



भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA



RBI/FMRD/2024-25/117

FMRD.DIRD.01/14.01.023/2024-25

May 08, 2024
(Updated as on February 21, 2025)

To
All eligible market participants
Madam/Sir

Master Direction – Reserve Bank of India (Margining for Non-Centrally Cleared OTC Derivatives) Directions, 2024

Please refer to Paragraph 10 of the [Statement on Developmental and Regulatory Policies](#) announced as a part of the [Bi-monthly Monetary Policy Statement for 2019-20 dated February 06, 2020](#), on issuance of the Directions regarding exchange of variation margin (VM) and initial margin (IM) for non-centrally cleared derivatives (NCCDs).

2. The [Master Direction – Reserve Bank of India \(Variation Margin\) Directions, 2022](#) was issued on June 01, 2022 and the [draft Directions prescribing guidelines for exchange of initial margin for NCCDs were issued on June 16, 2022](#). Based on the feedback received from the market participants, the draft Directions have since been finalised. The Master Direction – Reserve Bank of India (Margining for Non-Centrally Cleared OTC Derivatives) Directions, 2024 is [enclosed](#) herewith.

3. These Directions have been issued in exercise of the powers conferred under Section 45W of the Reserve Bank of India Act, 1934 and Sections 10(4) and 11(1) of the Foreign Exchange Management Act, 1999 (42 of 1999) and of all the powers enabling it in this behalf.

Yours faithfully,

(Dimple Bhandia)
Chief General Manager

वित्तीय बाज़ार विनियमन विभाग, केंद्रीय कार्यालय, 9वीं मंजिल, केन्द्रीय कार्यालय भवन, शहीद भगत सिंह मार्ग, फोर्ट, मुंबई - 400 001
फोन: (91-22) 2260 1000, फैक्स: (91-22) 22702290, ई-मेल: cgmfmrd@rbi.org.in

Financial Markets Regulation Department, Central Office, 9th Floor, Central Office Building, Shahid Bhagat Singh Road, Fort,
Mumbai – 400 001
Tel: (91-22) 2260 1000, Fax: (91-22) 22702290, E-mail: cgmfmrd@rbi.org.in

हिन्दी आसान है, इसका प्रयोग बढ़ाइए



FINANCIAL MARKETS REGULATION DEPARTMENT

Notification No. FMRD.DIRD.02/14.01.023/2024-25 dated May 08, 2024

**Master Direction – Reserve Bank of India (Margining for Non-Centrally Cleared
OTC Derivatives) Directions, 2024
(Updated as on February 21, 2025)**

The Reserve Bank of India (hereinafter called the Reserve Bank) hereby issues the following Directions, in exercise of the powers conferred under section 45W of the Reserve Bank of India Act, 1934 (02 of 1934) read with section 45U of the Reserve Bank of India Act, 1934 (02 of 1934) and the Foreign Exchange Management Act, 1999 (42 of 1999) and in supersession of [Master Direction – Reserve Bank of India \(Variation Margin\) Directions, 2022 dated June 01, 2022](#).

A reference is also invited to the Foreign Exchange Management (Foreign Exchange Derivative Contracts) Regulations, 2000 ([Notification no. FEMA.25/RB-2000 dated May 3, 2000](#)), Foreign Exchange Management (Debt Instruments) Regulations, 2019 ([Notification no. FEMA 396/2019-RB dated October 17, 2019](#)), Foreign Exchange Management (Margin for Derivative Contracts) Regulations, 2020 ([Notification no. FEMA.399/RB-2020 dated October 23, 2020](#)) and [A.P. \(DIR Series\) Circular No. 06 dated May 08, 2024](#), as amended from time to time.

1. Short title and commencement

- (1) These Directions shall be called the Master Direction – Reserve Bank of India (Margining for Non-Centrally Cleared OTC Derivatives) Directions, 2024.
- (2) These Directions shall come into force on November 08, 2024.

