



NSE Bond Futures II

FREQUENTLY ASKED QUESTIONS (FAQS)

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A. PRODUCT

1. Interest Rate Futures (IRF) contract

An Interest Rate Futures contract is "an agreement to buy or sell the value of an underlying debt instrument at a specified future date at a price that is fixed today". Exchange Traded Interest Rate Futures are standardized contracts based on a GOI security. The contract is cash settled.

2. What are different interest rate futures contracts that have been permitted by regulators?

As per circulars issued by regulators (**RBI** and **SEBI**) on December 5, 2013, stock exchange have been permitted to launch interest rate futures contracts on 10 year Gol securities and new tenor bonds guidelines have been issued on June 12, 2015 by **RBI** and **SEBI**:

- **Option-A:** A Gol security of face value Rs. 100 with semi-annual coupon with residual maturity between 4 and 8 years for 5 year tenor bucket, 8 and 11 years for 10 year tenor bucket and 11 and 15 years for 15 year tenor bucket as on the day of expiry of IRF contract
- **Option-B:** A notional coupon bearing 10-year Gol security with a face value of Rs. 100 having a notional coupon paid semi-annually.

For contracts within each maturity bucket, there shall be basket of Government of India Securities, with residual maturity between 4 and 8 years for 5 year tenor, 8 and 11 years for 10 year tenor and 11 and 15 years for 15 year tenor as on the day of expiry of IRF contract, with appropriate weight assigned to each security within the respective basket. Exchanges shall determine criteria for including securities in the basket and determining their weights such as trading volumes in cash market, minimum outstanding etc. Exchange will disclose the criteria for selection of the underlying bond/s in both options of cash settled Interest Rate Futures on 5 year, 10 year and 15 year Government of India security.

3. Which IRF contracts are currently available for trading on NSE?

Currently cash settled interest rate futures contracts based on 5 year, 10 year and 15 year Government of India security are available for trading on NSE.

These are single bond futures contracts and are cash settled.

Tenor	Security	Monthly Expiries	Quarterly Expiries
5 year	8.27% GS 2020	Nov, Dec, Jan	Mar
5 year	7.68% GS 2023	Dec, Jan, Feb	Mar, Jun, Sep
10 year	7.72% GS 2025	Nov, Dec, Jan	Mar, Jun, Sep
10 year	8.40% GS 2024	Nov, Dec, Jan	Mar, Jun
15 year	7.59% GS 2029	Dec, Jan, Feb	Mar, Jun, Sep
15 year	7.88% GS 2030	Nov, Dec, Jan	Mar, Jun, Sep

Note

- Note: New actively traded Gol securities will be added to the respective tenor buckets in consultation with FIMMDA; i.e. multiple bond futures can be traded and listed in each tenor bucket.

4. What is the residual maturity for 5 year, 10 year and 15 year products?

The residual maturity for different tenor buckets are given below:

Product	Residual Maturity
5 year	4 – 8 years
10 year	8 – 11 years
15 year	11 – 15 years

5. What is the size of IRF contracts?

The contract size of IRF is 2000 bonds.

6. Who can trade in exchange traded interest rate derivatives?

The following categories of participants are permitted to trade in NBFII:

- Banks
- Primary Dealers
- Mutual Funds
- Insurance Companies
- Trading Members (Proprietary & Retail)
- Corporates
- NBFC's
- FPI's
- Alternative Investment Funds (Category III)
- Individuals

Note:

- NRIs are not permitted to participate in Interest Rate Futures
- Each category of investors will be governed by specific guidelines issued by their respective regulators with respect to participation in IRFs.

7. Do regulated entities need permission to participate in exchange traded interest rate derivatives?

Regulated entities or agencies falling under the regulatory purview of any other regulator established by law shall not participate in Interest Rate Futures market except with the permission of their respective regulators.

Example: Insurance companies need enabling guidelines from IRDA, the regulatory agency for Insurance companies. Similarly, NBFCs need enabling guidelines from RBI for their participation in exchange traded interest rate derivatives. Both these regulators have provided enabling guidelines.

