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RESERVE BANK OF INDIA
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RBI/FMRD/2026-27/407

FMRD.DIRD.No.02/14.03.046/2026-27

June 25, 2026

To

All participants in credit derivatives markets

Dear Sir/Madam,

**Master Direction – Reserve Bank of India (Credit Derivatives) Directions, 2026**

Please refer to Paragraph 13 of the Statement on Developmental and Regulatory Policies announced as a part of the Bi-monthly Monetary Policy Statement for 2025-26 dated February 06, 2026, regarding the introduction of derivatives on credit indices and total return swaps on corporate bonds. Accordingly, draft directions were released for public comments on February 06, 2026.

2. Based on the feedback received, the Directions have since been finalised and issued herewith.

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

4. These Directions shall be applicable from immediate effect.

Yours faithfully

(Dimple Bhandia)

Chief General Manager

**RESERVE BANK OF INDIA**

**FINANCIAL MARKETS REGULATION DEPARTMENT**

**9TH FLOOR, CENTRAL OFFICE, FORT**

**MUMBAI 400 001**

**Notification No. FMRD.DIRD. 03/14.03.004/2026-27 dated June 25, 2026**

**Master Direction – Reserve Bank of India (Credit Derivatives) Directions, 2026**

In exercise of the powers conferred under section 45W of the Reserve Bank of India Act, 1934 (02 of 1934) (hereinafter called the Act) read with section 45U of the Act and in supersession of FMRD.DIRD.11/14.03.004/2021-22 dated February 10, 2022 and A.P. (DIR Series) Circular No. 23 dated February 10, 2022, 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), Foreign Exchange Management (Debt Instruments) Regulations, 2019 (Notification No. FEMA. 396/2019-RB dated October 17, 2019) and Master Direction – Reserve Bank of India (Non-resident Investment in Debt Instruments) Directions, 2025, dated January 7, 2025, as amended from time to time.

**1. Short title, scope, and commencement**

(i) These Directions shall be called the Master Direction – Reserve Bank of India (Credit Derivatives) Directions, 2026.

(ii) These Directions shall apply to credit derivatives transactions undertaken in Over-the-Counter (OTC) markets and on recognised stock exchanges in India.

(iii) These Directions shall come into force on June 25, 2026.

**2. Definitions**

(i) In these Directions, unless the context otherwise requires:

(a) 'Auction settlement' of CDS means a settlement process in which the price of the reference/deliverable obligation at which the settlement will happen is determined through an auction mechanism.

(b) 'Cash settlement' of CDS means a settlement process in which the protection seller pays to the protection buyer, the notional amount of the CDS contract less the expected recovery value of the reference obligation.

(c) 'Central counterparty' means an entity that interposes itself between counterparties to contracts traded in one or more financial markets, becoming the buyer to every seller and the seller to every buyer and thereby ensuring the performance of open contracts.

(d) ‘Company’ shall have the same meaning as assigned to it in Section 2(20) of the Companies Act, 2013 (18 of 2013).

(e) ‘Corporate bonds and debentures’ mean non-convertible debt securities which create or acknowledge indebtedness and include debentures, bonds and such other securities issued by a body corporate or a trust or any statutory body constituted by virtue of a legislation, whether constituting a charge on the assets of the issuer or not, but excludes money market debt instruments, security receipts, securitised debt instruments and bonds issued by the Central Government or a State Government, or such other persons as may be specified by the Reserve Bank.

(f) ‘Credit Default Swap (CDS)’ means a credit derivative contract in which one counterparty (protection seller) commits to pay to the other counterparty (protection buyer) in the case of a credit event with respect to a reference entity and in return, the protection buyer makes periodic payments (premium) to the protection seller until the maturity of the contract or the credit event, whichever is earlier.

(g) ‘Credit derivative’ means a derivative contract whose value is derived from the credit risk of an underlying debt instrument or from an index of underlying debt instruments.

(h) ‘Credit event’ means a pre-defined event in a credit derivative contract, which triggers a settlement under the contract.

(i) ‘Deliverable obligation’ means a debt instrument issued by the reference entity that the protection buyer can deliver to the protection seller in a physically settled CDS contract, in case of occurrence of a credit event.

