

Chapter 4:

Planning for the Development of Repo Market

4.1. This Chapter deals with areas which are of immediate concern to the Group in the context of development of the repo market in India. As mentioned in the earlier Chapter, over the course of its discussions the Group made observations on the need for expansion of the repo market in terms of enhanced participation and eligible instruments. It also pondered over the need for uniform accounting standards and documentation. The other areas of its concern are dealing and settlement systems which required to be put in place and the need for evolving a code of conduct for the market participants. Also, need for removal of certain procedural irritants has been suggested by the Group as an integral part of the plan for development of the repo market.

LEGAL POSITION

4.2. At the outset, the current legal position is that the forward or second leg of a repo transaction will be legal and valid only if it is not hit by the Government Notification prohibiting repos. Accordingly, in order to legally facilitate the repos transactions RBI had to take up the issue with the Government to exempt banks, etc. from this prohibition. As long as the June 1969 notification is operative, RBI would have to continue to take up with the Government to issue necessary notification exempting, such of those entities as deemed necessary by the Bank, from the prohibition contained in the notification. It will not be possible for most intending parties (other than the few permitted) to legally participate in repos unless the Notification is withdrawn by the Government. Hence, the first basic legal requirement for developing repos is to withdraw the Government Notification dated June 27, 1969.

4.3 Repos undertaken by RBI, however is exempted in terms of Section 28 of the Securities Contract (Regulations) Act as the provisions of the Act do not apply to the Government, RBI and any local authority or any corporation set up by a special law or any person who has effected any transaction with or through the agency of any of these authorities. Till such time, the above mentioned notification is not repealed there would, however be need to notify institutions by names to make them eligible for undertaking repos. Mere withdrawal without regulatory framework is not advisable and it is necessary for RBI to have legal authority to regulate the repos market.

4.4 Repo being short term money market instrument, is being used for smoothening volatility in money market rates by central banks through injection of short term liquidity into the market as well as absorbing excess liquidity from the system. Regulation of repo market, thus becomes a direct responsibility of RBI. As expansion of the repo market with wider participation and variety of instruments would require RBI to have enhanced regulatory powers over the debt market there is need to amend Section 29A of SCR Act. to enable the Government to delegate regulatory powers in respect of trading in Government Securities and other debt instruments to the Reserve Bank. While the "Internal Working Group to Study Legal and Regulatory Aspects of Financial Markets" has already made recommendations to this effect, there is need to pursue the amendments vigorously as they would provide the required legal base for regulating the repo market.

4.5 In view of the developments which are envisaged to take place in the financial market in general, and the repo market in particular, there is need for a computerised system linking the participants and PDO for trading and settlement. The system should ideally provide facility both for trading, confirmation and settlement. The Group recognises the legal impediments in the way to electronic transfer of gilt securities which is not possible under the Public Debt Act, 1944 and the need to effect early replacement of the Public Debt Act by the proposed Government Securities Act has assumed great expediency. The Group urges that immediate steps should be taken to resolve the legal and procedural difficulties in the way to achieve a modern market infrastructure. It may be worthwhile to take due cognizance of the changing face of securities settlement systems, the world over with the use of information technology.

WIDENING AND DEEPENING OF THE MARKET

4.6. The position regarding participation and eligible instruments for undertaking repo transactions at present is as under:

- (i) All banks, cooperative banks, Primary Dealers (by name) and Satellite Dealers (by name) are permitted to undertake ready forward transactions in all Central Government securities including Treasury Bills provided the transactions are settled through SGL Accounts maintained at Public Debt Office, Mumbai;
- (ii) Nonbank entities as notified by the Central Government are permitted to undertake reverse repos subject to restrictions on counterparties and instruments as mentioned above.

4.7 Further, keeping the usefulness of repos in view as an instrument for the development of the money market it was decided in the Monetary Policy for the first half of 1997-98 to allow repos in such PSU bonds and private corporate debt securities which are held in dematerialised form in a depository and the transactions done in recognised stock exchanges. Till recently, pending a resolution on stamp duty these instruments could not be used for undertaking repos. However, with the announcement in the current budget on removal of stamp duty on transactions in debt instruments in demat form these instruments are expected to be used in repo transactions subject to Government's notifying their eligibility for the purpose.

