instructions
Reference no.	
Trade date	
Effective date	
Termination date	
Commodity	<i>Gold/Silver</i>
Total notional quantity (in ounces)	<i>In case commodity is not priced in ounces insert the relevant units of the commodity</i>
Notional quantity per calculation period	
Calculation period(s)	

Settlement/Payment dates	
Fixed price payer	
Fixed (Amount/Price)	<i>Currency/Quantity in ounces (In case commodity is not priced in ounces insert the relevant units of the commodity)</i>
Floating price payer	
Unit	
Price source	
Currency	
Specified price	
Delivery date	
Pricing date(s)	

3. Reporting of Options on Gold and Silver

Reporting fields	Comments/ Instructions
Reference no.	
Trade date	
Commodity	<i>Gold/Silver</i>
Number of ounces	<i>In case commodity is not priced in ounces insert the relevant units of the commodity</i>
Option style	<i>European</i>
Option type	<i>Put/Call</i>
Option seller	
Option buyer	
Strike price	
Premium	
Premium payment date	
Exercise period	
Expiration date	
Settlement mode	<i>Cash</i>
Unit	
Price source	
Currency	

Notes:

IBUs shall report each transaction of OTC derivatives undertaken by them in the relevant format specified above