



भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA

वेबसाइट : www.rbi.org.in/hindi
Website : www.rbi.org.in
ई-मेल/email : helpdoc@rbi.org.in



संचार विभाग, केंद्रीय कार्यालय, शहीद भगत सिंह मार्ग, फोर्ट, मुंबई - 400 001

Department of Communication, Central Office, Shahid Bhagat Singh Marg, Fort,
Mumbai - 400 001 फोन/Phone: 022 - 2266 0502

July 09, 2025

RBI releases Draft Reserve Bank of India (Novation of OTC Derivative Contracts) Directions, 2025 under Section 45 W of the RBI Act, 1934

The Reserve Bank of India today placed on its website [Draft Reserve Bank of India \(Novation of OTC Derivative Contracts\) Directions, 2025](#). Comments on the draft Directions are invited from banks, market participants and other interested parties by August 01, 2025.

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 – 400 001

Or by [email](#) with subject line “Feedback on Draft Reserve Bank of India (Novation of OTC Derivative Contracts) Directions, 2025”.

Background and Objective

At present, the novation of OTC derivative contracts is governed by [RBI circular dated December 09, 2013](#). The provisions of the circular have been reviewed in the light of changes in the overall regulatory framework governing OTC derivatives since 2013 and the market feedback received as well as with a view to rationalising the related regulatory requirements.

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(Puneet Pancholy)
Chief General Manager



RESERVE BANK OF INDIA
FINANCIAL MARKETS REGULATION DEPARTMENT
9TH FLOOR, CENTRAL OFFICE, FORT
MUMBAI 400 001

**Reserve Bank of India (Novation of OTC Derivative Contracts) Directions, 2025 –
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 and in supersession of the Directions indicated in [Annex](#), 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 (Foreign Exchange Derivative Contracts) Regulations, 2000 ([Notification no. FEMA.25/RB-2000 dated May 3, 2000](#)), as amended from time to time.

1. Short title, commencement and applicability of Directions

(i) These Directions shall be called Reserve Bank of India (Novation of OTC Derivative Contracts) Directions, 2025.

(ii) These Directions shall apply to Over-the-Counter (OTC) derivatives transactions undertaken, in terms of the provisions of the Governing Directions.

Provided that the Directions shall not apply to a novation of an OTC derivative contract undertaken (i) by a central counterparty, for the purpose of effecting settlement of an OTC derivative contract; or (ii) pursuant to a scheme of merger/demerger/amalgamation, approved or confirmed by the competent authority under the provisions of the Companies Act, 2013 or any other manner under any law.

(iii) These Directions shall come into force with immediate effect.

2. Definitions

(i) For the purpose of these Directions, unless the context otherwise requires:

- (a) **‘Central counterparty’** means an entity that interposes itself between counterparties to contracts traded in one or more financial markets, becoming



the buyer to every seller and the seller to every buyer and thereby ensuring the performance of open contracts.

- (b) **‘Electronic Trading Platform (ETP)’** shall have the same meaning as assigned to it in Paragraph 2(a)(ii) of the [Master Direction – Reserve Bank of India \(Electronic Trading Platforms\) Directions, 2025 dated June 16, 2025](#), as amended from time to time.
- (c) **‘Exchange’** means ‘recognised stock exchange’ and shall have the same meaning as assigned to it in Section 2(f) of the Securities Contract Regulation Act, 1956 (42 of 1956).
- (d) **‘Governing Directions’** for an OTC derivative means the following:
 - a. Foreign Exchange Management (Foreign Exchange Derivative Contracts) Regulations, 2000 ([Notification no. FEMA.25/RB-2000 dated May 3, 2000](#)) and Master Direction – Risk Management and Inter-Bank Dealings ([Notification no. FMRD Master Direction No. 1/2016-17 dated July 05, 2016](#)), as amended from time to time, for foreign exchange derivatives.
 - b. Rupee Interest Rate Derivatives (Reserve Bank) Directions, 2019 ([Notification no. FMRD.DIRD.20/2019 dated June 26, 2019](#)), as amended from time to time and Reserve Bank of India (Forward Contracts in Government Securities) Directions, 2025 ([Notification no. FMRD.DIRD.17/14.03.042/2024-25 dated February 21, 2025](#)), as amended from time to time, for interest rate derivatives.
 - c. Master Direction – Reserve Bank of India (Credit Derivatives) Directions, 2022 ([Notification no. FMRD.DIRD.11/14.03.004/2021-22 dated February 10, 2022](#)), as amended from time to time, for credit derivatives.
 - d. Any other Direction, as may be issued by the Reserve Bank, in exercise of powers vested in the Act or in the Foreign Exchange Management Act, 1999, as the case may be, permitting the use of an OTC derivative contract.



