

Short sale in Government Securities

Banks may undertake short sale of Central Government dated securities, subject to the short position being covered within a maximum period of three months, including the day of trade. Such short positions shall be covered by outright purchase of an equivalent amount of the same security or through a long position in the When Issued (WI) market or allotment in primary auction. However, it may be noted that the closure of the long position in WI market (by sale of the WI securities) would lead to a reestablishment of short position to the extent of the sale in the WI market. The short positions may be reflected in 'Securities Short Sold (SSS) A/c', specifically created for this purpose. For the purposes of this circular short sale and notional short sale are defined as under:

'Short Sale' is defined as sale of securities one does not own. A bank can also undertake 'notional' short sale where it can sell a security short from HFT even if the security is held under its HFT/AFS/HTM book. The resultant 'notional' short position would be subject to the same regulatory requirements as in the case of a short sale. For the purpose of these guidelines, short sale would include 'notional' short sale as well. The short sale by banks and the cover transaction shall not affect the holdings and valuation of the same security in HFT/AFS/HTM categories in any way.

Short sale transactions can be undertaken by banks, subject to the following conditions:

Minimum requirements:

In respect of short sales, banks shall ensure adherence to the following conditions:

- a) The sale leg of the transaction should be executed only on the Negotiated Dealing System – Order Matching (NDS-OM) platform. The cover leg of the short sale transaction can, however, be executed either on or outside the NDS-OM platform.

- b) The sale leg as well as the cover leg of the transaction should be accounted in the HFT category.

Under no circumstances, should participants fail to deliver, on settlement date, the securities sold short. Failures to deliver securities short sold shall be treated as an instance of 'SGL bouncing' and the concerned banks will be liable to disciplinary action prescribed in respect of SGL bouncing, besides attracting such further regulatory action

as may be considered necessary.

- d) At no point of time should a bank accumulate a short position (face value) in any security in the HFT category in excess of the following limits:
- i) 0.25% of the total outstanding stock issued of each security in case of securities other than liquid securities.
 - ii) 0.50% of the total outstanding stock issued of each security in case of liquid securities.
- e) Banks shall be entirely responsible for ensuring strict compliance with the above prudential limits on real time basis for which they may put in place appropriate systems and internal controls. The controls provided in the trading platform (NDS-OM) are merely in the nature of additional tools and should not be cited as a reason for any breach of internal or regulatory limits. The information regarding the outstanding stock of each Government of India dated security is being made available on the RBI website (URL: <http://rbi.org.in/Scripts/NDSUserXsl.aspx>) The list of liquid securities for compliance with the limits shall be provided by FIMMDA from time to time.
- f) Banks which undertake short sale transactions shall mark-to-market their entire HFT portfolio, including the short positions, **on a daily basis** and account for the resultant mark-to-market gains / losses as per the relevant guidelines for marking-to-market of the HFT portfolio.
- g) Gilt Accounts Holders (GAHs), under CSDL facility, are not permitted to undertake short sales. Entities maintaining CSDL Accounts are required to ensure that no short sale is undertaken by the GAHs.

Borrowing security (through the repo market) to meet delivery obligations:

Since securities that are short sold are to be **invariably** delivered on the settlement date, participants are permitted to meet their delivery obligations by acquiring securities in the repo market. Accordingly, with a view to enable participants to run short positions across settlement cycles, banks have been permitted to use the securities acquired under a reverse repo to meet the delivery obligation of the short sale transaction. While the reverse repos can be rolled over, it is emphasised that the delivery obligations under the successive reverse repo contracts are also to be invariably met, failing which the concerned banks shall attract the regulatory action

as specified above. It may, however, be noted that the permission to use securities acquired under reverse repo as above applies only to securities acquired under market repo and **not** to securities acquired under RBI's Liquidity Adjustment Facility.

Policy and internal control mechanisms:

Before actually undertaking transactions in terms of this circular, banks shall put in place a written policy on short sale, which should be approved by their respective Boards of Directors. The policy should lay down the internal guidelines which should include, *inter alia*, risk limits on short position, an aggregate nominal short sale limit (in terms of Face Value) across all eligible securities, stop loss limits, the internal control systems to ensure adherence to regulatory and internal guidelines, reporting of short selling activity to the Board and the RBI, procedure to deal with violations, etc. Banks shall also put in place a system to detect violations if any, immediately, certainly within the same trading day.

In addition to the internal control mechanisms, the concurrent auditors should specifically verify compliance with these instructions, as well as with internal guidelines and report violations, if any, within a reasonably short time, to the appropriate internal authority. As part of their monthly reporting, concurrent auditors may verify whether the independent back/mid office has taken cognizance of lapses, if any, and whether they have reported the same within the required time frame to the appropriate internal authority. Any violation of regulatory guidelines noticed in this regard should immediately be reported to the respective Public Debt Office (PDO) where the SGL account is maintained and Internal Debt Management Department, Reserve Bank of India, Mumbai.

When Issued Market - Guidelines

Definition

'When, as and if issued' (commonly known as 'when-issued' (WI)) security refers to a security that has been authorized for issuance but not yet actually issued. 'WI' trading takes place between the time a new issue is announced and the time it is actually issued. All 'when issued' transactions are on an 'if' basis, to be settled if and when the actual security is issued.

Mechanics of Operation

Transactions in a security on a 'When Issued' basis shall be undertaken in the following manner:

- a) 'WI' transactions can be undertaken in the case of securities that are being reissued as well as newly issued, on a selective basis.
- b) 'WI' transactions would commence on the issue notification date and it would cease on the working day immediately preceding the date of issue.
- c) All 'WI' transactions for all trade dates will be contracted for settlement on the date of issue.
- d) At the time of settlement on the date of issue, trades in the 'WI' security will be netted off with trades in the existing security, in the case of reissued securities.
- e) The originating transactions (sale or purchase of 'WI' securities) shall be undertaken only on NDS-OM. Any reversal of a When Issued transaction can, however, be undertaken on or outside the NDS-OM platform.
- f) Only PDs can take a short position in the 'WI' market. In other words, non-PD entities can sell the 'WI' security to any counterparty only if they have a preceding purchase contract for equivalent or higher amount.
- g) Open Positions in the 'WI' market are subject to the following limits:

Category	Reissued security	Newly issued security
Non-PDs	Long Position, not exceeding 5 per cent of the notified amount.	Long Position, not exceeding 5 per cent of the notified amount.
PD	Long or Short Position, not exceeding 10 per cent of the notified amount	Short Position, not exceeding 6 per cent and Long Position, not exceeding 10 per cent of the notified amount.

h) In the event of cancellation of the auction for whatever reason, all 'WI' trades will be deemed null and void *ab initio* on grounds of force majeure.

Internal Control

All banks participating in the 'WI' market are required to have in place a written policy on 'WI' trading which should be approved by the Board of Directors. The policy should lay down the internal guidelines which should include, inter alia, risk limits on 'WI' position (including, in the case of reissued securities, overall position in the security, i.e., 'WI' plus the existing security), an aggregate nominal limit (in terms of Face Value) for 'WI' and in the case of reissued securities, 'WI' plus the existing security, the internal control arrangements to ensure adherence to regulatory and internal guidelines, reporting of 'WI' activity to the top management, procedure to deal with violations, etc. A system should be in place to detect violations immediately, certainly within the trading day.

