

Handbook of Market Practices

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Introduction

The Fixed Income Money Market and Derivatives Association of India (FIMMDA) was established in May 1998 and formally inaugurated by Dr. Y.V. Reddy, Deputy Governor, Reserve Bank of India (RBI), on June 3, 1998. On August 29, 1998, FIMMDA held its first Extraordinary General Meeting and elected its Board of Directors.

The spirit with which FIMMDA has been formed was to enable the major principals in the Fixed Income and Money Market to form an organisation through which they could collectively express their views on market development. One of the main objects as mentioned in its Articles Of Association was to recommend and implement healthy business practices, ethical code of conduct, standard principles and practices to be followed by the members in their dealing of securities.

It is believed that a clear understanding of market conventions, practices and high levels of integrity by the individuals concerned in the market is a vital cornerstone of a healthy market. In its endeavour to help market players maintain a high level of integrity FIMMDA had published the first edition of the Handbook in September 1999.

A need was felt for a revised version of the handbook in light of the various changes which has taken place in the market like introduction of Negotiated Dealing Screen (NDS), setting up of a central counterparty for the settlement of the Government of India security segment like Clearing Corporation of India Limited (CCIL) and introduction of Floating Rate Bonds. The views of the various market participants and members of FIMMDA were sought before arriving at the revised version.

Abbreviations and Terms

Abbreviations

BRD	Bills Rediscounting
CCIL	Clearing Corporation of India Limited
CD	Certificate of Deposit
CP	Commercial Paper
CSGL	Constituent Subsidiary General Ledger Account
DP	Depository Participant
DRM	Dispute Resolution Mechanism
DUPN	Derivative Usance Promissory Note
DVP	Delivery versus Payment
FEDAI	Foreign Exchange Dealers' Association of India
FI	Financial Institution
FIMMDA	Fixed Income Money Market Derivatives Association of India
FRA	Forward Rate Agreement
IPA	Issuing and Paying Agent
LAF	Liquidity Adjustment Facility
LOA	Letter of Allotment
MIBOR	Mumbai Interbank Offered Rate
NDS	Negotiated Dealing System
NSE	National Stock Exchange
OIS	Overnight Index Swap
PD	Primary Dealer
PDAI	Primary Dealers Association of India
RBI	Reserve Bank of India
SGL	Subsidiary General Ledger

Terms

- Firm** refers to a company involved in the market. The words firm, institution, participant and company are used interchangeably.
- Principal** a company or firm acting as a major party to a transaction acting as either a buyer or a seller. A principal buys and sells in their own account and at their own risk.
- Broker** a company or firm which acts as an intermediary between principals usually charging a fee or brokerage.
- Individuals** refer to persons and/or dealers employed by a firm, the firm could be a principal or a broker.

Chapter 1

Scope of the Handbook

1.1 To whom does the handbook apply

The handbook is applicable to all the transactions between market participants, who are members of FIMMDA. It is suggested that the principles, contained in the Handbook may also be applied in letter and spirit in respect of transactions between market participants, who are not members of FIMMDA such as corporates, mutual funds, pension funds and individuals.

While this handbook covers the participants in the above markets in India, its provisions may extend beyond the Indian shores, for example where a firm deals with an overseas counterparty in debt instruments issued in India by a corporate. As far as possible deals in Indian debt and derivatives markets done with overseas counterparties should conform to the conventions followed in India.

1.2 To which products does the handbook apply

The markets covered by this handbook are the Fixed Income markets, the Money Markets and the Derivatives markets. The general principles and procedures are applicable to any product that may be dealt with in these markets.

Specific mention of the major products that are currently dealt with in the above markets have been made in this handbook. These major products are:

- Call Money / Notice Money
- Term money
- Bill Rediscounting
- Commercial Paper
- Certificate of Deposit
- Dated Government Security
- Treasury Bill
- Ready Forward
- Bond / Debenture
- Interest Rate Swap
- Forward Rate Agreement

In respect of the derivative market only Interest Rate Swaps and Forward Rate Agreements have been covered. For the other derivative products, involving foreign currencies, like cross currency interest rate swaps, currency options and currency futures, conventions, as formulated by the FEDAI, may be followed.

1.3 Regulation

In the case of any contradiction between the provisions contained in the Handbook and any other law or regulation/guidelines laid down by any other statutory authority in India like the RBI, the latter shall prevail.

In case of deals settled through CCIL, the bye-laws, rules and regulations of CCIL will be applicable.

1.4 Disputes

FIMMDA is in the process of finalizing a DRM for its members. Any disputes arising on account of any of the markets/products covered by this handbook will be subject to the DRM, as and when the same is finalised.

Chapter 2

General Principles

- 2.1 All Principals and Brokers shall maintain the highest standards of conduct so as to enhance the reputation of these markets.
- 2.2 All participants must ensure that any individual who commits on behalf of the institution is acting within approved authorities.
- 2.3 All institutions must stand by the commitment made by an individual acting on their behalf, the principle being 'My Word is my Bond'.
- 2.4 Institutions must ensure that the individuals acting on their behalf are fully trained and completely aware of the rules and regulations, conventions, practices and the markets in which they deal.
- 2.5 All individuals must comply with the rules and regulations governing the market and keep up-to-date with changes that may happen from time to time.

Trades done outside the NDS, between institutions who are members of the NDS should be entered in the NDS within a period of 15 minutes from the time of conclusion of the trade.

- 2.6 The role of a broker is to bring together the counterparties for a fee. When brokers act as intermediaries, they are not expected to act as principals or in a discretionary capacity, even momentarily. Where the broking company is acting on its own account, it is expected to declare that it is dealing as a principal before negotiating the trade.
- 2.7 Brokers and principals are expected to maintain confidentiality of the parties involved in the transactions.
- 2.8 Settlement of the deals in Fixed Income, Money Market and Rupee Derivatives will be subject to market conventions laid down by FIMMDA, irrespective of the counterparty being a member of FIMMDA.

2.9 Chapter 3

Management Controls

The management should put in place appropriate controls and procedures in respect of their dealing in the markets, covered by the handbook. It should be ensured that the staff members who deal in the market and the other support staff follow the controls and procedures so laid down.

The management should periodically review the controls and procedures.

3.1 Organisation of the dealing department

3.1.1 The fundamental principle of maintenance of internal controls is the functional segregation of the front office and back office and settlement functions. However, in view of the increasing volume and complexity of the transactions, it may be a good practice to segregate the functions of the dealing department as under:

Function	Responsible for
Front office	Dealing
Mid-Office	Risk management, accounting and management information
Back office	Confirmations, settlement and reconciliation

3.1.2 Since there may be an overlap of the mid-office and back office functions, the managements of individual institutions may lay down any other level of segregation that it thinks fit. Back-office and mid-office have been used interchangeably in this handbook.

3.1.3 Personnel in back office functions and mid-office functions should be functionally segregated from those in the front office. Persons who conclude trades must not be involved in the confirmation or settlement of trades.

3.2 Know your counterparty

It is a good practice to conduct basic due diligence and “know your counterparty” checks before dealing. These checks should show a basic understanding of who the counterparty is and why the counterparty is dealing in the product. For derivatives transactions, firms should, in spirit of “duty of care” be satisfied that the company is aware of the risks involved in using those products and the person dealing is authorized by the company for executing those transactions.

3.3 Recording of conversations

3.3.1 Experience has shown that recourse to tapes proves invaluable to the speedy resolution of differences and disputes. Members who do not tape all their front office conversations should review this matter and introduce the system as soon as possible. When initially installing recording equipment, or taking on new clients or counterparties, firms should inform them that conversations will be recorded.

3.3.2 Tapes should be kept for at least three months. Tapes relating to disputed/unconfirmed transactions should be retained until the disputes have been settled/confirmed.

3.3.3 Management should ensure that access to the recording equipment, whether in use or in store, is strictly controlled so that they cannot be tampered with.

3.4 Off-Premise Dealing

3.4.1 As a practice, participants should deal only from their normal place of dealing i.e. from their respective dealing rooms/office as the case may be.

3.4.2 However, there may be occasions when the dealer may have to deal from other than his normal place of dealing. Management may lay down the guidelines, including the staffs that are authorized to deal from outside the normal place of dealing. The back office should inform the management about such off-premises deals. Management should satisfy themselves of the need for such dealing.

3.4.3 The dealer / official should, prior to dealing, inform the counterparty about dealing off-premises. The fact that the deal has been done off the premises should also be recorded in the deal confirmation and/or other relevant records.

3.5 Dealing Hours

The dealing hours will be from 9:00 a.m. to 5:30 p.m. from Monday to Friday and from 9:00 a.m. to 1:00 p.m. on Saturday or as prescribed by RBI. NDS also has the same timings for trading sessions. Deals done outside these hours should be reported to the management and management should satisfy themselves about the necessity of concluding such deals outside the prescribed hours.

3.6 Rate Scan

3.6.1 Market Players shall not deal at rates, which are not market related. Management should ensure that proper procedures, including the periodicity of taking rate scans, are in place to ensure this. Management should set up the "rate-bands" within which the actual traded rates should fall.

3.6.2 A proper procedure to monitor the deals, which are outside the rate-bands should be laid down. Usually this would be because of extraordinary volatility, or because the amount of the deal is small and transactional costs have been loaded into the price.

3.6.3 The back-office should report these exceptions to the management and management must satisfy itself that the exceptions are for legitimate and comprehensible reasons.

3.7 Conflicts of Interest

3.7.1 It is possible that dealers may wish to make personal investments in the products, which the institution is dealing in or in the products covered by this handbook. Management should formulate a “Personal Investment Policy” and ensure adherence to the same.

3.7.2 While framing the Personal Investment Policy the management may take into consideration the rules and regulations laid down by any statutory authority in respect of insider trading.

3.8 Rotation of dealers

Dealers should not be kept too long on the same desk. Management should formulate suitable policy for rotation of dealers. Further a system of an annual compulsory leave of 15 days or longer may be introduced so that no dealer remains on the job continuously.

3.8 Confirmations

Firms should ensure that they have a process in place, which at the minimum ensures the following:

3.8.1 Deals recorded by the trader are confirmed independently by the back-office. All confirmations should include the date of the deal, the name of the counterparty and all other details of the deal. It is a good practice to also confirm all settlement details, even when some of these details do not change with each and every deal. .

3.8.2 The back office must respond promptly to confirmations received for which they do not have a corresponding trade. It is proper to first check with the front office to ensure that no deal has been missed. They should then promptly advise the back office of the counterparty of the absence of the trade.

