

RBI implements Bhaskar panel recommendations

The Reserve Bank of India (RBI) has asked the Fixed Income Money Market and Derivatives Association of India (FIMMDA) and the Foreign Exchange Dealers' Association of India (FEDAI) to act as administrators of the Indian rupee interest rate and foreign exchange benchmarks.

“To overcome the possible conflicts of interest in the benchmark setting process arising out of the current governance structure of the FIMMDA and FEDAI, an independent body, either separately or jointly, may be formed by FIMMDA and FEDAI for administration of the benchmarks,” said RBI.

In the case of benchmarks based on polled submissions, FIMMDA and FEDAI may select the benchmark submitters on the basis of their standing, market share in the benchmark/instrument linked to the benchmark and representative character. And, may put in place a code of conduct specifying various provisions, including hierarchy of data inputs for submissions as recommended by an earlier committee, said RBI. This committee on financial benchmarks was chaired by P Vijaya Bhaskar, executive director of RBI, and the central bank accepted the recommendations.

KEY POINTS

The benchmark submitters have to necessarily participate in the polling process and comply with various provisions specified in the code of conduct

They have to put in place an effective conflict of interest policy facilitating identification of potential and actual conflicts of interest

They also have to establish an effective whistleblowing policy to facilitate early detection of any potential misconduct in benchmark data presentations

Benchmark submissions are subject to periodic internal audit and, where appropriate, to external audit

RBI has asked for submissions by way of written communications or through robust contribution devices which leave an audit trail, to eliminate possibilities of error

RBI says the benchmark submitters selected by the administrator have to necessarily participate in the polling process and comply with the various provisions specified in the code of conduct. “The benchmark submitters may put in place an internal board-approved policy on governance of the benchmark submission process. The policy may ensure that clearly accountable personnel at appropriate senior positions, with requisite knowledge and expertise, are responsible for benchmark submissions,” said RBI.

It has asked these benchmark submitters to put in place an effective conflict of interest policy, which facilitates identification of potential and actual conflicts of interest with respect to benchmark submissions and lays down procedures to be followed for management, mitigation or avoidance of such conflicts. According to RBI, they may establish a maker-checker system to ensure integrity.

These benchmark submitters have also been asked by RBI to establish an effective whistleblowing policy to facilitate early detection of any potential misconduct or irregularities in the benchmark data presentations. RBI also asked them to have the benchmark submissions subject to periodic internal audit and, where appropriate, to external audit.

Besides, RBI asked for submissions by way of written communications or through robust contribution devices which leave an audit trail, to eliminate possibilities of error.

(Business Standard)