



भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA



RBI/2022-23/93

FMRD.DIRD.02/14.01.023/2022-23

June 01, 2022

To

All Eligible Market Participants

Madam/Sir

Master Direction – Reserve Bank of India (Variation Margin) Directions, 2022

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) for non-centrally cleared derivatives (NCCDs).

2. Accordingly, the draft Variation Margin (Reserve Bank) Directions, 2020 were released for public comments on [September 07, 2020](#). Based on the feedback received from the market participants, the draft Directions were reviewed and have since been finalised. The Master Direction – Reserve Bank of India (Variation Margin) Directions, 2022 are [enclosed](#) herewith.

Yours faithfully,

(Dimple Bhandia)
Chief General Manager



FINANCIAL MARKETS REGULATION DEPARTMENT

Notification No. FMRD.DIRD.03/14.01.023/2022-23 dated June 01, 2022

Master Direction - Reserve Bank of India (Variation Margin) Directions, 2022

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

A reference is also invited to the Foreign Exchange Management Act, 1999 (42 of 1999), 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](#)) and Foreign Exchange Management (Margin for Derivative Contracts) Regulations, 2020 ([Notification no. FEMA.399/RB-2020 dated October 23, 2020](#)).

1. Short title and commencement

- (1) These Directions shall be called the Master Direction – Reserve Bank of India (Variation Margin) Directions, 2022.
- (2) These Directions shall come into force with effect from December 01, 2022.

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](#)), 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) **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.
 - (c) **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.

- (d) **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).
 - (e) **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).
 - (f) **Non-centrally cleared derivatives (NCCDs)** mean derivative contracts whose settlement is not guaranteed by a central counterparty.
 - (g) **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).
 - (h) **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.
 - (i) **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).
 - (j) **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.
 - (k) **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

- (1) The following entities shall be classified as Domestic Covered Entities 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 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.
- (3) For the purposes of paragraph 4.1 (1) and (2), AANA of outstanding NCCDs shall be calculated as set out in paragraph 4.2.

4.2 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.

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.



4.3 Directions for Covered Entities

- (1) A Domestic Covered Entity shall exchange Variation Margin with a counterparty to an NCCD transaction if the counterparty is a Domestic Covered Entity or a Foreign Covered Entity. A Domestic Covered Entity shall put in place appropriate processes for ascertaining whether a counterparty to an NCCD transaction is a Domestic Covered Entity or a Foreign Covered Entity. For this purpose, Domestic Covered Entities may, *inter alia*, rely on a declaration from the counterparties.
- (2) The provisions of these Directions shall not apply to physically-settled foreign exchange forward and physically-settled foreign exchange swap contracts. However, Domestic Covered Entities are expected to appropriately manage the risks associated with such transactions.²
- (3) 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
 - (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.
- (4) The provisions of these Directions shall not be applicable to an NCCD transaction between entities belonging to the same consolidated group.

5. Calculation and exchange of Variation Margin

- (1) Variation Margin shall be calculated on a daily basis, and 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”).

² Domestic Covered Entities should 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.

³<https://rbidocs.rbi.org.in/rdocs/notification/PDFs/12MCBASELIIICAPITALREGULATIONSED3EF388F75E48198F8328B36F43670.PDF>



- (2) Variation Margin shall be exchanged to 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.
- (3) Variation Margin shall be calculated and exchanged on an aggregate net basis, across all NCCD contracts that are executed under a single, legally enforceable netting agreement.
- (4) A minimum transfer amount, not exceeding ₹3.5 crore, may be applied for the exchange of Variation Margin. The entire margin amount shall be exchanged if the Variation Margin amount exceeds the minimum transfer amount.
- (5) Variation 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. 10 dated February 15, 2021](#) on Margin for Derivative Contracts.

6. Eligible collateral and haircuts

- (1) Variation Margin between two Domestic Covered Entities 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.
- (2) Variation Margin between a Domestic Covered Entity and a Foreign Covered Entity shall be exchanged using the following collateral types, subject to the provisions of the [A.P. \(DIR Series\) Circular No. 10 dated February 15, 2021](#) 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:
 - a. Listed on a recognised stock exchange in India; and
 - b. 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.
- (3) 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 based on the type of collateral is set out in [Annex](#). An additional haircut of 8% shall be applied to all non-cash collateral received in a currency other than the base currency of the NCCD transaction or eligible currencies as agreed to in the credit support [annex](#).
- (4) Securities issued by either of the counterparties to an NCCD transaction, or their related parties, shall not be accepted as collateral.
- (5) Counterparties shall establish appropriate controls to manage the risks associated with the collateral received including, *inter-alia*, wrong-way risk⁴, concentration risk and liquidity risk.

7. Treatment of collateral under collateralise to market approach

- (1) Cash collateral received as Variation Margin by banks shall not be treated as deposits, and the provisions of [Master Direction – Reserve Bank of India \(Interest Rate on Deposits\) Directions, 2016](#), as amended from time to time, shall not be applicable to it.
- (2) Cash collateral received as Variation Margin by Authorised Dealers shall not be treated as borrowings, and 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, shall not be applicable to it.

⁴ 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.



- (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. Margin requirements for cross-border transactions

- (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) 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 framework;
- (3) 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.
- (4) The Domestic Covered Entity intending to comply with the margining framework of a foreign jurisdiction shall comply with the provisions of the [A.P. \(DIR Series\) Circular No. 10 dated February 15, 2021](#) on Margin for Derivative Contracts.
- (5) The Reserve Bank may, at a future date, undertake comparability assessment of margining framework of foreign jurisdictions vis-à-vis these Directions. Such 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 Variation Margin in an NCCD transaction with a Foreign Covered Entity if there is significant doubt regarding the enforceability of close-out netting and/or 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.

9. 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 Variation Margin amount in a time-bound manner.

(Dimple Bhandia)
Chief General Manager



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
Additional (additive) haircut on listed Rupee bonds issued by financial institutions (to address possible wrong way risk)		5
Additional (additive) haircut for currency mismatch		8