3.8.3 A discrepancy between a confirmation and significant details of the trade, and even the existence of a trade, should be brought to the attention of the management. Management should satisfy themselves of the genuineness and accuracy of the trade. It is important that discrepancies should be promptly sorted out within a few minutes of the deal.

Chapter 4

Dealing Procedures and Principles

4.1 Scope

Deals done in the Indian market (as laid down in Chapter 2) should be conducted on the basis of this handbook.

In respect of deals done with overseas counterparties, the counterparty should be made aware of the conventions, followed in India, in advance, to avoid any possible confusion.

4.2 Preliminary Negotiation of terms

Dealers should clearly state at the outset, prior to a transaction being executed, any qualifying conditions to which the deal will be subject to. Where a firm quote has been indicated on the NDS, qualifying conditions cannot be specified after the conclusion of the deal.

Typical examples of qualifications include where a price is quoted subject to the necessary credit approval, limits available for the counterparty, inability to conclude a transaction because offices of the member in other centres are not open. This should be made known to the broker and the potential counterparty at an early stage and before names are exchanged by the broker.

4.3 Firmness of Quotation

Dealers, whether acting as principals, agent or broker, have a duty to make absolutely clear whether the prices they are quoting are firm or merely indicative. Prices quoted by brokers should be taken as indicative unless otherwise qualified.

4.3.1 In respect of deals on the NDS, the dealer would put the quote as a “firm” quote or “indicative” quote on the NDS. In case the dealer is willing to do the deal only with a certain set of counterparties, he should put the quote as “firm” only for preferred counterparties.

4.3.2 In respect of other deals, a dealer quoting a firm price or rate either through a broker or directly to a potential counterparty is committed to deal at that price or rate in a marketable amount provided, the counterparty name is acceptable. Generally, prices are assumed to be firm as long as the counterparty or the broker is on line. Members should clearly and immediately indicate when the prices are withdrawn.

4.3.3 In volatile markets, or when some news is expected, dealers quoting a firm price or rate should indicate the length of time for which their quote is firm. The price or the

rate is usually for the marketable amount. If the quote is not for a marketable quantity, the dealer / broker should qualify the same while submitting the quote.

4.3.4 A significant part of the volume transacted by brokers relies on mandates given by dealers acting on behalf of principals. The risk that the principal runs is that such an offer could get hit after an adverse market move has taken place.

4.3.5 The broker is expected to use the mandate in order to “advertise” the principal’s interest to the entities that the broker expects will have an interest in the price. Generally, the broker is free to show the price to entities he deems fit, but members have the right to expect that if a smaller set is defined; the broker will adhere to such a smaller set.

4.3.6 Mandates shall not be for a period of more than 15 minutes unless otherwise specified. Brokers are expected to check with the principal from time to time to ensure that the mandate is still current.

4.3.7 The broker shall reveal the name of the entity offering the mandate when the counterparty is firm to deal at the mandate price. The broker will then call the member who offered the mandate and confirm the deal. In the absence of any significant market movement, the member who has offered the mandate is expected to adhere to it. In case the price is not adhered to, it is the responsibility of the member who had offered the mandate to explain why the mandate is no longer valid. It is required of the member that the mandate price be withdrawn before the broker reveals the counterparty name. The only exception to this is when the counterparty name is not acceptable.

4.3.8 The principal should call the broker if he wishes to withdraw the mandate before its expiry. The quote cannot be withdrawn after the broker has concluded the deal.

4.4 Delivery of the securities/funds

The dealers should agree upon the delivery conditions before concluding the deal.

4.4.1 Delivery of the securities/funds is on a Delivery-versus-Payment (DVP) basis in respect of Government Securities and T-Bills. In respect of other securities, which are in demat form, since there is no DVP mechanism, the dealers should agree upon the priority of settlement of the securities and funds.

4.4.2 Banks and primary dealers are currently not allowed to invest in securities, which are not in demat form. However, where physical securities are to be delivered, the dealers should agree before conclusion of the deal as to whether the settlement will be DVP or otherwise (in which case the priority of settlement needs to be agreed upon).

4.5 Concluding a Deal

Dealers should regard themselves as bound to honour a deal once the price, name acceptability, credit approval and any other key commercial terms have been agreed. Oral agreements/contracts are considered binding on all the parties concerned. In respect of deals done on the NDS, the deal would be considered as final as soon as any counterparty responds to a “firm” quote.

4.5.1 Where quoted prices are qualified as being indicative or subject to negotiation of commercial terms, members should normally treat themselves as bound to honour the deal at the point when the terms have been agreed without qualification.

4.5.2 Oral agreements are considered binding; the subsequent confirmation is evidence of the deal but should not override terms agreed orally.

4.5.3 Making a transaction subject to documentation is not a good practice. In order to minimise the likelihood of disputes arising once documentation is prepared, dealers should make every effort to clarify all material points quickly during the oral negotiation of terms, and should include these in the confirmation.

4.5.4 Where brokers are involved, members have the right to expect that the broker will make them aware immediately on conclusion of the deal. As a general rule a deal should be regarded as having been ‘done’ where the dealer positively acknowledges the broker’s confirmation. It is expected that a broker shall not assume that a deal is done without oral confirmation from the dealer.

4.6 Passing of names by brokers

It is a good practice for dealers not to seek the names of the counterparty before transacting and for brokers not to divulge the names before concluding the deal. Dealers and brokers should at all times treat the details of transactions as absolutely confidential between the parties involved.

4.6.1 To save time and avoid confusion, dealers should, wherever practical, give brokers prior indication of counterparties with whom, for whatsoever reason, they would be unwilling to do business. In all their transactions, brokers should aim to achieve a mutual and immediate exchange of names.

4.6.2 In the repo markets, it is accepted that members may vary the price (second leg) depending on the counterparty. Hence it is acceptable for the member to know the name of the counterparty in advance.

4.6.3 In the case of instruments like Certificate of Deposits and Commercial Papers, where the seller may not be the same entity as the issuer, the broker shall first disclose the issuer’s name to the potential buyer. The name of the buyer shall be disclosed only after the buyer has accepted the seller’s name. The seller has the right to refuse to transact with the buyer.

4.7 Reporting of deals on the NDS

The dealers should enter the deals, concluded on the NDS or to be reported on the NDS, within a period of 15 minutes of the conclusion of the deal.

4.7.1 Deals in Government Securities and T-Bills may be conducted either on the NDS or otherwise. However, all the deals in Government Securities and Treasury Bills have to be reported on the NDS. Since the settlement of the deals amongst members will be through CCIL, it would have to be entered in the NDS. The dealer of the selling counterparty of the securities has to enter the deal into NDS and the dealer of the buying counterparty have to approve the deal. The back office of both the counterparties has to then approve the deal.

4.7.2 It would be a good practice to conclude the approval of the deals within a period of 30 minutes from the time of conclusion of the deal. In any case the process should be completed before the time of closure of the NDS.

4.8 Oral Confirmations

No oral confirmation is essential in respect of deals, entered in the NDS. In respect of other deals an oral confirmation of the deals by the back office is a good practice.

Lack of response should not be construed as confirmation.

4.9 Written Confirmations

A written confirmation of each deal must be sent out at the earliest and a confirmation should be received from the counterparty

4.9.1 The confirmation provides a necessary final safeguard against dealing errors. Confirmations should be despatched and checked promptly, even when oral deal confirmations have been undertaken.

4.9.2 A confirmation of each deal must be sent out at the earliest. This is particularly essential if dealing for same day settlement. All participants of the wholesale markets should have in place the capability to despatch confirmations so that they are received and can be checked within a few hours from the time of striking the deal. Where the products involved are more complex, and so require more details to be included on the confirmation, this may not be possible; nevertheless it is in the interest of all concerned that such deals are confirmed as quickly as possible and in no case later than the next working day of the date of the deal. It is recommended that principals should inquire about confirmations not received within the expected time.

4.9.3 All confirmations should include the trade date, value date, the name of the counterparty and all other details of the deal, including, wherever appropriate, the commission charged by the broker.

4.9.4 All confirmations should state “The settlement of the deals in Fixed Income, Money Market and Rupee Derivatives are subject to FIMMDA’s market conventions irrespective of the counterparty being a member of FIMMDA”.

4.9.5 It is an accepted practice for principals to confirm directly all the details of transactions arranged through a broker; who independently sends a contract/transaction confirmation to both counterparties.

4.9.6 It is vital that principals upon receipt of confirmations immediately check the confirmations carefully so that discrepancies are quickly revealed and corrected. As a general rule, confirmations should not be issued by or sent to and checked by dealers. Confirmation is a back-office function.

4.10 Settlement Of Differences

4.10.1 If all the procedures outlined above are adhered to, the incidence and size of differences should be reduced. Errors may occur, and they should be identified and corrected promptly. Failure to observe these principles could leave those responsible bearing the cost of any differences, which arise.

4.10.2 Where difference in payment arises because of errors in the payment of funds, firms should not attempt undue enrichment by retaining the funds. In case funds are retained then compensation terms should be negotiated between the counterparties. The same principle is applicable in case of delivery of securities.

4.11 Rounding off

All interest receivable/payable should be rounded off to the higher rupee if the paise component is equal to or higher than 50 paise and should be ignored if the paise component is less than 50 paise.

The rounding off of paise should also be done in respect of broken period interest receivable/payable.

4.12 Bank Holidays / Market Disruption

The list of holidays will be displayed by FIMMDA on its website.

If due to unforeseen events, a particular date for which transactions have been entered into, is subsequently declared as a holiday, then while settling such claims, the principle of no undue enrichment should be followed. The practice to be followed in case of declaration of an unscheduled holiday is given in chapter 9.

Bank Annual and Semi-Annual Account Closing Day (i.e.1st April, and 30th September) – Will be treated as a normal holiday.

RBI's Annual Account Closing Day (i.e. 1st July) –Will be treated as normal holiday.