WIDER PARTICIPATION

4.8 The repo market in India operates under a controlled environment and the Group examined the need for expansion of repo market in terms of participation and eligibility of instruments. The Group is of the view that in terms of the participants there is need to expand the market to include all entities including corporates while in terms of eligible instruments it could be possible to make all government securities including those issued by State Governments and debt securities issued by PSUs, corporate entities and All India Financial Institutions eligible for undertaking repo transactions.

4.9. The Group observed that repos have been restricted to interbank market in India and it has thus kept away a large number of potential users such as financial institutions, corporates and pension funds from its purview. It is well recognised that extension of repos to these institutions would provide them with access to financing at competitive rates in case of need.

These institutions, otherwise need to resort to distress sale of securities when there is a need for funds.

4.10. A case for widening participation is also justified from the point of view of the recommendations of the Narasimham Committee II which has observed that the participation of nonbanks in the call money market resulted in volatility in the market. It has advocated that call/notice /term money market should be a pure interbank market including Primary Dealers. The exit of nonbanks from call money market would reduce the funds available in the call money market considerably as the lendings by non-bank institutions constitute about 40 per cent of the total lending in the call money market. Consequently these funds are expected to seek avenues for deployment. It has already been announced in the Monetary Policy Measures for the second half of 1998-99 that the move towards pure interbank call money will be implemented in a manner that the existing lenders in the market will have operational flexibility to adjust their asset-liability structure.

4.11 The decision to exit the nonbank participants from the call money market raises the issue about the instruments in which the nonbank institutions may be allowed to invest their surplus funds which are presently deployed in call money market. (of the order of Rs.5,000 crore). While at present the non bank entities can undertake reverse repos they are not allowed to repos – thus they do not have two-way access in the repos market. If provided two way access the need to keep large “cash balances” will be reduced and these institutions could invest across the yield curve without anxiety thus facilitating their cash management as also development of a yield curve. The Group is, therefore of the view that permission to nonbank entities to enter the repo market two ways would be beneficial both from the point of view of the non bank entities as also the market.

4.12 Further, keeping the usefulness of repos in view as an instrument for the development of the money market RBI has already been advocating the need to widen participation in the repo market in a phased manner. The facility has already been extended to Primary Dealers and Satellite Dealers in the recent past.

4.13 Inclusion of non banks as participants in the repo market would have the following advantages.:

4.13.1 It will enhance liquidity in respect of Government securities held encouraging them to enlarge their holdings voluntarily which would be very much welcomed in the context of the Government's market borrowing programme of higher amounts, in future;

4.13.2 Nonbanks, when are allowed to operate two way instead of the existing one way by taking part in reverse repos only, would help the market to narrow the spreads between repo and reverse repo rates making efficient allocation of liquidity possible; and

4.13.3 It would give rise to varying maturities as far as repo transactions are concerned as the market participants would go in for periods of their choice thus giving rise to the development of a term money market through price discovery.

4.14. There are however, arguments against any further expansion of the participants in the

repo market. They are as under:

- 4.14.1 RBI has a promotional role to play in developing and activating market in money market instruments and government securities which have direct bearing on Monetary Policy. Repo is a money market instrument and money market is not open to all players. In this context, the Group is aware that there is an existing view on the implications of the signals the repo market could have for policies pursued and it would be desirable that only participants in the money market should be made eligible to participate in the repo market.
- 4.14.2 Repos are money market instruments which are treated variously as borrowing/lending and selling/buying by different market participants. The impact of this on accounting and the asset-liability patterns could be significant. The regulatory concern about non-bank participation related to the fact that borrowing from a non-bank results in increase in the liabilities and consequently the levels of CRR/SLR to be maintained thus impacting the maintenance of statutory reserves by banks. Also, a bank could meet its cash requirements by doing a repo with the non-bank, treating the repo instrument as a transaction of sell/buy and it could be viewed as being aimed at avoiding the booking of liability