8. How can institutional investors such as FPIs, Insurance Companies, Mutual Funds trade in NBFII?

Institutional investors can participate in NBFII as clients. They have access to the following:

- Trade through single or multiple trading members
- Direct Market Access (DMA) for trading
- Use the same CP code as is applicable in Equity or Equity Derivatives
- Sign the CM – CP agreement
- Settle trades through a single clearing member
- Colocation facility is available

9. What are the position limits for the contracts for different participants?

Participant	Position Limit per Maturity/Tenor Bucket
Trading Member/ FPI – Category I & II / Mutual Fund AMC / Insurance Companies / Housing Finance Companies / Pension Fund Level	Gross Open Position = Higher of 10% of Total Open Interest or Rs. 600 crores
Client / FPI – Category III / Scheme of Mutual Fund Level	Gross Open Position = Higher of 3% of Total Open Interest or INR 200 crores

Note:

- The above limit can be used to go long or short in the Exchange contracts
- Banks/PDs who are Trading Members of the Exchange, the TM level limit will be applicable. Similarly, Banks/PDs who are participating as client, the client level limit will be applicable.
- Previous days open interest is used for calculating the position limit for participants (Trading Members and Clients)

10. If a tenor bucket has 2 securities X and Y in 10 year bucket, will the position limit be applicable for each security across all contracts or all securities across all contracts?

The position bucket is applicable for each tenor or maturity bucket across all securities and all contracts i.e. the **limit is not separate for each security within the tenor or maturity bucket**.

Example: The 10 year bucket has 8.40% Gol 2024 and 7.72% Gol 2025. The position limit is calculated as follows:

Open Interest for calculation of Position Limits

	Security		
	7.72% GS 2025	8.40% GS 2025	Total
Open Interest (No of Contracts)	180,000	50,000	230,000

Calculation of Position Limits

	Position Limits	Calculated OI	Applicable OI
Client wise	Higher of 3% of OI or Rs. 200 crores	6,900	10,000
Trading Member wise	Higher of 10% of OI or Rs. 600 crores	23,000	30,000

11. If the Open Interest for a particular maturity bucket drops, will the client need to unwind positions only in that maturity bucket or will the client have to unwind positions across maturity buckets?

If the open interest drops in a particular maturity bucket, the client needs to ensure that the positions are within limits specified by the regulators (refer to point 9 above). They will be restricted from taking new long positions in the NBFII contracts. At the time of rollover, the open interest as applicable on previous business day is applicable.

12. Will limits be published per maturity bucket or will they be published across maturity buckets for clients?

The limits will be published per maturity bucket as given below on NSE website:

Instrument	Limit - No of Contracts	Comments
FUTIRC-6	10000	5 year Tenor Bucket
FUTIRC-10	10000	10 year Tenor Bucket
FUTIRC-13	10000	15 year Tenor Bucket

Note:

- Calculated as 3% of OI or Rs. 200 crores, whichever is higher

13. What is the overall exchange level position limit?

At any Exchange, the overall open interest for NBFII (IRF) contracts on each underlying security shall not exceed 25% of the outstanding of underlying bond.

Example: Assume that the total outstanding for 7.72% GS 2025 is Rs. 22,000 crores. The overall exchange level position for NBFII contracts for 772GS2025 on NSE will be Rs. 5500 crores i.e. 275,000 contracts. Beyond this limit, participants will not be able to add new long positions. However, the participants will be allowed only to closeout or unwind their position.

14. Will the exchange level market wide position limit for 7.72% GS 2025 be separate from the 8.40% GS 2024?

Yes, the exchange level market wide position limits will be based on each security total outstanding issuance i.e. separate for each underlying security based on which NBFII contracts are available.

