भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA

RBI/2024-25/117
FMRD.DIRD.16/14.03.042/2024-25

February 21, 2025
(Updated as on September 22, 2026)

To
All Eligible Market Participants

Madam/Sir,

Reserve Bank of India (Forward Contracts in Government Securities) Directions, 2025

Please refer to press release dated December 28, 2023, regarding issuance of draft Directions on Bond Forwards for public feedback.

2. Based on the feedback received from the market participants, the draft Directions have been finalised and the Reserve Bank of India (Forward Contracts in Government Securities) Directions, 2025, are being issued herewith. Necessary amendments to the Gazette Notification (S.O. 2192 (E) dated 8th January 2010) have been notified in the Official Gazette *vide* Gazette Id no. CG-MH-E-13022025-260991 dated February 13, 2025, a copy of which is annexed to this circular.

3. Further, the following Directions have been updated, as attached, to enable transactions in forward contracts in government securities:

a. Master Direction – Reserve Bank of India (Market-makers in OTC Derivatives) Directions, 2021; and

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

4. These Directions have been issued in exercise of the powers conferred under section 45W of the Reserve Bank of India Act, 1934 read with section 45U of the Act and of all the powers enabling it in this behalf.

Yours faithfully,

(Dimple Bhandia)
Chief General Manager

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हिन्दी आसान है, इसका प्रयोग बढ़ाइए

RESERVE BANK OF INDIA

FINANCIAL MARKETS REGULATION DEPARTMENT

9TH FLOOR, CENTRAL OFFICE, FORT

MUMBAI 400 001

Notification No. FMRD.DIRD.17/14.03.042/2024-25 dated February 21, 2025

Reserve Bank of India (Forward Contracts in Government Securities) Directions, 2025

(Updated as on September 22, 2026)

In exercise of the powers conferred under section 45W of the Reserve Bank of India Act, 1934, (hereinafter called the Act) read with section 45U of the Act, the Reserve Bank of India (hereinafter called the Reserve Bank) hereby issues the following Directions. A reference is also invited to the Foreign Exchange Management Act, 1999 (42 of 1999) and Foreign Exchange Management (Debt Instruments) Regulations, 2019 (Notification No. FEMA. 396/2019-RB dated October 17, 2019).

1. Short title, commencement and applicability of Directions:

(i) These Directions shall be called the Reserve Bank of India (Forward Contracts in Government Securities) Directions, 2025.

(ii) These Directions shall apply to forward contracts in government securities (hereinafter referred to as bond forwards) undertaken in the Over-the-Counter (OTC) market in India.

(iii) These Directions shall come into force with effect from May 02, 2025.

2. Definitions

(i) For the purpose of these Directions, unless the context otherwise requires:

(a) **Bond forward** means a rupee interest rate derivative contract in which one counterparty (buyer) agrees to buy a specific government security from another counterparty (seller) on a specified future date and at a price determined at the time of the contract.

(b) **Cash settlement** of a bond forward means a settlement process in which the cash settlement value of the forward contract as on the maturity/

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termination date is exchanged between the counterparties under the terms of the contract.

(c) **Covered Short** means a position in bond forwards in which the seller of the forward contract holds an equivalent amount of the government security underlying the position.

(d) **Electronic Trading Platform (ETP)** shall have the same meaning as defined in para 2(1) (iii) of the Electronic Trading Platforms (Reserve Bank) Directions, 2018 dated October 05, 2018, or as modified from time to time.

(e) **Exchange** means a recognised stock exchange as defined under section 2(f) of the Securities Contracts (Regulation) Act, 1956.

(f) **Government Security** shall have the same meaning as defined in Section 2(f) of the Government Securities Act, 2006, and for the purpose of these Directions shall exclude treasury bills.

(g) **Government Securities Lending (GSL) transaction** shall have the same meaning as defined in para 2(1)(f) of the Reserve Bank of India (Government Securities Lending) Directions, 2023 dated December 27, 2023, or as modified from time to time.

(h) **Market-maker** means an entity which provides prices to users and other market-makers.

(i) **Non-resident** is a person resident outside India as defined in section 2 (w) of Foreign Exchange Management Act, 1999 (42 of 1999).

(j) **Over-the-Counter (OTC)** market refers to a market where bond forward transactions are undertaken in any manner other than on exchanges and shall include those undertaken on electronic trading platforms (ETPs).

(k) **Physical settlement** of a bond forward means a settlement process in which the seller transfers the underlying government security to the buyer, against the receipt of the contracted price from the buyer, under the terms of the contract.

(l) **Repo** shall have the same meaning as defined in Section 45U (c) of the RBI Act, 1934.

(m) **Uncovered Short** means a short position in a bond forward other than a covered short position.

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(n) **User** means a person that undertakes transactions in bond forwards other than as a market-maker.

