## Draft Guidelines on Repo in Corporate Debt Securities

The Mid-Term Review of the Annual Policy for the year 2007-08 had indicated that the Reserve Bank will permit market repo in corporate bonds once the corporate debt market develops and the Reserve Bank is assured of the availability of fair prices, and an efficient and safe settlement system based on delivery *versus* payment (DvP) III and Straight Through Processing (STP) is in place. In pursuance thereof, as indicated in the Annual Policy Statement for the year 2009-10, the Reserve Bank of India, in consultation with SEBI, has permitted the clearing houses of the exchanges to have a transitory pooling account facility with the Reserve Bank for facilitating settlement of OTC corporate bond transactions on a DvP-I basis (*i.e.*, on a trade-by-trade basis). Under the proposed settlement mechanism, the buyer of securities will transfer the funds through his bank to this transitory account through RTGS. The clearing house will thereafter transfer the securities from the seller's account to the buyer's account and effect the release of funds from the transitory account to the seller's account.

2. With the necessary system being in place to ensure settlement of trades in corporate bonds on a DvP 1 basis and STP, the Reserve Bank of India has formulated, in consultation with the market participants, guidelines on repo transactions in corporate debt securities, which are given below:

**i. Eligible securities for repo in corporate bonds**

a. To begin with, only <u>listed</u> corporate debt securities which are rated 'AA' or above are permitted as underlying for repos.
b. Repo shall be done using only securities that are already lying in the security account of the repo seller.
c. Commercial Papers (CPs), Certificate of Deposits (CDs) and other instruments including NCDs of less than one year of residual/original maturity, are <u>not</u> eligible securities for undertaking repo

For the purpose of repo transactions, corporate debt securities shall cover ***non-convertible debt securities, which create or acknowledge indebtedness, and include debenture, bonds and such other securities of a body corporate or any***

***statutory body constituted by virtue of a legislation, whether constituting a charge on the assets of the body corporate or not, but excludes bonds issued by Government or such other bodies as may be specified by the Reserve Bank, security receipts and securitized debt instruments***.

ii. **Eligible Participants**

The following regulated entities are permitted to undertake repo transactions in corporate debt securities:

a. Any scheduled commercial bank excluding RRBs & LABs;
b. Any Primary Dealer authorised by the Reserve Bank of India;
c. Any non-banking financial company registered with the Reserve Bank of India (other than Government companies as defined in section 617 of the Companies Act, 1956);
d. All-India Financial Institutions namely Exim Bank, NABARD, NHB and SIDBI;
e. Other regulated entities, subject to the approval of the regulators concerned, viz.,
    i. Any mutual fund registered with the Securities and Exchange Board of India;
    ii. Any housing finance company registered with the National Housing Bank; and
    iii. Any insurance company registered with the Insurance Regulatory and Development Authority
f. Any other entity specifically permitted by the Reserve Bank

iii. **Tenor**

Repos in corporate debt securities will be permitted for a minimum period of one day and a maximum period of 1 year

**iv. Trading**

Trading in repo in corporate debt securities shall be on OTC basis**.**

v. **Reporting of Trades**

a. All repo trades are to be reported within 15 minutes of the trade on the FIMMDA reporting platform.
b. The trades shall also be reported to any of the clearing houses of the exchanges for clearing and settlement.

vi. **Settlement of trades**

a. All repo trades in corporate debt securities shall settle either on a T+1 basis or a T+2 basis under DvP I (gross basis) framework in a non-guaranteed manner.
b. Repo transactions in corporate debt securities shall settle in the same manner as outright OTC trades in corporate debt securities.
c. On the date of reversal of repo trades, the clearing houses shall compute the obligations of the parties and facilitate settlement on DvP basis.

vii. **Prohibition on sale of repoed security**

The security acquired under repo should not be sold by the repo buyer (lender of the funds) during the period of repo.

viii. **Margining**

A haircut of 25 %(or higher as maybe decided by the participants depending on the term of the repo) shall be applicable on the market value of the corporate debt security prevailing on the date of trade of 1$^{st}$ leg.

**ix. Capital Adequacy**

The repo transactions in corporate debt securities will attract capital charge for counter party credit risk (CCR), in addition to the credit risk and market risk.

**x. Disclosure**

The details of corporate debt securities lent/acquired under repo/reverse repo transactions should be disclosed in the “Notes on Accounts” to the Balance Sheet.

xi. **CRR/SLR computation**

The amounts borrowed in repo (by selling of corporate debt securities) shall be reckoned as borrowings for computation of CRR and SLR by banks.

xii. **Documentation**

The participants shall enter into bilateral Master Repo Agreement as per the documentation finalized by Fixed Income Money Market and Derivative Association of India (FIMMDA).