

Financial Benchmarks India Pvt. Ltd
Benchmark Administration Control Framework

18th April, 2018

Version 1

Background:

Financial Benchmarks India Pvt. Ltd (FBIL) is set up as an independent company jointly promoted by FIMMDA, FEDAI and IBA to administer financial benchmarks in India in the area of interest rates and foreign exchange rates. It was incorporated on 14th December 2014 under the Companies Act 2013. FBIL is regulated by Reserve Bank of India, the central bank of the country, for the activities of administering specific benchmarks.

1.2 Financial benchmarks are indices, values and reference rates used for the purpose of pricing, settlement and valuation of various financial assets/contracts. Financial benchmarks play a very critical role in promoting efficient and transparent financial markets.

1.3 FBIL is currently announcing benchmarks for Overnight MIBOR, CD curve, T-Bill curve, MROR, Forward Premia Curve and MIFOR Curve on a daily basis based on the traded data. It is also announcing benchmarks for term MIBOR and FC-Rupee Options Volatility Matrix based on submissions by submitting entities. The FBIL has identified and prepared a list of Submitters for rate submissions using an automated platform. Currently CCIL is the Calculating Agent (CA) for all these benchmarks.

1.4 The main objectives of FBIL pertaining to Benchmark Administration are as under:

- i. To act as administrator of Rupee interest rate and foreign exchange benchmarks and any other benchmarks.
- ii. To be responsible for all the aspects of benchmark determination process including development of benchmark setting methodology, transparent disclosure of benchmark setting methodology, and setting up oversight and accountability system for the benchmark determination process.
- iii. To introduce and implement policies and procedures to handle the benchmarks.
- iv. To take up/consider such other benchmark as may be required from time to time.

v. To periodically assess the needs of the end users and develop new benchmarks to cater to their business needs.

vi. To ensure that the benchmarks continue to reflect the underlying interests.

1.5 The time of publication of each benchmark is indicated in the respective methodology document. The benchmarks are being published by uploading the data daily on the FBIL website.

2. Governance:

2.1 The Board of FBIL is the Governing body responsible for all the strategic decisions of the company and oversees its benchmark administration activity. The Board can have maximum 15 members. Currently the Board has six Directors out of which 3 Directors represent the promoter's organizations. All the Directors are experts drawn from the field of banking, treasury management and financial market. The profile of the Board of Directors is placed on the FBIL website.

2.2 The Board members are required to submit adherence to FBIL's Conflicts of Interest policy.

2.3 Oversight Committee:

The FBIL has constituted an Oversight Committee (OC) comprising of members drawn from various segments such as banks, PDs, academics, corporate user groups, calculating agent and regulator having expertise in the field of interest rates and foreign exchange. The members are selected for three year tenure and can be re-appointed with the approval of the Board. The selection criterion for the members of the OC has been placed on the FBIL website. The profile of the members of the OC is also placed on the FBIL website.

2.4 The OC members are required to submit adherence to FBIL's Conflicts of Interest policy. OC members selected from the submitters' entity, will provide a declaration to the effect that they are not involved in the submission process.

2.5 The OC is responsible for the following activities:

- a) Periodic review of the definition and setting methodology of the Benchmarks.
- b) Establishing appropriate system to gather information about the issues and risks involved with the Benchmarks.

- c) Reviewing and overseeing of any changes to the Benchmark setting methodology and assessing whether the changed methodology continues to appropriately reflect the underlying interest.
- d) Overseeing the management and operation of the Benchmarks including the activities undertaken by a third party involved in Benchmark determination.
- e) Ensuring that the expert judgment if any, by the Benchmark Administrator is as per the laid down policies.
- f) Following up for implementation of the remedial actions recommended in the audit report.
- g) Following up on the whistleblowing report submitted by the Whistleblowing officer.

2.6 Oversight function in case of benchmarks determined based on submission:

Overseeing the compliance by the Submitters to the Code of Conduct and instituting an effective system to address breach of the Code of Conduct by Submitters. The oversight shall be carried out through offsite monitoring by way of periodic returns.

3. Benchmark setting Process:

- i. FBIL has set up a benchmark consultation process with market participants wherein the methodology for each benchmark is discussed threadbare before its recommendation by the OC and adoption by the Board of FBIL. The methodology document is also sent to the regulator for vetting. All the methodology documents are placed on the website of FBIL.
- ii. FBIL has outsourced the calculation agency function of some of the benchmarks to CCIL which is a significant financial market infrastructure in the country and is regulated by Reserve Bank of India. The Benchmark Administrator- Calculation Agent Agreements (the BA-CA agreement) entered into with CCIL sets out the rights, liabilities and Force Majeure for each party in respect of each benchmark.
- iii. FBIL has engaged the services of professional audit agency to audit the calculation activities and the monthly reports are discussed in the OC and the Board.

4. Fall-back mechanism:

A fall back mechanism has been documented as a part of the methodology/ technical document for computation of each benchmark to address a situation where the benchmark is not published as per the set timelines and the same has been hosted on the FBIL website.

5. Submitters Code of Conduct. FBIL publishes certain benchmarks based on submission by identified submitters. The submitters are required to adhere to the FBIL Uniform Code of Conduct and submit compliance report on half-yearly intervals.

The Uniform Code of Conduct for submitters has been prepared with the objective:

- a) To provide guidance to the contributing entities for the rate submission process.
- b) To promote discipline amongst the participants of the rate submission process.
- c) To strengthen internal control in the rate submission process.
- d) To increase transparency in the benchmark determination process.
- e) To foster confidence in the benchmark setting framework.

The Submitters Code of Conduct is subject to periodic review and has been placed on the FBIL website.

6. Conflicts of Interest Policy:

The policy provides guidance to all the parties involved in the benchmark setting process including FBIL as the benchmark administrator for identifying, avoiding, managing and disclosing conflicts of interest that may arise in the determination, calculation, publication and distribution of benchmarks. The policy has been placed on the FBIL website.

7. Complaints Policy:

FBIL has formulated a Complaints policy with a view to enabling any person to submit to the FBIL (anonymously as well if so desired) complaints about any aspects of benchmark determination, calculation, publication and distribution of all benchmarks. The policy has been placed on the FBIL website.

8. Whistleblower mechanism:

FBIL has put in place a whistleblowing policy. Any person can submit whistleblowing report if that person is aware of any suspicious and/ or potentially manipulative activities that could affect the integrity of any aspects of the benchmark administration. One of the Directors of the Board is the

designated whistleblowing officer. The Whistleblowing policy has been placed on the FBIL website.

9. Business Continuity Plan:

FBIL, being a critical financial market infrastructure is aware that disruption in its benchmark publication activity will create difficulty for the stakeholders in providing a reference price or rate for use in financial contract or valuation of such contract. It has put in place a business continuity plan / contingency plan to manage contingencies arising out of disruptions in services involving various agencies including FBIL engaged in the rate setting process. The document has been placed on the FBIL website.

10. Record Keeping:

The FBIL has formulated a document retention policy in terms of which FBIL may retain all records relating to benchmark determination, including market data, /submissions/ any other data / expert judgment relied upon for benchmark determination, changes in methodologies, declaration of conflicts of interest, findings of internal/external audits and remedial action taken thereof, for the period as mentioned in the policy. The Document Retention Policy is placed on the FBIL website.