2. Applicability

- (1) The provisions of these Directions shall apply to the following contracts, which are entered into on or after the date on which these Directions come into force:
 - (a) Non-centrally cleared foreign exchange derivative contracts undertaken in terms of the 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 dated July 05, 2016](#), as amended from time to time;
- (b) Non-centrally cleared interest rate derivative contracts undertaken in terms of the Rupee Interest Rate Derivatives (Reserve Bank) Directions, 2019 ([Notification No. FMRD.DIRD.20/2019 dated June 26, 2019](#)) 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;
- (c) Non-centrally cleared credit derivative contracts undertaken in terms of 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; and
- (d) Any other non-centrally cleared derivative (NCCD) contract as may be specified by the Reserve Bank.
- (2) Genuine amendments, including the following, to an existing derivative contract entered into before the date on which these Directions come into force ('grandfathered contract') will not qualify as a new derivative contract under these Directions:
- (a) non-material amendments that do not substantially change the terms and conditions of the contract or create any new significant exposures;
- (b) amendments made solely for the purpose of addressing benchmark reforms; and
- (c) contracts arising from novation, portfolio compression and application of standard trade maintenance processes on grandfathered contracts. Contracts resulting from compression of grandfathered contracts together with contracts which are subject to these Directions shall, however, be subject to the margin requirements under these Directions.

3. Definitions

- (1) In 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) **Certificate of Deposit** shall have the meaning assigned in paragraph 2(a)(iii) of the [Master Direction – Reserve Bank of India \(Certificate of Deposit\) Directions, 2021 dated June 04, 2021](#), as amended from time to time.
- (c) **Commercial Paper** shall have the meaning assigned in paragraph 2(a)(iv) of the [Master Direction - Reserve Bank of India \(Commercial Paper and Non-Convertible Debentures of original or initial maturity upto one year\) Directions, 2024 dated January 03, 2024](#), as amended from time to time.
- (d) **Consolidated group** means a group within the meaning of Indian Accounting Standard (Ind AS) 110 - Consolidated Financial Statements, or International Financial Reporting Standards (IFRS) 10 - Consolidated Financial Statements or any other equivalent accounting standards.
- (e) **Collateralise to market** means an approach to the exchange of Variation Margin wherein the exchanged margin is characterised as collateral to secure the current mark-to-market exposure between the parties to a derivative contract.
- (f) **Financial sector regulator** refers to the Reserve Bank of India (RBI), the Securities and Exchange Board of India (SEBI), the Insurance Regulatory and Development Authority of India (IRDAI) and the Pension Fund Regulatory and Development Authority (PFRDA).
- (g) **Initial margin** means the collateral that is collected to cover the potential future exposure that could arise from future changes in the market value of a derivative contract during the time it takes to close out and/or replace the position in the event of a counterparty default.
- (h) **Netting agreement** shall have the same meaning as assigned to it in Section 2(1)(k) of The Bilateral Netting of Qualified Financial Contracts Act, 2020 (30 of 2020).
- (i) **Non-centrally cleared derivatives (NCCDs)** mean derivative contracts whose settlement is not guaranteed by a central counterparty.
- (j) **Non-resident** means and includes a 'person resident outside India' as defined in Section 2(w) of the Foreign Exchange Management Act, 1999 (42 of 1999).



- (k) **Related parties** shall have the same meaning as assigned to it under Indian Accounting Standard (Ind AS) 24 – Related Party Disclosures or International Accounting Standard (IAS) 24 – Related Party Disclosures or any other equivalent accounting standards.
 - (l) **Resident** means and includes a ‘person resident in India’ as defined in Section 2(v) of the Foreign Exchange Management Act, 1999 (42 of 1999).
 - (m) **Settle to market** means an approach to the exchange of Variation Margin wherein the exchanged margin is deemed to settle the current mark-to-market exposure between the parties to a derivative contract, with no right to reclaim and no obligation to return the Variation Margin. After the settlement, the mark-to-market exposure between the parties is reset to zero.
 - (n) **Variation margin** means the collateral that is collected or paid to reflect the current mark-to-market exposure resulting from changes in the market value of a derivative contract.
- (2) Words and expressions used but not defined in these Directions shall have the meaning as assigned to them in the Reserve Bank of India Act, 1934.

