

**Scheme of Liquidity Adjustment Facility**

Ref. IDMC No 3968 /03.75.00/ 99-2000

May 29, 2000  
Jyestha 8, 1922

To:

All Primary Dealers and Scheduled Commercial Banks (Excluding RRBs)

Dear Sirs,

**Sub: Liquidity Adjustment Facility**

Enclosed is a Scheme of the "Liquidity Adjustment Facility" as announced in the Statement on Monetary and Credit Policy for the year 2000-01 for implementation from June 5, 2000. Please acknowledge receipt.

Yours faithfully,

(Usha Thorat)  
Chief General Manager

### **Scheme of Liquidity Adjustment Facility**

Pursuant to the recommendations of the Narasimham Committee Report on Banking Reforms (Narasimham Committee II), it was decided in principle, to introduce a Liquidity Adjustment Facility (LAF) operated through repo and reverse repo. In April 1999, an Interim Liquidity Adjustment Facility (LAF) was introduced to provide a ceiling and the Fixed Rate Repos were continued to provide a floor for the money market rates. Following the measures announced in the Statement on Monetary and Credit policy for the year 2000-2001, it has been decided to implement the first stage of LAF from June 5, 2000. The details of the Scheme are as under:

#### **1. The Scheme:**

Under the scheme, (i) Repo auctions (for absorption of liquidity) and (ii) reverse repo auctions (for injection of liquidity) will be conducted on a daily basis (except Saturdays). But for the intervening holidays and Fridays, the repo tenor will be one day. On Fridays, the auctions will be held for three days maturity to cover the following Saturday and Sunday. With the introduction of the Scheme, the existing Fixed Rate Repo will be discontinued. So also the liquidity support extended to all scheduled commercial banks (excluding RRBs) and Primary Dealers through Additional Collateralised Lending Facility (ACLF) and refinance/reverse repos under Level II, respectively will be withdrawn. Export Refinance and Collateralised Lending Facility (CLF) at Bank Rate will continue as per the existing procedures. Like-wise, Primary Dealers will continue to avail of liquidity support at level I at Bank Rate. The funds from the Facility are expected to be used by the banks for their day-to-day mismatches in liquidity. The Scheme will be reviewed from time to time in consultation with market participants and appropriate changes will be made in the light of experience.

#### **2. Rate of Interest:**

Interest rates in respect of both repos and reverse repos will be decided through cut off rates emerging from auctions on “uniform price” basis conducted by the Reserve Bank of India, at Mumbai. The repo rate in per cent per annum expected by the tenderer will be expressed up to two decimal points rounded off to the nearest 5 basis points. As there will be no adjustment for accrued coupon, the cash flow will depend upon the repo rate emerging on day-to-day basis.

#### **3. Mechanics of operations:**

- i). Bids will be received in tender forms (Annexure I and II) at IDM Cell before 11.00 a.m. on week days except Saturdays. A separate box for the purpose will be kept at the reception on the Ground floor of the Central Office Building. Processing of the bids will be done at IDMC. The auction results will be displayed by Mumbai Office by 1.00 p.m.

ii). The repo will be conducted as “Hold in Custody” type, wherein the Reserve Bank of India will act as a custodian for the participants and hold the securities on their behalf in the Repo/Reverse Repo Constituents’ Accounts. Further, for the purpose the participants will have to give an undertaking as given in the respective tender forms authorizing RBI to act on behalf of them. Reserve Bank of India shall not, however be held responsible for any loss, damage or liability on account of acting as the Custodian on behalf of the participants. A Repo Constituents’ SGL Account (RC SGL Account) and Reverse Repo Constituents’ SGL Account (RRC SGL Account) will be opened and held in the Securities Department in Mumbai Office for this purpose which will have institution-wise subsidiary records of the securities sold under Repo and securities bought under reverse repo. RBI will have Subsidiary Accounts in the case of both of these Accounts.

iii) On success in auction in respect of repos the tenderer’s RC SGL Account will be credited with the required quantum of securities debiting Bank’s subsidiary account/Investment Account. Likewise, the tenderer’s Current Account will be debited for the resultant cash flows crediting the Bank’s Account. The transaction will be reversed in the second leg.

iv) In the case of reverse repos, on acceptance of bid, the tenderer’s SGL account/ RRC SGL Account will be debited with the required quantum of securities crediting Bank’s Investment Account/Subsidiary RRC SGL Account. Accordingly, the tenderer’s Current Account will be credited with the repo amount debiting the Bank’s account. The transactions will be reversed in the second leg.

v) Transactions between RBI and counter parties including operation of the RC SGL Account and RRC SGL Account would not require separate SGL forms as provision will be made in the application form for the purpose. Likewise, transfer of securities from/to RBI’s Investment Account and Subsidiary Accounts in the Repo and Reverse Repo SGL account will not require signing of SGL transfer forms. However, transfer from tenderer’s SGL Account to the RRC SGL Account will require completion of SGL form. In the case of reverse repos tenderers will have the option to either use the RRC SGL Account route or getting their SGL Accounts debited for the purpose of transferring securities to RBI.

vi) Pricing of all securities including Treasury bills will be at Face Value for repo/reverse repo operations by RBI. Accrued interest as on the date of transaction will be ignored for the purpose of pricing of securities. Coupon, if any, will be transferred to the RBI in the case of repos and RBI will collect the coupon if any on the due dates and credit the same to the party's Current Account in the case of reverse repos.

**4. Eligibility:**

All Scheduled Commercial Banks (excluding Regional Rural Banks) and Primary Dealers (PDs) having Current Account and SGL Account with RBI, Mumbai will be eligible to participate in the Repo and Reverse Repo auctions.

**5. Limit:**

The minimum amount to be tendered under repos and reverse repos will be Rs.10 crore and in multiples of Rs.5 crore.

**6. Eligible Securities:**

Repos and reverse repos will be undertaken in all transferable dated Government of India Securities/Treasury Bills (except 14 days treasury bills).

**7. Margin Requirement:**

The margins will be uniformly applied in respect of the above collateral securities comprising dated securities/ treasury bills and the amount of securities offered or tendered on acceptance of a bid for Rs.100 will be Rs.105.00 in terms of face value.

**8. Settlement of Transactions:**

The settlement of transactions in the auction will take place on the same day.

**9. SLR and Securities held in Repo SGL Account:**

Securities held by RBI on behalf of banks Repo Constituents' SGL account and credit balance in the RRC SGL Account will be counted for SLR purpose and a certificate will be issued to banks by RBI on a fortnightly basis. As far as valuation etc. for SLR purpose is concerned extant DBOD instructions will apply.

**10. Terms and Conditions:**

Tender Forms for "Repo Auction" and "Reverse Repo Auction" along with terms and conditions are enclosed at Annexure I and II.