4.15 To the extent non banks switch their investment from money market to the repos market, the reserve base would be diminished but this is possible even under the present regulation allowing non banks to participate in reverse repo transactions. Further, as long as banks have surplus SLR, borrowing against repos is “reserve free” as compared to borrowing in money market and the banks are then on level playing field with non banks in this sense. Provided there is uniformity in accounting treatment of repos by the different participants in the repos market, efficient DVP systems for all repos transactions undertaken, prudent ALM guidelines laid down and followed by bank and non bank financial entities, “haircuts” or “margins” levied and maintained on an ongoing basis repos could bring about enhanced flexibility and liquidity to the financial markets.

ADDITIONAL INSTRUMENTS

4.16 The Group observes that currently, the repo transactions are driven by two considerations and they comprise compliance with SLR requirements and use of SLR securities to raise short term finance. In fact, there is enough evidence to show that neither of these types of transactions actually contribute to the depth and liquidity of the Government securities market, in the real sense. There is a need to make eligible a variety of other instruments such as bonds of all India financial institutions, public sector units and corporate entities to make a vibrant and active repo market.

4.17 As in the case of widening participation, deepening of the repo market through introduction of eligible instruments as well, needs to be thought of. The Group is, therefore, of the view that PSU bonds and corporate bonds as also bonds of All India Financial Institutions held in demat form which enjoy high level of safety and liquidity can be considered for repo transactions and the time is opportune enough to add more to the existing instruments.

4.18 Since some of the State Government securities have also acquired liquidity over a period

of time as an addition to the existing stock of securities eligible for repo transactions if the outstanding amount of all State Government securities are also made eligible it would further add Rs.60,000 crore or so, in value to the existing stock of instruments thus enhancing the quantum of eligible instruments to around Rs.3,85,000 crore. Since State Government stocks are risk free and therefore, on par with Central Government dated securities with a comfortable margin by way of higher coupon for comparable maturities to compensate for their illiquidity, once they become eligible as an instrument for repo transactions, there is reason to believe that their liquidity as well, would improve. The Group's recommendations would be justified on grounds that although all Central Government marketable securities are now eligible for repos only benchmark securities are liquid enough for the purpose. While repo transactions in respect of State Government securities may be restricted to SGL Accounts at Mumbai, in due course with the introduction of computerisation of PDOs it should be possible to extend repo transaction settlement to all PDOs.

"OVER THE COUNTER" AND EXCHANGE TRADED " REPOS

4.19 Since PSU bonds and Corporate Debt Securities in dematerialised form in a depository are already eligible (subject to issue of notification by Government) for undertaking repos transactions through a Stock Exchange, it was felt that this arrangement could be extended to Government securities as well, thus making "exchange traded" repos in Government securities a reality. However, since the memories of the irregularities committed in the Government securities market through ready forward transactions are still very fresh such an expansion needs to be undertaken with caution. The Group is of the view that keeping the needs of the market participants a system of "over the counter" and "exchange traded" repos with adequate checks and controls could be introduced, as under:

- (i) All entities who have SGL Account and Current Account with RBI may be allowed to undertake "over the counter" repos and reverse repos in all Government securities (including those issued by the State Governments). For the present, such repos may be restricted to SGL Accounts at Mumbai and in due course with successful linking of all RBI offices, it could be extended to other RBI centres.
- (ii) All entities including corporates may be allowed to undertake repos and reverse repos in all Government securities, PSU bonds, Private Corporate Debt Securities and bonds issued by All India Financial Institutions provided firstly, the debt instruments are held in dematerialised form in a depository and the transactions are undertaken through approved stock exchange with a well capitalised clearing corporation functioning as legal counter party.