(This amendment is effective from 1st December 2009)

Chapter 5

Market Terminology

The commonly used expressions, in the money and debt markets in India and their generally accepted meanings, are as under:

Expressions	Generally accepted meaning
I Bid / Buy	The Price at which I am willing to buy
I Offer / Sell	The Price at which I am willing to sell
Quotes / Prices	<p>Typically the Dealers quote only the decimal places omitting the integer part. It is assumed the players know the integer part in the prevailing market price.</p> <p>Example: 1</p> <p>If on a given day the security 11.40 GOI 2008 is being quoted at a price of around Rs.117.50 then the bid at 45 / offer at 55 would mean that the dealer is willing to buy the security at Rs.117.45 and sell it at Rs.117.55.</p> <p>Example: 2</p> <p>If on a given day the Treasury Bill maturing on 18th October 2002 is being quoted at a yield of around 6.90 then the bid at 95 / offer at 90 would mean that the dealer is willing to buy the security at 6.95 and sell it at 6.90.</p> <p>However, the complete price should be used while confirming deals.</p>
Clean price	The price of a bond, excluding the accrued interest since the last interest payment date.
Dirty price	The price of a bond, including the accrued

	interest since the last interest payment date. The is also known as the gross price.
Haircut	The difference between the actual market value and the value ascribed to the collateral used in a repo transaction.
Mine	I Buy at the Price you have offered
Yours	I Sell at the Price you have bid
Close / Done	I conclude the deal at the mutually agreed Price.
Two –Way quote	Quote which includes both Buy and Sell price Example: 45/50 indicates that the dealer is willing to buy at Rs.117.45 and sell at Rs.117.50.
Choice – Quote	Choice Quote is a single price quoted by a dealer and it means that he/she is willing to Buy as well as Sell at that price. Example: A Quote of ‘5 Choice’ for a security means that the dealer will buy as well as sell at 5 paise.
Final Price	No more negotiations. It is the price at which the dealer is willing to close the deal.
Level / Indicative Price	Prices quoted by dealers to indicate the level at which they are interested in doing the deal but are willing to negotiate.
Big Figure	The integer part of the price. Example: If the ruling price of a security is 117.50, then the Big Figure here is 117.
Figure	Price when quoted in integers without the decimal part is known as Figure. Example: When the dealer is willing to deal 11.40 GOI 2008 at 117.00 (when the ruling quote is 116.95/117.05), he will state that he is willing to do the deal at Figure.
Check	“Check” during chat means that the dealer is withdrawing his/her quote with immediate effect.

Check Before Closing (CBC)	“CBC” means that the dealer has the freedom to modify the price and/or amount during the chat. Hence, the counter-party dealer/broker should seek confirmation before concluding the deal.
Pass / No interest / Squared	I am not interested in the deal at the moment.
Referring to securities during chat	<p>Dated Government Securities are generally identified by their coupon and year of maturity. In case of securities having identical coupons in the same year of maturity, the actual nomenclature should be used to differentiate them.</p> <p>Example: 11.50 08, 11.50 10 11.50 GOI 2011, 11.50 GOI 2011A</p> <p>Treasury Bills, Commercial Papers and Certificate of Deposits should be referred to using their date of maturity and the actual nomenclature should be used for confirmation.</p> <p>Example: TB 18/10/02, 364D TB Maturing on 18/10/02 ACC Maturing on 20/12/01, Confirmation calls for full particulars. SBI Maturing on 20/02/02, Confirmation calls for full particulars.</p>
Same day value/ Value today	Settlement to be effected at “t + 0”, where t is the trade date.
TOM / Value TOM / Value ‘t + n’	<p>TOM and Value TOM mean that the settlement will be done on the next settlement date.</p> <p>Value ‘t + n’ means that settlement will be done on nth settlement day after the trade date (excluding holiday(s) observed by RBI, Mumbai).</p>
Quantum / Amount	It will be assumed that the quote is for the standard market lot of Rs.5 crore, unless otherwise explicitly stated.
I to borrow clean	The dealer intends to borrow cash clean (without collateral).
I to borrow under Repo	The dealer intends to borrow cash against the collateral of securities.

I to lend clean	The dealer intends to lend cash clean (without collateral).
I to lend under Repo	The dealer intends to lend cash against the collateral of securities.

Given below could be a typical conversation between dealers during negotiation:

Bank A calls Bank B

Bank	Terminology used	Meaning
Bank A	11.40/08 for 25crore	Bank A is asking Bank B for a 2 way quote on 11.40% maturing 2008 for a total amount of Rs. 25 crore (face value) for settling today.
Bank B	12/18 for 15 crore	Bank B has given a price to buy at Rs. 117.12 and to sell at Rs.117.18 and the quote is valid for Rs.15 crore only.
Bank A	Any improvement, me to buy	Bank A tells Bank B that he is looking to buy but at a lower price.
Bank B	17 for you	Bank B is willing to reduce the price for the buyer to Rs.117.17.
Bank A	Done / Close	Bank A concludes the deal
Bank B	Confirmed, Bank B sells 11.40% 08 15 Crore value today at 117.17 to Bank A	Bank B confirms the deal specifying security, amount, price, settlement date and counterparty

Swap Market Terminology

Some of the expressions used in the interest rate swaps market are given below (apart from the typical expressions given above).

Expressions	Generally accepted meaning
OIS (Overnight Indexed Swap)	Overnight Indexed Swaps benchmarked typically against FIMMDA- NSE MIBOR rates
Two way Quote	<p>A two-way quote in the OIS parlance would mean that the dealer is ready to Pay and Receive Fixed Rate. The quote should also specify the tenor. If not otherwise specified the FIMMDA-NSE Overnight MIBOR should be taken as the bench mark.</p> <p>Example: A quote of “ 7.60 / 7.70 for 2 months ” indicates the dealer’s willingness to Pay a Fixed Rate of 7.60% and to Receive a Fixed Rate of 7.70% per annum for a period of 2 months.</p>

Mine / I receive	I receive the Fixed Rate quoted against paying the Floating benchmark
Yours / I pay	I pay the Fixed Rate quoted against receiving the Floating benchmark.
INR-MIBOR	Pay simple Fixed Rate against receipt of overnight Floating Rate for tenors up to (and including) 1 year. Pay simple semi-annual Fixed Rate against receipt of overnight Floating Rate for tenors of longer than 1 year.
INR-MITOR	Pay simple Fixed Rate against receipt of overnight Floating Rate for tenors up to (and including) 1 year. Pay simple semi-annual Fixed Rate against receipt of overnight Floating Rate for tenors of longer than 1 year.
INR-MIFOR	Pay annual Fixed Rate against receipt of 3 month Floating Rate for tenors up to (and including) one year. Pay semi-annual Fixed Rate against receipt of 6 month Floating Rate for tenors of longer than one year.
INR-MIOIS	Pay annual Fixed Rate against receipt of 3 month Floating Rate for tenors up to (and including) one year. Pay semi-annual Fixed Rate against receipt of 6 month Floating Rate for tenors of longer than one year.
INR-BMK	Pay annual Fixed Rate against receipt of annualized Floating Rate for all tenors.
INR-CMT	Pay annual Fixed Rate against receipt of annualized Floating Rate for all tenors.

Parameters by default

Market Lot	Rs. 5 Crore
Settlement for value at t + 0	Deals entered up to 13.00 hours
Settlement for value at t + 1*	Deals entered after 13.00 hours

***t+1 will be the default for contracts done in securities, other than Government of India securities.**

Chapter 6

Product Guidelines

6.1 Call Money and Notice Money

Call Money is a money market instrument wherein funds are borrowed / lent for a tenor of one day/overnight (excluding Sundays/holidays). Notice Money is a money market instrument, where the tenor is more than 1 day but less than 15 days.

The borrower/lender must convey his intention to repay/recall the amount borrowed/lent with at least 24 hours notice.

6.1.1 Features

- Interest is calculated on Actual / 365 day basis.
- Interest payable to be rounded off to the nearest rupee.
- Interest on the amount borrowed/lent =

$$\frac{\text{Amount borrowed/lent} * \text{No. of days} * \text{Rate of Interest}}{365 * 100}$$

6.1.2 Settlement

The borrower of funds will collect the cheque and hand over the deposit receipt to the lender on the value date of the deal. On the due date, the lender will give back the deposit receipt to and collect the cheque from the borrower.

6.2 Term Money

Money lent for a fixed tenor of 15 days or more is called Term Money.

6.2.1 Features

- Interest to be calculated on Actual / 365 day basis.
- Interest payable to be rounded off to the nearest rupee.
- Periodicity for payment of interest can be Quarterly/Half Yearly/on redemption, as agreed to at the time of the deal.

- Interest on the amount borrowed/lent =

$$\frac{\text{Amount borrowed/lent} * \text{No. of days} * \text{Rate of Interest}}{365 * 100}$$

- Premature cancellation after 14 days can be done by mutual consent on mutually agreed terms.
- No loan/overdraft can be granted against Term Money.

6.2.2 Settlement

The borrower of funds will collect the cheque and hand over the deposit receipt to the lender on the value date of the deal. On the due date, the lender will give back the deposit receipt to and collect the cheque from the borrower.

In case the maturity of term money falls on a holiday, the repayment will be made on the next working day. Additional interest will be paid for such period on the amount borrowed (principal only) at the contracted rate.

6.3 Bill Rediscounting Scheme (BRD)

BRD is the rediscounting of trade bills, which have already been purchased by /discounted with the bank by the customers. These trade bills arise out of supply of goods/services.

6.3.1 Features

- The banks normally rediscount the bills that have already been discounted with them or raise usance promissory notes in convenient lots and maturities and rediscount them.
- Rediscount of bills and DUPN should be for a minimum period of 15 days and for a maximum period of 90 days.
- RBI has clarified to FIMMDA that in case a holiday is declared under the Negotiable Instruments Act ,1881, subsequent to the rediscounting of the bill/issuance of DUPN, and the payment is to be made on the preceding working day (as per the Negotiable Instruments Act), such payment on the preceding working day would not be regarded as a violation of RBI's guidelines.
- Discount is calculated on Actual/365 day basis.
- The amount payable to the borrower is the principal amount less the discount/interest.

- While discounting a bill/DUPN, the amount of discount is to be deducted at the time the bill/DUPN is issued .
- The discount is rounded off to the nearest rupee.
- On maturity the borrower would repay the principal amount.

6.3.2 Example:

Transaction Amount: Rs. 10,00,00,000/-(Rupees Ten Crore)
(Principal amount)

No. of Days : 45 days

Rate of Discount : 10.25% p.a.

Discount :
$$\frac{\text{Transaction Amount} * \text{No. of days} * \text{Rate of interest/discount}}{365 * 100}$$

$$\text{i.e. } \frac{10,00,00,000 * 45 * 10.25}{365 * 100}$$

i.e. Rs. 12,63,699 (rounded off)

Amount payable: Transaction Amount – Discount/Interest

i.e. 10,00,00,000 - 12,63,699

i.e. Rs. 9,87,36,301/-

Amount to be repaid on maturity : Rs. 10,00,00,000/-

6.4 Commercial Paper (CP)

CP is a short term unsecured promissory note issued for a specified amount and maturing on a specified date.

