

## DOCUMENTS FOR ACCREDITATION OF OTC VOICE BROKERS IN INTEREST RATE DERIVATIVES BY FIMMDA

### Short title, extent and commencement:-

The following documents shall be called:

- I) Swap Dealers and Brokers Guidance Committee
- II) Code of Conduct –Dealers and Brokers (along with Appendixes I and II)

It extends to the whole of India.

It shall be deemed to have come into force on the \_\_\_\_day of \_\_\_\_\_2011

**Definitions:** In the documents (I) and (II) mentioned above, unless the context otherwise requires:-

- a. **RBI Regulated Entity:** All entities regulated by RBI, which includes Scheduled Commercial Banks, Urban Co-Operative Banks, Primary Dealers, Non Banking Financial Companies, etc.
- b. **Dealers:** For the purpose of this document, “Dealers” would mean Dealers in Derivative instruments; working in RBI regulated entities, Insurance Companies, and Mutual Funds and NBFCs.
- c. **Brokers:** means financial intermediaries bringing together two market participants through a voice or electronic based systems. However, for the purpose of this accreditation this definition excludes Electronic Order Matching Systems operated by brokers and other entities.
- d. **Market Participants:** means RBI regulated entities, Primary Dealers, NBFCs, Mutual Funds, Insurance Companies, who use OTC derivatives in Interest Rates.
- e. **Inter-Bank:** means a deal done between two market participant entities brought together by a financial intermediary (broker).

### **SWAP DEALERS' AND BROKERS' GUIDANCE COMMITTEE**

1. FIMMDA has set up a special Committee styled as 'The IRS Dealers' and Brokers' Guidance Committee' to serve as a forum where dealers and brokers could discuss matters of common interest concerning the interest rate swaps and problems arising between brokers and dealers.
2. The CEO of FIMMDA would be the Chairman of this Committee.
3. The Members of the Committee would consist of representatives of market participants and brokers' Associations to be chosen for their proven experience, reputation and knowledge of the markets.
4. The main functions of the Committee, broadly are :-
  - a) To monitor developments in the markets so as to identify problems and difficulties and recommend solutions/action plans;
  - b) To issue guidelines on market practices;
  - c) To ensure that the 'Code of Conduct' formulated for swap dealers and brokers is properly adhered to by the respective participants, both in letter and spirit;
  - d) To investigate breaches of confidentiality and other rules of Conduct;



*Nurturing Markets,  
Widening Horizons*

Regd. Office: The International, 2<sup>nd</sup> Floor  
16 Maharishi Karve Rd, Churchgate,  
Mumbai 400 020  
Tel : (91-22) 22017089/91/94  
Fax : (91-22) 22017095  
E-mail: [fimmda@fimmda.org](mailto:fimmda@fimmda.org)

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- e) To recommend any action (including punitive measures) expedient in case of breach of confidentiality/rules/code of conduct committee by any broker or swap dealer and advise the recommended mode of action to the FIMMDA.
  
- f) To attend to any other acts which may be necessary for the orderly growth and functioning of the market, dealers and brokers in the course of discharge of the functions vested in the Committee.

## **CODE OF CONDUCT – Dealers and Brokers**

### **CONFIDENTIALITY**

- 1) The preservation of confidentiality is essential for the proper conduct of business in inter-bank transactions. The dealers and brokers should realize that any breach of confidentiality would damage the reputation of the participants in the markets. Merely for the sake of securing short term gains, a dealer may sometimes be tempted to press a broker for information which would be improper for him to pass on; an active dealer may even hint that failure to co-operate with him might lead to reduction in business routed through the concerned broker. Any such behaviour or other similar acts on the part of a dealer to induce a broker or vice-versa to breach confidentiality should be strongly condemned. The following Rules should be followed for safeguarding confidentiality.
- 2) A Broker also should not induce a 'Dealer' and force him to close a deal with him to enable him to have short term gains.
- 3) A Broker shall not reveal the name of the counter-party market participant until the deal is closed. No deal shall be deemed to be concluded finally under normal circumstances unless and until the name of the counterparty is furnished by the broker. Broker dealers should ensure that the names of market participants which are not acceptable are not divulged as a matter of routine, to others.