Transactions under (ii) above, involving triparty could be permitted provided the triparty agent is a well capitalised Clearing Corporation⁽²⁾ licensed to function as a legal counterparty in all such transactions and where such an agency would define acceptable securities from within the specified broad categories as mentioned above, execute required haircuts, do daily marking to market, ensure that all participants maintain adequate collateral at all times, the quantity traded is in standardised lots and the settlement is done under "novation", maintaining anonymity of counterparties all the time.

Under "novation" , an entity A does a repo against a Clearing Corporation and the Clearing Corporation does a repo against an entity B. The Clearing Corporation would view both A and B as sources of credit risk and insist on collateral from both sides. There could be a

defined number of Clearing Corporations, licensed for the purpose. The regulating authority would vet the policies and audit the operations of the Clearing corporations. The clearing corporation would define acceptable securities and haircuts, do daily marking to market and ensure that all participants maintain adequate collateral at all times. The Clearing Corporation being the legal counterparty in all transactions, the proposal when implemented would help remove credit risk from the repo market. The concept of "novation" , in fact, helps alignment of the enforcement objectives of the Clearing Corporation with the enforcement objectives of the regulator.

ACCOUNTING TREATMENT

4.21 . The complication in accounting of repos arises from the fact that the transaction involves an outright sale of securities with an irrevocable commitment to repurchase at an agreed price after a certain period while the transaction could also be considered as a borrowing of money against the collateral of securities. In consonance with the International Accounting Standards (IAS -1) and the Accounting Standards (AS-1) set out by the Institute of Chartered Accountants of India, the "substance" has to take a precedence over the "legal form" while incorporating any accounting transaction in the financial statements. This would mean that the underlying nature and spirit than the form of the transaction should reflect the financial statements, since, these statements are used for making evaluations of the financial strength of the entity concerned and thus facilitate most appropriate financial decisions. On the other hand, it also helps management to take appropriate and timely action.

4.22. In India, the accounting treatment given to repos in majority of the cases does not follow the "substance" approach. There are two broad type of accounting treatment observed as under:

- (i) Some entities treat repos as money market borrowing/lending operations against the collateral of securities, thus reporting the cost of repo as interest expense;
- (ii) A majority of the entities strictly go by the definition of repos and treat them as an outright sale in the first leg and a repurchase in the second leg.

4.23 The second approach leads to booking the capital gains/losses in the first leg itself, though in fact, the securities are to be repurchased in the second leg. Further, during the repo period there is a presumption that the coupon would accrue to the lender of money.

4.24. There is need for uniformity in treatment of similar transactions by all market participants and accounting treatment has to be standardised. There is a view that the confusion over accounting of repos in India is on account of treating them as "buy/sell back repos" . The Group, therefore examined the advantages and disadvantages of a shift to "classic repo" and whether a classic repo could address most of the accounting problems encountered in the case of a buy/sell back repo. In a classic repo:

- 4.24.1 The starting and end prices of the securities are same and the payment of "interest" is made separately, thus establishing clearly the spirit or substance of the underlying transaction. i.e. a borrowing/lending transaction.
- 4.24.2 If the buyer of the bond receives a coupon payment while holding the bonds, the same is paid to the seller immediately, whereas in the case of a buy/sell

back repo, it is incorporated in the repurchase price. This is one reason why in India during "shut period" repos in Government securities are not preferred;

- 4.24.3 Since the interest component is not embedded in the repurchase price, it allows the repo cost as an item of expenditure/income in the financial statements of counterparties, treating the repo transactions as borrowing activity against the collateral of securities;
- 4.24.4 Unlike in the case of buy/sell repo where low coupon securities are not considered for repo transactions for fear of booking of losses, classic repo would release a huge portfolio of low coupon government securities for the purpose of repos;
- 4.24.5 Marking to market to take care of the market risk on a daily basis is possible;
- 4.24.6 Open trades i.e. repos terminable at any time at the instance of either of the contracting parties are feasible.

4.25 Although there are major advantages in going in for classic repos it would be difficult to get the transactions legally accepted in India as the two legs of the repo are still being not considered generally as a part of a composite instrument. . Also, under classic repo it may not be desirable to allow the cash taker to include securities sold, for calculation of SLR as the country is still under minimum SLR requirements. Further, classic repo does not allow the purchaser of securities recon the securites for SLR purposes, during the repo period.

