

July 7, 2025

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



Japanese Bankers Association

**Comments on the Master Direction - Reserve Bank of India (Rupee Interest Rate Derivatives)  
Directions, 2025**

Dear Reserve Bank of India:

We, the Japanese Bankers Association (JBA), would like to express our gratitude for this opportunity to comments on the “*Master Direction - Reserve Bank of India (Rupee Interest Rate Derivatives) Directions, 2025 - Draft*” (“Proposed Directions”) issued by the Reserve Bank of India (RBI) on 16 June 2025. We respectfully expect that the following comments will contribute to your further discussion.

**[General Comments]**

We would like to express our respect for the RBI’s efforts to enhance the extant regulatory framework in a manner that aligns it with the market and other related developments, while also reducing the compliance burden on market participants.

However, we respectfully express our concern that the Proposed Directions could contain elements of the extraterritorial application that are unduly extensive, and we believe that these aspects warrant careful and thorough deliberation.

In many jurisdictions, regulations governing Over-The-Counter (OTC) derivatives are generally applied to entities with a “Nexus” to the regulating jurisdiction —such as Place of Establishment, Registered Office or Location of Transaction. In contrast, the Proposed Directions suggest applying requirement based solely on the underlying asset being denominated in Indian Rupees, and on that basis extending the scope to offshore branches and affiliates of foreign entities.

If implemented, such extraterritorial application could result in overlapping regulatory obligations for OTC derivatives transactions conducted outside of India, as these transactions are already subject to oversight by the respective local authorities. This may lead to duplicative compliance requirements, potentially discouraging market participants from engaging in Indian Rupee-denominated transactions and adversely affecting the liquidity of Rupee-denominated products.

Therefore, we respectfully request that the RBI conduct efficient trade surveillance and market monitoring, and consider implementing measures to avoid overlapping regulatory obligations—

particularly through enhanced supervisory cooperation and strengthened information-sharing arrangements with other regulatory authorities.

Furthermore, we respectfully submit that the RBI ensure sufficient lead time be provided between the issuance of these Directions and the commencement of regulatory enforcement. In the context of OTC derivatives reporting regulations, it is common practice—depending on the complexity and implementation challenges—to allow a transition period of at least one year, and in some cases more than two years, to facilitate system development. We are concerned that a three-month implementation timeline following the publication of the final Directions may not afford market participants adequate time to prepare.

In the following section, we provide our comments on each of the issues provided in the Proposed Directions but omit those issues for which we do not have a specific comment.

[Comments on Specific Issues]

• **2. Definitions**

2.1 In these Directions, unless the context otherwise requires:

(xv) ‘**Interest rate swap**’ means a derivative contract that involves exchange of a stream of agreed interest payments on a ‘notional principal’ amount during a specified period.

The definition of “Interest rate swap” does not clearly specify whether currency swaps or Non-Deliverable Swap (NDS) transactions are included. We respectfully request clarification on whether these products fall within the scope of the definition.

• **5. Interest Rate Derivatives in the OTC Market**

5.1 Market-Makers

(i) The following entities shall be eligible to act as market-makers in IRDs:

- (a) A Scheduled Bank;
- (b) A Standalone Primary Dealer (SPD);
- (c) An NBFC – Upper Layer (NBFC-UL);
- (d) Export-Import Bank of India, National Bank for Agriculture and Rural Development, National Housing Bank, Small Industries Development Bank of India and National Bank for Financing Infrastructure and Development.

We understand that this direction could apply to foreign entities classified as “Scheduled Banks”. However, compliance with local regulatory and reporting requirements imposes substantial operational burden for these entities, particularly in terms of system development. Therefore, we respectfully request that offshore branches and affiliates of Scheduled Banks be excluded from the scope of the Proposed Directions.

5.5 Transactions with Non-residents

(a)

iii. IRD transactions undertaken globally by the offshore related parties of the market-maker in India shall be reported individually by either the marketmaker in India or its related party(ies) to the Trade Repository (TR) of Clearing Corporation of India Ltd. (CCIL) in terms of the Annex-II;

We understand that, in most jurisdictions where OTC derivatives regulations have been implemented, it is uncommon for reporting obligations to be imposed on offshore branches or affiliates of foreign entities. As noted in the comment above, compliance with local regulatory and reporting requirements imposes substantial operational burden for these entities. Therefore, we respectfully request that reporting obligations related to transactions conducted by offshore related parties be excluded from the scope of the Proposed Directions.

## 5.5 Transactions with Non-residents

(a)

- iv. The market-maker shall provide information regarding IRD transactions, including FCS-IRD transactions, undertaken through the overseas entity (including overseas branches, IBUs, wholly owned subsidiaries and joint ventures of the market-makers), as may be required by the Reserve Bank in the prescribed manner and time.