4. Entity scope

4.1 Covered Entities for exchange of Variation Margin

- (1) The following entities shall be classified as Domestic Covered Entities for exchange of Variation Margin (hereafter known as Domestic Covered Entities – VM) under these Directions:
- (a) Entities regulated by a financial sector regulator (including branches of foreign banks operating in India) and having an Average Aggregate Notional Amount (AANA) of outstanding NCCDs of ₹25,000 crore and above, on a consolidated group wide basis.
 - (b) Other resident entities having an AANA of outstanding NCCDs of ₹60,000 crore and above, on a consolidated group wide basis.
- (2) The following entities shall be classified as Foreign Covered Entities for exchange of Variation Margin (hereafter known as Foreign Covered Entities – VM) under these Directions:



- (a) Non-resident financial entities having an AANA of outstanding NCCDs of USD 3 billion and above, on a consolidated group wide basis.¹
- (b) Other non-resident entities having an AANA of outstanding NCCDs of USD 8 billion and above, on a consolidated group wide basis.

4.2 Covered Entities for exchange of Initial Margin

(1) Entities regulated by a financial sector regulator (including branches of foreign banks operating in India) and having an Average Aggregate Notional Amount (AANA) of outstanding NCCDs of ₹60,000 crore and above, on a consolidated group wide basis, shall be classified as Domestic Covered Entities for exchange of Initial Margin (hereafter known as Domestic Covered Entities – IM) under these Directions.

(2) Non-resident financial entities having an AANA of outstanding NCCDs of USD 8 billion and above, on a consolidated group wide basis, shall be classified as Foreign Covered Entities for exchange of Initial Margin (hereafter known as Foreign Covered Entities – IM) under these Directions.

4.3 Average Aggregate Notional Amount of outstanding NCCDs

- (1) AANA of outstanding NCCDs shall be calculated as the simple average of the total notional amount of outstanding NCCDs as at the end of March, April and May of a year. AANA for a year shall be used for recognition of Domestic Covered Entities and Foreign Covered Entities for a one-year period from September 1 of that year to August 31 of the next year.
- (2) AANA calculation shall include all NCCD contracts of the consolidated group, including those outside the scope of these Directions, but exclude intra-group transactions.

4.4 Directions for Covered Entities

- (1) A Domestic Covered Entity – VM shall exchange Variation Margin with a counterparty to an NCCD transaction if the counterparty is a Domestic Covered Entity – VM or a Foreign Covered Entity – VM.

¹ For the purpose of these Directions, financial entities refer to entities which are engaged predominantly in any one or more of the following activities – banking, lending, insurance, management of retirement fund schemes, securities business, custodial and safekeeping services, portfolio management (including asset management and funds management), securitisation, operation of a remittance or money changing service and activities that are ancillary to the conduct of these activities.



- (2) A Domestic Covered Entity – IM shall exchange Initial Margin with a counterparty to an NCCD transaction if the counterparty is a Domestic Covered Entity – IM or a Foreign Covered Entity – IM.
- (3) Covered Entities shall put in place appropriate processes for ascertaining whether a counterparty to an NCCD transaction is a Covered Entity for exchange of Variation Margin or Initial Margin. For this purpose, Covered Entities may, *inter alia*, rely on a declaration from the counterparties.
- (4) Covered Entities may choose not to exchange:
 - (a) Variation Margin and/or Initial Margin for physically-settled foreign exchange forward, physically-settled foreign exchange swap contracts and physically-settled forward contracts in government securities;
 - (b) Variation Margin for any other NCCD transaction undertaken with an entity, other than financial entities (referred to in paragraph 4.1 (1) (b) and 4.1 (2) (b) of these Directions), subject to the condition that the NCCD transaction is being undertaken by the entity for the purpose of hedging; and
 - (c) Initial Margin for fixed physically settled foreign exchange transactions associated with the exchange of principal of cross-currency swaps. All other payments or cash flows that occur during the life of the swap shall be subject to Initial Margin requirements.