- 4) Where a counterparty market participant name proves to be unacceptable to the market participant making the offer, the broker should not disclose the name of the latter nor the reason for non-acceptance. The market participant whose acceptance is refused may sometimes feel that the broker in such a situation had made a quotation which he could not substantiate. In such cases, the broker may ask the FIMMDA to mediate through the Guidance Committee and to obtain confirmation from the reluctant counter party assuring that the broker did have business at the quoted price thus establishing the bonafides of the broker and his quotation.
- 5) Dealers should not normally be allowed to visit brokers' offices. However, when necessary, they may do so at the express invitation of the partners of the firm concerned and with the prior knowledge and approval of the officer-in-charge of market participant's interest rate derivatives business. The director / partner of the broker's firm should carefully supervise such visits so as to protect the confidentiality of business being transacted in the brokers' office during such visits.
- 6) No broker firm should solicit business from Dealers through unorthodox means.
- 7) Dealers should, on no account, deal from a broker's office or from a place outside their dealing rooms.

## **DEALING PROCEDURES**

The Dealing operations between market participants and brokers are done mostly over telephone and therefore call for a very high standard of creditability, code of conduct and expertise. It is equally necessary for identification of the voices of the brokers/dealers. A high degree of ethical standard is, therefore, required among all participants in the market.

- 1) Once a Dealer has quoted a price and stated his requirements to a broker, he is bound to deal on those terms with acceptable names and within a reasonable period. The Dealer must at the time of placing the order indicate to the broker time limit for that offer. Similarly, a broker on his part, should make it clear to the Market Participant whether his price offer is 'firm' and if so, indicate the amount involved and time upto which the offer is valid. In case a broker cannot strike a deal within the time stipulated, he should enquire at reasonable intervals whether the offer still holds good. It is the duty of the Dealer to inform the broker that the offer stands/withdrawn. A Dealer who wishes to withdraw/change the offer already made, must clearly advise the broker that the offer stands withdrawn/altered; mere dropping down the telephone receiver does not make the offer withdrawn.
- 2) A Dealer/broker may indicate rates for information only.
- 3) Market Participants shall honour the firm prices quoted by them provided the brokers respond within the stipulated time, giving the name of the

counter-party. The language used among the Dealers and brokers should be clear and unambiguous.

- 4) The terminology used in Interbank/International deals is given in Appendix I which should as far as possible be made use of by the market participants.
- 5) In case the amounts involved do not reflect the normal market practice, the broker should get confirmation of the amounts before quoting the rates to other market participants. While finalizing a deal, the broker must give the name of the counter-party and confirm that the deal is closed. No transaction can be treated as final till the broker confirms the deal and declares an acceptable name of the counter-party to the market participant giving the quote. The name of the counter-party once given by the broker and accepted by the offering market participant, should not be changed without the approval of both the counterparties nor can the rate quoted by the broker and accepted by the counterparty be changed unless both the counterparties agree in writing for the change in the rate offered and accepted.
- 6) Difference arising from dealings should not be settled by adjustment in prices of later deals.
- 7) Advantage should never be taken even unintentionally of an obviously incorrect quotation offered or accepted.

- 8) To minimize errors and misunderstanding, brokers should pass on their 'Broker Notes / Confirmations' as soon as practicable after the deals have been concluded, and market participants should normally receive them on the same day or in exceptional circumstances, before 11.00 a.m. of the next working day, at the latest.
  
- 9) The handling of confirmations of the deals deserve special attention and market participants shall exchange their written confirmations promptly, as undetected discrepancies in payment instructions or other details may prove to be irksome and costly. Adherence to the following procedure is essential :-
  - a) Unless otherwise specifically requested by a market participant, brokers shall confirm the deals on telephone / electronic chats, immediately and issue Brokers' Note latest by 11.00 a.m. of the next day. Brokers' Note / Confirmations should be delivered to the Officer-in-Charge of the Interest Rate Swaps Department or the Back-office section of the market participant who shall acknowledge receipt of the Notes in the Brokers' delivery books. In case of a deal with an outstation market participant the broker shall confirm the deal immediately on 'fax' and send the Brokers' Note / Confirmations by courier not later than the next working day giving full details of the deal.
  
