

# Update

## RBI's Guidelines on Credit Default Swaps for Corporate Bonds and deferral thereof

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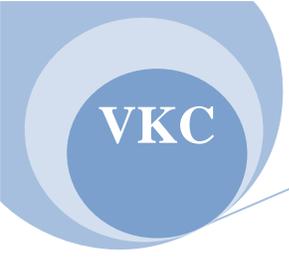
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## *Update*

- **Other operational issues –**
  - CDS contract is irrevocable except in circumstances of protection buyer defaulting under the terms of the contract and CDS contracts should be a direct claim on the protection seller and the protection seller shall not have a recourse to the protection buyer for credit event losses.
  - Settlement methodologies for the CDS transactions shall be determined upfront and would be determined in the CDS documentation and for transactions involving users physical settlement would be mandantory.
  - The protection sellers will have limits on the exposure in single entities and aggregate of individual gross position in relation to their capital funds.

The idea of introducing CDS for corporate bonds is to provide a tool for redistribution of risk. CDSs enhance investments and borrowing opportunities, reducing transaction cost, hiving credit risk so as to increase the interest of the investors' in corporate bonds that would lead to the development of the corporate bond market in India.

The text of the guidelines is available [here](#).

However, in order to welcome these guidelines, one needs adequate infrastructure. It is important to state that there were several clarifications required by the market participants on various elements like establishment of a trade repository, documentation procedures, standardized contracts and publication of necessary statistical data like CDS curve for the purpose of valuation, and operational aspects. Therefore, though the statutory body came up with something which was in for enhancement of investment and borrowing opportunities and for reducing transaction costs but seems that there was much of haste involved because of which such criteria and elements were left unanswered . Keeping all these factors in view, RBI has now decided to defer the implementation of the guidelines till the end of November, 2011. However, the exact date has not been notified as yet. The decision was intimated by the Notification no. RBI/2011-12/228 IDMD.PCD.No. 12/14.03.04/2011-12 dated October 20, 2011. The text of the Notification is available at the given link:

<http://www.rbi.org.in/scripts/NotificationUser.aspx?Id=6769&Mode=0>

**For a comprehensive primer on Credit Derivatives click here:**

<http://www.credit-deriv.com/introduction%20to%20credit%20derivatives%20article%20by%20Vinod%20Kothari.pdf>

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