6.4.1 Features

- It is issued by Corporates, FIs, PDs, having a maturity of 15 days to one year.
- It is a discounted instrument.
- Discount is calculated on actual number of days / 365 day year basis.

- Discount to be calculated on a rear-ended basis.
- Price to be calculated up to a maximum of four decimal places.

- Case 1: In case yield is given then:

$$\text{Price} = \frac{100}{\left(1 + \frac{\text{Yield} * \text{No. of days to maturity}}{365 * 100}\right)}$$

- Case 2: In case price is given then

$$\text{Yield} = \frac{(100 - \text{Price}) * 365 * 100}{\text{Price} * \text{No. of Days to maturity}}$$

Note: FIMMDA has issued separate, detailed, operational guidelines on CPs.

6.4.2 Settlement

Currently, banks are authorized to invest in CPs only in demat form. The counterparties may decide upon the sequence of delivery of funds and securities at the time of concluding the deal in the secondary market.

6.5 Certificate of Deposit (CD):

A CD is a negotiable money market instrument. A CD is issued as a Usance Promissory Note for funds deposited at a bank or other eligible financial institution for a specified time period.

6.5.1 Features

- It is a discounted instrument.
- Discount is calculated on Actual / 365 day basis.
- Discount to be calculated on a rear-ended basis.
- .
- CDs are freely transferable by endorsement and delivery.
- Price to be calculated upto a maximum of four decimal places and rounded off to the 4th decimal place
 - Case 1: In case yield is given then:

$$\text{Price} = \frac{100}{(1 + \frac{\text{Yield} * \text{No. of days to maturity}}{365 * 100})}$$

- o Case 2: In case price is given then

$$\text{Yield} = \frac{(100 - \text{Price}) * 365 * 100}{(\text{Price} * \text{No. of Days to maturity})}$$

Note: FIMMDA has issued separate, detailed, operational guidelines on CDs.

6.5.2 Settlement

Currently, banks are authorized to invest in CDs only in demat form. The counterparties may decide upon the sequence of delivery of funds and securities at the time of concluding the deal in the secondary market.

6.6 Dated Government Securities

Government Securities are coupon-bearing debt instruments issued by the Government of India/State Government. Government Securities may have a fixed or a floating coupon.

6.6.1 Features

- Interest to be calculated on a 30 / 360 day basis.
- 31st day of the month, wherever exists, will be treated as 30th i.e for a deal done on 30th or 31st day of the month and the broken period will be 29 days for that month.
- 28th February (or non-leap years) or 29th February (on leap years) will be treated as any other day of the month i.e. for a deal done on 28th February (on non-leap years) and 29th February (on leap years) the broken period will be 27 days and 28 days respectively for that month of February.

Sr No	Last Coupon Payment Date	Date of Settlement for sale/purchase transaction	Broken Period	
a)	28th July	14th August	July	- 3 days
			Aug	- 13 days
			<hr/>	
			Total	- 16 days
b)	18th September	31st October	Sep	- 13 days
			Oct	- 29 days
			<hr/>	
			Total	- 42 days

c)	23rd February	5th March	Feb - 8 days Mar - 4 days <hr/> Total - 12 days
d)	6 th January	28th February (Non-Leap Year)	Jan - 25 days Feb - 27 days <hr/> Total - 52 days
e)	28th February	17th March	Feb - 3 days Mar - 16 days <hr/> Total - 19 days
f)	28th February	28th February 29th February 1st March	Total - 0 days Total - 1 day Total - 3 days
g)	22 nd December	29th February (Leap Year)	Dec - 9 days Jan - 30 days Feb - 28 days <hr/> Total - 67 days
h)	29th February (Leap Year)	19th April	Feb - 2 days Mar - 30 days Apr - 18 days <hr/> Total - 50 days
i)	31st August	22 nd October	Aug - 1 day Sep - 30 days Oct - 21 days <hr/> 52 days
j)	31st August	31st August	Total - 0 days
k)	30th August	22 nd October	Aug - 1 day Sep - 30 days Oct - 21 days <hr/> 52 days

- Prices in the secondary market to be quoted upto a maximum of four decimal places.
e.g. Rs. 100.4350 or Rs. 101.2125 but not Rs. 102.3745 or Rs. 103.5018

- Firm quotes should be for a minimum amount of Rs.5 crore and in multiples thereof. The minimum deal size should be consistent with the lot size. The lot size should be in the multiples of Rs 10,000.

6.6.2 Settlement

The settlement of deals happen through the SGL/CSGL of the counterparties either with RBI or with CCIL.

The settlement of deals, reported on the NDS, is settled by CCIL. CCIL guarantees the settlement of the deals through novation.

6.7 Treasury-Bill

Treasury Bills are short-term (maturities less than one year), discounted, government securities.

6.7.1 Features

- They are issued for different maturities viz. 14-day, 28 days (announced in Credit policy but yet to be introduced), 91 days, 182 days and 364 days. 14 days and 182 days T-Bills have been discontinued.
- Price to be calculated upto a maximum of four decimal places and rounded off to the 4th decimal place.

- Case 1: In case yield is given then:

$$\text{Price} = \frac{100}{\left(1 + \frac{\text{Yield} * \text{No. of days to maturity}}{365 * 100}\right)}$$

- Case 2: In case price is given then

$$\text{Yield} = \frac{(100 - \text{Price}) * 365 * 100}{(\text{Price} * \text{No. of Days to maturity})}$$

6.7.2 Settlement

The settlement of deals happen through the SGL/CSGL of the counterparties either with RBI or with CCIL.

The settlement of deals, reported on the NDS, is settled by CCIL. CCIL guarantees the settlement of the deals through novation.

6.8 Ready Forwards (Repos):

Repo is a mechanism, which enables collateralized short term borrowing and lending through sale/purchase operations in debt instruments. Under a repo transaction, a holder of securities sells them to an investor with an agreement to repurchase at a predetermined date and rate. In case of a repo, the forward clean price of the bonds is set in advance at a level, which is different from the spot clean price by adjusting the difference between repo interest and coupon earned on the security. The market participants may also apply appropriate haircuts, provided the same is allowed as per the rules and regulations, laid down by the RBI.

A reverse repo is the mirror image of a repo. For, in a reverse repo, securities are bought with a simultaneous commitment to resell. Hence whether a transaction is a repo or a reverse repo is determined only in terms of who initiated the first leg of the transaction. Currently repo can be done in government securities and treasury bills only. The legal ownership of the security passes on from the seller of the securities to the buyer of the securities.

On the request of RBI, FIMMDA is in the process of drafting a master repurchase agreement. The participants should enter into the master repurchase agreement, as and when the same is finalized by FIMMDA and approved by RBI, before entering into a repo transaction.

The settlement and other features remain the same as in respect of government securities and treasury bills, except that in case of the second leg the clean price should not be more than 8 decimal places. The purchase consideration and the broken period interest in respect of the second leg of repo should be rounded to the nearest rupee.

6.9 Bonds and Debentures

These are debt instruments issued by corporates or public sector undertakings. A bond/debenture is a debt obligation; the bond/debenture holder is a lender to the issuer and there is no ownership position.

6.9.1 Features

- Interest to be calculated on Actual/ 365-day basis.

- Prices to be quoted up to a maximum of four decimal places. In terms of yield, it is quoted up to four decimal places.
- If the bond/debenture has a residual maturity of less than one year than the yield calculation will be done on the basis of money market yield calculation method.

6.9.2 Letter of Allotment

Letter of Allotment (LoA) is a letter issued by the issuer of a bond/debenture giving the quantum allotted, distinctive number of debentures/bonds allotted, the name of the holder, the terms and conditions of transfer, etc. An LoA is a transferable instrument. LoA can be issued in the physical or the demat form and is tradable as per the rules governing the LoAs. If the trade for a bond/debenture is based on an LoA, the buyer should be made aware of the same before conclusion of the deal.

Allotment Advice is an intimation given by the issuer of the amount of debenture/bond allotted to the investor. Unlike an LoA, the allotment advice is not a transferable instrument.

6.9.3 Settlement

Currently, banks are authorized to invest in bonds/debentures only in demat form. The counterparties may decide upon the priority of delivery of funds and securities at the time of concluding the deal in the secondary market.

In respect of bonds/debentures in physical form, delivery is generally on a payment basis where the seller sends the documents to the buyer. However, the practice of delivery upon clearance of buyer's cheque is also prevalent, and is considered acceptable in case of payment by high value cheque.

Chapter 7

Rupee Interest Rate Swap

FIMMDA has given the market practices to be followed in respect of Rupee Interest Rate Swaps (IRS) in its Handbook. After the introduction of IRS in 1999, various benchmarks have evolved during the last one year. This has led to some differences in practices being followed by different market participants. It was therefore felt necessary to lay down the market practices in respect of IRS in more detail.

7.1 Definition

An interest rate swap is a financial contract between two parties exchanging or swapping a stream of interest payments for a 'notional principal' amount on multiple occasions during a specified period. Such contracts generally involve exchange of a 'fixed to floating' or 'floating to floating' rates of interest. Accordingly, on each payment date - that occurs during the swap period - cash payments based on fixed/floating and floating rates, are made by the parties to one another.

7.2 Features

- **Minimum Notional Principal Amount:** The minimum notional principal amount for which market makers will stand committed to their two-way quote is Rs. 5 crores.
- **Tenor:** The swap can be flexible in tenor i.e. there are no restriction on the tenor of the swap. Unless stated otherwise, a rupee interest rate swap shall be assumed to have a day count basis of Actual/365.
- **Trading Hours:** The trading hours will be 9.00 a.m -5.30 p.m. for all swaps wherein the benchmark is based on the money market or the fixed income market. In respect of swaps, wherein the benchmark is based on the foreign exchange market, the trading hours will be in accordance with the trading hours for foreign exchange transactions. Currently the trading hours for foreign exchange is from 9.00/10.00 a.m. to 4.00p.m.
- **Effective Date:** The Effective Date will be the first Mumbai Business Day (excluding Saturday) after the Trade Date, except for interest rate swaps against which payments are based upon the "INR-MIFOR" Floating Rate Option, for which the Effective Date will be the second Mumbai Business Day (excluding Saturday) after the Trade Date.
- **Business Day Convention:** The Business Day Convention applicable to all INR interest rate swaps shall be the Modified Following Business Day Convention, unless otherwise specified in the confirmation.

