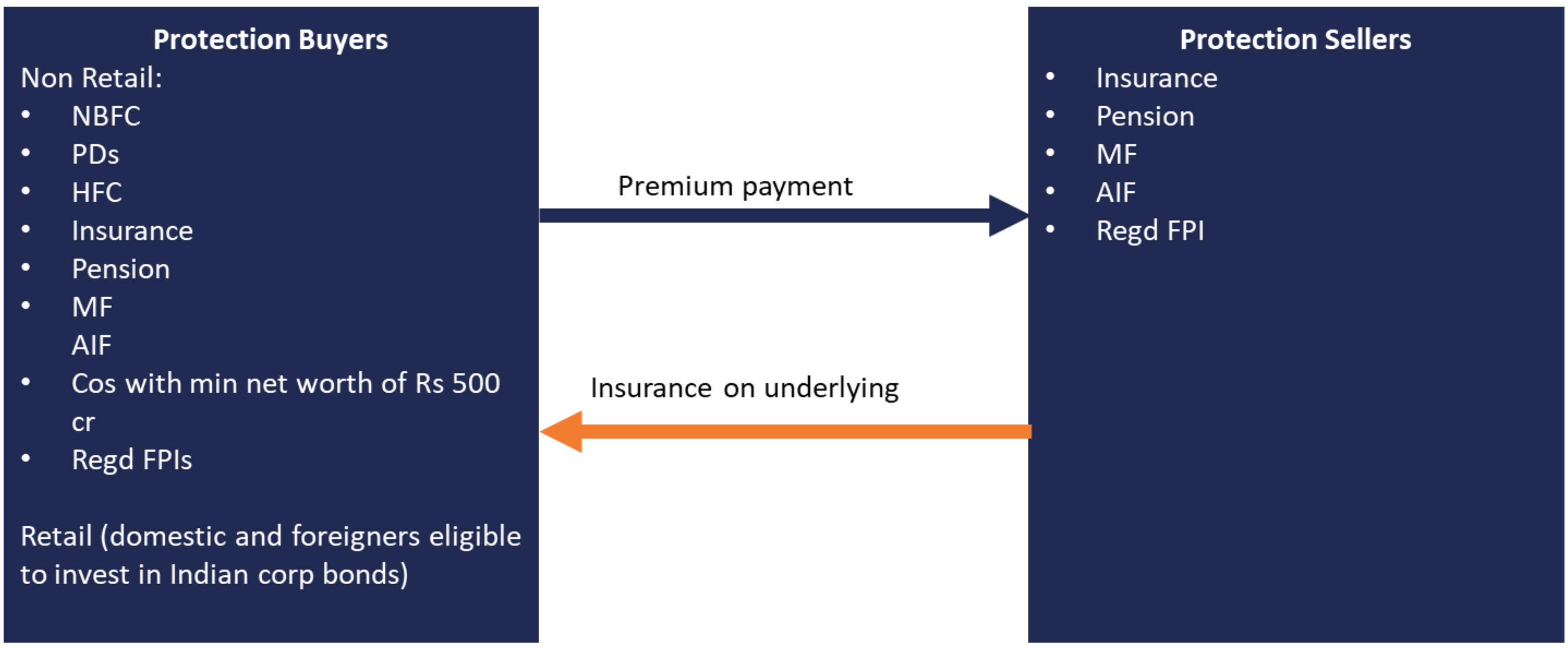
Overview

These directions relate to issuances of Credit Default Swaps (CDS). RBI aims to utilize credit derivatives as an additional tool to market participants to transfer and manage credit risk effectively by redistributing the underlying risk. CDS is a credit derivative contract where the protection seller commits to pay the protection buyer in case of a predefined credit event related to a debt instrument (reference entity). In return, the protection buyer pays a periodic premium to the protection seller until the contract matures or the credit event is triggered, whichever is earlier.

Participants



Market Makers (cannot be protection buyer/seller or related party ex govt institutions)

- Commercial bank (ex Small Fin Bank, Pmt Bank, Regional Rural Bank,Local Area bank)
- NBFC; PD; HFC
- EXIM; NABARD; NHB; SIDBI

Participation of MFs, Insurance companies, Pension companies and AIFs are subject to directives from their corresponding regulators.

Product Scope:

INR debt instruments on which CDS can be issued (reference entity):

- Money market debt instruments (commercial papers, certificate of deposits, NCDs of original and residual maturity upto 1 year.
- Rated INR corporate bond and debenture
- Unrated corporate bond and debenture issued by SPVs set up by Infra companies
- Single name CDS allowed only (underlying is a single debt instrument)
- ABS and MBS not allowed.

Usage limitations:

- Retail protection buyers are only allowed to hedge exposures against credit risk.
- Non retail protection buyers are not restricted to just hedging needs.

