

RBI Issues new directions on Financial Benchmark Administrators

RBI has issued new directions namely the 'Financial Benchmarks Administrators (Reserve Bank) Directions, 2019'.

These directions shall apply to Financial Benchmark Administrators (FBAs) administering 'Significant Benchmarks' in the markets for financial instruments regulated by the Reserve Bank.

Last October, the RBI had announced that it would introduce a regulatory framework for financial benchmarks in the markets it regulates. In February this year, draft directions were released proposing such a framework. The London Inter-Bank Offered Rate (LIBOR) controversy and the related events underlined the need to establish or reform the frameworks for administration and governance of financial benchmarks. The need for setting standards for the benchmark administrators has since been accepted worldwide in several jurisdictions.

The robustness and reliability of financial benchmarks are critical for efficient pricing and valuation of financial instruments. These new directions shall aim to improve the governance of the benchmark processes, ensure transparency in benchmark administration and prevent misuse of benchmarks.

The Guidelines contain 11 broad guidelines as below:

1. Extent and applicability
2. Definitions
3. Authorization of FBA
4. Eligibility Criteria for FBAs
5. Grant of authorization to administer a 'significant benchmark'
6. Authorized FBAs shall adhere to the following directions for administering 'significant benchmarks'
 - a. Overall Responsibility of FBAs
 - b. 'Significant Benchmarks': Formulation, Determination and Review
 - c. Organizational and Process Controls (Role of Oversight Committee)
 - d. Internal Control
 - e. Outsourcing of 'significant benchmark' related work
 - f. Complaint Management
 - g. Data Preservation
7. Exemption from the provisions of these directions
8. Revocation of authorization
9. Transition or Termination of administration
10. Benchmark Publication
11. Reporting

According to the guidelines, financial benchmark administrator need prior authorisation from the RBI to administer a 'significant benchmark'. Administrators should be incorporated in India and must maintain a minimum net worth of INR 10 million (USD 144,000) at all times.

Financial benchmark administrators already administering a 'significant benchmark' will be notified by the RBI, and then will have three months to file an application for authorisation to continue administering that benchmark.

The directions are based on the practices recommended by the International Organization of Securities Commissions (IOSCO) in their report on Principles for Financial Benchmarks dated July 2013 as well as in the Report of the Committee on Financial Benchmarks set up by the Reserve Bank on June 28, 2013.

- Sujit Sah

Please feel free to contact us at contact@xactitude.in for any further queries.