- Business Day:** Unless otherwise specified in the Confirmation, Saturdays shall not be Business Days for any purpose, except in relation to INR-MIBOR-OIS-COMPOUND for which Saturday shall be deemed to be a Business Day.
 It is recommended that regardless of the centre where the deal is transacted, the benchmark and the holiday calendar for the purposes of computation of interest streams be as that in Mumbai, except in case of interest rate swaps wherein the benchmark is based on the foreign exchange market, for which the holiday calendar of the relevant centre for that currency will also be applicable.
- Reset dates:** No fixing of rates and compounding of interest will be done on a Saturday.
- Day count fraction:** The Day Count Fraction applicable to all INR interest rate swap transitions shall be Actual / 365 Fixed.
- Broken or short calculation periods:** The rate for any Calculation Period which is shorter than the Designated Maturity set forth in the Confirmation will be determined by the Calculation Agent based upon straight line interpolation between the Floating Rate Option with a Designated Maturity that is immediately shorter than the Calculation Period and the Floating Rate Option with a Designated Maturity that is immediately longer than the Calculation Period.
- Floating Rates:** The definitions of the various floating rates that are currently dealt with in respect of interest swaps and their definitions are given below:

INR-MIBOR-OIS-COMPOUND

“INR-MIBOR-OIS-COMPOUND “ means that the rate for a Reset Date, calculated in accordance with the formula set forth below, will be the rate of return of a daily compound interest investment (it being understood that the reference rate for the calculation of interest is the arithmetic mean of the daily rates of the day to day inter-bank INR offered rate).

Formula for calculation of the floating rate

“INR-MIBOR-OIS-COMPOUND” will be calculated as follows, and the resulting percentage will be rounded in accordance with method set forth in Section 8.1(a) of the 2000 ISDA Definitions, but to the nearest one ten-thousandth of a percentage point (0.0001%)

$$\left[\prod_{i=1}^{d_0} \left(1 + \frac{R_i \times n_i}{365} \right) - 1 \right] \times \frac{365}{d}$$

where:

"d_o", for any Calculation Period, is the number of Business Days in the relevant Calculation Period;

"i" is a series of whole numbers from one to d_o, each representing the relevant Business Days in chronological order from, and including, the first Business Day in the relevant Calculation Period;

"n_i" is the number of calendar days in the relevant Calculation Period on which the rate is R_i;

"d" is the number of calendar days in the relevant Calculation Period; and

"R_i", for any Business Day "i" in the relevant Calculation Period means:

1. the Mumbai Inter-Bank Offered Rate (as published jointly by Fixed Income Money Market and Derivatives Association of India (FIMMDA) and the National Stock Exchange of India (NSE)) for a period of the Designated Maturity which appears under the heading "MIBOR" on Reuters Screen "MIBR=NS" as of 9:40 a.m. India Standard Time on that Business Day.
2. The same rate can also be picked up from the NSE website or from the Benchmarks Menu on the Home Page of FIMMDA (www.fimmda.org).
3. If such rate does not appear on the Reuters Screen "MIBR=NS" or on the website of FIMMDA / NSE, as of 9:40 a.m. India Standard Time, the rate for that Business Day will be the Fixing Rate which appears on Reuters Screen "MIBR=" as of 9:40 a.m. India Standard Time on that Business Day.
4. If such rate does not appear on Reuters Screen "MIBR=" prior to 10:40 a.m. India Standard Time on that Business Day then the rate for that Business Day shall be determined as if the parties had specified "INR-Reference Banks" as the applicable Floating Rate Option for purposes of determining R_i.

Confirmations to include

Floating Rate Option:	INR-MIBOR-OIS-COMPOUND
Designated Maturity:	Overnight
Spread:	+/- []% per annum
Floating Rate Day Count Fraction:	Actual / 365 Fixed
Reset Dates:	The last day of each Calculation Period.
Compounding:	Inapplicable
Compounding Date:	Inapplicable

Business Days	Mumbai
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INR-MITOR-OIS-COMPOUND

“INR-MITOR-OIS-COMPOUND” means the rate for a Reset Date, calculated in accordance with the formula set forth below, will be the rate of return of a daily compound interest investment (it being understood that the reference rate for the calculation of interest is the arithmetic mean of the daily rates of the day-to-day inter-bank INR tomorrow offered rate).

Formula for calculation of the floating rate

“INR-MITOR-FIMMDA-REUTERS-OIS-COMPOUND” will be calculated as follows, and the resulting percentage will be rounded in accordance with method set forth in Section 8.1(a) of the 2000 ISDA Definitions, but to the nearest one ten-thousandth of a percentage point (0.0001%)

$$\left[\prod_{i=1}^{d_0} \left(1 + \frac{R_i \times n_i}{365} \right) - 1 \right] \times \frac{365}{d}$$

where:

"d₀", for any Calculation Period, is the number of Business Days in the relevant Calculation Period;

"i" is a series of whole numbers from one to d₀, each representing the relevant Business Days in chronological order from, and including, the first Business Day in the relevant Calculation Period;

"n_i" is the number of calendar days in the relevant Calculation Period on which the rate is R_i;

"d" is the number of calendar days in the relevant Calculation Period; and

"R_i", for any Business Day "i" in the relevant Calculation Period means

1. the Mumbai Inter-Bank Tomorrow Offered Rate for a period of the Designated Maturity which appears on Reuters Screen "MITOR=" as of 10:30 a.m. India Standard Time on that Business Day or from the Benchmarks Menu on the Home Page of FIMMDA (www.fimmda.org)
2. If such rate does not appear on the Reuters Screen "MIFOR=" prior to 11:30 a.m. India Standard Time on that Business Day, the rate for that Business Day will be determined as if the parties had specified "INR-Reference Banks"

as the applicable Floating Rate Option. In such case the Calculation Agent will ask each of the Reference Banks to provide a quotation of their offered side of INR/USD forward points for the forward sale of INR against USD for settlement on the next Mumbai Business Day and the forward points so determined by the Calculation Agent shall be the “Forward Points” for purposes of the following formula. The Calculation Agent will then determine the rate for that Business Day by applying the following formula:

$$\text{Floating Rate} = \{[(\text{Spot Rate} + \text{Forward Points}) / \text{Spot Rate} * (1 + \text{Fed Funds} * \text{N1})] - 1\} * \text{N2} * 100$$

where:

“Spot Rate” means the Reserve Bank of India’s published USD/INR spot rate (expressed as a number of INR per one USD) which appears on Reuters Screen “RBIB” as of 13:00 p.m. India Standard Time on that Reset Date (if such rate is not available the Calculation Agent will ask each of the Reference Banks to provide a quotation of such rate);

“Fed Funds” means the rate for overnight USD Federal funds which appears on Reuters Screen “RIC USONFFE=” on the Reset Date;

“N1” means the number of days in the Calculation Period divided by 360;

“N2” means 365 divided by the number of days in the Calculation Period.

Confirmations to include

Floating Rate Option	INR-MITOR-OIS-COMPOUND
Designated Maturity	Overnight
Spread	+/- []% per annum
Floating Rate Day Count Fraction	Actual / 365 Fixed
Reset Dates	The [first / last] day of each Calculation Period.
Compounding	Inapplicable
Compounding Date	Inapplicable
Business Days	Mumbai, New York

INR-MIFOR

“INR-MIFOR” means that the rate for a Reset Date will be the Mumbai Inter-Bank Forward Offered Rate for a period of the Designated Maturity which appears on

Reuters Screen "MIFOR=" as of 16:30 p.m. India Standard Time on the day that is two Mumbai Business Days preceding that Reset Date or from the Benchmarks Menu from the Home Page of FIMMDA (www.fimmda.org).

If such rate does not appear on the Reuters Screen "MIFOR=" prior to 17:30 p.m. India Standard Time on such date, the rate for that Reset Date will be determined as if the parties had specified "INR-Reference Banks" as the applicable Floating Rate Option. In such case the Calculation Agent will ask each of the Reference Banks to provide a quotation of their offered side of INR/USD forward points for the forward sale of INR against USD for settlement on the last day of a period equivalent to the Designated Maturity and commencing on the Reset Date and the forward points so determined by the Calculation Agent shall be the "Forward Points" for purposes of the following formula. The Calculation Agent will then determine the rate for that Reset Date by applying the following formula:

$$\text{Floating Rate} = \left\{ \left[\frac{(\text{Spot Rate} + \text{Forward Points})}{\text{Spot Rate}} * (1 + \text{LIBOR} * N1) \right] - 1 \right\} * N2 * 100$$

where:

"Spot Rate" means the Reserve Bank of India's published USD/INR spot rate (expressed as a number of INR per one USD) which appears on Reuters Screen "RBIB" as of 13:00 p.m. India Standard Time on that Reset Date (if such rate is not available the Calculation Agent will ask each of the Reference Banks to provide a quotation of such rate);

"LIBOR" means USD-LIBOR-BBA for a period of the Designated Maturity commencing on the Reset Date;

"N1" means the number of days in the Calculation Period divided by 360;

"N2" means 365 divided by the number of days in the Calculation Period.

Confirmation to specify:

Floating Rate Option	INR-MIFOR
Designated Maturity	[]
Spread	+/- []% per annum
Floating Rate Day Count Fraction	Actual / 365 Fixed
Reset Dates	The [first / last] day of each Calculation Period
Compounding	Inapplicable
Compounding Date	Inapplicable

Business Days for Reset Dates	Mumbai
Business Days for Payments	Mumbai, New York

INR-MIOIS

“INR-MIOIS” means that the rate for a Reset Date will be the Mumbai Inter-Bank Overnight Indexed Mid-market Rate for a period of the Designated Maturity which appears under the heading “MID” on Reuters Screen "IRS08=" as of 15:45 p.m. India Standard Time on the day that is one Mumbai Business Days preceding that Reset Date or from the Benchmarks Menu from the Home Page of FIMMDA (www.fimmda.org)..

If such rate does not appear on the Reuters Screen “IRS08=” prior to 16:45 p.m. India Standard Time on such date, the rate for that Reset Date will be determined as if the parties had specified “INR-Reference Banks” as the applicable Floating Rate Option.

Confirmation to specify:

Floating Rate Option	INR-MIOIS
Designated Maturity	[]
Spread	+/- []% per annum
Floating Rate Day Count Fraction	Actual / 365 Fixed
Reset Dates	The [first / last] day of each Calculation Period
Compounding	Inapplicable
Compounding Date	Inapplicable
Business Days	Mumbai

INR-BMK

“INR-BMK” means that the rate for a Reset Date will be the Indian government securities benchmark rate for a period of the Designated Maturity which is the higher of the two rates appearing under the heading “Yield” on Reuters Screen "0#INBMK=" as of 12:30 p.m., India Standard Time, on the day that is one Mumbai Business Days preceding that Reset Date.

