PRESS RELEASE

IFSCA notifies Qualified Financial Contracts under the Bilateral Netting of Qualified Financial Contracts Act, 2020

IFSCA today notified "Qualified Financial Contracts" under the Bilateral Netting of Qualified Financial Contracts Act, 2020 (BNQFC)

Netting enables two counterparties in a bilateral financial contract to offset claims against each other to determine a single net payment obligation due from one counterparty to other. The legal framework for enforceability of netting laid down by the BNQFC Act aims to reduce credit exposure of banks and other financial institutions from gross to net exposure, resulting in substantial capital saving on such exposure and reducing the overall systemic risks, thereby contributing to the financial stability.

The Act delegates to the respective regulatory authorities the power to designate, by notification, any bilateral agreement or contract or transaction or type of contract regulated by it as "qualified financial contract" and specify any entity regulated by it as a "qualified financial market participant" to deal in such contract. IFSCA has been designated as one of the relevant authorities under the Act.

IFSCA has notified a wide and inclusive definition of "qualified financial contract". Moreover, since many of the OTC derivatives contracts and other financial transactions are entered into on the basis of standard documentation like International Swaps and Derivatives Association (ISDA) master agreement, such agreements too have been included in the definition of the term "qualified financial contract". The term "qualified financial market participant", as defined in the Act, already includes all financial institutions established at IFSCs and therefore has not been separately defined in the notification.

Along with the other advantages offered by IFSC for trading in OTC derivatives, the above dispensation is expected to further facilitate the goal of IFSC as a hub for offshore trading in INR derivatives.

Gandhinagar

February 5, 2021