

IM Norms finalized

Read on if you have also been waiting for the requirements for initial margin ("**IM**") in India to be released and want a snapshot of it...

As you may be aware, the final <u>directions on IM</u> were released on 8th May 2024¹. Please see our <u>FYI</u> in this regard.

Key features of IM

1) Applicability:

- (a) Applicable transactions -
 - (i) Transactions entered into on or after 8th November 2024.
 - (ii) Where both parties are 'Covered Entities'.

(b) Not applicable -

- (i) Transactions entered into before 8th November 2024 and any genuine amendments made to such transactions. T&Cs apply!
- (ii) Certain types of entities such as the RBI (being the Central Bank) and other sovereign entities.
- (iii) Intra-group transactions.

2) Covered Entities:

- (a) <u>Domestic Covered Entities:</u> Regulated entities² with an AANA³ of outstanding NCCDs of INR 600 billion and above on a consolidated group wide basis.
- (b) <u>Foreign Covered Entities:</u> Non-resident entities with an AANA of outstanding NCCDs of USD 8 billion and above on a consolidated group wide basis.

3) Eligible Collateral:

Domestic Covered Entities

Indian currency ("INR")

Government (including state government) debt securities

Freely convertible foreign currency

Debt securities issued by a foreign central government with a credit rating of at least AA- by S&P Global /Fitch Ratings or Aa3 by Moody's Investor Service

¹ Effective from 8th November 2024. When in effect, it will replace the current VM Norms.

² Entities in India regulated by the Reserve Bank of India ,the Securities and Exchange Board of India, the Insurance Regulatory and Development Authority or the Pension Fund Regulatory and Development Authority.

³ Average Aggregate Notional Amount.



4) Substituted Compliance permitted for Transaction between:

- (a) Domestic Covered Entity and Foreign Covered Entity; and
- (b) Two Domestic Covered Entities wherein at least one of the parties is a branch of a foreign bank.
- 5) Margin for Derivatives Contracts circular to be complied with for transactions between Domestic Covered Entity and Foreign Covered Entity.

6) Collateral Service Providers:

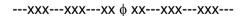
- (a) Akin to a third party custodian;
- (b) Covered Entities are allowed to use the services of offshore collateral service providers when posting collateral outside India;
- (c) CCIL and Scheduled Commercial banks can offer such services when collateral in posted in India;
- (d) Covered Entities need to satisfy themselves on the ability of these service providers to **safeguard** their IM; and
- (e) In case of an offshore collateral service provider, Covered Entities need to satisfy themselves that it is duly authorized to provide such services, in terms of the regulations of such offshore jurisdiction.

7) <u>Miscellaneous:</u>

- (a) Segregation of IM to be maintained;
- (b) IM shall not be re-hypothecated, re-pledged or re-used or used as margin or guarantee. IM collected in cash may be re-invested in eligible collateral for Transactions (subject to prior written consent of posting party):
- (c) Collective MTA⁴ (VM and IM) ≤ INR 45 million, and
- (d) If a Covered Entity ceases to be a Covered Entity, it may choose to not exchange margin for Transactions from the date on which it ceases to be recognised as a Covered Entity.

8) What next?

- (a) Market participants need to have systems in place to exchange IM.
- (b) All eyes are on CCIL now to see what rules they come up with for offering the services of collateral service providers.



-

⁴ Minimum transfer amount.



About Juris Corp

Founded in 2000, Juris Corp is a law firm adding value in Foreign Investments into India, Banking, Securities, Derivatives, Corporate Commercial, Joint Ventures, M&A Private Equity, Real Estate, Dispute Resolution and International Arbitration, Bankruptcy and Restructuring.

Firms' Objective

Provide unbiased and unmatched legal services in our areas of practice. Be the Preferred Law Firm for our clients and take that relationship forward by becoming more than a legal advisor: Being their business advisors.

Accolades And Recognition

Juris Corp has been consistently ranked in the top tiers over the years in Banking & Finance, Capital Markets, Corporate M&A, Dispute Resolution, Foreign Direct Investment, Real Estate, Private Equity, Securitisation & Structured Finance and Taxation by several institutions.

Contact us: MUMBAI OFFICES Corporate Office

302, Century Bhavan, 3rd Floor Dr Annie Besant Road, Worli, **Mumbai** - 400 030, India

Tel: +91 22 6720 5555

Dispute Resolution Office

148, Jolly Maker Chamber II, 14th Floor, Nariman Point, **Mumbai** - 400 021, India

Tel.: +91 22 4920 5555

Follow us on





Visit us at: http://www.juriscorp.in for more information.

DISCLAIMER:

This material and its contents are intended to provide general information on the topic covered herein and it shall, in no way, be treated as an exhaustive or comprehensive treatment of the subject scoped herein or as an advertisement about Juris Corp or any of its lawyers. Any graphics, images etc. used in this material is for informational purposes only and not as advertisement, promotions etc. of any organisations or institution. Further, this article and its contents in any of its form including facts specified, opinions expressed, views given etc. shall not be construed as a legal opinion of the author or that of Juris Corp ("the firm") directly or indirectly. The reader of this article must exercise due caution while using the contents of this article for any of their personal purposes such as, business implication, personal finances, investment decisions, reproduction of this article in any of the forum(s), circulating this article within the user group(s), publication of this article in any form or manner etc. It is strongly asserted herein that, if this article creates any financial / legal implication to the reader or user of this article, a formal opinion from a qualified professional be sought. The author(s) and the firm hereby expressly disclaims any and all claims, losses, damages, adversity in any of its form whether financial or otherwise arising to the reader or user of this article.

DELHI OFFICE

502, 504 & 506, 5th Floor, Antriksh Bhawan, Kasturba Gandhi Marg,

New Delhi - 110 001, India Tel: +91 011 40144100

Fax: +91 11 4014 4122