- (e) **‘Market-maker’** shall have the same meaning as assigned to it in Paragraph 2.1(xviii) of the [Master Direction – Reserve Bank of India \(Market-makers in OTC Derivatives\) Directions, 2021 dated September 16, 2021](#), as amended from time to time.
 - (f) **‘Novation’** means the replacement of a market maker with another market maker in an OTC derivative contract between two counterparties (transferor, who steps out of the existing deal, and remaining party) to an OTC derivative transaction with a new contract between remaining party and a third party (transferee). The transferee becomes the new counterparty to the remaining Party.
 - (g) **‘Over-the-Counter (OTC) derivative’** means a derivative (deliverable and non-deliverable) other than those which are traded on exchanges and shall include those traded on electronic trading platforms.
 - (h) **‘Remaining Party’** in novation means the user that continues to be a counterparty in the new contract post novation.
 - (i) **‘Transferee’** in novation means a party to a transaction that proposes to accept, or has accepted, a transferor’s transfer by novation all of the rights, liabilities, duties and obligations of a transferor with respect to a remaining party.
 - (j) **‘Transferor’** in novation means a party to a transaction that proposes to transfer, or has transferred, by novation to a transferee all its rights, liabilities, duties and obligations with respect to a remaining party.
 - (k) **‘User’** shall have the same meaning as assigned to it in Paragraph 2.1(xxiv) of the [Master Direction – Reserve Bank of India \(Market-makers in OTC Derivatives\) Directions, 2021 dated September 16, 2021](#), as amended from time to time.
- (ii) Words and expressions used, but not defined in these Directions, shall have the same meaning as assigned to them in the Act or in the Governing Directions.



3. Guidelines and mechanism for undertaking novation

(i) Eligible market participants may undertake novation of an OTC derivative contract, subject to the following:

- a. the novation of an OTC derivative contract shall be done with the prior consent of the remaining party;
- b. the transaction shall be undertaken at prevailing market rates. The amount corresponding to the mark-to-market value of the OTC derivative contract at the prevailing market rate on novation date shall be exchanged between the transferor and the transferee; and
- c. the parties to the novation shall adhere to the provisions of the Governing Directions and the new contract post novation shall be in compliance with the provisions of the Governing Directions.

(ii) The parties to a novation shall enter into a tripartite agreement wherein the transferee steps in the contract to face the remaining party and the transferor steps out. The original contract shall stand extinguished and shall be replaced by a new contract with identical terms/parameters, to the original contract except for the change in counterparty for the remaining party, thereby satisfying the following criteria:

- a. The counterparty credit risk and market risk arising out of the OTC derivative contract is transferred from the transferor to the transferee.
- b. The transferor and the remaining party are each released from their obligations under the original transaction to each other and their respective rights against each other are cancelled. These rights and obligations identical in their terms to original transaction are reinstated in the new transaction between the remaining party and the transferee.

(iii) The transferor and the transferee may agree on the charge/fee between them for the transfer of the trade. The fees and their settlement terms may not form part of the novation agreement.



(iv) Any relevant document, related to the original OTC derivative contract and the underlying exposure, shall be transferred from the transferor to the transferee as part of the novation agreement.

4. Documentation

The Fixed Income Money Market and Derivatives Association of India (FIMMDA) and the Foreign Exchange Dealers' Association of India (FEDAI), as applicable, in consultation with market participants and based on international best practices, shall devise standard agreements for novation. Market participants may, alternatively, use a standard master agreement for novation.

5. Reporting

Market-maker(s) involved in the novation of an OTC Derivative contract shall ensure that the details pertaining to the novation are reported to the Trade Repository of Clearing Corporation of India Limited (CCIL), in terms of the provisions specified in the Governing Directions.



Annex

List of directions superseded

- I. [Notification No. DBOD.No.BP.BC.76/21.04.157/2013-14 dated December 9, 2013](#)
- II. DBOD Mailbox Clarification: Clarification on the Applicability of Novation Guidelines when Transfers between entities happen by Operation of Law dated 12-12-2014