Key differences with the Directions in 2011

	2011	2022
Protection Buyers	Banks, PD, NBFC, MF, Insurance, HFC, Pension, Listed Corps, FIIs	PD, NBFC, MF, Insurance, HFC, Pension, **AIF, Corps with min NW of Rs 500 cr**, **Retail,** FPIs.
Protection Sellers	Banks, PDs, strong NBFCs, Insurance, MF	Insurance, Pension, **AIF, MF, FPI**
Market Makers	Stricter prudential norms. Banks, PDs, NBFCs	**Relaxed prudential norms.** Commercial Banks **(ex SFB, PB,RRB,LAB),** PDs,NBFCs, HFCs, **EXIM, NABARD, SIDBI**
Usage Restriction	Only for hedging	For retail, only for hedging. **For non-retail, no such restriction.**
Underlying instrument	Listed corporate bond, unlisted corporate bond by infra co, unlisted/unrated corp bond by SPV of Infra co.	**Money market debt instruments**, listed corp bonds, unlisted corp bonds by SPVs of infra cos.

Source: RBI Guidelines on Credit Default Swaps (CDS) for Corporate Bonds, 2011; Reserve Bank of India (Credit Derivatives) Directions, 2022

TruQuest

TruQuest is a knowledge series launched by TruBoard Partners providing succinct updates and views on:

- Liquidity outlook
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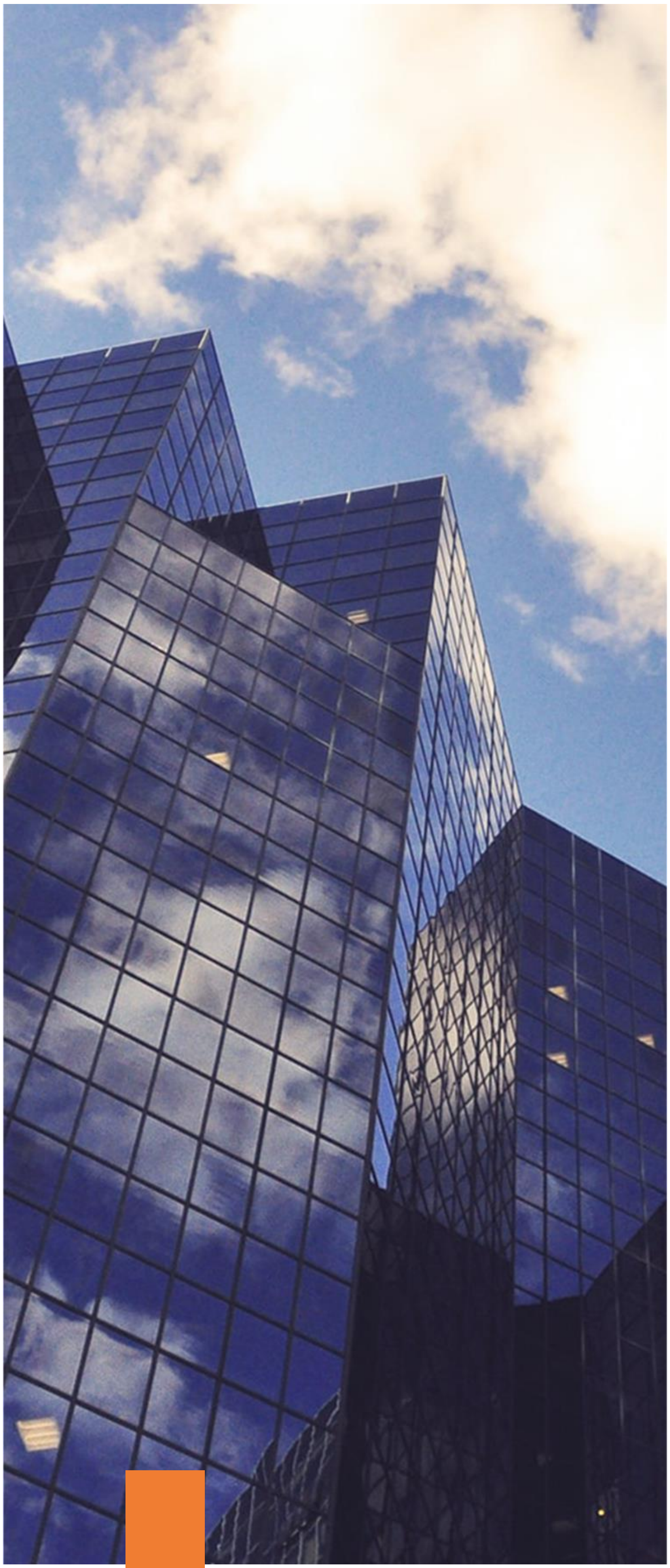

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