Covered Entities shall however, develop appropriate risk management policies and procedures to manage the risks associated with such transactions.²

- (5) The provisions of these Directions shall not be applicable to an NCCD transaction in which one of the counterparties is any of the following entities:
 - (a) Government of India and State Governments;
 - (b) A Foreign Sovereign;
 - (c) A Central Bank;
 - (d) Bank for International Settlements; and

² Covered Entities may refer to BCBS Supervisory Guidance for Managing Risks Associated with the Settlement of FX Transactions, February 2013: <https://www.bis.org/publ/bcbs241.pdf> for management of FX-settlement related risks.



- (e) Multilateral Development Banks (MDBs) listed under paragraph 5.5 of [RBI Master Circular on Basel III Capital Regulations dated April 01, 2022](#)³, as amended from time to time.
- (6) The provisions of these Directions shall not be applicable to an NCCD transaction between entities belonging to the same consolidated group.
- (7) An entity, on being classified as a Covered Entity, shall be required to exchange initial margin and variation margin with other covered entities, as applicable, in terms of these Directions, only for NCCD transactions undertaken after recognition of the entity as a covered entity.
- (8) A Covered Entity, on ceasing to be classified as a Covered Entity, may choose, not to exchange margin for its NCCD transactions, including outstanding NCCD transactions, from the date on which it ceases to be recognised as a Covered Entity, in terms of these Directions.

5. Calculation of margin

5.1 Variation Margin

- (1) Variation Margin shall fully collateralise to market or settle to market, the mark-to-market exposure of an NCCD contract. In the event that the exposures cannot be marked-to-market, a pre-agreed alternative process or fallback mechanism, as set out in the credit support annex, shall be used for the purpose of calculation of Variation Margin.
- (2) Variation Margin shall be calculated on a daily basis.
- (3) Variation Margin shall be calculated on an aggregate net basis, across all NCCD contracts that are executed under a single, legally enforceable netting agreement.

5.2 Initial Margin

- (1) Initial margin shall be calculated at the outset of a transaction and thereafter on a regular and consistent basis upon changes in the potential future exposure, including, but not limited to, when trades are added to or subtracted from the portfolio, on occurrence of a significant market disruption, and when the Initial Margin model (if applicable) is recalibrated.

³<https://rbidocs.rbi.org.in/rdocs/notification/PDFs/12MCBASELIICAPITALREGULATIONSED3EF388F75E48198FF8328B36F43670.PDF>



Provided that the initial margin shall be recalculated within a period not exceeding 10 working days.

- (2) The amount of Initial Margin shall be calculated by reference to either:
 - a. a standardised approach outlined in [Annex I](#); or
 - b. a quantitative portfolio margin model (“model approach”) outlined in [Annex II](#).
- (3) Covered Entities may choose between the standardised approach and the model approach for calculating Initial Margin for all transactions within the same asset class *i.e.* credit, foreign exchange/interest rate and others. Foreign exchange and interest rate derivatives contracts shall be considered as being part of a single asset class for the purpose of these Directions. For each asset class, the selection of a particular approach shall be made on a consistent basis and the reasons for selecting the particular approach as well as reasons for change in approach, where applicable, shall be documented.
- (4) The Reserve Bank may direct a Covered Entity to calculate Initial Margin using the standardised approach, if the Reserve Bank is satisfied that it is necessary or expedient to do so.

6. Exchange of margin

- (1) Variation Margin shall be exchanged on an aggregate net basis, across all NCCD contracts that are executed under a single, legally enforceable netting agreement.
- (2) Initial Margin shall be exchanged on a gross basis without any netting of Initial Margin amounts owed by the two counterparties, across all NCCD contracts that are executed under a single, legally enforceable netting agreement.
- (3) A threshold amount, not exceeding ₹450 crore⁴, may be applied for the exchange of Initial Margin. This threshold shall be applied at the level of the consolidated group based on all NCCD contracts outstanding between the two consolidated groups. The difference between the total calculated Initial Margin amount and the Initial Margin threshold shall be exchanged between the two consolidated groups if the total Initial Margin amount exceeds the threshold.

⁴ Counterparties are expected to act diligently when their exposures approach the initial margin threshold to ensure that the relevant arrangements needed are in place if the threshold is exceeded.