15. Is there a price band applicable for NBFII contracts?

Yes. There is a price band applicable for NBFII contracts traded on the exchange(s). For each IRF contract, the initial price band is set at 3% of the previous closing price thus preventing acceptance of orders for execution that are placed beyond the set band. Whenever a trade in any contract is executed at the highest/lowest price of the band, stock exchanges may expand the price band for that contract by 0.5% in that direction after 30 minutes after taking into account market trend. However, not more than 2 expansions in the price band shall be allowed within a day.

Note:

- SEBI in consultation with RBI may halt the trading in case of extreme volatility in the IRF market.

16. Are spread contracts available between quarterly contracts and monthly contracts?

Currently spread contracts are available for the same symbol across different expiries. However, spread contract across symbol is currently NOT permitted by SEBI.

17. What are the margins applicable for permitted spread contracts?

The margins that are applicable for spread trading are as follows:

Spread contract	Margin on Spread Contracts
1 month	Rs. 1500
2 month	Rs. 1800
3 month	Rs. 2100
Spread of more than 3 months	Rs. 3000

18. What are acceptable forms of margins?

The acceptable forms of margins to be provided by clearing members are given below:

- Cash
- Bank Guarantee
- Fixed Deposit Receipts
- Approved Securities
- Government Securities

NSE periodically updates the list of approved securities accepted as margin on its website.

19. How is closing price computed?

The logic used for calculating the Closing Price is given below:

- Trades in last half an hour - In this case the Closing Price is volume weighted average price for the last half hour trades in the futures contracts.
- No trades in last half an hour - In this case the Closing Price is the Last Trade Price in the futures contract.

20. How is the Daily Settlement Price Computed?

Just to add more clarity, Exchange / Clearing Corporation uses the Daily Settlement Price (DSP) for daily mark-to-market (MTM). The DSP is calculated as given below:

- Trades in last half an hour - In this case the Daily Settlement Price is volume weighted average price for the last half hour trades in the futures contracts.
- No trades in last half an hour - In this case the Daily Settlement Price is the theoretical price for the futures contract.

21. Is Daily Settlement Price (DSP) same as the Closing Price?

DSP and Closing Price are one and the same if there are trades in last half hour. If there are no trades in last half hour then the Closing Price is LTP whereas it is the theoretical price for the DSP.

22. How is Final Settlement Price (FSP) calculated?

The final settlement price is calculated using the volume weighted average price of the underlying bond based on the prices during the last two hours of the trading on CCIL NDS-OM platform. If less than 5 trades are executed in the underlying bond during the last two hours of trading, then FIMMDA price is used to calculate the theoretical final settlement price.

Note:

- OTC reported deals are not included in the calculation of the final settlement price.

B. BANKS / PRIMARY DEALERS

[Refer to Product Information](#)

23. Are Banks and Primary Dealers allowed to participate in IRF?

As per RBI Notification [RBI/2013-14/410 IDMD.PCD.09 /14.03.01/2013-14](#) dated December 19, 2013, commercial banks and stand-alone primary dealers are permitted to participate in IRF both for the purpose of **hedging the risk in the underlying investment portfolio and also to take trading positions**. However, commercial banks and stand-alone primary dealers are not allowed to undertake transactions in IRFs on behalf of clients.

24. What are position limits applicable for banks participating as trading members of the exchange in IRF?

Gross Open Position = Higher of 10% of Total Open Interest or Rs. 600 crores per maturity bucket

25. If a bank is participating in exchange traded interest rate futures as a client what will be the position limit?

Gross Open Position = Higher of 3% of Total Open Interest or Rs. 200 crores per maturity bucket

26. Are Urban Cooperative Banks allowed to participate in interest rate futures market?

Currently, Urban Cooperative Banks, Regional Rural Banks, LABs have not been permitted by RBI to participate in the interest rate futures market.

27. Is there any criteria applicable for banks and primary dealers for their participation in interest rate futures market?

No specific criteria have been laid down by the Reserve Bank of India for permitting banks to participate in exchange traded interest rate futures, specific guidelines have been appended in Point 22 above.