4.26 Thus, while a total shift to "classic repo" could address most of the accounting problems encountered, it may not be possible to implement the proposal in view of the legal treatment of repos as buy sell back transactions. In the circumstances, the Group is of the view that it would be better to continue with "buy sell back" repo.

4.27 In this context, it may also be recalled that following the Janakiraman Committee, RBI advised banks that all repos should be done at market rates to ensure transparency. While the Group is totally in agreement with the view that off market rate repos can hide a variety of payments it is necessary that the system allows for haircuts or margins to be maintained for market and liquidity risk. This is essentially a risk management function and management of banks would in addition to laying down haircuts could also specify the extent of "haircuts" or margins to be applied for different types of instruments. The money market dealer would then only be responsible for fixing interest rate. In order that there is uniform accounting treatment and sufficient transparency, the Group has accepted continuance of the "buy-sell back repo concept" and has suggested standardised accounting norms for repos so that there is uniformity in approach towards accounting in general and applying haircuts/margins, booking of capital gains/loss and separation of the interest paid/received in the transaction, in particular. The uniform accounting treatment of repos is accordingly placed at Annexure II.

DEALING AND SETTLEMENT

4.28 The existing mode of trading is 'over-the-counter' with a system of confirmation of the deals. If the deal is through a broker, broker's note also forms part of the deal documentation. Settlement is done at PDO in the SGL system which provide for DVP settlement providing for end-of-day settlement. Consequently no transaction can be treated as final till the end of

the day, exposing the participants to a systemic risk of one deal being dishonoured leading to a sequential transaction failure. As long as the SGL/Current Account system is open to creditworthy parties who come under RBI's system of monitoring, the above risk may not crystallise. But the position will be significantly different when the participation to Repo market is enlarged. The above position underlines the need for introducing sophistication in trading and settlement systems in tune with the increasing level of participation in the Repo Market.

4.29 As regards settlement, the existing system of end-of the day DVP cannot be considered risk free due to bottlenecks in movements of securities and cash. as explained above. A system of provision of Day-Light overdraft to the current account holders by RBI may be thought of to avoid such eventuality.

4.30 While the proposed entry of all non-bank institutions maintaining Current and SGL Account with RBI may not exert much pressure on the existing system, entry of corporates would be critical from the point of view of the preparedness of the physical settlement systems and legal and regulatory environment. Firstly, the corporate entities generally hold their gilt securities indirectly in the Constituents' SGL Accounts maintained with RBI by banks and PDs/SDs (hereinafter called Gilt Dealer (GD), for the sake of convenience).

4.31 Banks, Primary Dealers and Satellite Dealers are provided the facility to maintain a second SGL Account in the books of Public Debt Offices. The eligible entities can hold Government securities in these Constituents' SGL Accounts, where the beneficial ownership belongs to their constituents. The system is meant to facilitate a simple and indirect form of investment in Government securities by investors. However, such beneficial ownership of the constituents is not recognised in the Public Debt Act, 1944. The relationship between the entities holding Constituents' SGL Accounts and their constituents are contractual where as the formers' relationship with RBI and Government is governed by the Public Debt Act and the rules made, thereunder.

4.32 As the transfer of securities would be made in the books of the GD a framework of DVP has to be designed to rule out settlement failures. In addition, it would also be necessary that clear guidelines are issued by RBI to regulate the maintenance of Constituents' SGL Accounts by GDs particularly emphasising the fiduciary role of the GD. While the guidelines could provide for GDs obligations and a code of conduct in dealing with the constituents' securities, in the area of repos deals between the corporate and a bank/PD, it is necessary that the settlement is done by DVP in the books of RBI using the GD's funds subject to the GD ensuring that the DVP at RBI is invariably preceded by the recovery of funds from the constituent.