- (4) A minimum transfer amount (MTA), not exceeding ₹4.5 crore, may be applied for the exchange of Variation Margin and Initial Margin combined. The covered entities may mutually agree to set separate MTAs for Variation Margin and Initial Margin, subject to the condition that when combined, the MTAs do not exceed ₹4.5 crore. The entire margin amount shall be exchanged if the margin amount exceeds the MTA.
- (5) Variation Margin and Initial Margin shall be called and exchanged at the earliest time possible after the transaction date ("T") or margin recalculation date ("R"), but no later than three local business days from the transaction date ("T+3") or margin recalculation date ("R+3").
- (6) Variation Margin and Initial Margin for an NCCD transaction between a Domestic Covered Entity and a Foreign Covered Entity may be posted/collected either in India or in an overseas jurisdiction, subject to the provisions of the [A.P. \(DIR Series\) Circular No. 06 dated May 08, 2024](#) on Margin for Derivative Contracts.

7. Treatment of Variation Margin under collateralise to market approach

- (1) Cash collateral received as Variation Margin by banks shall not be subject to the provisions of [Master Direction - Reserve Bank of India \(Interest Rate on Deposits\) Directions, 2016](#), as amended from time to time.
- (2) Cash collateral received as Variation Margin by Authorised Dealers shall not be subject to the provisions under Paragraph 5 of Part C of the [Master Direction - Risk Management and Inter-Bank Dealings, 2016](#), as amended from time to time.
- (3) Counterparties may pay interest on cash collateral received as Variation Margin, in terms of the credit support annex.
- (4) Cash and non-cash collateral received as Variation Margin may be re-hypothecated, re-pledged or re-used, in terms of the credit support annex.

8. Treatment of Initial Margin

- (1) Initial Margin collected from counterparties shall be maintained in a manner such that:
 - (a) the margin collected is available to the collecting party on a timely basis following a default by the posting party; and



- (b) the margin 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.
- (2) The Covered Entity shall deal with the Initial Margin collected as belonging to that counterparty who posted it.
- (3) Initial Margin collected shall be segregated from the proprietary assets of the collecting party by either placing the Initial Margin with a collateral service provider, subject to conditions specified in Paragraph 9(2) and 9(4) of these Directions or through other legally effective arrangements. In addition, the collecting party shall also provide the posting party with the option to segregate the Initial Margin that it posts from the assets of all other counterparties.
- (4) Initial Margin collected shall not be re-hypothecated, re-pledged or re-used or used as margin or guarantee for, or to secure any other transaction.
- (5) Subject to the prior written consent of the posting party, Initial Margin collected in cash may be reinvested in eligible collateral specified under Paragraph 10 of these Directions provided that the re-invested Initial Margin (after application of the relevant haircuts) meets the provisions set out in these Directions.
- (6) Interest earned from the Initial Margin collected shall accrue to the counterparty who posted it, subject to the agreement between the covered entities. The Covered Entity shall ensure that the interest accrued to the counterparty are paid to or held for the benefit of the counterparty, as the case may be.
- (7) Cash collateral received as Initial Margin by banks shall not be subject to the provisions of [Master Direction - Reserve Bank of India \(Interest Rate on Deposits\) Directions, 2016](#), as amended from time to time.
- (8) Cash collateral received as Initial Margin by Authorised Dealers shall not be subject to the provisions under Paragraph 5 of Part C of the [Master Direction - Risk Management and Inter-Bank Dealings, 2016](#), as amended from time to time.

9. Collateral Service Provider - Eligibility

- (1) A covered entity may place Initial Margin in India or overseas, subject to the provisions of these Directions.



- (2) Scheduled Commercial Banks and Clearing Corporation of India Limited (CCIL) shall be eligible to act as a collateral service provider for Initial Margin posted in India.
- (3) The collateral service provider shall ensure that the Initial Margin held by it on behalf of the posting entity is segregated and not commingled with its proprietary assets. The collateral service provider shall also provide the posting entity with the option to segregate the Initial Margin that it posts from the assets of all other posting entities.
- (4) A covered entity, choosing to use a collateral service provider in a foreign jurisdiction, shall ensure that the collateral service provider is duly authorized to provide such services, in terms of the regulations of the foreign jurisdiction.
- (5) The Covered Entity shall satisfy itself of the ability of the collateral service provider to safekeep the Initial Margin collected.