  - b) It shall be the duty of the broker to assist the market participant to obtain confirmation of the deals from the other market participant, where necessary.



- c) (i) Discrepancies/errors found in the Broker's Notes / Confirmations should be notified to the Brokers on the same day and in any case not later than the close of business on the second working day;
  - (ii) In case a market participant incurs a loss on account of any error in the rate quoted in Broker's Note / Confirmations which might be worse than the rate confirmed by the Broker on telephone and which might be corroborated in the counter-party's confirmation of the deal, the market participant shall immediately on detection of the error, make a set off of the transaction at the rate prevailing at that particular point of time, and claim difference, if any, from the broker. Instances of the nature should be reported immediately on the 'Guidance Committee'.
- 10) For normal inter-bank interest rate swap transactions, the minimum amounts shall be Rs. 25 cr.
  - 11) Market participants shall not treat contracts as closed unless and until the brokers also confirm their closure.

### **INFRASTRUCTURE REQUIREMENTS**

- 1) A minimum of 2 calling assistants (brokers) would be required, dedicated for broking OTC interest rate derivatives.

- 2) All calling assistants (brokers) would be required to pass any of the Debt Market certification examinations stipulated by FIMMDA, from time to time.
- 3) Broking firms would be required to have necessary physical infrastructure like telephone lines, tape-recording equipments, dedicated leased lines (hotlines or equivalent facility), computer systems, etc.
- 4) Broking firms would be required to have necessary software's like closed network chats (like Reuters Messaging System or equivalent).
- 5) Broking firms would be required to have necessary data feed systems like Reuters, Bloomberg, etc.

### **FRIVOLOUS QUOTATIONS**

- 1) Brokers and Dealers shall not make frivolous quotations designed to mislead market participants.
- 2) If any broker or a Dealer is found to be resorting to frivolous quotations, it shall be the duty of other brokers/Dealers to bring such instances to the notice of FIMMDA in writing for appropriate action by the 'Guidance Committee'.

### **QUOTATION OF FICTITIOUS RATES**

- 1) Under no circumstances shall a Broker or a Dealer conclude transactions at rates/differences which bear no relation to the current market rates.
- 2) If any dealer/broker is found to be indulging in such malpractices, the matter should be promptly brought to the attention of FIMMDA Guidance Committee.

### **AFTER-HOURS DEALING**

- 1) Market participants should prescribe in writing dealing hours of the Dealers (staggered hours, if necessary).
- 2) Unless authorized by the management of the market participants no Dealer should enter into dealing operations after normal hours and, in such cases, proper record of deals such as fax messages, time chart of rates, etc. should be maintained.

### **ENQUIRY INTO THE CONDUCT OF BROKERS**

- 1) In case any instances of malpractices committed by a Dealer or a broker are brought to the notice of the FIMMDA, the FIMMDA may call for full details of such transactions which will be investigated into by the 'Guidance Committee' and the result of the enquiry will be placed before the Managing Committee of FIMMDA.

- 2) 'Guidance Committee' may cause enquiry into any act of commissions or omissions on the part of the brokers either verbally or in writing and initiate appropriate disciplinary action against delinquent brokers in case of infringement of the 'Code of Conduct'.

### **BROKERAGE PAYMENTS BY MARKET PARTICIPANTS**

- 1) Brokerage bills shall not be passed for payment by dealers.
- 2) Dealers should not nominate brokers in case of large deals.
- 3) Dealers shall not distribute brokerage among brokers who are not involved in the execution of a deal.
- 4) Under no circumstances shall a broker waive or offer to waive brokerage payable by a market participant on account of business concluded by him with that market participant.

### **MARKET IRREGULARITIES**

- 1) Where there is a suspicion of improper conduct on the part of a participant in the market, market participants/brokers who may come to know of it should bring such matter to the attention of FIMMDA promptly for purpose of investigation and necessary action by the 'Guidance

Committee'. Such report will be considered as Strictly Private & Confidential.