The concurrent auditors should specifically verify compliance with these instructions and report violations on the date of trade itself, within a reasonably short time, to the appropriate internal authority. As part of their monthly reporting, concurrent auditors may verify whether the independent back/mid office has taken cognizance of all such lapses and reported the same within the required time frame. Any violation of regulatory guidelines noticed in this regard should immediately be reported to the Public Debt Office (PDO), Mumbai and IDMD, Reserve Bank of India.

**Investment portfolio of banks – Transactions in securities –
Conditions subject to which securities allotted in the auctions for primary issues can be sold**

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(i) The contract for sale can be entered into only once by the allottee bank on the basis of an authenticated allotment advice issued by Reserve Bank of India. The buyer from an allottee in a primary auction is also permitted to re-sell the security subject to compliance with the terms and conditions stipulated in our circular No.RBI/2005-06/ 73 IDMD.PDRS. 337 /10.02.01/2005-06 dated July 20, 2005 and IDMD.PDRS.05/10.02.01/2003-04 dated March 29, 2004 Any sale of securities should be only on a T + 0 or T + 1 settlement basis.

(ii) The contract for sale of allotted securities can be entered into by banks with entities maintaining SGL Account with RBI as well as with and between CSGL account holders for delivery and settlement on the next working day through the Delivery versus Payment (DvP) system.

(iii) The face value of securities sold should not exceed the face value of securities indicated in the allotment advice.

(iv) The sale deal should be entered into directly without the involvement of broker/s.

(v) Separate record of such sale deals should be maintained containing details such as number and date of allotment advice, description and the face value of securities allotted, the purchase consideration, the number, date of delivery and face value of securities sold, sale consideration, the date and details of actual delivery i.e. SGL Form No., etc. This record should be made available to RBI for verification. Banks should immediately report any cases of failure to maintain such records.

(vi) Such type of sale transactions of Government securities allotted in the auctions for primary issues on the same day and based on authenticated allotment advice should be subjected to concurrent audit and the relative audit report should be placed before the Executive Director or the Chairman and Managing Director of the Bank once every month. A copy thereof should also be sent to the Department of Banking Supervision, RBI, Central Office, Mumbai.

(vii) Banks will be solely responsible for any failure of the contracts due to the securities not being credited to their SGL account on account of non-payment / bouncing of cheque etc.

(viii) Banks can repo G-Sec (on T+0 basis) that have already been contracted for sale (on T+1 basis). Banks while undertaking such transactions, shall ensure that adequate balances are available in their SGL / CSGL accounts to ensure settlement of the transactions on the date of settlement.

Annex I – D

Guidelines on Stripping/Reconstitution of Government Securities

Stripping is a process of converting periodic coupon payments of an existing Government security into tradable zero-coupon securities, which will usually trade in the market at a discount and are redeemed at face value. Thus, stripping a five-year security would yield 10 coupon securities (representing the coupons), maturing on the respective coupon dates and one principal security representing the principal amount, maturing on the redemption date of the five-year security. Reconstitution is the reverse of stripping, where, the Coupon STRIPS and Principal STRIPS are reassembled into the original Government security.

2. In terms of Explanation to section 11(2) of the Government Securities Act 2006, “A Government security may be stripped separately for interest and principal or reconstituted on the application of the holder subject to such terms and conditions as may be specified”. Accordingly, the terms and conditions for stripping and/or reconstitution of Securities issued by the Government of India have been notified by Reserve Bank of India vide Notification IDMD.1762/2009-10 dated October 16, 2009 (**Annex I-D-1**)

Process of Stripping/Reconstitution

3. Stripping/Reconstitution will be carried out at RBI as an automated process within the Negotiated Dealing System (NDS). The process of stripping/reconstitution will be a straight-through process without any manual intervention. Requests for stripping/reconstitution will be generated and approved by market participants on the NDS and the same will, thereafter, flow to a Primary Dealer (PD) of their choice for authorization. After authorization by the PD, such requests would be received and processed by the system (PDO-NDS) and necessary accounting entries posted in the accounts of the requesting participant for the STRIPS created/securities reconstituted. The NDS will do necessary validation check like eligibility of securities, balances available, etc., on the requests for stripping/reconstitution made by participants. However, participants are required to ensure that sufficient balances are available in their accounts before putting through requests for stripping/reconstitution.

4. Normally, ISIN for Government securities are assigned at the time of auction of the securities. However, in the case of STRIPS, as these securities are created at the request of the participant, ISIN as well as nomenclature for STRIPS are created automatically based on a

predefined algorithm (see **Annex I-D-2**).

5. Individual STRIPS (Coupon as well as Principal) will have a face value of Rs.100.

Eligibility

6. Any entity, including individuals, holding balances of Government securities that are eligible for stripping/reconstitution (as notified by RBI from time to time) can strip/reconstitute these securities. However, a participant (non-PD) desirous of stripping/reconstituting his balance of eligible Government securities/STRIPS should generate a request on the NDS for stripping/reconstitution by choosing any one of the Primary Dealers. Such requests for stripping/reconstitution by non-PD members shall be authorized by the PD and thereafter flow to the NDS for appropriate action (stripping/reconstitution). Requests for stripping/reconstitution by gilt account holders (GAH) shall be placed by the GAH with their respective custodians, who, in turn, will place the requests, on behalf of its constituents, in the NDS. Since stripping/reconstitution is permitted only in respect of securities held in electronic form, any participant desirous of stripping/reconstituting Government securities should have a SGL Account with the RBI or a Gilt Account with a custodian maintaining a CSGL Account with the RBI. In the case of Primary Dealers, they can place requests directly in the NDS for stripping/reconstitution and need not route the same through another PD.

7. Initially, all PDs would be eligible to authorize stripping/reconstitution requests. However, Reserve Bank, at its discretion, can exclude any PD from authorizing such requests. Market participants will have the flexibility to choose a PD of their choice while submitting requests for stripping/reconstitution. PDs will act as market makers in STRIPS and provide two-way quote in the market.

Timings

8. Requests for stripping can be submitted by participants between 9.00 am and 2.00 pm only. All requests for stripping, received by the system (PDO-NDS), will be processed at 2.00 pm and necessary book entries will be passed in the SGL account of the participants to credit the due amount of STRIPS (coupon as well as principal) on account of stripping. All requests that have not been authorized by 2.00 pm will be rejected by the system. Stripping requests cannot be approved/ authorized after 2.00 pm on any business/working day.

9. Similarly, requests for reconstitution can be submitted between 9.00 am and 2.00 pm only. However, the requests for reconstitution would be processed online i.e., as and when such requests are authorized by the PD, and the necessary accounting entries would be passed in the SGL account of the requesting participant immediately subject to availability of sufficient

and necessary balances. However, as indicated at paragraph 8 above, requests for reconstitution that are not authorized by 2.00 pm will be rejected by the system. No reconstitution request can be approved/authorized after 2.00 pm on any business/working day. Since reconstitution requests are processed online, such requests, whenever routed through a PD, must be authorized by the PD within 15 minutes of the receipt of the system notification (authorization request).