However currently, Urban Cooperative Banks, Regional Rural Banks, Local Area Banks (LABs) have not been permitted to participate in the interest rate futures market.

C. MUTUAL FUNDS

[Refer to Product Information](#)

28. Are Mutual Funds allowed to participate in IRF?

According to SEBI Circular [SEBI/MFD/CIR No. 03/ 158 /03](#) dated June 10, 2003, Mutual Funds can use [interest rate derivatives to manage risk and rebalance portfolios](#). It has also been clarified that [Mutual Funds can trade in these instruments](#) subject to disclosures made in the offer documents.

29. What is the cumulative gross exposure limits permitted for Mutual Funds participating in IRF?

The cumulative gross exposure through equity, debt and derivative positions should not exceed 100% of the net assets of the scheme as per [SEBI](#) circular.

30. What is considered to be hedging for Mutual Funds?

Hedging positions are the derivative positions that reduce possible losses on an existing position in securities and till the existing position remains. Any derivative instrument used to hedge has the same underlying security as the existing position being hedged.

31. Can Mutual Funds use duration based hedging using IRF?

There is a lack of clarity today regarding duration based hedging being allowed for Mutual Funds.

32. Does a scheme of mutual funds need to have same underlying security to consider the short position in IRF as a hedge?

Yes. The scheme of mutual fund needs to have same underlying security in their portfolio to consider the short position in IRF as a hedge.

Eg.: A scheme of mutual fund have 10,000 bonds of 7.72% GS 2025 in its portfolio. Hence a short position of 50 contracts (50*2000) will be considered as a hedge position.

33. Can a hedge position in IRF be over and above the net assets of the scheme?

Yes. A hedge position in IRF can be over and above the net assets of the scheme provided the scheme have the same underlying security in the portfolio.

D.NBFC

[Refer to Product Information](#)

34. Can NBFCs become Trading Members of exchange for participating in exchange traded interest rate derivatives?

RBI has issued a notification [RBI/2014-15/173 DNBS.CC.PD.No.406/03.10.01/2014-15](#) dated August 12, 2014 permitting non-deposit taking NBFCs with asset size of Rs. 1000 crore and above to participate in the interest rate futures market permitted on recognized stock exchanges as trading members, subject to RBI/ SEBI guidelines.

35. What has been permitted for NBFCs as Trading Members of exchange?

NBFC participating **as a trading member is permitted to execute their proprietary trades and not to undertake transactions on behalf of clients** i.e. they can use interest rate futures for both hedging and trading on their own account and not on client's account.

36. Can NBFCs participate in exchange traded interest rate futures?

According to the master circular [RBI/2015-16/107 DNBR \(PD\) CC.No.056/03.10.119/2015-16](#) dated 01 July 2015, NBFCs are allowed to participate in the exchange traded interest rate futures as **clients** for the **purpose of hedging their underlying exposures**.

37. Can NBFCs use exchange traded interest rate futures for duration based hedging?

IRF may be used to hedge interest rate risk associated with single asset/ liability or a group of assets/ liabilities. Hence, **NBFCs are permitted to use duration based hedging for managing interest rate risk**.

E. INSURANCE COMPANIES

[Refer to Product Information](#)

38. Can insurance companies participate in exchange traded interest rate derivatives?

Insurance companies are regulated by IRDA. IRDA vide its circular [IRDA/F&I/INV/CIR/138/06/2014](#) dated June 11, 2014, has allowed insurance companies to deal as a client in Exchange Traded Interest Rate Futures.

39. What has been permitted for insurance companies for participating in exchange traded interest futures?

Insurers can use interest rate futures contracts **for hedging their forecasted transactions only**. The forecasted transactions include:

- Reinvestment of maturity/redemption proceeds of existing fixed income investments
- Investment of interest income receivable
- Expected policy premium income receivable on the Insurance Contracts which are already underwritten in Life and Pension & Annuity business in case of Life Insurers and General Insurance business in case of General Insurers.