(j) ‘Electronic Trading Platform (ETP)’ shall have the same meaning as assigned to it in Paragraph 2 (ii~~i~~) of Master Direction – Reserve Bank of India (Electronic Trading Platforms) Directions, 2025 dated January 16, 2025, as amended from time to time.

(k) ‘Exchange’ shall mean ‘recognised stock exchange’ and shall have the same meaning as assigned to it in Section 2(f) of the Securities Contract Regulation Act, 1956 (42 of 1956).

(l) ‘Future on credit indices’ means a standardised derivative contract, traded on a recognised stock exchange, to buy or sell an index of underlying debt instruments at a specified future date, at a price determined at the time of the contract.

(m) ‘Government-related entity’ shall have the same meaning as assigned to it in Paragraph 9 of Indian Accounting Standard (Ind AS) 24: Related Party Disclosures.

(n) ‘Hedging’ means the activity of undertaking a credit derivative transaction to reduce credit risk of a particular debt instrument or a portfolio of debt instruments.

(o) ‘Infrastructure company’ means a company engaged primarily in activities related to specific infrastructure sub-sectors listed under the Harmonized Master List of Infrastructure Sub-sectors notified by Department of Economic Affairs, Ministry of Finance, Government of India, via gazette notification no. F.No.13/6/2009-INF dated April 08, 2016, as amended from time to time.

(p) ‘Market-maker’ means an entity which provides prices to users and other market-makers.

(q) ‘Money market debt instruments’ mean commercial papers and non-convertible debentures of original or initial maturity up to one year as defined under the Master Direction – Reserve Bank of India (Commercial Paper and Non-Convertible Debentures of original or initial maturity up to one year) Directions, 2024, issued *vide* Notification No. FMRD.DIRD.09/14.02.001/2023-24 dated January 03, 2024 as amended from time to time and certificates of deposit as defined under the Master Direction – Reserve Bank of India (Certificate of Deposit) Directions, 2021, issued *vide* Notification No. FMRD. DIRD.03/14.01.003/2021-22 dated June 04, 2021, as amended from time to time.

(r) ‘Net worth’ shall have the same meaning as assigned to it in Section 2(57) of the Companies Act, 2013 (18 of 2013).

(s) ‘Over-the-Counter (OTC) markets’ mean the markets where transactions are undertaken in any manner other than on exchanges and shall include electronic trading platforms (ETPs).

(t) ‘Person resident outside India’ shall have the same meaning as assigned to it in Section 2(w) of Foreign Exchange Management Act, 1999 (42 of 1999).

(u) ‘Physical settlement’ of CDS means a settlement process in which the protection buyer delivers any of the eligible deliverable obligations to the protection seller against the receipt of notional amount of the CDS contract.

(v) ‘Reference asset’ means a debt instrument issued by a reference entity or an index of underlying debt instruments and specified in a total return swap contract.

(w) ‘Reference entity’ means an entity, against whose credit risk, a credit derivative contract is entered into.

(x) ‘Reference obligation’ means a debt instrument issued by the reference entity and specified in a CDS contract for the purpose of valuation of the contract and for determining the cash settlement value or the deliverable obligation in case of occurrence of a credit event.

(y) ‘Related party’ shall have the same meaning as assigned to it under Paragraph 9 of Indian Accounting Standard (Ind AS) 24 – Related Party Disclosures.

(z) ‘Resident’ shall mean a ‘person resident in India’ and shall have the same meaning as assigned to it in section 2(v) of the Foreign Exchange Management Act, 1999 (42 of 1999).

(aa) ‘Single-name CDS’ means a CDS contract in which the underlying is a single reference entity.

(bb) ‘Substitution event’ means any event that results in the reference obligation being replaced by another obligation issued by the reference entity.

(cc) ‘Succession event’ means any event that results in the reference entity no longer being the primary obligor for the reference obligation.

(dd) ‘Total Return Swap (TRS)’ means a credit derivative contract under which one counterparty (total return payer) commits to transfer the entire economic performance of a reference asset to the other counterparty (total return receiver), and, in return, receives a pre-determined fixed or floating rate linked to a benchmark.

(ee) ‘User’ means a person that undertakes derivative transactions other than as a market-maker.

(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 FEMA, 1999.

**3. Eligible participants**

(i) The following persons shall be eligible to participate in credit derivatives market:

(a) Residents; and

(b) Person resident outside India, to the extent specified in these directions.