10. Eligible collateral and haircuts

- (1) Variation Margin between two Domestic Covered Entities – VM shall be exchanged using the following collateral types:
 - (a) Indian Currency;
 - (b) Debt securities issued by Government of India and State Governments; and
 - (c) Rupee bonds issued by persons resident in India which are:
 - i. Listed on a recognised stock exchange in India; and
 - ii. Assigned a credit rating of AAA by a rating agency registered with the Securities and Exchange Board of India. If different ratings are accorded by two or more credit rating agencies, then the lowest rating shall be reckoned.
 - (d) Certificate of Deposits; and
 - (e) Commercial Papers which are assigned a minimum credit rating of A1 by a rating agency registered with the Securities and Exchange Board of India. If different ratings are accorded by two or more credit rating agencies, then the lowest rating shall be reckoned.
- (2) Initial Margin between two Domestic Covered Entities – IM shall be exchanged using the following collateral types:
 - (a) Indian Currency; and



- (b) Debt securities issued by Government of India and State Governments.
- (3) Variation Margin between a Domestic Covered Entity – VM and a Foreign Covered Entity – VM shall be exchanged using the following collateral types, subject to the provisions of the [A.P. \(DIR Series\) Circular No. 06 dated May 08, 2024](#) on Margin for Derivative Contracts:
- (a) Indian currency;
 - (b) Freely convertible foreign currency;
 - (c) Debt securities issued by Government of India and State Governments;
 - (d) Debt securities issued by foreign sovereigns with a credit rating of AA- and above issued by S&P Global Ratings / Fitch Ratings or Aa3 and above issued by Moody's Investors Service. If different ratings are accorded by two or more credit rating agencies, then the lowest rating shall be reckoned; and
 - (e) Rupee bonds issued by persons resident in India which are:
 - (i) Listed on a recognised stock exchange in India; and
 - (ii) Assigned a credit rating of AAA by a rating agency registered with the Securities and Exchange Board of India. If different ratings are accorded by two or more credit rating agencies, then the lowest rating shall be reckoned.
 - (f) Certificate of Deposits; and
 - (g) Commercial Papers which are assigned a minimum credit rating of A1 by a rating agency registered with the Securities and Exchange Board of India. If different ratings are accorded by two or more credit rating agencies, then the lowest rating shall be reckoned.
- (4) Initial Margin between a Domestic Covered Entity – IM and a Foreign Covered Entity – IM shall be exchanged using the following collateral types, subject to the provisions of the [A.P. \(DIR Series\) Circular No. 06 dated May 08, 2024](#) on Margin for Derivative Contracts:
- (a) Indian currency;
 - (b) Freely convertible foreign currency;
 - (c) Debt securities issued by Government of India and State Governments; and
 - (d) Debt securities issued by foreign sovereigns with a credit rating of AA- and above issued by S&P Global Ratings / Fitch Ratings or Aa3 and above issued



by Moody's Investors Service. If different ratings are accorded by two or more credit rating agencies, then the lowest rating shall be reckoned;

- (5) Risk-sensitive haircuts shall be applied to the value of the collateral received. A schedule of minimum haircuts to be applied to the collateral received and based on the type of collateral is set out in [Annex III](#).
- (6) For the purpose of meeting Variation Margin requirements, an additional currency mismatch haircut of eight per cent shall be applied to all non-cash collateral received in a currency other than the base currency or eligible currencies as agreed in the credit support annex.
- (7) For the purpose of meeting Initial Margin requirements, an additional currency mismatch haircut of eight per cent shall be applied to all cash and non-cash collateral received in a currency other than the termination currency that the counterparty which has posted the collateral has designated in the relevant contract. Each counterparty may specify one termination currency.
- (8) Securities issued by either of the counterparties to an NCCD transaction, or their related parties, shall not be accepted as collateral.
- (9) Counterparties shall establish appropriate controls to manage the risks associated with the collateral received including, *inter-alia*, wrong-way risk⁵, concentration risk and liquidity risk.
- (10) Eligible collateral that was originally posted or collected may be substituted provided that the substituted collateral meets all the requirements set out in these Directions and the value of the substituted collateral, after the application of risk-sensitive haircuts, is sufficient to meet the margin requirement
- (11) A Domestic Covered Entity choosing to comply with margin requirements of a foreign jurisdiction, in accordance with Paragraph 11 of these Directions, may exchange margin using the collateral types, permitted in terms of the margin requirements of the foreign jurisdiction.

