

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 [directions on IM](#) were released on 8th May 2024¹. Please see our [FYI](#) 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) Domestic Covered Entities: Regulated entities² with an AANA³ of outstanding NCCDs of INR 600 billion and above on a consolidated group wide basis.
- (b) Foreign Covered Entities: 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	Foreign 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 is 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) **Miscellaneous:**
 - (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.

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⁴ Minimum transfer amount.

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