(o) **Novation** means the replacement of a market maker with another market maker in an OTC derivative contract between two counterparties (transferor, who steps out of the existing deal, and remaining party) to an OTC derivative transaction with a new contract between remaining party and a third party (transferee). The transferee becomes the new counterparty to the remaining party.

Provided that the instructions under these Directions shall not apply to the novation of an OTC derivative contract undertaken:

(i) by a central counterparty, for the purpose of effecting settlement; or

(ii) in terms of RBI circular no. DBOD.No.BP.BC.76/21.04.157/2013-14 on 'Novation of an OTC contracts' dated December 09, 2013.

(p) **Remaining Party** in novation means the user or a market maker or a central counterparty that continues to be a counterparty in the new contract post novation.

(ii) Words and expressions used, but not defined in these Directions, shall have the same meaning as assigned to them in the Act or in the Government Securities Act, 2006.

3. Eligible Market Participants

The following persons shall be eligible to undertake bond forward transactions to the extent permitted under these Directions:

(a) A resident; and

(b) A non-resident who is eligible to invest in Government Securities under the Foreign Exchange Management (Debt Instruments) Regulations, 2019 dated October 17, 2019, as amended from time to time.

4. Market-makers and Users

4.1 Market-makers

(i) The following entities shall be eligible to undertake transactions in bond forwards as market-makers:

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(a) A Scheduled Commercial Bank (except a Small Finance Bank, a Payment Bank, a Local Area Bank and a Regional Rural Bank); and

(b) A Standalone Primary Dealer (SPD).

(ii) A market-maker may undertake long positions without any limit and covered short positions in bond forwards.

(iii) A market-maker, permitted to undertake short sales, in terms of the Short Sale (Reserve Bank) Directions, 2018, dated July 25, 2018, as amended from time to time, shall also be eligible to undertake uncovered short positions subject to the underlying government security being eligible for short sale. Such uncovered short positions shall be reckoned in the security level limits on short sales and cannot remain uncovered for a period exceeding the maximum period specified for covering a short position in the Short Sale (Reserve Bank) Directions, 2018, dated July 25, 2018, as amended from time to time.

(iv) At least one of the parties to a bond forward transaction shall be a market-maker or a central counter party authorised by the Reserve Bank for the purpose.

4.2 Users

Any entity, eligible to be classified as a non-retail user in terms of the Rupee Interest Rate Derivatives (Reserve Bank) Directions, 2019, dated June 26, 2019, as amended from time to time, shall be eligible to undertake transactions in bond forwards as a user.

4.2.1 Directions for Users

(i) An eligible resident user may undertake long positions in bond forwards without any limit.

(ii) An eligible user (resident and non-resident) may undertake covered short positions in bond forwards only for the purpose of hedging.

(iii) To ensure that short positions undertaken by a user is covered, market-makers may call for any relevant information/documents from the user, who, in turn, shall be obliged to provide such information/document.

(iv) A user with a covered short position in a bond forward shall exit its short position in case it ceases to hold the underlying government security.

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5. Settlement and Unwinding

(i) A bond forward transaction may be physically-settled or cash-settled.

(ii) A physically-settled bond forward transaction shall be settled through the Clearing Corporation of India Ltd. (CCIL) or any other clearing agency or clearing arrangement approved by the Reserve Bank for the purpose.

(iii) A cash-settled bond forward transaction may be settled bilaterally or through any clearing arrangement approved by the Reserve Bank for the purpose.

(iv) A market participant may exit its position in a bond forward by unwinding the position with the original counterparty. A market maker may also exit its position in a bond forward by assigning the position to any other eligible market maker through novation subject to the following:

(a) The novation shall be done at the prevailing market rates and with the prior consent of the remaining party, with the amount corresponding to the mark-to-market of the OTC derivative exchanged upfront between the transferor and the transferee.

(b) The parties to a novation shall enter into a tripartite agreement wherein the transferee steps in the contract to face the remaining party and the transferor steps out. The original contract shall stand extinguished and shall be replaced by a new contract with identical terms/parameters to the original contract, except for the change in counterparty for the remaining party.

(c) The transferor and the transferee may agree on the charge/fee between them for the transfer of the trade. The fees and their settlement terms may not form part of the novation agreement.

(d) Market participants shall use any standard agreement devised or recommended by FIMMDA in consultation with market participants, or by a central counterparty for the purpose. Market participants may, alternatively, use a standard master agreement for novation transactions.[1]

[1] Clause (iv) of paragraph 5 substituted. Before the substitution the clause read as under:
"A market participant may exit its position in a bond forward by unwinding the position with the original counterparty or assigning the position to any other eligible market participant(s) through novation1 subject to the provisions of the circular on Novation of OTC Derivative Contracts dated December 9, 2013, issued vide Notification No. DBOD.No.BP.BC.76/21.04.157/2013-14. However, the provisions under para 2, para 5.1 and para 5.2 of the above circular shall not apply to the novation of bond forward transactions undertaken in terms of these Directions."