## 4. Directions on credit derivatives in the OTC market

### 4.1 Permitted products

Market-makers and users may undertake transactions in CDS and TRS contracts, subject to the directions specified hereinafter.

### 4.2 Market-makers and users

#### 4.2.1 Market-makers

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

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

  (b) Standalone Primary Dealers;

  (c) NBFCs – Upper Layer and NBFCs – Middle Layer (including Housing Financial Companies); and

  (d) Export Import Bank of India, National Bank of Agriculture and Rural Development, National Housing Bank, Small Industries Development Bank of India and National Bank for Financing Infrastructure and Development.

(ii) In case an NBFC fails to meet the eligibility criteria for acting as a market-maker, it shall cease to act as a market-maker. The NBFC shall continue to meet all its obligations under the existing contracts till the maturity/termination of such contracts.

(iii) At least one of the parties to a credit derivative transaction shall be a market-maker or a central counterparty authorised by the Reserve Bank for the purpose.

#### 4.2.2 User Classification Framework

(i) Users shall be classified by market-makers either as retail or non-retail for the purpose of offering credit derivative contracts.

(ii) The following users shall be eligible to be classified as non-retail users:

  (a) NBFCs other than market-makers;

  (b) Insurance Companies regulated by Insurance Regulatory and Development Authority of India (IRDAI);

  (c) Pension Funds regulated by Pension Fund Regulatory and Development Authority (PFRDA);

(d) Mutual Funds regulated by Securities and Exchange Board of India (SEBI);
(e) Alternative Investment Funds regulated by Securities and Exchange Board of India (SEBI);
(f) Resident companies with (a) minimum net worth of ₹500 crore; or (b) minimum turnover of ₹1,000 crore, as per the latest audited financial statements;
(g) Foreign Portfolio Investors (FPIs) registered with SEBI; and
(h) Any entity otherwise eligible to be a market-maker in terms of Paragraph 4.2.1 of these Directions.

(iii) Any user who is not eligible to be classified as a non-retail user shall be classified as a retail user.

(iv) Any user who is otherwise eligible to be classified as a non-retail user shall have the option to get classified as a retail user.

**4.3 Participants in credit derivatives in the OTC market**

**4.3.1 Protection buyers and sellers for Credit Default Swaps**

(i) A resident retail user, other than an individual, shall be allowed to buy protection only for the purpose of hedging.

(ii) A non-retail user shall be allowed to buy protection without any restriction in terms of purpose.

(iii) The following non-retail users shall be eligible to act as protection sellers:
(a) An Insurance Company regulated by IRDAI;
(b) A Pension Fund regulated by PFRDA;
(c) A Mutual Fund regulated by SEBI;
(d) An Alternative Investment Fund regulated by SEBI; and
(e) An FPI registered with SEBI.

(iv) Insurance Companies, Pension Funds, Mutual Funds and Alternative Investment Funds mentioned under Paragraph 4.3.1(iii) shall be permitted to act as protection sellers subject to approval of their respective regulator.

(v) Participation by FPIs in CDS contracts shall be subject to the following,
(a) The notional amount of CDS protection sold by all FPIs shall be subject to a limit of 5 per cent of the outstanding stock of corporate bonds. Clearing Corporation of India Ltd. (CCIL) shall disseminate the utilisation of the limit based on the reporting by the market makers in terms of Paragraph 4.5.5 of these directions

and reporting by stock exchanges in terms of Paragraph 6.1 (vii) of these directions. FPIs shall not sell any further CDS protection once the limit is utilised.

(b) Debt instruments received by FPIs as deliverable obligation and debt instruments purchased by FPIs for meeting deliverable obligation in physical settlement of CDS contracts shall be reckoned under the investment limits for corporate bonds as specified in in A.P. (DIR Series) Circular No. 05 dated April 6, 2026, as amended from time to time. In case of non-availability of investment limit at the time of physical settlement, such debt instruments shall be adjusted against the revised limit in the subsequent review of investment limit.

(c) The notional amount of protection sold by FPIs, and the debt instruments received as deliverable obligation as well as debt instruments purchased for meeting deliverable obligation by FPIs in physical settlement of CDS contracts shall not be subject to the minimum residual maturity requirement or issue-wise limit applicable to FPI investment in corporate bonds as specified in Master Direction – Reserve Bank of India (Non-resident Investment in Debt Instruments) Directions, 2025, dated January 7, 2025, as amended from time to time.