Note:

- The main purpose of using derivatives by insurance companies must be for hedging purposes only to reduce the interest rate risk in the company. The insurance company is required to demonstrate that this principle has been adhered to.

40. Can insurance companies go short in exchange traded interest futures?

As insurance companies have been permitted to use exchange traded interest rate futures for hedging their forecasted transactions only, they can go long i.e. buy IRF contracts and sell to close out existing positions. They cannot go net short.

F. CORPORATES

[Refer to Product Information](#)

41. How can corporates participate in interest rate futures market?

Corporates are allowed to participate as clients in the interest rate futures market. They can use interest rate futures contracts for hedging their interest rate risk on both assets as well as liabilities side.

42. Are corporates eligible for DMA?

Direct Market Access (DMA) is currently permitted only for institutional clients as per SEBI circular. Corporates are not eligible under SEBI guidelines to have DMA access.

43. Can corporates get a CP Code?

Corporates can apply for a Custodial Participant (CP) Code for participation in the interest rate futures market.

G.FOREIGN PORTFOLIO INVESTORS (FPI)

[Refer to Product Information](#)

44. What is the revised country limit for investment by FPIs in Govt debt securities?

In accordance with the revised Medium Term Framework (MTF) for FPI limits in Government securities issued vide RBI Notification [RBI/2015-16/198 A.P. \(DIR Series\) Circular No 19](#) dated October 6, 2015, the main features are:

- The limits for FPI investment in debt securities will be announced / fixed in Rupee terms.
- The limits for FPI investment in the Central Government securities will be increased in phases to reach 5 per cent of the outstanding stock by March 2018. In aggregate terms, this is expected to open up room for additional investment of Rs. 1,200 billion in the limit for Central Government securities by March 2018 over and above the existing limit of Rs. 1,535 billion for all Government securities.
- There is a separate limit for investment by all FPIs in the State Development Loans (SDLs), to be increased in phases to reach 2 per cent of the outstanding stock by March 2018. This would amount to an additional limit of about Rs. 500 billion by March 2018.
- The effective increase in limits for the following two quarters will be announced every half year in March and September.
- The existing requirement of investments being made in G-sec (including SDLs) with a minimum residual maturity of three years will continue to apply to all categories of FPIs.
- Aggregate FPI investments in any Central Government security would be capped at 20% of the outstanding stock of the security. Investments at existing levels in the securities over this limit may continue but not get replenished through fresh purchases by FPIs unless these fall below 20%.

For the current financial year (2015-16), it has been decided to enhance the limit for investment by FPIs in Government Securities in two tranches from October 12, 2015 and January 1, 2016 respectively as under:

	Amounts in Rs. Crores				
	For all FPIs	Additional for Long Term FPIs	Total	For all FPIs (including Long Term FPIs)	Aggregate
Existing Limits	1244	291	1535	Nil	1535
Revised limits with effect from October 12, 2015	1299	366	1665	35	1700
Revised limits with effect from January 1, 2016	1354	441	1795	70	1865

45. Where can an FPI monitor daily investment limits in Govt Securities and debt securities?

Depositories publish on daily basis at day-end the [FPI investment in Government of India Securities](#).

46. What happens when the utilization of FPI investment limit in Gov Securities reaches 90%?

If the overall **FPI investment in Gov** securities exceeds 90% the following procedure is being followed:

- The depositories shall direct the DDPs to halt all FPI purchases in debt securities in that category
- The depositories inform NSE and other exchange regarding the unutilised debt limits for conduct of auction. Upon receipt of information from the depositories, NSE shall conduct an auction for the allocation of unutilised debt limits on the second working day. Every alternate auction is conducted on NSE and other exchange
- The auction is conducted only if the free limit is greater than or equal to INR 100 cr.

