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DSK Legal Knowledge Center

Updates on

- Corporate

## CORPORATE

### A. Exchange traded interest rate futures

The Reserve Bank of India (“RBI”) has, vide notification dated August 28, 2009<sup>1</sup>, issued the Interest Rate Futures (Reserve Bank) Directions, 2009 introducing Interest Rate Futures on a notional coupon bearing 10-year Government of India security. The said directions have come into force from the date of the said notification.

For the full text of the said directions please refer to  
<http://rbidocs.rbi.org.in/rdocs/notification/PDFs/FINA280709.pdf>

<sup>1</sup> FMD.MSRG. 1/02.04.003/2009-10

RBI/2009-10/134 FMD.MSRG No. 39 /02.04.003/ 2009-10

### B. Guidelines on Exchange Traded Interest Rate Derivatives

RBI, vide circular dated October 13, 2008<sup>2</sup>, permitted banks to take trading positions in Interest Rate Futures (“IRFs”). RBI, vide circular dated August 28, 2009<sup>3</sup>, has clarified that banks are not allowed to undertake transactions in IRFs on behalf of their clients. The same is also made applicable to overseas branches of Indian banks.

For more information please refer to  
<http://rbidocs.rbi.org.in/rdocs/notification/PDFs/IRF280809circular.pdf>

<sup>2</sup> DBOD.BP.BC.No.56/21.04.157/2008-09

<http://rbidocs.rbi.org.in/rdocs/notification/PDFs/87806.pdf>

<sup>3</sup> RBI/2009-10/135 DBOD.BP.BC. No.34 /21.04.157/2009-10

C. Guidelines on Exchange Traded Interest Rate Derivatives

Pursuant to the Interest Rate Futures (Reserve Bank) Directions, 2009<sup>4</sup> issued by the RBI and Comprehensive Guidelines on Derivatives issued by the Department of Banking Operations and Development (“DBOD”)<sup>5</sup>, Primary Dealers are allowed to transact in Exchange Traded Interest Rate Futures. RBI, vide circular dated September 1, 2009<sup>6</sup>, has clarified that stand-alone Primary Dealers (“PDs”) are allowed to deal in Interest Rate Futures (“IRFs”) for both hedging and trading on own account and not on client’s account.

For more information please refer to

<http://rbidocs.rbi.org.in/rdocs/notification/PDFs/IFIRF010909.pdf>

D. Stand-alone Primary Dealers - Increase in Call/Notice Money Borrowing Limit and Enhancement of Minimum Net Owned Funds

RBI, vide circulars dated September 2, 2009<sup>7</sup>, has:

- (i) increased the limit on borrowing by the stand-alone Primary Dealers (“PDs”) from the call / notice money market, on an average in a reporting fortnight, to 225% of net-owned funds (“NOF”), as at the end March of the preceding financial year; and
- (ii) increased the minimum NOF for stand-alone PDs to Rs. 150 crores and stand-alone PDs, which also intend to undertake other permissible activities, to Rs.250 crores. The NOF is to be computed in terms of the explanatory note to section 45-IA of chapter III-B of the Reserve Bank of India Act, 1934. The enhanced level of NOF shall be effective from April 1, 2010.

For more information please refer to

<http://rbidocs.rbi.org.in/rdocs/notification/PDFs/FCAMB20909.pdf>

<http://rbidocs.rbi.org.in/rdocs/notification/PDFs/FCMNOF2909.pdf>

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<sup>4</sup> RBI/2009-10/134 No.FMD.1 / ED(VKS) - 2009 dated August 28, 2009  
<http://rbidocs.rbi.org.in/rdocs/notification/PDFs/FINA280709.pdf>

<sup>5</sup> DBOD.No.BP.BC.86/21.04.157/2006-07 dated April 20, 2007  
<http://rbidocs.rbi.org.in/rdocs/notification/PDFs/76926.pdf>

<sup>6</sup> RBI/2009-10/141 IDMD.PDRD.No. 1056 / 03.64.00/2009-10

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<sup>7</sup> RBI/2009-10/143 IDMD.PDRD.No. 1096/ 03.64.00/2009-10 and RBI/2009-10/144 IDMD.PDRD.No. 1097/ 03.64.00/2009-10 respectively

E. Press Note 6 (2009 Series): Foreign Direct Investment ("FDI") into Small Scale Industrial Undertaking ("SSI")/Micro & Small Enterprises ("MSE") and in Industrial Undertaking manufacturing items reserved for SSI/MSE - Clarification

(i) FDI into SSI/MSE

With the promulgation of the Micro, Small and Medium Enterprises Development Act, 2006, the ceiling for equity participation (both domestic and foreign) in the MSE, by other enterprises, was removed and MSE (earlier SSI) was defined solely on the basis of investment in plant & machinery and equipment. Press Note 6 (2009 Series) has clarified that, pursuant to the above, the present policy on FDI in MSE permits FDI subject only to the sectoral equity caps, entry routes and other relevant sectoral regulations and thus, the cap of 24% foreign equity in an MSE (without government approval) is no longer applicable.

(ii) FDI in Industrial Undertaking manufacturing items reserved for SSI/MSE

The said Press Note clarifies that any industrial undertaking, with or without FDI, which is not an MSE, manufacturing items reserved for manufacture in the MSE sector as per the Industrial Policy, would require an Industrial License under the Industries (Development & Regulation) Act, 1951, for such manufacture. The issue of the Industrial License will be subject to a few general conditions and the specific condition that the undertaking shall undertake to 'export a minimum of 50% of the new or additional annual production of the MSE reserved items to be achieved within a maximum period of three years. The export obligation would be applicable from the date of commencement of commercial production'. Such an industrial undertaking would also require prior approval of the Government (FIPB) where foreign investment is more than 24% in the equity capital.

For more information please see

<http://siadipp.nic.in/policy/changes.htm>

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