If such rate does not appear on the Reuters Screen “0#INBMK=” prior to 13:30 p.m. Indian Standard Time on such date, the rate for that Reset Date will be

determined as if the parties had specified Page 50303 of Moneyline Telerate as the applicable Floating Rate Option.

If Page 50303 of Moneyline Telerate also does not appear prior to 13.30 p.m., Indian Standard Time, on such date, the rate for that Reset Date will be determined as if the parties had specified "INR-Reference Banks" as the applicable Floating Rate Option.

Daily 1 year G-Sec Benchmark (e.g. INBMK) rate fixing:

Regarding arriving at INBMK rate for fixing,
While identifying the date which is 1 Year from the effective date, for the adjustments to be made if such date were to fall on a holiday or Saturday or Sunday,

A Uniform convention may be followed by all market participants where-under no adjustment is to be made for holidays when 1 year rate is arrived at through interpolation / extrapolation i.e. for arriving at the interpolated rate, the one year period will be taken as exactly 365 days. Such interpolated rate will be used for rate fixing for both existing and new trades.

Illustration:

For arriving at the rate for fixing for INBMK 1 Year Designated Maturity on, 7th Jan'09, reference is to the Indian government securities benchmark rates published on the Reuters Screen "0#INBMK=" as of 12:30 p.m., IST on the day as under:

Confirmation to specify:

Floating Rate Option	INR-BMK
Designated Maturity	[]
Spread	+/- []% per annum
Floating Rate Day Count Fraction	Actual / 365 Fixed
Reset Dates	The [first / last] day of each Calculation Period
Compounding	Inapplicable
Compounding Date	Inapplicable
Business Days	Mumbai

INR-CMT

“INR-CMT” means that the rate for a Reset Date will be the Indian Constant Maturity Treasury rate for a period of the Designated Maturity which appears under the heading “Value” on Reuters Screen "0#INCMT=" as of 16:40 p.m. India Standard Time on the day that is one Mumbai Business Days preceding that Reset Date.

If such rate does not appear on the Reuters Screen “0#INCMT=” prior to 17:40 p.m. India Standard Time on such date, the rate for that Reset Date will be determined as if the parties had specified Page 50304 of Moneyline Telerate as the applicable Floating Rate Option.

If Page 50304 of Moneyline Telerate also does not appear prior to 17.40 p.m., Indian Standard Time, on such date, the rate for that Reset Date will be determined as if the parties had specified “INR-Reference Banks” as the applicable Floating Rate Option.

Confirmation to specify:

Floating Rate Option	INR-CMT
Designated Maturity	[]
Spread	+/- []% per annum
Floating Rate Day Count Fraction	Actual / 365 Fixed
Reset Dates	The [first / last] day of each Calculation Period
Compounding	Inapplicable
Compounding Date	Inapplicable
Business Days	Mumbai

INR-Reference Banks

“INR-Reference Banks” means that the rate for a Reset Date will be determined on the basis of quotations of the relevant rate (or the components used to determine the rate as described in the relevant Floating Rate Option) on the date and at approximately the time at which the rate should have appeared on the relevant Reuters Screen, for a period of the Designated Maturity commencing on that Reset Date and in a Representative Amount. The Calculation Agent will request the Mumbai office of each of the Reference Banks to provide a quotation of its rate (or component thereof). If at least two such quotations are provided, the rate for that Reset Date will be the arithmetic mean of the quotations. If fewer than two quotations are provided as requested, the rate for that Reset Date will be determined by the Calculation Agent in its reasonable discretion.

“Reference Banks” means 5 major banks in Mumbai from the panel of constituent banks who would regularly have contributed quotes to Reuters that would be used in determining the relevant rate or components of such rate.

- **Interest computation methodology:** The computation of the interest on the fixed leg would be done assuming that the fixed rate quoted is a nominal rate. The floating rate, if it is an overnight rate, would be compounded every Mumbai business day. This implies that the floating rate interest would be compounded on a daily basis except when there is a holiday. In case of a holiday, the interest would be computed on simple interest basis for the holiday and the preceding Mumbai business day. This is best illustrated by means of an example.

Example – One week swap:

Bank A is a fixed rate receiver for Rs. 10 crore, tenor one week at 5% and Bank B is a floating rate receiver.

The overnight call money rates (FIMMDA-NSE-MIBOR rate) on the 7 days are as per the table below:

On Day 8 Bank B should pay Bank A interest of Rs. 95,890 (10,00,00,000 * 5% *7/365) and Bank A needs to pay bank B interest of RS. 108,265 as per the calculation shown:

Day	NSE Mid rate Floating Index	Notional Principal Amount (NPA)	Floating Rate Interest	NPA+ Compounded Interest @ MIBOR Rates	NPA+ Simple Interest @Fixed Rate
	%	Rs	Rs	Rs	Rs

Day 1	6.50	100,000,000	17,808		
Day 2	5.00	100,017,808	13,701		
Day 3	3.00	100,031,509	8,222		
Day 4	5.00	100,039,731	13,704		
Day 5 & 6 (Sat & Sun)	7.00	100,053,435	38,377		
Day 7	6.00	100,091,812	16,453	100,108,265	100,095,890

They will settle the difference of Rs. 98,890 and Rs. 108,265 i.e. Bank A will pay Rs. 12,375 to Bank B.

7.3 Documentation:

It is recommended that the counterparties sign the ISDA master agreement before entering into a swap. Exchange of deal confirmations is mandatory. The counterparties should exchange the rate fixing notices. However, in the case of an Overnight Index Swap (OIS) the counterparties may not exchange daily rate fixing notices.

The definitions contained in the 2000 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc. shall apply to all INR interest rate swap transactions.

7.4 Unwinding of an Interest Rate Swap

Unwinding of a Swap will be done in the two following ways:

1. By entering into an offsetting swap
2. By marking the existing swap to market and settling the marked to market value

1. *Entering into an offsetting swap*

An offsetting swap is one whose floating leg completely nets off the entire floating leg in the existing swap.

Example

For Swaps where Floating Leg is compounded daily

Consider an OIS. Date of initiation was one month ago. Residual maturity of the swap is 11 months. Notional Principal at initiation was Rs. 1 crore. The fixed (receive) leg was contracted at a rate of 7% p.a.

Principal on floating leg gets compounded daily. Thus today's value of the floating leg is (say) Rs. 1.02 crore. In such a case, the offsetting swap would have a notional principal

of Rs. 1.02 crore, with a maturity of 11 months and the receive leg would be floating, so as to perfectly net out all the floating cash flows.

For Swaps where the interest on the floating leg is not compounded

Consider a fixed floating swap where the floating leg is payable three monthly and the benchmark is the 3 - Month Commercial Paper yield. Notional principal of Rs. 1 crore and the swap was initiated one month ago, with 11 months left. In such a case, the principal on both the floating and the fixed leg is the notional value. The offsetting swap would have to replicate the cash flows of the existing swap, in a manner that the interest exchange dates are exactly the same and the interest payments on the floating leg are the same. The notional principal for the offsetting swap would be the same as the existing swap.

The existing and the offset swap would be run in the books till maturity.

2. *Marking the existing swap to market and settling the marked to market value*

The Fixed Leg and the Floating leg of the swap are marked to market separately. The floating leg remains at par value, or the compounded value of the principal. The value of the fixed leg is equal to the present value of the fixed cash flows, discounted at the current fixed swap rates in the market. The market value of the swap is the difference between the fixed and the floating leg.

The marked to market value of the swaps will be paid and the swap will be closed out.

Examples

For Swaps where Floating Leg is compounded daily

Consider an OIS. Date of initiation was one month ago. Residual maturity of the swap is 11 months. Nominal Principal at initiation was Rs. 1 crore. The fixed (receive) leg was contracted at a rate of 7%. Principal on floating leg gets compounded daily. Thus today's value of the floating leg is (say) Rs. 1.02 crore. This is the marked to market value of the floating leg.

Interest payment on the fixed leg would happen after 11 months. If the 11 month swap rate today is 6% p.a., then the value of the fixed leg would be the present value of Rs. 1.07 crore discounted for 11 months at 6% p.a. using the contracted day count convention.

The recommended swap rates to use for discounting are the FIMMDA-Reuters OIS rates for overnight indexed swaps linked to the FIMMDA-NSE-MIBOR.

The difference between the two values will be settled and the swap closed out.

For Swaps where the interest on the floating leg is not compounded

Consider a fixed floating swap where the floating leg is payable three monthly and the benchmark is the 3 Month commercial paper yield. Notional principal of Rs. 1 crore and the swap was initiated one month ago, with 11 months left. Assume that the next coupon (after two months) on the floating leg is going to be Rs. .02 crore.

In such a case, the floating leg would reset at par on the next coupon reset date. Hence the market value would be equal to Rs 10 crore (notional) + Rs. 0.02 crore (Coupon payment) discounted at the two month CP benchmark rate.

The recommended CP benchmarks are the FIMMDA-Moneyline Telerate Commercial Paper Benchmarks.

The fixed rate cash flows would be discounted at the market swap rate for the residual maturity of the swap.

Chapter 8

Forward Rate Agreement

8.1 Definition

A Forward Rate Agreement (FRA) is a financial contract between two parties to exchange interest payments for a 'notional principal' amount on settlement date, for a specified period from start date to maturity date. Accordingly on the settlement date, cash payments based on contract (fixed) and the settlement rate, are made by the parties to one another. The settlement rate is the agreed bench-mark/reference rate prevailing on the settlement date.

8.2 Features and documentation

- It is expected that the minimum notional principal amount for which market makers will stand committed to their two-way quote is Rs. 25 crores.
- The FRA will follow the same day count convention as that applicable to the underlying benchmark (floating) rate.
- The rate fixing notices have to be exchanged between the counterparties.
- The Benchmark for the FRA can be any Indian Rupee interest rate benchmark. However the Benchmark should be clearly defined, widely disseminated and acceptable to the market.
- Unless otherwise stated the Modified Following Business Day convention will be followed for settlement.
- No fixing of rates and compounding of interest will be done on a Saturday.
- It is recommended that regardless of the center where the deal is transacted, the benchmark and the holiday calendar for the purposes of computation of interest streams be as that in Mumbai.