Eligible Securities

10. RBI will notify, from time to time, the securities that are eligible for stripping/reconstitution. To begin with, securities issued by Government of India, other than floating rate bonds, with coupon dates as 2nd January and 2nd July, will be eligible for stripping/reconstitution. Thus, all outstanding securities issued by Government of India, except floating rate bonds, with coupon dates/maturity date as 2nd January and 2nd July, irrespective of the year of maturity, will be eligible for stripping/reconstitution.

Minimum amount for stripping/reconstitution

11. The minimum amount of securities that needs to be submitted for Stripping/Reconstitution will be Rs.1 crore (face value) and multiples thereof.

Accounting and Valuation

12. STRIPS, being zero coupon securities, trade at a discount and are redeemed at face value. Thus, STRIPS will have to be valued and accounted for as zero coupon bonds and in the manner prescribed vide para 3.7.2 in the DBOD Master Circular dated July 1, 2009 on prudential norms for classification, valuation and operation of investment portfolio by banks.

13. The discount rates used for valuation of STRIPS at inception should be market-based. However, in case traded zero-coupon rates are not available, the zero coupon yields published by FIMMDA should be used instead.

14. Accounting entries in the SGL accounts as a consequence of stripping/reconstitution, will be passed at the face value. Thus, when a participant places a request for stripping, his SGL account will be debited by the face value of the Government security submitted for this purpose, and will be simultaneously credited with the aggregate face value of Coupon STRIPS (equal to the aggregate coupon amounts) as well as the face value of Principal STRIPS (equal

to the face value of the government security). An illustration is given in **Annex I-D-3**.

15.1 However, on the day of stripping, the STRIPS should be recognised in the books of account of the participant at their discounted value and at the same time, the Government security in question should be derecognised. The accounting treatment for reconstitution should be exactly the opposite of stripping. The detailed procedure for accounting of STRIPS is given below.

15.2 The stripping/reconstitution, per se, should not result in any profit or loss. As the present value of the STRIPS (coupon as well as principal) discounted using the ZCYC will not be equal to the book value/market value of the security, the value of STRIPS shall be normalized using a factor that will be the ratio of the book value or market value of the security (whichever is lower) to the sum total of the market value of all STRIPS created out of the security (illustration given in **Annex –I-D-4**). This will ensure that the sum total of the market value of STRIPS equals the book value/market value of the security, whichever is lower.

15.3 Banks can strip eligible Government securities held under the AFS/HFT category of their investment portfolio. However, if strips are to be created out of securities held in the HTM category, then the security first needs to be transferred to AFS/HFT category. The shifting of securities from HTM category for the purpose of stripping, will be as per the relevant guidelines prescribed vide DBOD Master Circular on prudential norms for classification, valuation and operation of investment portfolio by banks.

15.4 In case STRIPS are created from securities held in the HTM portfolio, the securities should be transferred from the HTM category to the AFS/HFT category (as per the shifting discipline from HTM, i.e., once a year at the beginning of the year as per the DBOD Master Circular on prudential norms for classification, valuation and operation of investment portfolio by banks) and the shifted security shall be carried at the least of the book value/market value. Depreciation, if any, shall be provided for and appreciation, if any, ignored as hitherto. Thereafter, the lower of the book value/market value will be used for normalizing the market value of individual STRIPS to the book value/market value. Post- stripping, the book value/market value of the existing securities will be derecognized and replaced by the normalized value of STRIPS whose sum total shall exactly equal the book value/market value of the extinguished security (thereby ensuring that there is no profit or loss on account of stripping). Any appreciation, arising due to the shifting of

the security from HTM shall be ignored. The same methodology would follow for securities that are stripped from the AFS/HFT portfolio.

15.5 (i) Before a security is stripped, it must be marked to market. Appreciation, if any, should be ignored and depreciation, if any, must be recognised if the market value is lower than the book value. Such depreciation cannot be aggregated for the purpose of arriving at net depreciation/appreciation of investment under the AFS/HFT category. The book value/market value of the security, whichever is lower, must be used to normalise the STRIPS.

(ii) The normalisation principle, on stripping/reconstitution will be applied on the clean price of the security (without considering the accrued interest) as the accrued interest is booked as income/expenditure.

(iii) Normalisation should also be applied in the case of reconstitution (even when STRIPS are acquired from the market).

(iv) The book value of the STRIPS (ZCBs) should be valued and marked to market as per extant DBOD guidelines. Accordingly, the book value of the STRIPS shall be marked up to the extent of accrued interest before MTM. In other words, once a security has been acquired, it will attract the treatment accorded to any other zero coupon security.

SLR Status of STRIPS

16. STRIPS will be reckoned as eligible Government securities for SLR purposes and retain all the characteristics of Government security. They will be eligible securities for market repo as well as repo under LAF of RBI but with appropriate haircut.

Trading in STRIPS

17. To begin with, STRIPS will be tradable only in the OTC market. Hence, trades in STRIPS will have to be undertaken in the OTC market and reported on NDS for clearing and settlement through CCIL.

18. Short sale of STRIPS shall not be permitted.

19. Participants shall not sell STRIPS/securities upfront based on the requests placed by them

for stripping/reconstitution. Accordingly, sale transaction in STRIPS/securities shall be

undertaken by participants only after the securities are stripped/reconstituted and the same is reflected in the SGL account of the participant.

Fees & Charges

20. Reserve Bank will not charge any fees for stripping/reconstitution of Government Securities. Further, to begin with, PDs, who are the “authorized entities” for authorizing requests for stripping/reconstitution in the PDO-NDS may also not charge the participants for carrying out this activity.

I. Definitions

- a) "STRIPS" (Separate Trading of Registered Interest and Principal of Securities) are distinct, separate securities that are created from the cash flows of a Government security and shall consist of –
- (i) Coupon STRIPS, where the single cash flow of the STRIP represents a coupon flow of the original security
 - (ii) Principal STRIP, where the single cash flow of the STRIP represents the principal cash flow of the original security.
- Explanation: Stripping of a security shall result in Coupon STRIPS for all outstanding coupon payments and one Principal STRIP for the redemption payment. Each STRIP accordingly becomes a zero coupon bond since it has only one cash flow at maturity. Each STRIP shall be a distinct Government security and shall have a separate and distinct International Securities Identification Number (ISIN).
- b) "Stripping" means the process of separating the cash flows associated with a regular Government security i.e., each outstanding semi-annual coupon payment and the final principal payment into separate securities.
- c) "Reconstitution" means the reverse process of stripping, where the individual STRIPS i.e., both coupon STRIPS and Principal STRIPS are reassembled to get back the original security.
- d) "Authorized entity" means a Primary Dealer or any other entity recognized by the RBI to accept requests from the holders of Government securities for stripping/reconstitution of the securities and submission to the RBI.

II. Terms and Conditions for STRIPS

1. The process of stripping/reconstitution of Government securities shall be carried out at RBI, Public Debt Office in the PDO-NDS (Negotiated Dealing System).
2. All dated Government securities other than floating rate bonds having coupon payment dates on 2nd January and 2nd July, irrespective of the year of maturity shall be eligible for Stripping/Reconstitution.
3. All Coupon STRIPS with the same maturity date shall have the same ISIN, regardless of the underlying security from which the interest payments were stripped, and coupon STRIPS of the same cash flow shall be fungible (interchangeable). The ISIN of Coupon STRIPS shall be different from the ISIN of Principal STRIPS, even if they have the same maturity date, and shall not be fungible.

