

## The Scheme of Second Liquidity Adjustment Facility (SLAF)

### 1. Effective Date

The SLAF scheme will be made effective from November 28, 2005.

### 2. Tenor

Under the scheme, (i) Overnight Reverse Repo auctions (for absorption of liquidity) and (ii) Overnight Repo auctions (for injection of liquidity) will be conducted on a daily basis (Monday to Friday, excepting holidays).

### 3. Rate of Interest

Both the reverse repo and repo operations will be conducted at a fixed rate. The reverse repo rate will be fixed by the Reserve Bank from time to time. The repo rate will continue to be linked to the reverse repo rate through a spread as mark up over the reverse repo rate. The spread will be determined based on market conditions and other relevant factors and changes therein as when effected will be announced by Reserve Bank.

### 4. Discretion to Reserve Bank

Under the Scheme, Reserve Bank will continue to have the discretion to conduct overnight/ longer term reverse repo/ repo auctions at fixed rate or at variable rates depending on market conditions and other relevant factors.

### 5. Mechanics of operations

i) The time for submission of bids under SLAF will be from 3.00 p.m to 3.45 p.m. The auction results will be announced by 4.45 p.m. After the full-fledged operationalisation of the Real Time Gross Settlement(RTGS) system, these timings will be reviewed.

ii) The bids will be submitted electronically in the Negotiated Dealing System (NDS). Members of NDS facing genuine systems problem on any specific day may submit physical bids in sealed cover in the box provided in Mumbai Office, Reserve Bank of India, by 3.45 p.m. In case of inability to submit physical bid by 3.45 p.m. in the bid box, intention to submit physical bid indicating the bid amount must be communicated to the **Manager, Securities Section, Public Accounts Department (PAD), Mumbai Office by fax (fax No. 022-22620802)** before 3.45 p.m. and the bid in a sealed cover delivered to the Securities Section, PAD by 4.15 p.m. If such physical bids are not received by 4.15 p.m. the Fax request received intimating bid amount will be ignored. It may be noted that the facility of fax communication on intention to submit the physical bid should not be used to circumvent the time discipline.

iii) The NDS provides for submission of single or multiple bids by the member. However, as far as possible only one bid should be submitted by a member.

iv) The Reverse Repo/Repo will be conducted as “Hold- in- Custody” type, wherein the Reserve Bank will act as a custodian for the participants and hold the securities on their behalf in the Reverse Repo/ Repo Constituents SGL Accounts. Pursuant to this, the participants will have to give an undertaking as given in the respective tender forms

authorising Reserve Bank to act on their behalf. Reserve Bank shall not, however be responsible for any loss, damage or liability on account of acting as the Custodian on behalf of the participants. A Reverse Repo Constituents' SGL Account (RRC SGL Account) and Repo Constituents' SGL Account (RC SGL Account) will be opened and held in the Public Accounts Department in Mumbai Office of the Reserve Bank of India for this purpose. These accounts will have institution-wise subsidiary records of the securities delivered by the Reserve Bank under Reverse Repo and securities held for delivery to the Reserve Bank under Repo. Reserve Bank will also have its own subsidiary accounts in the case of both of these accounts.

v) On acceptance of bid in respect of Reverse Repos, the tenderer's RRC SGL Account will be credited with the required quantum of securities and Current Account will be debited for the reverse repo amount. The transaction will be reversed in the second leg.

vi) In the case of Repos, on acceptance of bid, the tenderer's RC SGL Account will be debited with the required quantum of securities and Current Account will be credited with the Repo amount. The transactions will be reversed in the second leg.

vii) The SLAF transactions between Reserve Bank and counter parties which would involve operation of the RRC SGL Account and RC SGL Account would not require separate SGL forms as provision for the purpose has been made in the bid application. However, transfer from tenderer's SGL Account to the RC SGL Account (RC Transfer), or *vice versa* (RC Withdrawal), will require completion of SGL Form.

viii) Pricing of all securities including Treasury Bills will be at face value for Reverse Repo/ Repo operations by Reserve Bank. 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 RBI in the case of Reverse Repos, and Reserve Bank will collect the coupon, if any, on the due date and credit the same to the party's Current Account in the case of Repos.

ix) Since the securities available in RC SGL Account are meant only for availing liquidity from Reserve Bank, the system will automatically transfer the securities once the allotment is complete. Securities falling under shut period either on the date of transaction or on the date of reversal will not be eligible for collateral.

## **6. Eligibility**

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

## **7. Minimum bid size**

Bids will be received for a minimum amount of Rs.5 **crore** and in multiples of Rs. 5 crore thereafter.

## **8. Eligible Securities**

Reverse Repos and Repos will be undertaken in all SLR-eligible transferable Government of India dated Securities/Treasury Bills.

## **9. Margin Requirement**

A margin will be uniformly applied in respect of the above eligible securities. The amount of securities offered or tendered on acceptance of a bid for Rs.100 will be Rs.105 in terms of face value.

#### **10. Settlement of Transactions**

The settlement will be done on a gross basis for the LAF and the SLAF separately and will not be netted.

The settlement of transactions in the auction will take place on the same day. As the second leg of all SLAF transactions are automatically generated at the 'begin of day', participants must ensure sufficient balance in their current account in case of reversal of Repo.

#### **11. SLR and Securities held in Repo SGL Account**

Securities held by the Reserve Bank on behalf of participants in RRC SGL account and credit balance in the RC SGL Account will be counted for SLR purpose, participants can take the balance printout of their accounts at their end from the system. Securities Section, PAD will not provide daily certificate for SLAF settlement in the new system. It may be noted that the unused balance available in RC Account cannot be used in other transactions unless transferred to SGL account by RC Withdrawal. As far as valuation, etc. for SLR purpose is concerned, the extant instructions issued by the Department of Banking Operations and Development (DBOD) of the Reserve Bank will apply.

#### **12. Terms and Conditions**

Tender forms for bid submission for "Reverse Repo Auction" and "Repo Auction" along with terms and conditions are enclosed at Annexures I and II respectively.