



भारतीय रिज़र्व बैंक  
RESERVE BANK OF INDIA



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RBI/2021-22/155

A.P. (DIR Series) Circular No. 23

February 10, 2022

To,

All Authorised Persons

Madam / Sir

**Transactions in Credit Default Swap (CDS) by Foreign Portfolio Investors –  
Operational Instructions**

Attention of Authorised Persons is invited to the Foreign Exchange Management (Debt Instruments) Regulations, 2019 [[Notification No. FEMA. 396/2019-RB dated October 17, 2019](#)], as amended from time to time. A reference is also invited to [A.P. \(DIR Series\) Circular No.31 dated June 15, 2018](#), [A.P. \(DIR Series\) Circular No. 05 dated May 31, 2021](#) and [Master Direction – Reserve Bank of India \(Credit Derivatives\) Directions, 2022 dated February 10, 2022](#), as amended from time to time (hereinafter, Credit Derivatives Directions).

2. Foreign Portfolio Investors (FPIs) are eligible to be categorised as non-retail users and have been allowed to buy and sell CDS protection under the Credit Derivatives Directions. Necessary Directions to Authorised Persons that are eligible to deal with FPIs for transacting in Credit Derivatives in terms of the Credit Derivatives Directions are being issued hereunder.

3. Selling of CDS protection by all FPIs shall be subject to a limit specified by the Reserve Bank from time to time (hereinafter, aggregate limit). The aggregate limit of the notional amount of CDS sold by FPIs shall be 5% of the outstanding stock of corporate bonds. Clearing Corporation of India Ltd. (CCIL) shall disseminate the utilisation of aggregate limit based on the reporting by the market makers for transactions in OTC market and reporting by stock exchanges for transactions on exchanges. FPIs shall not sell any CDS protection once aggregate limit is utilised. The limit utilised for CDS protection sold by the FPI shall be released upon the exit of the CDS position by the FPIs.

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4. 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 [A.P. \(DIR Series\) Circular No. 05 dated May 31, 2021](#), 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 limits in the subsequent review of investment limits.

5. 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 minimum residual maturity requirement / short-term limit, concentration limit or single/group investor-wise limits applicable to FPI investment in corporate bonds as specified in paragraphs 4(b), (e) and (f) respectively of [A.P. \(DIR Series\) Circular No. 31 dated June 15, 2018](#).

6. These Directions shall come into effect from May 09, 2022

7. Authorised Persons may bring the contents of this circular to the notice of their constituents and customers concerned.

8. The Directions contained in this circular have been issued under sections 10(4) and 11(1) of the Foreign Exchange Management Act, 1999 (42 of 1999) and are without prejudice to permissions/approval, if any, required under any other law.

Yours faithfully

(Dimple Bhandia)  
Chief General Manager