- 2) Spreading of rumours in the market about market participants, even giving out factual information as to deals made by different authorized dealers would be deemed contrary to the 'Code of Conduct' and the delinquent dealers/brokers are liable for disciplinary action as may be decided upon by the FIMMDA/ Market participant managements.

- 3) Entertainments, Gifts or Favours

While the practice of market participants meeting often at tea/or over meals is considered useful for fostering healthy business relationship, it should not be made a compulsory/frequent affair between dealers and brokers. Market participants and broking firms should ensure that market ethics and integrity of the participants are held at high standards.

No principal of a broking firm or his staff should offer gifts or favours to Dealers; nor should the market participant staff receive or solicit them.

### **PENALTIES**

- 1) Any violation of the above 'Code' by a broker will make him liable for deterrent penalty upto the maximum of INR 50,000 exclusive of payment of any loss/damage caused to a market participant by such violation. In addition, FIMMDA may also suspend the concerned broker on the recommendation of the Guidance Committee.



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Regd. Office: The International, 2<sup>nd</sup> Floor  
16 Maharishi Karve Rd, Churchgate,  
Mumbai 400 020  
Tel : (91-22) 22017089/91/94  
Fax : (91-22) 22017095  
E-mail: [fimmda@fimmda.org](mailto:fimmda@fimmda.org)

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- 2) As far as Dealers are concerned, any punishment or disciplinary action for violation of the 'Code' shall be taken by the market participants management on the basis of the decision of the 'Guidance Committee' and other relevant evidence made available.
  
- 3) No broker firm which does not subscribe to this Code shall be permitted to participate in the market operations.

## **Appendix I**

### **MARKET TERMINOLOGY**

Set out below are the commonly used expressions and their generally accepted meanings; use of them will do much to reduce misunderstandings and frustrations. In cases which will be obvious, the terms may be used in relation to lending and borrowing as well as to selling and buying.

Offered at	)	
I give at	)	Fixed rate receiver
I offer at	)	
I bid at	)	
I pay at	)	
I take at	)	Fixed rate payer

#### **Parity or same**

No proposition on the rate(s) quoted by the other party. It does not imply that the party using this expression is ready to deal at the rates quoted. It is recommended that the expression 'nothing to propose/suggest' is used.

#### **Firm**

A dealer making an offer or bid on a 'firm' basis commits the market participant but he would be advised to put some restriction on at same time (e.g. "firm for

one minute" or "firm" for 25 cr. only") The word 'firm' can also be used in the context of strength (see also Bid, etc.)

For indication (only) – for information (only)

Quotations which are not firm, and intended as an indication, unwillingness or inability to deal.

#### Under Reference

A deal cannot be finalized without reference to the market participant which placed the order, whose name should not be mentioned until reference has been made to that market participant.

#### Details

Information a dealer requires following the completion of a transaction i.e. rate and dates etc.

#### Mine

The dealer takes bid from his counterparty.

(N.B. This is a very dangerous term and should not be used unless amounts have been qualified first).

#### Yours

Reversal of above, the dealer gives to the offer.

(N.B. This is a very dangerous term and should not be used unless amounts have been qualified first)



## **Appendix II**

### **Undertaking to be given by the Brokers/Partners in the Broker's Firm**

I/We have read and understood the rules prescribed in the 'Code of Conduct' for Dealers and Brokers' issued by the FIMMDA and hereby undertake to abide by them in discharge of my/our duties as a Swap Broker in the firm of

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(Full Name & Address of the Firm)

I/We further affirm and undertake to hold myself/ourselves responsible for any loss/losses, damage, etc. incurred by the firm and/or market participant /s in the interest rate derivatives market in the event of any failure on my/our part in strictly adhering to the terms and conditions of these rules or any other rules prescribed by the FIMMDA from time to time.

I/We also undertake to pay any fine/penalty that may be levied by the FIMMDA in the event of any loss that has been incurred by any of the market participants on account of my/our indulgence/default in the discharge of my/our duties as a Broker in the Broker's firm / company.

Signature \_\_\_\_\_

(To be signed by all Proprietors/Partners/Directors)

Date: \_\_\_\_\_