⁵ Wrong-way risk occurs when the value of the collateral collected exhibits a significant correlation with the creditworthiness of the counterparty or the value of the underlying NCCD portfolio in a way that could undermine the effectiveness of the protection offered by the collateral collected.



11. Compliance with Margin Requirements of a Foreign Jurisdiction

- (1) An NCCD transaction between a Domestic Covered Entity and a Foreign Covered Entity may be subject to margin requirements in a foreign jurisdiction. A Domestic Covered Entity and its counterparty in the foreign jurisdiction may decide to comply with these Directions, or the margin requirements implemented by the foreign jurisdiction provided the margining framework in the foreign jurisdiction is assessed by the Domestic Covered Entity to be comparable to the requirements in these Directions.
- (2) Two Domestic Covered Entities that are authorised to deal in foreign exchange under Section 10(1) of FEMA, 1999 and at least one of which is a branch of foreign bank operating in India may decide to exchange initial margin for NCCD transactions between them in accordance with these Directions or the margin requirements of a foreign jurisdiction provided the margining framework in the foreign jurisdiction is assessed by both the Domestic Covered Entities to be comparable to the requirements in these Directions.
- (3) The Domestic Covered Entity shall assess the comparability of the margining framework of the foreign jurisdictions based on the following broad principles:
 - (a) the foreign jurisdiction whose margining framework is being assessed is a member of the BCBS-IOSCO Working Group on Margin Requirements;
 - (b) the margining framework in the foreign jurisdiction is implemented in line with the policy framework on margin requirements for NCCDs issued by BCBS and IOSCO; and
 - (c) the foreign jurisdiction has a legally enforceable netting framework⁶;
- (4) For this purpose, the Domestic Covered Entity shall put in place a Board-approved policy for the comparability assessment. The assessment of the margining framework of each foreign jurisdiction shall be placed before the Risk Management Committee of the Board/ equivalent body and subject to periodic review.
- (5) The Reserve Bank may, at a future date, undertake comparability assessment of margining framework of foreign jurisdictions *vis-à-vis* these Directions. Such

⁶ Banks may refer to Annex 18 (part B) of [Master Circular on Basel III Capital Regulations dated May 12, 2023](#) in this regard.



assessment would have regard to whether the margining framework in the foreign jurisdiction is implemented in line with the policy framework on margin requirements for NCCDs issued by the BCBS and IOSCO.

- (6) The Reserve Bank, based on its assessment of the margining framework of a foreign jurisdiction, may impose additional conditions to be met by the counterparties intending to comply with the margining framework of that jurisdiction.
- (7) A Domestic Covered Entity may not exchange margin in an NCCD transaction with a Foreign Covered Entity if there is significant doubt regarding the enforceability of the close-out netting and collateral arrangements, subject to the following:
 - (a) The Domestic Covered Entity shall undertake a legal review and document the basis for identifying a jurisdiction where close-out netting and/or collateral arrangements are not legally enforceable; and
 - (b) For each jurisdiction so assessed, the Domestic Covered Entity shall put in place appropriate internal limits and controls to manage its exposure to counterparties located in the jurisdiction.

12. Dispute resolution

- (1) Counterparties shall ensure that appropriate policies and procedures for dispute resolution are in place before undertaking an NCCD transaction. Such policies and procedures shall, *inter-alia*, include processes for determining discrepancies in material terms or valuations as disputes, mechanism for such disputes to be resolved and escalation of material disputes to senior management, or to the Board, as may be appropriate.
- (2) In case of a margin dispute, counterparties shall exchange the non-disputed amount first and make all necessary and appropriate efforts, including timely initiation of dispute resolution protocols, to resolve the dispute and exchange the remaining margin amount in a time-bound manner.