(d) A market maker shall not offer a CDS contract to an FPI where the reference obligation or the index includes a money market debt instrument or a debt instrument with residual maturity less than one year or a bond with call / put options exercisable within one year from the date of the undertaking the CDS contract.

(vi) A market-maker shall not offer CDS contracts to an individual.

**4.3.2 Participants in total return swaps**

(i) A market-maker may offer a TRS contract to a resident retail user, other than an individual, only for the purpose of hedging.

(ii) A market-maker may offer a TRS contract to a resident non-retail user without any restriction in terms of purpose.

(iii) A market-maker may offer a TRS contract to a person outside India subject to the following:

(a) A market-maker may offer a TRS contract to a person resident outside India, including an FPI, for the purpose of hedging;

(b) A market maker may also offer a TRS contract to a person resident outside India, including an FPI, wherein the person resident outside India is the total return receiver provided that the TRS is offered as a fully funded structure in which the person resident outside India provides to the market-maker in India the full notional amount of the reference asset.

Provided that no offshore derivative instrument with the TRS contract as underlying shall be written by the person resident outside India.

(c) A market maker may offer a TRS contract to a person resident outside India, including an FPI, directly or on a back-to-back basis through overseas entities (including overseas branches, IFSC Banking Units, wholly owned subsidiaries and joint ventures of market-makers) subject to the following conditions:

   i. The overseas entity is eligible to deal with the product concerned in the capacity of a dealer / market-maker as per the host jurisdiction's laws and regulations;

   ii. The wholly owned subsidiary / joint venture of the market-maker incorporated in India can undertake such transactions provided the wholly owned subsidiary / joint venture is a banking entity; and

   iii. The market-maker shall provide information, data or any other particulars required by the Reserve Bank of India in respect of the aforesaid transactions in the manner and time prescribed.

(d) The notional amount of the TRS contract offered to a person resident outside India through a fully funded structure shall be reckoned under the investment limits for corporate bonds as specified in Master Direction – Reserve Bank of India (Non-resident Investment in Debt Instruments) Directions, 2025, dated January 7, 2025, as amended from time to time;

(e) Where the reference asset specified in a TRS contract includes an unlisted corporate bond or debenture, the same shall comply with the end use restrictions set out in Paragraph 4.4 (vi) of the Master Direction – Reserve Bank of India (Non-resident Investment in Debt Instruments) Directions, 2025, dated January 7, 2025;

(f) A market maker shall not offer a TRS contract to a person resident outside India where the reference asset or the index includes a money market debt instrument or a debt instrument with residual maturity less than one year or a bond with call / put options exercisable within one year from the date of the contract; and

(iv) A market-maker shall not offer a TRS contract to an individual.

### 4.4 Reference Entities, Obligations and Assets

(i) The reference entity in a credit derivative contract shall be a resident entity who is eligible to issue any of the debt instruments mentioned under Paragraph 4.4 (ii).

(ii) The following debt instruments issued in India shall be eligible to be a reference obligation in a CDS contract or a reference asset in a TRS contract:

   (a) Money market debt instruments;

   (b) Rated INR corporate bonds and debentures; and

   (c) Unrated INR corporate bonds and debentures issued by the Special Purpose Vehicles set up by infrastructure companies.

(iii) Bonds with call/put options shall be eligible to be reference obligations/reference assets.

(iv) Asset-backed securities/mortgage-backed securities and structured obligations such as credit enhanced/guaranteed bonds, convertible bonds, etc. shall not be permitted as reference obligations/reference assets.

(v) The reference obligation /deliverable obligation /reference asset shall be in dematerialised form.

(vi) The underlying reference obligation for a CDS or a reference asset for a TRS may be an index comprising solely of eligible debt instruments as set out in Paragraph 4.4 (ii) of these Directions, subject to the condition that the index is published by a financial benchmark administrator which is duly authorised by the Reserve Bank under the Reserve Bank of India (Financial Benchmark Administrators) Directions, 2023 dated December 28, 2023, as amended from time to time, or is duly authorised under the Securities and Exchange Board of India (Index Providers) Regulations dated March 8, 2024, as amended from time to time.