(v) The settlement basis and market conventions for bond forward transactions shall be specified by the Fixed Income Money Market and Derivatives Association of India (FIMMDA), in consultation with market participants. FIMMDA may also prescribe standard documentation procedures for bond forward transactions. Market participants may, alternatively, use a standard master agreement for bond forward transactions.

6. Market timing

The market timing for undertaking bond forward transactions shall be the market timing specified by the Reserve Bank for undertaking OTC Rupee Interest Rate Derivative transactions.

7. Reporting

(i) A market-maker shall report all bond forward transactions undertaken during the day to the Trade Repository (TR) of the CCIL before closure of the TR for the day. The reporting shall include, *inter alia*, details of the counterparties, the underlying government security, settlement type (cash-settled or physically- settled) and whether a short position is a covered or uncovered short position.

(ii) Market-makers shall also report instances of unwinding, novation, bilateral settlement and settlement default to the TR.

(iii) For trades involving users which will be settled through CCIL, the user or the market-maker / clearing member of CCIL through which the user is availing CCIL's clearing and settlement services shall report all bond forward transactions undertaken during the day to the TR before closure of the TR for the day. For other trades, there shall be no requirement for users to report/confirm the transaction details to the TR. In such cases, the market-maker shall be responsible for ensuring the accuracy in respect of transactions reported.

(iv) The reporting formats shall be as indicated by CCIL with the prior approval of the Reserve Bank.

(v) Market-makers shall ensure that outstanding balances between their books and the TR are reconciled and subjected to concurrent audit on an ongoing basis.

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8. Obligation to provide information sought by the Reserve Bank

The Reserve Bank may call for information or statement or seek any clarification, which in the opinion of the Reserve Bank is necessary, from persons or agencies dealing in bond forward transactions, including eligible participants and ETP operators, and such persons/agencies shall furnish such information, statement or clarification within such time as specified by the Reserve Bank.

9. Dissemination of Data

The Reserve Bank, or any other agency authorised by the Reserve Bank, may in public interest, publish anonymised data related to bond forward transactions.

10. Prudential Norms, Accounting and Capital Requirements

(i) Market participants shall follow the applicable prudential norms including those related to capital adequacy, exposure norms, related party transactions, etc., issued by their respective regulators for bond forward transactions.

(ii) A market-maker shall put in place appropriate and robust methodologies for marking to market its positions in bond forwards.

(iii) The accounting of bond forwards by market participants shall be as per notified and applicable accounting standards read with regulatory guidelines/instructions issued by the respective regulators. In case the notified applicable accounting standards or the respective regulator have not prescribed the accounting treatment for bond forwards, guidance, if any, issued by the Institute of Chartered Accountants of India shall be followed in this regard.

11. Other Directions

(i) Government securities held to cover short positions in bond forwards may be used in a repo transaction(s) or lent/placed as collateral under a Government Securities Lending (GSL) transaction(s) subject to the condition that the holder of the short position is otherwise eligible to undertake a repo/GSL transaction.

(ii) Government securities held to cover short positions in bond forwards shall be eligible to be reckoned for Statutory Liquidity Ratio (SLR) by the entity covering the short position, provided that the security is otherwise eligible to be reckoned for SLR.

(iii) A market-maker shall comply with the provisions of the Master Direction - Reserve Bank of India (Market-makers in OTC Derivatives) Directions, 2021, dated September

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16, 2021, as updated from time to time. A market participant shall also ensure compliance with the provisions of the Reserve Bank of India (Prevention of Market Abuse) Directions, 2019.

(iv) A bond forward transaction that is not centrally cleared shall be subject to requirements for exchange of variation and initial margin in terms of the provisions of the Master Direction – Reserve Bank of India (Margining for Non-Centrally Cleared OTC Derivatives) Directions, 2024 dated May 08, 2024, as amended from time to time.

12. Applicability of other laws, directions, regulations or guidelines

A person or agency dealing in bond forwards shall abide by the provisions of any direction, regulation, or guideline issued by any regulator or authority, that may be applicable, in respect of bond forward transactions, provided that such directions, regulations or guidelines do not conflict with these Directions. In case of any conflicts, the provisions of these Directions shall prevail.

13. Violation of Directions

If a person or agency violates any provision of these Directions, the Reserve Bank may, in addition to taking any penal or regulatory action in accordance with law, disallow that person or agency from dealing in bond forwards for a period not exceeding one month at a time, after providing reasonable opportunity of hearing. Such action may be made public by the Reserve Bank.

(Dimple Bhandia)
Chief General Manager

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