4. Stripping/reconstitution may be done at the option of the holder at any time from the date of issuance of a Government security till its maturity.

5. Stripping/reconstitution shall be permitted only in the eligible Government securities held in the Subsidiary General Leger (SGL)/Constituent Subsidiary General Ledger (CSGL) accounts maintained at the Public Debt Office, RBI, Mumbai. Physical securities shall not be eligible for stripping/reconstitution.

6. Holders of Government securities shall place their requests for stripping/reconstitution only with an "Authorized entity".

7. Reserve Bank will not charge any fees on stripping/reconstitution.

8. The amount of securities that could be tendered for stripping/reconstitution shall be a minimum of Rs.1 crore and multiples thereof.

9. These terms and conditions shall come into effect from the date of this Notification.

ISIN for STRIPS

Structure:

I	N			M	M	Y	Y				
Country code	Issuer type/state code	Month and year of maturity of the STRIP				Security type	Subsequent strips/series serial number		Checksum digit		

Example of a CG Principal STRIP maturing in March 2011:

I	N	0	0	0	3	1	1	P	0	1	
Country code	Issuer type/state code	Month and year of maturity of the STRIP				Security type	Subsequent strips/series serial number		Checksum digit		

Example of a CG Coupon STRIP maturing in March 2011:

I	N	0	0	0	3	1	1	C	0	1	
Country code	Issuer type/state code	Month and year of maturity of the STRIP				Security type	Subsequent strips/series serial number		Checksum digit		

Nomenclature for Coupon STRIPS

GSDDMONYYYYC; where GS=Government Security, DDMONYYYY=date of maturity of the STRIPS and C=Coupon STRIP. (Ex. A coupon STRIP maturing on March 25, 2011 would be written as **GS25MAR2011C**)

Nomenclature for Principal STRIPS

x.xx%GSDDMONYYYYP; where x.xx is the coupon of the parent security from which the principal STRIP has been generated, GS=Government Security, DDMONYYYY=date of maturity of the STRIPS and P=Principal STRIPS. (Ex. A principal STRIP generated from, say, 7.99%2019 maturing on 02 July 2019 will be written as **7.99%GS02JUL2019P**)

Annex I-D-3

Stripping of securities – An illustration

Strippable Securities

Security	Date of Maturity
9.39% 2011	02-Jul-11
12.30 % 2016	02-Jul-16

Investor "A"

Portfolio as on October 16, 2009 (in the books of PDO, Mumbai)

Security	Rs. (Cr) {Face Value}
9.39% 2011	100.00
12.30 % 2016	250.00

On March 17, 2010, investor "A" strips Rs.5 Cr worth of 9.39%2011 & Rs.10 Cr worth of 12.30%2016

STRIPS generated

9.39% 2011		
	02 July 10	2,347,500
	02 Jan 11	2,347,500
	02 July 11	2,347,500
Principal STRIP (PS)	02 July 11	50,000,000

Each coupon strip = {9.39%/2} x 5 Cr.

12.30 % 2016		
	02 July 10	6,150,000
	02 Jan 11	6,150,000
	02 July 11	6,150,000
	02 Jan 12	6,150,000
	02 July 12	6,150,000
	02 Jan 13	6,150,000
	02 July 13	6,150,000
	02 Jan 14	6,150,000
	02 July 14	6,150,000
	02 Jan 15	6,150,000
	02 July 15	6,150,000
	02 Jan 16	6,150,000
	02 July 16	6,150,000
Principal STRIP (PS)	02 July 16	100,000,000

Each coupon strip = {12.30%/2} x 10 Cr.

Portfolio as on March 17, 2010 after stripping (in the books of PDO, Mumbai)

Security	Amount (Rs.) {Face Value}
9.39% 2011	950,000,000
12.30 % 2016	2,400,000,000
CS 02 July 10	8,497,500
CS 02 Jan 11	8,497,500
CS 02 July 11	8,497,500
CS 02 Jan 12	6,150,000
CS 02 July 12	6,150,000
CS 02 Jan 13	6,150,000
CS 02 July 13	6,150,000
CS 02 Jan 14	6,150,000
CS 02 July 14	6,150,000
CS 02 Jan 15	6,150,000
CS 02 July 15	6,150,000
CS 02 Jan 16	6,150,000
CS 02 July 16	6,150,000
PS 02 July 11	50,000,000
PS 02 July 16	100,000,000

CS=Coupon STRIPS; PS=Principal STRIP

Procedure for normalization of STRIPS (at stripping/reconstitution) to ensure no profit/loss

(For illustration only)

Security	12.30% 2016
Date of maturity	02-Jul-16
Coupon	12.30%
Date of Stripping	03-Mar-10

(1) Market value of 12.30% on 03-Mar-10	129.96
(2) Book Value	120.00
(3) Sum total of PV of STRIPS	127.87
(4) Normalization Factor [(2) ÷ (3)]	0.9385

	Maturity Date	Maturity amount	ZCYC	PV of STRIPS (Market Value)	Normalized value of STRIPS
	(a)	(b)	(c)	(d)	[0.9385 x (d)]
1	2/Jul/10	6.15	4.0683	6.0274	5.6564
2	2/Jan/11	6.15	4.6948	5.8711	5.5098
3	2/Jul/11	6.15	5.3212	5.6841	5.3343
4	2/Jan/12	6.15	5.6128	5.5055	5.1666
5	2/Jul/12	6.15	5.9044	5.3174	4.9901
6	2/Jan/13	6.15	6.1339	5.1305	4.8147
7	2/Jul/13	6.15	6.3633	4.9392	4.6352
8	2/Jan/14	6.15	6.4744	4.7663	4.4730
9	2/Jul/14	6.15	6.5855	4.5946	4.3118
10	2/Jan/15	6.15	6.7227	4.4187	4.1467
11	2/Jul/15	6.15	6.8599	4.2439	3.9827
12	2/Jan/16	6.15	6.9971	4.0707	3.8201
13	2/Jul/16	106.15	7.1343	67.3029	63.1606
TOTAL				127.87	120.00

Note:

- The security is presumed to be held in HTM category and hence is to be shifted to AFS/HFT before stripping, marked-to-market and the lower of the book value or market value will be used to arrive at the normalization factor.
- In case the market value of 12.30% 2016 is less than the book value then the market value, instead of the book value, will be used to normalize the STRIPS, i.e., the normalization factor would be **market value ÷ sum total of PV of STRIPS**; where the PV of STRIPS are arrived at by discounting the cash flow using the ZCYC.
- Securities in AFS/HFT will be normalized using the same principle (i.e., lower of market value/book value).

Repo in Corporate Debt Securities (Reserve Bank) Directions, 2010

1. Short title and commencement of the directions

These directions are called the Repo in Corporate Debt Securities (Reserve Bank) Directions, 2010 effective from **March 01, 2010**.