   Note: An index which is based wholly or partially on money market debt instruments shall be published by a financial benchmark administrator which is duly authorised by the Reserve Bank under the Reserve Bank of India (Financial Benchmark Administrators) Directions, 2023 dated December 28, 2023, as amended from time to time.

### 4.5 Other operational Directions for credit derivatives

#### 4.5.1 Buying, Unwinding and Settlement

(i) Market participants shall not enter into CDS or TRS transactions if the reference entity is a related party to either counterparty. However, two (or more) government-related entities shall not be deemed as related parties for the purpose of these Directions.

(ii) Unless specifically permitted in these directions, market participants shall not undertake credit derivative transactions involving reference entities/reference obligations//reference assets, if there are regulatory restrictions on such participants assuming similar exposures in the cash market or in violation of any other regulatory restriction, as may be applicable.

(iii) Market participants can exit their credit derivative contracts by unwinding the contract with the original counterparty or assigning the contract to any other eligible market participant through novation[1] 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, provisions under Paragraph 2, Paragraph 5.1 and Paragraph 5.2 of the above circular shall not apply to credit derivative transactions undertaken in terms of these Directions.

(iv) Market participants shall settle their credit derivative contracts bilaterally or through any clearing and settlement arrangement approved by the Reserve Bank. A credit derivative contract undertaken with a non-resident by a market-maker, which is a bank having an Authorised Dealer Category-I (AD Cat-I) license under FEMA, 1999, or an SPD authorized under section 10(1) of FEMA,1999, can be settled in INR or in a foreign currency.

(v) Credit derivative contracts can be cash settled or physically settled. CDS contracts can also be settled through auction. The procedure for cash settlement and auction settlement of CDS contracts shall be determined by the Credit Derivatives Determinations Committee, as specified under Paragraph 5 of these Directions. TRS contracts undertaken by a person resident outside India, who is not an FPI, shall be cash settled.

[1] Novation is the replacement of a contract between two counterparties to an OTC derivative transaction (the transferor, who steps out of the existing contract, and the remaining party) with a new contract between the remaining party and a third party (the transferee). The transferee becomes the new counterparty to the remaining party.

(vi) Any floating interest rate used in a TRS shall be a benchmark published by a financial benchmark administrator which is duly authorised by the Reserve Bank under the Reserve Bank of India (Financial Benchmark Administrators) Directions, 2023 dated December 28, 2023, as amended from time to time.

**4.5.2 Credit derivative transactions with users for purposes of hedging**

(i) While offering a credit derivative contract for the purpose of hedging, the market maker shall ensure that the user:

  (a) shall have exposure to the reference asset / any of the eligible reference obligations/ any one or more of the debt instruments comprising the index in the case of a credit derivative contract on an index

  (b) shall not buy a credit derivative contract(s) with notional amount higher than the face value of the reference obligation / reference asset held by them; and

  (c) shall not buy a credit derivative contract with a tenor later than the maturity of the reference obligation / reference asset held by them or the standard CDS / TRS maturity date immediately after the maturity of the reference obligation or reference asset.

(ii) To ensure compliance with the above, market-makers may call for any relevant information/documents from the user, who, in turn, shall be obliged to provide such information.

(iii) Users undertaking credit derivative transactions for the purpose of hedging shall exit their credit derivative position within one month from the date they cease to have the underlying exposure.

**4.5.3 Standardisation**

(i) The settlement basis and market conventions for credit derivative contracts shall be specified by the Fixed Income Money Market and Derivatives Association of India (FIMMDA), in consultation with market participants and based on international best practices. FIMMDA may also prescribe standard documentation procedures for credit derivative transactions. Market participants may, alternatively, use a standard master agreement for credit derivative contracts.

(ii) Market participants shall ensure that the CDS contract represents a direct claim on the protection seller. The contract shall not have any clause that may:

(a) allow the protection seller to unilaterally cancel the contract, except in case of a default by the protection buyer under the terms of the contract;

(b) prevent the protection seller from making the credit event payment in a timely manner, after occurrence of the credit event and completion of necessary conditions and requirements under the terms of contract; or

(c) provide the protection seller any recourse to the protection buyer for credit event losses.