8.3 Settlement

8.3.1 Interest computation methodology

The computation of the interest on the fixed leg would be done assuming that the fixed rate quoted is a nominal rate. Interest computation on the floating rate would be as per the convention used by the underlying benchmark.

8.3.2 The settlement of an FRA will be on the start date of the FRA.

8.3.3 Example

Bank A and X Ltd. enters into a 3 X 6 FRA. X Ltd. pays FRA rate at 9.00 %. Bank A pays benchmark rate based on FIMMDA Moneyline Telerate 90 Day CP Benchmark.

Additional details:

Notional principal amount (NPA)	:	Rs. 1 crore
FRA trade date	:	January 3, 2002
FRA start/settlement date	:	April 3, 2002
FRA maturity date	:	July 3, 2002
FRA fixing date	:	April 2, 2002

Assume, FIMMDA Moneyline Telerate 90 Day CP Benchmark on fixing date (April 2, 2002) is 8.50 %.

Cash flow calculations:

- o Interest payable by X Ltd.:

$$\frac{\text{Rs.1 crore (NPA)} * 9.00 \text{ (rate)} * 91 \text{ (no of days from April 3 to July 3, 2002)}}{365 * 100}$$

i.e. Rs. 2,24,384/-

- o Interest payable by Bank A:

$$\frac{\text{Rs.1 crore} * 8.50 \text{ (Benchmark rate)} * 91 \text{ (same as above)}}{365 * 100}$$

i.e. Rs. 2,11,918/-

- o Therefore, a net interest amount of Rs. 12,466/- is receivable by Bank A on the maturity date i.e. July 3, 2002. However, the settlement of the amount is to be done on April 3, 2002 on the discounted value i.e.

$$\frac{12,466}{\left\{1 + \frac{8.50 * 91}{365 * 100}\right\}}$$

i.e. Rs. 12,207/-

- o X Ltd. will pay to Bank A Rs. 12,207/- on April 3, 2002.

Note: It may be noted that, the suggested FIMMDA guidelines are intended to bring in uniformity and standardization in the market and does not intend to restrict the freedom of the parties to bilaterally decide terms and conditions different than as suggested above.

Chapter 9

Unscheduled Holiday

9.1 Declaration of an unscheduled holiday

An Unscheduled Holiday may be declared on account of the following:

9.1.1. Events that could lead to total settlement transactions coming to a halt like general bandh / RBI strike / political disturbances / disruption of public utility services due to heavy rains, etc. These events would have an impact on the overall system and would be common to all players at a particular place. These are being termed for the purpose of this handbook as “**systemic problems**”.

9.1.2 Events that could have an impact on transactions entered into between few or a group of market participants like a strike in one bank / few banks / organizations participating in money market. This would pose settlement problem to the counter party to the transactions entered with such market participant(s). These are being termed for the purpose of this handbook as “**specific problems**”.

Depending on the type of event, as given above, the treatment for settlement of the transactions will vary.

9.2 Deal confirmation

No separate deal confirmation would be required, if the conventions, listed below are followed on declaration of an unscheduled holiday.

9.3 Declaration of unscheduled holiday due to systemic problems

FIMMDA, after taking into consideration the status of clearing transactions and in consultation with select market players and/or RBI, may decide to postpone settlement of transactions in money, securities, and derivatives markets. The decision of FIMMDA will be formally communicated through information service providers / wire agencies like Reuters, Bloomberg, Money Line Telerate, etc. It would be also published on FIMMDA's website.

9.3.1 Call Money

- Settlement of second leg would be done at the contracted rate for the extended period of settlement. In other words, additional interest for one / more day/s would be payable at contracted rate on amount borrowed.
- Call Money transactions due for settlement on 1st leg would get automatically cancelled as, the transaction is by nature, overnight money.

9.3.2 Notice Money / Term Money (Inter-Bank)

- Where 1st leg of the transaction could not be performed because of the above event, the contract would be deemed to have been done for settlement on the following working day for the same original period (number of days) and at same rate. The other terms of the contract would remain unaltered.
- Banks and PDs do enter into long-term inter-bank transactions with payment terms like payment of interest on quarterly / half yearly basis. If such quarterly / half yearly interest is payable on such day it would be effected on the next working day without any other levy.
- Where the 2nd leg of the transaction cannot be performed, the repayment date will be extended by the number of days of the unscheduled holiday at the contracted rate.

9.3.2 Bill Rediscounting Scheme (BRD)

- **Issue of BRD (UPN)**

- Where 1st leg of the transaction could not be performed because of the above event, the contract would be deemed to have been done for the settlement on the following working day for the same period (in days) and at same rate. All the other terms of the contract would remain unaltered.
- If due to postponement of the settlement of the 2nd leg falls on a holiday, the due date / period would be extended such that the 2nd leg falls on a normal working day.

- **If redemption date happens to be unscheduled holiday**

- The holder of the BRD could be original lender or could be transferee / holder in due course. Where, the original lender holds the BRD on due date, the performance of 2nd leg would be at contracted rear end rate of interest / discount i.e if BRD is contracted at 10% p.a front end and if rear end (effective) discount rate works to 10.25% p.a. In such a case, on face value of BRD, for additional 'day/days' (interest at 10.25 % p.a.) would be payable to the holder / lender.
- If the holder is different from the first lender (secondary market purchase), the holder would not have authentic information about the rate at which the primary market deal was done between the first lender and promissor hence, it would be appropriate to settle the transaction at the previous working day's MIBOR (FIMMDA-NSE) for the additional day/s.

9.3.4 Certificate of Deposit and Commercial Paper

- **Primary Market Issuance:** Where the 1st leg of the transaction in the primary market could not be performed because of the above event, the contract would be deemed to have been done for settlement on the following working day for the same period / original duration and at the same rate. All the other terms of the contract would remain unaltered. Thus, the due date would get extended.
- **Secondary Market Trade:** In case of secondary market deals contract would be performed on the following working day at 'contracted rate of yield' (actual price to be worked as per market convention for every Rs.100/- up to four decimals – rounded off). Hence, the consideration would undergo a change.
- **Redemption :** CDs and CPs due for redemption would be redeemed by the respective issuers by paying day/s interest at contracted interest / discount rate, if the holder is the first investor. If CD/CP is held by transferee (for secondary market trades) the issuer would pay the investor/holder in due course interest on the face value of the CD /CP at previous day's MIBOR (FIMMDA-NSE) rate. The basis in all the above cases would be Actual/365 day basis. This is similar to what has been stated for BRD.
- **Redemption on Saturday:** Where the CDs and CPs are due for payment on Saturdays and if the holder of the paper is a non – bank entity (who cannot participate in inter – bank clearing) the holder cannot claim additional interest due to holder's inability to present / obtain the payment from issuer / IPA. However, the issuer might consider issuing the cheque a day in advance so as to enable the holder to present it, through its banker, in MICR Clearing (MICR Clearing is accounted for in the books of RBI as well as participating banks on the following working day). However, it is for the issuer of the cheque to ensure that the cheque is issued after HV timing so that the debit to the account of issuer takes place through MICR clearing only. The holders can consider presenting the CD or CP, on collection basis, through its banker for inter bank cheque.

9.3.5 Redemption of T-Bills / Dated Government Securities

The decision regarding the value date of the credit of the amount to the account of the investor will be taken by the RBI.

9.3.6 Outright sale of government securities contracted between the market players

- The transaction would be settled taking the same clean price as the basis for working out the consideration. However, the gross price / dirty price would undergo a change taking into account the accrued interest. In case of trades

- settled through CCIL, any changes in consideration / interest will be outside the system of CCIL and the counterparties will settle the difference mutually.
- The principle of computation of broken period interest, shut period would not undergo any change.
 - In case of trades settled through CCIL, due to commencement of shut period the contracts will be settled at the original consideration. Any changes in consideration on account of the unscheduled holiday would be settled between the counterparties separately.
 - In case of trades not settled through CCIL due to commencement of shut period (not exceeding 3 working days from the date of original settlement) the contracts will be settled ex-interest, such settlements also should be done at the contracted clean rate/price. Where the shut period exceeds three days (in respect of G-Secs (physical segment) any one of the parties to the contract would have option to opt out / cancel the contract and such opting out would result in termination of the contract which would be binding on the counter party. Parties to the contract are free to modify the contract on mutually acceptable terms and conditions.

9.3.7 Repo Transactions / LAF Transactions

- *In respect of one day Repo / LAF* : If the ready leg cannot be settled the transaction would be deemed to be automatically cancelled.
- *In respect of one day Repo* : If the forward leg cannot be settled, the settlement of forward leg could be extended to the following working day and the borrower of funds would pay interest to the lender of funds at the contracted rate of Repo interest for the resultant period of contract of Repo (including the extended period). The SGL for second leg will not be modified. Interest would be paid to the lender of money separately by a separate cheque. . In case of trades settled through CCIL, any changes in consideration / interest will be outside the system of CCIL and the counterparties will settle the difference mutually. *In respect of Repo beyond one day duration (1st Leg)* : Where the transaction due for settlement on an unscheduled holiday could not be settled the settlement of first leg would be on the following working day for the original number of days at the contracted rate. That is the second leg would get extended by one day. The settlement value of the trade would not undergo a change.

In respect of Repo beyond one day duration (2nd Leg) : In case of postponement of 2nd leg of the transaction, the SGL with 2nd leg consideration worked out on the basis of 1st leg of Repo, could be lodged, as it is. The difference amount payable by the borrower (Repoing Party) to the lender (Reverse Repo party) would be paid separately by way of cheque or other appropriate mode at Repo borrowing rate (basis actual / 365 days). . In case of trades settled through CCIL, any changes in consideration / interest will be outside the system of CCIL and the counterparties will settle the difference mutually.

- **Settlement of Transactions in Corporate Bonds / Debentures**

- As in the case of Government Securities, the transactions due for settlement, would be settled on the following working day at the contracted rate.
- The gross consideration however, would undergo a change due to change in accrued interest / coupon.
- The broken period interest in respect of Bonds and Debentures is always actual / 365. The same principle would be applied for the extension of settlement.
- If the security enters into shut period, on the following working day, on which the settlement would have been otherwise done, it would be left to the market players, to mutually resolve or cancel the contract of sale/purchase.
- If one of the parties to the contract wants to terminate the contract due to long shut period (the shut period for corporate bonds / PSU Bonds is normally 21 to 30 days) it can do so. Parties to the contract can work out mutually acceptable terms.
- Due to the applicability of TDS in respect of corporate bonds / debentures (unless market recognizes practice of selling of such securities ex-interest) delivery of security in the shut period with a request to lodge securities for transfer after the expiry of shut period would not be feasible.