2. Definitions

- a. **‘Corporate Debt Security’** means non-convertible debt securities, which create or acknowledge indebtedness, including debentures, bonds and such other securities of a company or a body corporate constituted by or under a Central or State Act, whether constituting a charge on the assets of the company or body corporate or not, but does not include debt securities issued by Government or such other persons as may be specified by the Reserve Bank, security receipts and securitized debt instruments”
- b. **‘Security Receipts’** means a security as defined in clause (zg) of section 2 of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (54 of 2002)
- c. **‘Securitized debt instrument’** means securities of the nature referred to in sub-clause (ie) of clause (h) of section 2 of the Securities Contracts (Regulation) Act, 1956(42 of 1956).

3. Eligible securities for repo in Corporate Debt Securities

- a. Only listed corporate debt securities which are rated ‘AA’ or above by the rating agencies, that are held in the security account of the repo seller, in demat form, shall be eligible provided that Commercial Papers (CPs), Certificates of Deposit (CDs) and other instruments including Non-Convertible Debentures (NCDs) of less than one year of original maturity, shall not be eligible securities for undertaking repo.

4. Eligible Participants

The following entities shall be eligible to undertake repo transactions in corporate debt securities:

- a. Any scheduled commercial bank excluding RRBs and 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. India Infrastructure Finance Company Limited (IIFCL)
- g. Any other entity specifically permitted by the Reserve Bank

5. Tenor

Repos in corporate debt securities shall be for a minimum period of one day and a maximum period of one year.

6. Trading

Participants shall enter into repo transactions in corporate debt securities in the OTC market.

7. Reporting of Trades

- a. All repo trades shall 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.

8. Settlement of trades

- a. All repo trades in corporate debt securities are permitted to be settled on a T+0, T+1 or T+2 basis under DvP - I (gross basis) framework.
- 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.

9. Prohibition on sale of repoed security

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

10. Haircut

The repo trades in corporate debt securities are permitted to be settled on T+0 basis in addition to the existing T+1 and T+2 basis under DvP I (gross basis) framework. The **minimum haircut**, applicable on the market value of the corporate debt securities prevailing on the date of trade of 1st leg, which was earlier stipulated as 25 per cent, has been revised as under:

Rating	AAA	AA+	AA
Minimum haircut*	10 %	12%	15%

* The above haircuts are minimum stipulated haircuts where the repo period is overnight or where the remaining frequency (in case of longer tenor repos) is daily. In all other cases, the participants may adopt appropriate higher haircuts.

11. Valuation

For arriving at the market value of the corporate debt security, the participants undertaking repo in corporate bonds may refer to the credit spreads published by the FIMMDA.

12. Capital Adequacy

The repo transactions in corporate debt securities shall attract capital charge in terms of para 7.3.8 of the Master Circular DBOD No.BP.BC.21/21.06.001/2009-10 dated July 01, 2009.

13. Disclosure

The details of corporate debt securities lent or acquired under repo or reverse repo transactions shall be disclosed in the "Notes on Accounts" to the Balance Sheet. 4

14. Accounting

The repo transactions in corporate debt securities shall be accounted as per the revised guidelines on uniform accounting for repo/reverse repo transactions in Government securities.

15. Computation of CRR/SLR & borrowing limit

- a. The amount borrowed by a bank through repo shall be reckoned as part of its Demand and Time Liabilities (DTL) and the same shall attract CRR/SLR as per the provisions of the Master Circular DBOD. Ret.BC.45/1 2.01.001/2009-10 dated September 18, 2009.
- b. The borrowings of a bank through repo in corporate bonds shall be reckoned as its liabilities for reserve requirement and, to the extent these liabilities are to the banking system, they shall be netted as per clause (d) of the explanation under section 42(1) of the RBI Act, 1934. Such borrowings shall, however, be subject to the prudential limits for inter-bank liabilities prescribed vide circular DBOD.BP.BC.66/21 .01.002/2006-07 dated March 06, 2007.

16. Documentation

The participants shall enter into bilateral Master Repo Agreement as per the documentation finalized by the FIMMDA.

Annex – II
Para 1.1.6 (i) (g)

**Investment portfolio of banks - Transactions in securities -
Aggregate contract limit for individual brokers**

Sr. No.	Issue Raised	Response
1.	The year should be calendar year or financial year?	Since banks close their accounts at the end of March, it may be more convenient to follow the financial year. However, the banks may follow calendar year or any other period of 12 months
2.	Whether the limit is to be observed with reference to total transactions of the previous year as the total transactions of the current year should be known only at the end of the year?	The limit has to be observed with reference to the year under review. While operating the limit, the bank should keep in view the expected turnover of the current year which may be based on turnover of the previous year and anticipated
3.	Whether to arrive at the total transactions of the year, transactions entered into directly with counter-parties i.e. where no brokers are involved would also be taken into account	Not necessary. However, if there are any direct deals with the brokers as purchasers or sellers the same would have to be included in the total transactions to arrive at the limit of transactions to
4.	Whether in case of ready forward deals both the legs of the deals i.e. purchase as well as sale will be included to arrive at the volume of total transactions?	Yes. This is however only theoretical as R/F transactions in Govt. security now prohibited except in Treasury Bills and the 3 year dated securities issued by conversion of
5.	Whether central loan /state loan /treasury bills etc. purchased subscriptions/ auction will be, included in the volume of total transactions?	No, as brokers are not involved as intermediaries.
6.	It is possible that even though bank considers that a particular broker has touched the prescribed limit of 5% he may come with an offer during the remaining period of the year which the bank may find it to its advantage as compared to offers received from the other brokers who have not yet done business upto the prescribed limit.	If the offer received is more advantageous the limit for the broker may be exceeded the reasons therefor recorded and approval of the competent authority / Board obtained post facto.

7.	Whether the transactions conducted on behalf of the clients would also be included in the total transactions of the year?	Yes. If they are conducted through the brokers.
8.	For a bank which rarely deals through brokers and consequently the volume of business is small maintaining the broker- wise limit of 5% may mean splitting the orders in small values amongst different brokers and there may also arise price differential.	There may be no need to split an order. If any deal causes the particular broker's share to exceed 5% limit, our circular provides the necessary flexibility in as much as Board's post facto approval can be obtained.
9.	During the course of the year it may not be possible to reasonably predict what will be the total quantum of transactions through brokers as a result of which there could be deviation in complying with the norm of 5% .	The bank may get post facto approval from the Board after explaining to it the Circumstances in which the limit was exceeded.
10.	Some of the small private sector banks have mentioned that where the volume of business particularly the transaction done through brokers is small the observance of 5% limit may be difficult. A suggestion has therefore been made that the limit may be required to be observed if the business done through a broker exceeds a cut-off point of say Rs.10 crores	As already observed the limit of 5% can be exceeded subject to reporting the transactions to the competent authority post facto. Hence, no change in our instructions is considered necessary.

Recommendations of the Group on Non-SLR Investments of Banks

Pro-forma of minimum disclosure requirements in respect of private placement issues - Model Offer Document

All issuers must issue an offer document with terms of issue, authorised by Board Resolution not older than 6 months from the date of issue. The offer document should specifically mention the Board Resolution authorising the issue and designations of the officials who are authorised to issue the offer document. The offer document may be printed or typed "For Private Circulation Only". The 'Offer Document' should be signed by the authorised signatory. The offer document should contain the following minimum information:

I General Information

1. Name and address of registered office of the company
2. Full names (expanded initials), addresses of Directors and the names of companies where they are Directors.
3. Listing of the issue (If listed, name of the Exchange)
4. Date of opening of the issue
Date of closing of the issue
Date of earliest closing of the issue.
5. Name and addresses of auditors and Lead Managers / arrangers
6. Name address of the trustee - consent letter to be produced (in case of debenture issue)
7. Rating from any Rating Agency and / or copy of the rationale of latest rating.