13. Obligation to provide information sought by the Reserve Bank

The Reserve Bank may call for any information or seek any clarification from any agency involved in the NCCD markets, including but not limited to covered entities and



the collateral service provider, which in the opinion of the Reserve Bank is relevant and the agency shall furnish such additional information and clarification within the time frame specified.

(Dimple Bhandia)
Chief General Manager



Annex I

Standardised approach for calculating Initial Margin

- (1) For each netting agreement, the net standardised Initial Margin amount shall be calculated as given below:
 - (a) For each derivative contract of the asset class, the gross notional size of the derivative contract will be multiplied by the margin rate in [Table 1](#).
 - (b) This amount will be summed across all asset classes in the same netting agreement to obtain the gross standardised Initial Margin amount. Notional amounts of the contracts with the same underlying and maturity can be netted.
 - (c) The gross standardised Initial Margin amount will be adjusted by the ratio of the net replacement cost to gross replacement cost (NGR) to arrive at net standardised Initial Margin amount as under:
$$\text{Net standardised IM} = (0.4 + 0.6 \times \text{NGR}) \times \text{gross standardised IM}$$
where,
 - (i) net replacement cost is the sum of all positive and negative mark-to-market values of all derivatives contracts in the same netting agreement, and is floored at zero; and
 - (ii) 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.
- (2) NCCD transactions for which an entity faces no counterparty risk may be excluded from the Initial Margin calculation.



Table 1: Standardised Initial Margin Schedule

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



Annex II

Model approach for calculating Initial Margin

- (1) The quantitative portfolio margin model used to calculate Initial Margin shall meet the following standards:
 - (a) The model shall capture all relevant risk factors which materially influence the NCCD contracts and reflect the nature, scale and complexity of the risks inherent in the NCCD contracts;
 - (b) The model shall calculate an estimate of the potential future exposure of NCCD contracts, based on a one-tailed 99 per cent confidence interval over a 10-day time horizon;
 - (c) The model shall be calibrated based on historical data of not more than five years, which incorporates a period of significant financial stress. The period of financial stress shall be identified and applied separately for each asset class. The data within the identified period shall be equally weighted for calibration purposes;
 - (d) The model shall consider all NCCD contracts that are agreed for model use and are subject to the same legally enforceable netting agreement;
 - (e) The model may account for diversification, hedging and risk offsets within each asset class; and
 - (f) NCCD transactions for which an entity faces no counterparty risk may be excluded from the Initial Margin calculation.
- (2) The quantitative portfolio margin model used to calculate Initial Margin shall be subject to an internal governance process as given below:
 - (a) The model shall be subject to initial and periodical (at least once a year) independent validation to validate its conceptual soundness and the appropriateness of the model for the derivatives for which it is being used;
 - (b) The performance of the model shall be monitored on a continuous basis including a regular back-testing programme; and
 - (c) The model shall be recalibrated at least once a year in accordance with written recalibration policies.



- (3) The model shall be approved by the Board of Directors (or equivalent forum) which shall, *inter alia*, ensure ongoing compliance of the model with the provisions in these Directions.
- (4) Covered Entities shall document the model methodology, model specifications, validation reports and back-testing methodology and results. The documentation shall, *inter alia*, demonstrate that the model satisfies all model standards prescribed in these Directions.
- (5) In case of use of a third-party model, Covered Entities shall ensure compliance of the third-party model with the provisions in these Directions.



Annex III

Standardised Haircut Schedule

Asset Class		Haircut (% of market value)
Cash		0
Debt securities issued by Government of India and state governments / foreign central governments	Residual maturity \leq 1 year	0.5
	Residual maturity $>$ 1 year, \leq 5 years	2
	Residual maturity $>$ 5 years	4
Listed Rupee bonds issued by persons resident in India and with a credit rating of AAA	Residual maturity \leq 1 year	4
	Residual maturity $>$ 1 year, \leq 5 years	6
	Residual maturity $>$ 5 years	8
Certificate of Deposits and Commercial Papers		4
Additional (additive) haircut on listed Rupee bonds, Certificate of Deposits and Commercial Papers issued by financial institutions (to address possible wrong way risk)		5
Additional (additive) haircut for currency mismatch		8