**4.5.4 Customer protection**

(i) Market-makers in OTC markets shall comply with the Master Direction – Reserve Bank of India (Market-makers in OTC Derivatives) Directions, 2021 issued *vide* RBI Circular No. FMRD.FMD.07/02.03.247/2021-22 dated September 16, 2021, as amended from time to time and the Reserve Bank of India (Prevention of Market Abuse) Directions, 2019 issued *vide* RBI Circular No. FMRD.FMSD.11/11.01.012/2018-19 dated March 15, 2019, as amended from time to time.

**4.5.5 Reporting**

(i) Market-makers shall report all OTC credit derivative transactions within 30 minutes of the transaction, to the trade repository of Clearing Corporation of India Ltd. (CCIL).

(ii) Market-makers shall report all amendments, unwinding, novation, settlement transactions, and any credit, substitution or succession event to the trade repository of CCIL.

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

**5. Credit Derivatives Determinations Committee**

(i) FIMMDA shall set up a Credit Derivatives Determinations Committee, consisting of market-makers and users in credit derivatives as voting members. FIMMDA shall ensure that users are adequately represented in the Committee. The Committee may also include central counterparties as observer members and legal/audit/consultancy firms as consultative members.

(ii) FIMMDA shall establish rules for governing the activities of the Credit Derivatives Determinations Committee in line with international best practices.

(iii) The Credit Derivatives Determinations Committee, when approached by market participants, shall make factual determinations regarding key provisions of credit derivative contracts including, but not limited to, the occurrence of a credit event, substitution event, succession event, determining the identity of successor reference entity, etc.

(iv) The Credit Derivatives Determinations Committee shall, in consultation with market participants, develop a standard procedure for cash and auction settlement of CDS contracts.

(v) The Credit Derivatives Determinations Committee, when approached by market participants, may conduct an auction to determine the reference price for settlement of CDS contracts. The Credit Derivatives Determinations Committee shall put in place procedures/safeguards to ensure that the reference price is determined in a fair and transparent manner.

(vi) The decisions of the Credit Derivatives Determinations Committee shall be binding on the market participants.

**6. Directions for exchange traded credit derivatives**

**6.1. Credit default swaps**

(i) Exchanges may offer standardised single-name CDS contracts and CDS contracts on credit indices with guaranteed settlement.

(ii) Exchanges shall obtain prior approval of the Reserve Bank for product design, changes in product design, eligible participants and other details of CDS contracts. The operational guidelines on the procedure for execution and settlement of trades on stock exchanges shall be prescribed by SEBI.

(iii) The reference entities and reference obligations for exchange-traded CDS shall be as specified under Paragraph 4.4 of these Directions.

(iv) The credit index for an exchange-traded CDS contract shall be an index comprising solely of eligible debt instruments as set out in para 4.4 (ii) of these Directions, subject to the condition that the index is published by a financial benchmark administrator which is duly authorised by the Reserve Bank under the Reserve Bank of India (Financial Benchmark Administrators) Directions, 2023 dated December 28, 2023, as amended from time to time, or that the index is composed / administered as per the directions issued by SEBI from time to time.

**Note:** An index which is based wholly or partially on money market debt instruments shall be published by a financial benchmark administrator which is duly authorised by the Reserve Bank under the Reserve Bank of India (Financial Benchmark Administrators) Directions, 2023 dated December 28, 2023, as amended from time to time.

(v) Participants, who are retail users, as defined under Paragraph 4.2.2 of these Directions, shall undertake transactions in exchange-traded CDS only for hedging and such users
   (a) shall have exposure to any of the eligible reference obligations or any one or more of the debt instruments comprising the index in the case of a CDS contract on an index;
   (b) shall not buy a CDS contract(s) for notional amount higher than the face value of the reference obligation held by them; and
   (c) shall not buy a CDS contract with a tenor later than the maturity of the reference obligation held by them or the standard CDS maturity date immediately after the maturity of the reference obligation.

(vi) The determinations made by Credit Derivatives Determinations Committee shall be applicable to exchange-traded CDS contracts.

(vii) FPIs may transact in exchange-traded CDS as protection sellers and/or protection buyers. Participation by FPIs shall be subject to the provisions of Paragraph 4.3(1)(v) of these Directions. Exchanges shall report the gross notional amount of protection sold by FPIs to CCIL on a daily basis by the end of the day, or on an intra-day basis if required by the Reserve Bank.