I Particulars of the issue

- (a) Objects
- (b) Project cost and means of financing (including contribution of promoters) in case of new projects.

III. The model offer document should also contain the following information:

- (1) Interest rate payable on application money till the date of allotment.
- (2) Security: If it is a secured issue, the issue is to be secured, the offer

documents should mention description of security, type of security, type of charge, Trustees, private charge-holders, if any, and likely date of creation of security, minimum security cover, revaluation, if any.

(3) If the security is collateralised by a guarantee, a copy of the guarantee or principal terms of the guarantee are to be included in the offer document.

(4) Interim Accounts, if any.

(5) Summary of last audited Balance Sheet and Profit & Loss Account with qualifications by Auditors, if any.

(6) Last two published Balance Sheet may be enclosed.

(7) Any conditions relating to tax exemption, capital adequacy etc. are to be brought out fully in the documents.

(8) The following details in case of companies undertaking major expansion or new projects :- (copy of project appraisal may be made available on request)

- (a) Cost of the project, with sources and uses of funds
- (b) Date of commencement with projected cash flows
- (c) Date of financial closure (details of commitments by other institutions to be provided)
- (d) Profile of the project (technology, market etc)
- (e) Risk factors

(9) If the instrument is of tenor of 5 years or more, projected cash flows.

IV Banks may agree to insist upon the following conditionalities for issues under private placements

All the issuers in particular private sector corporates, should be willing to execute a subscription agreement in case of all secured debt issues, pending the execution of Trust Deed and charge documents. A standardised subscription agreement may be used by the banks, inter-alia, with the following important provisions:

(a) Letter of Allotment should be made within 30 days of allotment. Execution of Trust Deed and charge documents will be completed and debentures certificates will be dispatched within the time limit laid down in the Companies Act but not exceeding in any case, 6 months from the date of the subscription agreement.

(b) In case of delay in complying with the above, the company will refund the amount of subscription with agreed rate of interest, or, will pay penal interest of 2% over the coupon rate till the above conditions are complied with, at the option of the bank.

(c) Pending creation of security, during the period of 6 months (or extended period), the principal Directors of the company should agree to indemnify the bank for any

loss that may be suffered by the bank on account of the subscription to their debt issue. (This condition will not apply to PSUs).

(d) It will be the company's responsibility to obtain consent of the prior chargeholders for creation of security within the stipulated period. Individual banks may insist upon execution of subscription agreement or a suitable letter to comply with the terms of offer such as appointment of trustee, creation of security etc. on the above lines.

(e) Rating: The Group recommends that the extant regulations of SEBI in regard to rating of all debt instruments in public offers would be made applicable to private placement also. This stipulation will also apply to preference shares, which are redeemable after 18 months.

(f) Listing: Currently, there is a lot of flexibility regarding listing required by banks in private placement issues. However, the Group recommends that listing of companies should be insisted upon, (exceptions, if any, to this rule shall be provided in the Investment Policy of the banks) which would in due course help develop secondary market. The advantage of listing would be that the listed companies would be required to disclose information periodically to the Stock Exchanges which would also help develop the secondary markets by way of investor information. In fact, SEBI has advised all the Stock Exchanges that all listed companies should publish unaudited financial results on a quarterly basis and that they should inform the Stock Exchanges immediately of all events which would have a bearing on the performance / operations of the company as well as price sensitive information.

(g) Security / documentation: To ensure that the documentation is completed and security is created in time, the Group has made recommendations, which is contained in this model offer document. It may be noted that in case of delay in execution of Trust Deed and Charge documents, the company will refund the subscription with agreed rate of interest or will pay penal interest of 2% over the coupon rate till these conditions are complied with at the option of the bank. Moreover, Principal Directors of the company will have to agree to indemnify the bank for any loss that may be suffered by the bank on account of the subscription to the debt issue during the period of 6 months (or extended period) pending creation of security.

Guidelines on Investments by Banks in Non-SLR Investment Portfolio by Banks -

Definitions

1. With a view to imparting clarity and to ensure that there is no divergence in the implementation of the guidelines, some of the terms used in the guidelines on non-SLR investments are defined below.
2. A security will be treated as rated if it is subjected to a detailed rating exercise by an external rating agency in India, which is registered with SEBI and is carrying a current or valid rating. The rating relied upon will be deemed to be current or valid if
 - i) The credit rating letter relied upon is not more than one month old on the date of opening of the issue, and
 - ii) The rating rationale from the rating agency is not more than one year old on the date of opening of the issue, and
 - iii) The rating letter and the rating rationale is a part of the offer document.
 - iv) In the case of secondary market acquisition, the credit rating of the issue should be in force and confirmed from the monthly bulletin published by the respective rating agency.

Securities, which do not have a current or valid rating by an external rating agency, would be deemed as unrated securities.

3. The investment grade ratings awarded by each of the external rating agencies operating in India would be identified by the IBA / FIMMDA. These would also be reviewed by IBA / FIMMDA at least once a year.
4. A 'listed' security is a security which is listed in a stock exchange. Investment in non-SLR debt securities (both primary and secondary market) by banks where the security is proposed to be listed on the Exchange(s) may be considered as investment in listed security at the time of making investment.

**Prudential Guidelines on Management of the Non-SLR Investment Portfolio by Banks -
Disclosures Requirements**

Banks should make the following disclosures in the 'Notes on Accounts' of the balance sheet in respect of their non-SLR investment portfolio, with effect from the financial year ending 31 March 2004.

(i) **Issuer composition of Non SLR investments**

(Rs. in crore)						
Sl. No	Issuer	Amount	Extent of private placement	Extent of 'below investment grade' securities	Extent of 'unrated' securities	Extent of 'unlisted' securities
1	2	3	4	5	6	7
1.	PSUs					
2.	FIs					
3.	Banks					
4.	Private Corporates					
5.	Subsidiaries / Joint ventures					
6.	Others					
7.	Provision held towards depreciation		XXX	XXX	XXX	XXX
	Total *					

Note: 1. * Total under column 3 should tally with the total of investments included under the following categories in Schedule 8 to the balance sheet:

- (a) Shares
- (b) Debentures&Bonds
- (c) Subsidiaries/jointventures
- (d) Others

2. Amounts reported under columns 4, 5, 6 and 7 above may not be mutually exclusive.

(ii) **Non-performing Non-SLR investments**

Particulars	Amount (Rs. Crore)
Opening balance	
Additions during the year since 1st April	
Reductions during the above period	
Closing balance	
Total provisions held	

RETURN/STATEMENT NO. 9

Proforma Statement showing the position of Reconciliation of Investment Account as on 31st March

Name of the bank/ Institution:

Face value Rs. in crore

Particulars of securities	General Ledger Balance	SGL Balance		BRs held	SGL Forms held	Actual Scrips Held	Outstanding deliveries
		As per PDO Books	As per bank's institution's books				
1	2	3	4	5	6	7	8
Central Govt							
State Government							
Other approved securities							
Public Sector Bonds							
Units of UTI (1964)							
Others (Shares & Debenture etc)							
TOTAL							

Signature of the Authorised Official
with the Name and Designation

Note : Similar statements may be furnished in respect of PMS client's Accounts and other constituents' Accounts (including Brokers). In the case of PMS/other constituents' accounts, the face value and book value of securities appearing in the relevant registers of the bank should be mentioned under Column 2.