We respectfully express our concern that requiring disclosures from financial institutions already under the supervision of foreign regulators may be unduly burdensome. We would appreciate clarification of the circumstances in which such requests may arise, as well as the nature of the information expected.

## 5.5 Transactions with Non-residents

(b)

IRD transactions, including transactions in FCS-IRD, by non-residents with market-makers undertaken for purposes other than hedging, shall be subject to an overall limit, as specified below:

- i. The Price Value of a Basis Point (PVBP) of all outstanding IRD positions, including FCS-IRD positions shall not exceed the amount of INR 1,000 crore (PVBP cap).

Explanation: The PVBP cap shall be calculated by making a gross addition, ignoring mathematical signs, of the PVBP of each non-resident.

- ii. Market-makers shall not offer any IRD/ FCS-IRD to a non-resident for purposes other than hedging after the PVBP cap is reached.
- iii. CCIL shall monitor and publish the utilization of the PVBP limit on a daily basis. CCIL shall also publish the methodology for calculation of the PVBP limit.

To our best knowledge, in most jurisdictions where OTC derivatives regulations have been implemented, it is uncommon to impose a transaction cap based on the Price Value of a Basis Point (PVBP) for each non-resident counterparty. Such requirements would place a significant operational burden on market participants. In this regard, we respectfully request that the objectives of this regulation be clearly articulated, and that alternative approaches be carefully considered to achieve the same regulatory objectives.

Furthermore, managing such transactions at the level of offshore group entities would entail a substantial burden, particularly in terms of system development. Therefore, we also respectfully request that offshore branches and affiliates of market-makers be excluded from the scope of the Proposed Directions. Additionally, if the regulation is intended to apply to intra-group transactions, we also request that such transactions be excluded from its scope.

## 5.7 Reporting

### (a) Reporting to the Trade Repository

- (i) A market-maker shall report all OTC IRD transactions undertaken by it directly or through its overseas entities (including overseas branches, IBUs, wholly owned subsidiaries or joint ventures of market-makers) to the TR of CCIL as per the following timelines:
- I. All IRD transactions (including client trades) undertaken by a market-maker, other than FCS-IRD transactions with non-residents and structured derivative transactions, shall be reported within 30 minutes of the transactions.
- II. All FCS-IRD transactions undertaken by a market-maker with non-residents, either directly or by way of a back-to-back arrangement shall be reported before 12:00 noon of the following business day.
- III. All structured derivative transactions undertaken by a market-maker during the day shall be reported before closure of the TR of CCIL for the day

Some members of JBA have expressed following concerns regarding this direction:

- The proposed reporting timelines—ranging from 30 minutes to the end of the next business day—are significantly shorter than those adopted in other jurisdictions, particularly in Asia, where T+2 is the prevailing standard. To ensure consistency with international practices, we respectfully request that the reporting deadline be aligned with a T+2 timeline.
- Compliance with local regulatory and reporting requirements imposes substantial operational burden for headquarters or affiliates of foreign entities, including those related to system development. We respectfully request that offshore branches and affiliates of market-makers be excluded from the scope of the Proposed Directions.
- Real-time reporting within 30 minutes would place a substantial burden on market participants. We therefore request that the regulatory intent behind this requirement be clearly articulated, and that its cost-effectiveness be carefully evaluated in the course of regulatory consideration.

- In certain cases, such as when a rupee-denominated transaction between an offshore entity and an onshore entity is executed through means other than a back-to-back arrangement, the onshore market-maker may be subject to reporting obligations despite not having access to the transaction details. We respectfully request that such transactions, as illustrated in the example below, be explicitly excluded from the scope of the Proposed Directions.

(※)Example

There are followings.

Mumbai Branch of A bank

Tokyo Branch of A bank

Mumbai Branch of B bank

A company located in Tokyo which is not related party of either A bank or B bank

Trade 1

Mumbai Branch of A bank vs Tokyo Branch of A bank

Trade 2

Mumbai Branch of B bank vs Tokyo Branch of A bank

Trade 3

Tokyo Branch of A bank vs A company located in Tokyo which is not related party of either A bank or B bank

Our concerns

Mumbai Branch of A bank can report Trade 1 , but it is not necessary to report Trade 2.

Mumbai Branch of A bank must report Trade 3 , but it is uncontrollable because trade 3 is totally outside of Mumbai Branch of A bank.

(b) Regulatory Reporting

Cross-border remittances arising out of transactions in IRD, including FCS-IRD, shall be reported by banks to the Reserve Bank for every month through the Centralised Information Management System (CIMS) by the 10th day of the following month in the format set out below:

We respectfully request clarification for the definition of “banks” from “shall be reported by banks to the Reserve Bank for” described in this direction.

(End)