(viii) FPI shall not sell protection through CDS contracts where reference obligation is a money market debt instrument, a debt instrument with residual maturity less than one year, or a bond with call / put options exercisable within one year from the date of the contract, or an index referencing money market instruments or debt instruments with residual maturity less than one year or bonds with call / put options exercisable within one year from the date of the contract.

**6.2 Futures on credit indices**

(i) Exchanges may offer futures contracts on credit indices with guaranteed settlement, provided that:

(a) The credit index used as underlying for futures contracts shall be composed solely of eligible debt instruments as set out in para 4.4 (ii) of these directions; and

(b) The composition / administration of the index shall be as per the directions issued by SEBI.

**Note:** A credit index which is based wholly or partially on money market debt instruments shall be published by a financial benchmark administrator which is duly authorised by the Reserve Bank under the Reserve Bank of India (Financial Benchmark Administrators) Directions, 2023 dated December 28, 2023, as amended from time to time.

(ii) Exchanges shall obtain prior approval of the Reserve Bank for product design, changes in product design, eligible participants, and other details of the futures contracts. The operational guidelines on the procedure for execution and settlement of trades on stock exchanges shall be prescribed by SEBI.

(iii) Participation of Foreign Portfolio Investors (FPIs) in futures on credit indices shall be subject to the following:

(a) The aggregate long position assumed by FPIs in future contracts on credit indices shall be reckoned under the investment limits for corporate debt securities as specified in Master Direction – Reserve Bank of India (Non-resident Investment in Debt Instruments) Directions, 2025 dated January 07, 2025, as amended from time to time;

(b) The total gross short (sold) position of any FPI shall not exceed its consolidated long position in corporate bonds and debentures and in future contracts on credit indices, at any point in time; and

(c) FPIs shall not participate in future contracts on credit indices where the underlying credit index includes a money market debt instrument or a debt instrument with residual maturity less than one year or a bond with call / put options exercisable within one year from the date of the contract.

### 6.3 Other Directions

(i) Exchanges shall ensure that the participants on exchanges are made adequately aware of the risks associated with credit derivative contracts.

(ii) Participants shall not undertake credit derivative transactions involving reference entities if there are regulatory restrictions on assuming similar exposures in the cash market or in violation of any other regulatory restriction, as may be applicable.

(iii) Exchanges shall furnish any information relating to credit derivative transactions to the Reserve Bank or any other agency as may be specified by the Reserve Bank in the manner and format and within the time frame as may be specified by the Reserve Bank.

**7. Valuation methodology**

Market-makers shall put in place robust methodologies for marking to market credit derivative contracts. The valuation methodology adopted shall be applied consistently and shall be appropriately documented and disclosed.

**8. Prudential norms, accounting and capital requirements**

(i) Market participants shall follow the applicable prudential norms and capital adequacy requirements for credit derivatives issued by their respective regulators.

(ii) The accounting of credit derivative contracts 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 credit derivative contracts, guidance, if any, issued by the Institute of Chartered Accountants of India shall be followed in this regard.

**9. Obligation to provide information sought by the Reserve Bank**

The Reserve Bank may call for any information or statement or seek any clarification, which in the opinion of the Reserve Bank is relevant, from persons or agencies dealing in credit derivatives contracts, including eligible participants, and such persons, agencies and participants shall furnish such information, statement or clarification in the manner and format and within the time frame as may be specified by the Reserve Bank.

**10. Dissemination of data**

(i) The Reserve Bank, or any other person or agency authorised by the Reserve Bank, may in public interest, publish any anonymised data related to transactions in credit derivatives market.

(ii) CCIL shall publish the notional value of credit derivative contracts outstanding for each debt instrument on a daily basis.

**11. Violation of Directions**

In the event of any person or agency violating any provision of these Directions or the provisions of any other applicable law, 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 the credit derivatives market for a period not exceeding one month at a time, after providing reasonable opportunity to the person or agency to defend its actions, and such action will be made public by the Reserve Bank.

**12.** These Directions shall apply to all credit derivative transactions entered into from the date the Directions come into effect. Existing Directions will continue to be applicable to the credit derivatives transactions undertaken in accordance with the said Directions till the expiry of those contracts.