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TO:

The Chief General Manager,
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March 8, 2019

Re: Feedback on draft directions on Financial Benchmark Administrators

Dear Sir,

The Asia Securities Industry & Financial Markets Association ("ASIFMA") and the Global Foreign Exchange Division ("GFXD") of the Global Financial Markets Association ("GFMA") welcomes the opportunity to provide comments to the Reserve Bank of India ("the Reserve Bank") on its draft Directions published on February 15, 2019 on Financial Benchmark Administrators (the "Directions").

ASIFMA is an independent, regional trade association with over 100 member firms comprising a diverse range of leading financial institutions from both the buy and sell side, including banks, asset managers, professional service firms, law firms and market infrastructure service providers. It harnesses the shared interests of the financial industry to promote the development of liquid, deep and broad capital markets in Asia.

ASIFMA advocates stable, innovative, competitive and efficient Asian capital markets that are necessary to support the region's economic growth. It drives consensus, advocates solutions and effects change around key issues through the collective strength and clarity of one industry voice. ASIFMA is based in Hong Kong and is the Asia member of the GFMA.

The GFXD was formed in co-operation with the Association for Financial Markets in Europe ("AFME"), the Securities Industry and Financial Markets Association ("SIFMA") and ASIFMA. Its members comprise 25 global foreign exchange (FX) market participants,[1] collectively representing around 80% of the FX inter-dealer market.[2] Both the GFXD and its members are committed to ensuring a robust, open and fair marketplace and welcome the opportunity for continued dialogue with global regulators.

The FX market is the world's largest financial market and effective and efficient exchange of currencies underpins the world's entire financial system. The FX market is also the basis of the global payments system. The volume of transactions is therefore very high, and these transactions are often executed by market participants across geographical borders.

Many of the current legislative and regulatory reforms have had, and will continue to have, a significant impact upon the operation of the global FX market, and the GFXD wishes to emphasise the desire of its members for globally coordinated regulation, which we believe will be of benefit to both regulators and market participants alike.

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We support the Reserve Bank taking the initiative to implement the Directions, based on the July 2013 International Organisation of Securities Commissions' Principles for Financial Benchmarks, to regulate the production and distribution of financial benchmarks by administrators in India.

We are taking the opportunity to submit the following comments in respect the requirements detailed in the Directions:

Scope

The Directions state that they do not apply to any benchmark issued by the Reserve Bank in furtherance of public policy objectives. We would request that the definition of public policy objectives is clearly defined as "including measures of employment, economic activity and inflation".

Significant Benchmarks

We would welcome clarification on the characteristics that will be used to identify a benchmark as being "significant". The Directions currently use the broad criteria of use, efficiency and relevance of

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[1] Bank of America Merrill Lynch, Bank of New York Mellon, Barclays, BNP Paribas, Citigroup, Crédit Agricole, Credit Suisse, Deutsche Bank, Goldman Sachs, HSBC, JP Morgan, Lloyds Bank, Mizuho, Morgan Stanley, MUFG Bank, Natwest Markets, Nomura, Royal Bank of Canada, Scotiabank, Société Générale, Standard Chartered Bank, State Street, UBS, Wells Fargo and Westpac.

[2] According to Euromoney league tables.

the benchmark in domestic financial markets which will determined by the Benchmark Committee (the Committee). We would recommend that when considering the significant nature of a benchmark the Committee should also consider whether there would be a material risk of financial contagion, or systemic instability, if the availability or integrity of the benchmark were disrupted.

There are a number of different benchmarks, on which the industry is heavily dependent for hedging as well as valuation purposes, that may not be deemed significant when measured by use, efficiency and relevance alone.

The FX Options Volatility Index - this is polled by Financial Benchmarks India Private Limited ("FBIL") on a daily basis but is not a transactional benchmark. This Index can be used for valuation purposes but cannot be used for pricing purposes as it is only published at 5.45pm. Whilst use of the Index for the valuation purposes is not mandatory, it is used by market participants for internal accounting purposes. As such, we would not consider this to be a significant benchmark.

The Directions state that the Reserve Bank will appoint "any other entity which the Reserve Bank may deem fit" to the Benchmark Committee to identify significant benchmarks. We would request that the Reserve Bank considers appointing industry market participants, as users of the benchmarks, to join the Committee

The Directions state that the Reserve Bank will notify, based on the recommendations of the Committee, a list of significant benchmarks. It would be helpful to the market to understand how this notification will be undertaken and whether an up-to-date publicly accessible register will be maintained.

Significant Benchmarks: Formulation, Determination and Review

The minimum notification period for any amendments to methodology is set at 15 days in the Directions. This is widely considered to be too short. Experience has shown that a much longer notification period is needed because of the modifications a market participant has to undertake in order to implement the change. These modifications include perfecting new multilateral and bilateral agreements with clients, ISDA reviews, client communication, changes to internal systems, migration of existing open trades, fallback mechanisms, documentation and changes to operating procedures and policies.

Therefore, in order to allow sufficient time to operationalise methodology amendments we recommend at least three months as a notification period.

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We greatly appreciate the opportunity to share our views on the Directions. Please do not hesitate to contact John Ball on+ 852 2531 6512, email jball@gfma.org or Matt Chan on +852 2531 6560, email mchan@asifma.org, should you wish to discuss the above.

Yours sincerely,

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