47. What is the process for auction of unutilized debt limit?

The process for participating in auction to purchase limit for investment in Gov securities is given below:

Particulars Details	Particulars Details
Duration of bidding	2 hours (15:30 to 17:30 hrs)
Access to platform	Trading members or custodians
Minimum bid	INR 1 crore
Maximum bid	One-tenth of free limit being auctioned
Tick Size	INR 1 crore
Allocation Methodology	Price time priority
Pricing of bid	Minimum flat fee of INR 1000 or bid price whichever higher
Time period for utilization of the limits	15 days from the date of allocation

48. Can FPI use the auctioned limit for taking long positions in IRF?

Currently, FPI cannot use the auctioned limit to take long positions in IRF.

49. If there is a redemption or sale of Gov securities by FPI, can they use this to take long positions in IRF?

Currently, FPI cannot use the limit available due to redemption or sale of Gov security to take long positions in IRF.

50. How are the position limits for FPI's monitored in Gov Securities and IRF?

The security-wise limit for FPI investments will be monitored on a day-end basis. If the aggregate investment by FPIs in central government security and related IRF long positions by FPIs exceeds the prescribed threshold of 20% and those Central Government securities in which the threshold of 20% is reached will be put in a negative investment list. No fresh investments by FPIs or long positions in these securities will be permitted unless the security is removed from the negative list. However, there will be no security-wise limit for SDLs for now.

All other existing conditions, including investment of coupons being permitted outside the limits and investments being restricted to securities with a minimum residual maturity of three years, will continue to apply.

51. Can a FPI take a long position in IRF if the utilization of investment limit in Gov Securities reaches 90%?

As per the current [SEBI guidelines](#), FPI cannot take new long positions in IRF contracts if the limit utilization in Gov securities is greater than or equal to 90%. They are permitted to take long position only if the utilization of limits for investment in Gov Securities falls below 85%.

52. What is the gross short position limit for FPIs?

The total gross short position for each FPI in IRF cannot exceed its long position in the government securities and long positions in Interest Rate Futures, at any point in time. The total gross long (bought) position in cash (Gov Securities) and IRF markets taken together for all FPIs cannot exceed the aggregate permissible limit for investment in government securities for FPIs.

Note:

- FPI will also need to adhere to the applicable position limits as mentioned in point 9.

53. Can FPIs take short position in IRF?

Yes. FPIs are allowed to take short position in IRF. The total gross short position for each FPI cannot exceed their total long position in IRF plus its investments in government securities.

54. Can FPIs rollover their short positions in IRF?

Yes. FPIs are allowed to rollover their short positions in IRF. The following options are permissible for FPIs when they rollover their short position:

- Rollover
 - Use the spread order book to rollover the short position i.e. it will close out the short position through a Buy of Near Month and Sell of Mid Month / Next Month in one order.
- Let it expire
 - In this case, the short position on Settlement Date will be closed out at Final Settlement Price (Weighted Avg Price using CCIL NDS OM prices for last 2 hours) and then open a fresh short position for Next Month.
- Close out –
 - Close out the Near Month short position through a Buy of Near Month and open a fresh short position for Next Month.

All these options are permissible and will not be an issue for FPIs. Whether to use Option 1 or Option 2 or Option 3 depends on your interest rate view. In Option 1, the margin payable for one day is the spread contract margin and not the regular margin as indicated in Point 16.

55. Who is responsible for breach of FPI position limits in IRF?

The onus of ensuring compliance of position limits is with the FPI.

H. ALTERNATIVE INVESTMENT FUNDS (AIF)

[Refer to Product Information](#)

56. Can AIF participate in exchange traded interest rate futures market?

As per [SEBI Regulations](#), only **Category III Alternative Investment Funds (AIF)** are allowed to **invest in** securities of listed or unlisted investee companies or **derivatives** or complex or structured products.

Category III Alternative Investment Funds are allowed to engage in leverage or borrow subject to consent from the investors in the fund and subject to a maximum limit, as may be specified by the Board:

- Provided that such funds shall disclose information regarding the overall level of leverage employed, the level of leverage arising from borrowing of cash, the level of leverage arising from position held in derivatives or in any complex product and the main source of leverage in their fund to the investors and to the Board periodically, as may be specified by the Board.