9.3.8 Interest Rate Swaps / Forward Rate Agreements

- Where the settlement cannot be done on the start date of the IRS / FRA the contract shall be deemed to have been extended by one day as regards the commencement and termination day, on the same terms and conditions.
- Where the settlement of second leg cannot be performed on due date of the IRS, the contract shall be deemed to have been made for settlement on the following working day on same terms and conditions. Thus, the period of contract of IRS would get extended by such delayed settlement period.

9.4 Declaration of unscheduled holiday due to specific problems

As stated in para 9.1, on a strike / non-participation by a Bank / PD / FI or a group of Banks / PDs/ FIs etc., the counter party to such bank(s) / PD(s) / FI(s) would find it difficult to settle the transactions. The treatment of settlement of transactions with such bank(s) / PD(s) / FI(s) is given below. No contract would get cancelled automatically due to failure of one of any contracting party unless both the parties to contract cancel / modify with mutual consent. **This section is only applicable to trades not settled through CCIL,**

9.4.1 Call Money

- Settlement of second leg would be done at the contracted rate for the extended period of settlement. In other words, additional interest for one / more day/s would be payable at contracted rate on amount borrowed.
- Call Money transactions due for settlement on 1st leg would get automatically cancelled as, transaction is by nature, overnight money.

9.4.2 Notice Money / Term Money (Inter-Bank)

- Where 1st leg of the transaction could not be performed because of the above, the contract would be deemed to have been done for settlement on the following working day for the same original period (number of days) and at same rate. The other terms of the contract would remain unaltered.
- Banks, PDs do enter long term inter-bank transactions with payment terms like payment of interest quarterly / half yearly. If such quarterly / half yearly interest is payable on such day it would be effected on the next working day without any other levy.
- Where the 2nd leg of the transaction (Re-payment) could not be performed such extension in terms of re-payment would be at the applicable contracted rate as applicable on the date of such event.

9.4.3 Bill Rediscounting Scheme (BRD)

- **Issue of BRD (UPN)**
 - Where 1st leg of the transaction could not be performed because of the above event, the contract would be deemed to have been done for the settlement on the following working day for the same period (in days) and at same rate. All the other terms of the contract would remain unaltered.
- **If redemption date happens to be unscheduled holiday**
 - The holder of the BRD could be original lender or could be transferee / holder – in - due - course. Where, the original lender holds the BRD on due date the performance of 2nd leg would be at contracted rear end rate of interest / discount i.e. if BRD is contracted at 10% p.a. front end and if rear end (effective) discount rate works to 10.25% p.a. in such a case on face value of BRD, for additional 'day/days' interest at 10.25 % p.a. would be payable to the holder / lender.
 - If the holder is different from the first lender (secondary market purchase), the holder would not know the rate at which the primary market deal was done between the first lender and promissor hence, it would be appropriate to settle the transaction at the MIBOR (FIMMDA-NSE) prevailing on the date/s of such extension/s for the additional day/s.

9.4.4 Certificate of Deposit and Commercial Paper

- **Primary Market Issuance:** Where 1st leg of the transaction primary market could not be performed because of the above event, the contract would be deemed to have been done for the following working day for settlement for the same period / original duration and at same rate. In a way the other terms of the contract would remain unaltered. Thus, the due date would get extended.
- **Secondary Market Trade:** In case of secondary market deals contract would be performed on the following working day at 'contracted rate of yield' (actually price to be worked as per market convention for every Rs.100/- up to four decimals – rounded off). Hence, the consideration would undergo a change.
- **Redemption:** CDs and CPs due for redemption would be redeemed by the respective issuers by paying day/s interest at contracted interest / discount rate, if the holder is the first investor. If CD/CP is held by transferee (for secondary market trades) the issuer would pay the investor/holder in due course interest on the face value of the CD /CP at the MIBOR (FIMMDA-NSE) rate prevailing on the date/s of such extension/s for such extended period. The basis in all the above cases would be 365 days a year. This is similar to what has been stated under BRD. IPAs may include a suitable clause in the IP agreement to provide for such payment of interest to the holder.

In respect of CP Redemption where the payee / payee's banker is on strike and as a result, it could not collect / present the cheque or submit CP/CD for redemption, the issuer would not be liable to pay interest. However, in respect of the issuer's default (bank / corporate / IPA in respect of CP) if the redemption cannot be made on the due date the issuer would be liable for the compensation as stated above.

9.4.5 Redemption of T-Bills / Zero Coupon Bonds

Since, the credit of dated securities is to be effected at RBI, these transactions will go unaffected.

9.4.6 Outright sale of government securities contracted between the market players

- In case of trades not settled through CCIL, the transaction would be settled taking the same clean price as the basis for working out the consideration. However, the gross price / dirty price would undergo a change taking into account the accrued interest. The principal of computation of broken period interest, shut period would not undergo any change.

- Due to commencement of shut period(not exceeding 3 working days from the date of original settlement) the contracts are required to be settled ex-interest, such settlements also should be done at the contracted clean rate/price. Where the shut period exceeds three days (in respect of G-Secs (physical segment) any one of the parties to the contract would have option to opt out / cancel the contract and such opting out would result in termination of the contract which would be binding on the counter party. Parties to the contract are free to modify the contract on mutually acceptable terms and conditions.

9.4.7 Repo Transactions / LAF Transactions

In respect of LAF: In respect of LAF transactions due for settlement in 2nd leg the treatment of transaction would be decided by RBI and the same would be followed by the Bank / PD. In respect of first leg of transaction where the Bank / PD would have submitted bid the transaction would be required to be compulsory settled.

- *In respect of Market Repo (one day) 1st leg :* The deal would get cancelled unless otherwise agreed upon by the parties mutually. In the event the lender of funds has a SLR problem, the lender would cover the SLR by doing reverse repo with any other market participant. The cost differential if any would be borne by the counter party (party which is not working).
- *In respect of Market Repo(one day) 2nd leg:* Where the transaction due for settlement could not be settled due to unscheduled holiday , the transaction would be settled on the following working day without changing the gross consideration in the SGL , the borrowing party would pay the lender of money, one day's interest , at the respective day(s) FIMMDA NSE MIBOR. In case of trades settled through CCIL, the exchange of interest would happen bilaterally between the counterparties. *In respect of Market Repo beyond one day duration (1st leg):* Where the transaction due for settlement on an unscheduled holiday could not be settled the settlement of first leg would be on the following working day for the original number of days at the contracted rate. That is the second leg would get extended by one day. e.
- *In respect of Repo beyond one day duration (2nd Leg) :* In case of postponement of 2nd leg of the transaction, the SGL with 2nd leg consideration worked out on the basis of 1st leg of Repo, could be lodged, as it is. The difference amount payable by the borrower (Repoing Party) to the lender (Reverse Repo party) would be paid separately by way of cheque or other appropriate mode at the FIMMDA NSE MIBOR rate.. In case of trades settled through CCIL, the exchange of interest would happen bilaterally between the counterparties.

9.4.8 Settlement of Transactions in Corporate Bonds / Debentures

- As in the case of Government Securities the transactions due for settlement, would be settled on the following working day at the contracted rate.
- The gross consideration however, would undergo a change due to change in dirty price accrued interest / coupon.

- The broken period interest in respect of Bonds and Debentures is always actual / 365. The same principle would be applied for the extension of settlement.
- If the security enters into shut period, on the following working day, on which the settlement would have been otherwise done, it would be left to the market players, to mutually resolve or cancel the contract of sale/purchase.
- If one of the parties to the contract wants to terminate the contract due to long shut period (the shut period for corporate bonds / PSU Bonds is normally 21 to 30 days) it can do so. Parties to the contract can work out mutually acceptable terms.
- Due to the applicability of TDS in respect of corporate bonds / debentures (unless market recognizes practice of selling of such securities ex-interest) delivery of security in the shut period with a request to lodge securities for transfer after the expiry of shut period would not be feasible.

9.4.9 Interest Rate Swaps / Forward Rate Agreements

- Where the settlement cannot be done on the start date of the IRS / FRA the contract shall be deemed to have been extended by one day as regards the commencement and termination day, on the same terms and conditions.
- Where the settlement of second leg cannot be performed on due date of the IRS, the contract shall be deemed to have been made for settlement on the following working day on same terms and conditions. Thus, the period of contract of IRS would get extended by such delayed settlement period.

Holiday handling for Interest Rate Swaps would be as follows:

A) **Unscheduled Holiday (*Known at least on the previous working day*)**

E.g. RBI strike on 21-Oct-08

- RTGS not available
- Swap and Benchmarks rates not expected to be available.

Sr. No	Area of Impact	Nature of Impact
1	Trade date	Such date cannot be a valid trade date
2	Effective date	Such date cannot be a valid effective date
3	Cash Flow date	Such date cannot be a valid cash flow date (Cash Flows due on such date for existing trades will be shifted to the next working date)
4	Termination date	As such date cannot be a valid cash flow date the termination date will be shifted to the next working date.
5	Fixing date	<ul style="list-style-type: none"> ▪ Such date cannot be a valid fixing date for any benchmarks. ▪ Moreover, for existing trades with MIFOR, INBMK and

		<p>MIOIS benchmarks, the fixing date is moved forward by one working day, even if such a strike falls on a month end. All fixing done on days prior to such day will remain unaffected.</p> <ul style="list-style-type: none"> ▪ For MIBOR OIS the fixing done on the previous business day will be taken as a 2 day fixing.
6.	Computation of accrued interest	If no fixing is done, then for the purpose of computation of accrued interest on MIBOR OIS trades, such date is treated like any other holiday. (i.e. simple interest is computed for period covering such a day)

B) **Unscheduled Holiday (declared on the same *working day*)**

- **Floating Benchmark Fixings** – For new trades and resets of existing trades, if a trade is done before the release of benchmark rates (e.g. MIFOR, INBMK) and an Unscheduled Holiday is declared, the fixing will be shifted to the next working day.
- In the case of fixings like MIBOR, if no fixing takes place and an Unscheduled Holiday is declared, the previous day fixing will be taken as 2-day fixing.
- **Settlement:** The settlement of trades, if completed till the declaration of USH, will be valid. Otherwise the settlement will be shifted to next working date and accordingly the interest computation will also change as per the current practice followed for normal holidays.

(This amendment is effective from 1st December 2009)