General instructions for compiling reconciliation statement

a) Column - 2 (GL balances)

It is not necessary to give complete details of securities in the format. Only aggregate amount of face value against each category may be mentioned. The corresponding book value of securities may be indicated in bracket under the amount of face value of securities under each category.

b) Column - 3 and 4 (SGL balances)

In the normal course balances indicated against item three and four should agree with each other. In case of any difference on account of any transaction not being recorded either in PDO or in the books of the bank this should be explained giving full details of each transaction.

c) Column - 5 (BRs held)

If the bank is holding any BRs for purchases for more than 30 days from the date of its issue, particulars of such BRs should be given in a separate statement.

d) Column - 6 (SGL forms held)

Aggregate amount of SGL forms received for purchases, which have not been tendered with PDO, should be given here.

e) Column - 7

Aggregate amount of all scrips held in the form of bonds, letters of allotments, subscription receipts as also certificates of entries in the books of accounts of the issuer (for other than government securities), etc. including securities which have been sold but physical delivery has not been given should be mentioned.

f) Column - 8 (outstanding deliveries)

This relates to BRs issued by the bank, where the physicals/scrips have not been delivered but the balance in General Ledger has been reduced. If any BR issued is outstanding for more than thirty days the particulars of such BRs may be given in a separate list indicating reasons for not affecting the delivery of scrips.

g) General

Face value of securities indicated against each item in column two should be accounted for under any one of the columns from four to seven. Similarly, amount of outstanding deliveries (BRs issued) which has been indicated in column eight will have to be accounted for under one of the columns four to seven. Thus the total of columns two and eight should tally with total of columns four to seven.

Annex - VII
Para 4.8

Disclosures

The following disclosures should be made by banks in the 'Notes on Accounts' to the Balance Sheet.

(Rs. in crore)				
	Minimum outstanding during the year	Maximum outstanding during the year	Daily Average outstanding during the year	As on March 31
Securities sold under repos				
Securities purchased under reverse repos				

Recommended Accounting Methodology for accounting of Repo / Reverse Repo transactions

- i The following accounts may be maintained , viz. i) Repo Account, ii) Reverse Repo Account, iii) Reverse Repo Interest Income Account, iv) Repo Interest Expenditure Account v) Reverse Repo Interest Receivable Account and vi) Repo Interest Payable Account.
- ii In addition to the above, the following 'contra' accounts may also be maintained, viz. i) Securities Sold under Repo Account, (ii) Securities Purchased under Reverse Repo Account, (iii) Securities Receivable under Repo Account and (iv) Securities Deliverable under Reverse Repo Account.

Repo

- iii In a repo transaction, the securities should be sold in the first leg at market related prices and re-purchased in the second leg at the same prices. The consideration amount in the second leg would, however, include the repo interest. The sale and repurchase should be reflected in the Repo Account.
- iv Though the securities are not excluded from the repo seller's investment account and not included in the repo buyer's investment account, the transfer of securities shall be reflected by using the necessary contra entries.

Reverse Repo

- v In a reverse repo transaction, the securities should be purchased in the first leg at prevailing market prices and sold in the second leg at the same prices. The consideration amount in the second leg would, however, include the repo interest. The purchase and sale should be reflected in the Reverse Repo Account.
- vi The balances in the Reverse Repo Account shall not be a part of the Investment Account for balance sheet purposes but can be reckoned for SLR purposes if the securities acquired under reverse repo transactions are approved securities.

Other aspects relating to Repo/Reverse Repo

- vii In case the interest payment date of the securities sold under repo falls within the repo period, the coupons received by the buyer of the security should be passed on to the seller on the date of receipt as the cash consideration payable by the seller in the second leg does not include any intervening cash flows.
- viii To reflect the accrual of interest in respect of the outstanding repo transactions at the end of the accounting period, appropriate entries should be passed in the Profit and Loss account to reflect Repo Interest Income / Expenditure in the books of the buyer / seller respectively and the same should be debited / credited as an expenditure payable/income receivable. Such entries passed should be reversed on the first working day of the next accounting period.
- ix Repo seller continues to accrue coupon/discount as the case may be, even during the repo period while the repo buyer shall not accrue the same.
- x Illustrative examples are given in ***Annex – VIII.2***

Illustrative examples for accounting of Repo / Reverse repo transactions

While in the body of the circular, the term "repo" is used generically to include both repo and reverse repo (which is simply a mirror image of a repo transaction), in this Annex the accounting guidelines have been set out separately for repo and reverse repo for clarity.

A. Repo/Reverse Repo of dated security

1. Details of Repo in a coupon bearing security:

Security offered under repo	6.35% 2020	
Coupon payment dates	02 January and 02 July	
Market Price of security	Rs.90.9100	(1)
Date of the repo	28-Mar-2010	
Repo interest rate	5.00%	
Tenor of the repo	5 days	
Reversal date for the repo	02-Apr-20 10	
Broken period interest for the first leg*	$6.35\% \times 86 / 360 \times 100 = 1.5169$	(2)
Cash consideration for the first leg	(1) + (2) = 92.4269	(3)
Repo interest**	$92.4269 \times 5/365 \times 5.00\% = 0.0633$	(4)
Cash Consideration for the second leg	(3)+(4) = 92.4269 + 0.0633 = 92.4902	

* *Using 30/360 day count convention*

** *Using Actual/365 day count convention*

2. Accounting for Repo Seller (Borrower of Funds)

First leg

	Debit	Credit
Cash	92.4269	
Repo A/c		92.4269
Securities Receivable under Repo A/c (by contra)	92.4269	
Securities Sold under Repo A/c (by contra)		92.4269

Second Leg

	Debit	Credit
Repo A/c	92.4269	
Repo Interest Expenditure A/c	0.0633	
Cash A/c		92.4902
Securities Sold under Repo A/c (by contra)	92.4269	
Securities Receivable under Repo A/c (by contra)		92.4269

3. Accounting for Repo Buyer (Lender of Funds)

First leg

	Debit	Credit
Reverse Repo A/c	92.4269	
Cash A/c		92.4269
Securities Purchased under Reverse Repo A/c (by contra)	92.4269	
Securities Deliverable under Reverse Repo A/c (by contra)		92.4269

Second Leg

	Debit	Credit
Cash A/c	92.4902	
Reverse Repo A/c		92.4269
Reverse Repo Interest Income A/c		0.0633
Securities Deliverable under Reverse Repo A/c (by contra)	92.4269	
Securities Purchased under Reverse Repo A/c (by contra)		92.4269

4. Ledger entries for the adjustment accounts

Securities Receivable under Repo A/c

Debit		Credit	
To Securities Sold under Repo A/c (repo 1 st leg)	92.4269	By Securities Sold under Repo A/c (repo 2 nd leg)	92.4269

Securities Sold under Repo A/c

Debit		Credit	
To Securities Receivable under Repo A/c (repo 2 nd leg)	92.4269	By Securities Receivable under Repo A/c (repo 1 st leg)	92.4269

Securities Purchased under Repo A/c

Debit		Credit	
To Securities Deliverable under Reverse Repo A/c (reverse repo 1 st leg)	92.4269	By Securities Deliverable under Reverse Repo A/c (reverse repo 2 nd leg)	92.4269

Securities Deliverable under Repo A/c

Debit		Credit	
To Securities Purchased under Reverse Repo A/c (reverse repo 2 nd leg)	92.4269	By Securities Purchased under Reverse Repo A/c (Reverse Repo 1 st leg)	92.4269

5. If the balance sheet date falls during the tenor of the repo, participants may use the transit accounts, i.e., Repo Interest Payable A/c and Reverse Repo Interest Receivable A/c to record the accrued interest and reverse the same the following day. The balances in the repo interest receivable and payable shall be taken to the P & L Account with appropriate entries passed in the Balance sheet, as below:-

Transaction Leg	1st leg	Balance Sheet Date	2nd leg
Dates	28-Mar-10	31-Mar-10	02-Apr-10

a) Entries in the Books of Repo Seller (borrower of funds) on 31-Mar-10

Account Head	Debit	Credit
Repo Interest Expenditure A/c [Balances under the account to be transferred to P & L]	0.0506 (being the repo interest for 4 days)	
Repo Interest Payable A/c		0.0506

Account Head	Debit	Credit
P & L A/c	0.0506	
Repo Interest Expenditure A/c		0.0506

b) Reversal of entries in the Books of Repo Seller (borrower of funds) on 01-Apr-10

Account Head	Debit	Credit
Repo Interest Payable A/c	0.0506	
Repo Interest Expenditure		0.0506

c) Entries in books of Repo Buyer (Lender of Funds) on 31-Mar-10

Account Head	Debit	Credit
Reverse Repo Interest Receivable A/c	0.0506	
Reverse Repo Interest Income A/c [Balances under the account to be transferred to P & L]		0.0506 (Being the repo interest for 4 days)

Account Head	Debit	Credit
Reverse Repo Interest Income A/c	0.0506	
P & L A/c		0.0506

d) Reversal of entries in the Books of Repo Buyer (Lender of Funds) on 01-Apr-10

Account Head	Debit	Credit
Reverse Repo Interest Income A/c	0.0506	
Reverse Repo Interest Receivable A/c		0.0506

B. Repo/ Reverse Repo of Treasury Bill

1. Details of Repo on a Treasury Bill

Security offered under Repo	GOI 91 day Treasury Bill maturing on 07 May 2010	
Price of the security offered under Repo	Rs.99.0496	(1)
Date of the Repo	28-Mar-2010	
Repo interest rate	5%	
Tenor of the repo	5 days	
Total cash consideration for the first leg	99.0496	(2)
Repo interest *	$99.0496 \times 5\% \times 5 / 365 = 0.0678$	(3)
Cash consideration for the second leg	$(2)+(3) = 99.0496 + 0.0678 = 99.1174$	

* **Using Actual/365 day count convention**

2. Accounting for Repo Seller (Borrower of Funds)

First leg

	Debit	Credit
Cash	99.0496	
Repo A/c		99.0496
Securities Receivable under Repo A/c (by contra)	99.0496	
Securities Sold under Repo A/c (by contra)		99.0496

Second Leg

	Debit	Credit
Repo A/c	99.0496	
Repo Interest Expenditure A/c	0.0678	
Cash A/c		99.1174
Securities Sold under Repo A/c (by contra)	99.0496	
Securities Receivable under Repo A/c (by contra)		99.0496

3. Accounting for Repo Buyer (Lender of Funds)

First leg

	Debit	Credit
Reverse Repo A/c	99.0496	
Cash A/c		99.0496
Securities Purchased under Reverse Repo A/c (by contra)	99.0496	
Securities Deliverable under Reverse Repo A/c (by contra)		99.0496

Second Leg

	Debit	Credit
Cash A/c	99.1174	
Reverse Repo A/c		99.0496
Reverse Repo Interest Income A/c		0.0678
Securities Deliverable under Reverse Repo A/c (by contra)	99.0496	
Securities Purchased under Reverse Repo A/c (by contra)		99.0496

4. Ledger entries for the adjustment accounts

Securities Receivable under Repo A/c

Debit		Credit	
To Securities Sold under Repo A/c (repo 1 st leg)	99.0496	By Securities Sold under Repo A/c (repo 2 nd leg)	99.0496

Securities Sold under Repo A/c

Debit		Credit	
To Securities Receivable under Repo A/c (repo 2 nd leg)	99.0496	By Securities Receivable under Repo A/c (repo 1 st leg)	99.0496

Securities Purchased under Repo A/c

Debit		Credit	
To Securities Deliverable under Reverse Repo A/c (reverse repo 1 st leg)	99.0496	By Securities Deliverable under Reverse Repo A/c (reverse repo 2 nd leg)	99.0496

Securities Deliverable under Repo A/c

Debit		Credit	
To Securities Purchased under Reverse Repo A/c (reverse repo 2 nd leg)	99.0496	By Securities Purchased under Reverse Repo A/c (reverse repo 1 st leg)	99.0496

5. If the balance sheet date falls during the tenor of the repo, participants may use the transit accounts, i.e. Repo Interest Payable A/c and Reverse Repo Interest Receivable A/c to record the accrued interest and reverse the same the following day. The balances in the repo interest receivable and payable shall be taken to the P & L Account with appropriate entries passed in the Balance sheet, as below:-

Transaction Leg	1st leg	Balance Sheet Date	2nd leg
Dates	28-Mar-10	31-Mar-10	02-Apr-10

a) Entries in the Books of Repo Seller (borrower of funds) on 31-Mar-10

Account Head	Debit	Credit
Repo Interest Expenditure A/c [Balances under the account to be transferred to P & L]	0.0543 (being the repo interest for 4 days)	
Repo Interest payable A/c		0.0543

Account Head	Debit	Credit
P & L A/c	0.0543	
Repo Interest Expenditure A/c		0.0543

b) Reversal of entries in the Books of Repo Seller (borrower of funds) on 01-Apr-10

Account Head	Debit	Credit
Repo Interest Payable A/c	0.0543	
Repo Interest Expenditure		0.0543

c) Entries in books of Repo Buyer (Lender of Funds) on 31-Mar-10

Account Head	Debit	Credit
Reverse Repo Interest Receivable A/c	0.0543	
Reverse Repo Interest Income A/c [Balances under the account to be transferred to P & L]		0.0543 (Being the repo interest for 4 days)

Account Head	Debit	Credit
Reverse Repo Interest Income A/c	0.0543	
P & L A/c		0.0543

d) Reversal of entries in the Books of Repo Buyer (Lender of Funds) on 01-Apr-10

Account Head	Debit	Credit
Reverse Repo Interest Income A/c	0.0543	
Reverse Repo Interest Receivable A/c		0.0543