4.33 In the context of gradual deepening of the Government securities market and the policy to promote the retail segment of the market, it is felt expedient to frame a set of guidelines governing the maintainance of the Constituents' SGL Accounts by these entities. The Guidelines should lay down eligibility conditions to hold Government securities in the indirect form, responsibilities of Constituent Account holders, Custody, transfer and mechanics followed for settlement of transactions. This would go a long way in elimination of undesirable practices which could crop up in the wake of an active Government securities market in general and a repo market, in particular.

4.34 The Working Group, in its draft guidelines for maintenance of Constituents' SGL

Account placed at Annexure III, has provided for obligations and code of conduct including transparency and safety in dealing with the Constituents' securities. These Guidelines could be finalised after discussion with representative self regulatory organisations of the market participants.

4.35 To avoid differences in practices followed it would be desirable to stipulate deal date and settlement date. At present deals undertaken take, often more than stipulated number of days for execution and settlement. In order that there is no confusion deals can either be settled on the same day or the next day of the deal and this should be clearly indicated in the contract/terms of deal to ensure that there is no confusion/variance in settlement date of repos.

DOCUMENTATION

4.36 The two main risks are default risk and the issuer risk. The credit risk involved in repo transaction is offset to a great extent by the fact that on default by counterparty the lender can liquidate the securities received. Similarly, the seller of securities holds cash against no return of securities by the purchaser. However, when the realisable value of securities does not match the exposure, such offsetting is not adequate. Also, illiquid issues, defect in title and enforceability of contractual terms pose problems. Under the issuer risk, the market volatility of the security (market risk) and the risk of default by the issuer are the main risks. If proper legal documents are available, on default by issuer, the counterparty would remain bound to make good the fall in market value of security. A suitable legal agreement also needs to be signed with the counterparties.

4.37 Accordingly, the Group felt that it is essential to settle and standardise the matters to be covered under a legal agreement governing a repo transaction. The agreements could have provisions for:

- 4.37.1 Transferring of title to securities (including any securities transferred through substitution or mark-to-market adjustment of collateral);
- 4.37.2 Marking to market of transactions daily basis;
- 4.37.3 Specifying clearly the events of default and the consequential right and obligations of the counterparties;
- 4.37.4 Clarifying the rights of the parties regarding substitution of collateral and the treatment of coupon and interest payments in respect of securities subject to it, including, for example, the timing of any payments.

4.38. Working Group has attempted a draft document which could be modified suitably to meet actual requirements in repo transactions. The Draft Master Repurchase Agreement on the lines of the global master repurchase agreement of the Public Securities Association, New York, placed at Annexure IV has provisions for absolute transfer of title of securities (including any securities transferred through substitution or mark to market adjustment of collateral), daily marking to market of transactions, specifying clearly the events of default and the consequential right and obligations of the counterparties, clarifying the rights of the parties regarding substitution of collateral and the treatment of coupon and interest payments in respect of securities subject to it, including, for example the timing of any repayments. In

the event of default, repo counterparty should have to stand in queue along with other creditors and this aspect has especially been taken care of. A final master repurchase agreement based on the draft could be prepared in consultation with the representatives of the market participants.

CODE OF CONDUCT

4.39 The Group is of the view that as the market for repos is being expanded there is the immediate need for evolving a code of best practice and this could be done by a working group of market practitioners and regulators to ensure that the repo market is adequately controlled and understood. Such a code of conduct would include issues participants should address before undertaking repo transactions, legal agreements in prevalence, margins, marking to market, exposure limits on counterparties, custody of collaterals, right to declare a counterparty in default, confirmation of deals, matters to be covered before trading with a new counterparty, information to be exchanged at point of trade etc. The Group has included a draft code of conduct which has been included as a part of this report and placed at Annexure V for the benefit of the market practitioners.

SUPERVISION

4.40 The memories of the irregularities committed in the Government Securities Market is still very fresh in the minds of the market participants and the regulators. As more participants and instruments are made eligible for undertaking repo transactions RBI may like to monitor the size, growth and orderliness of the repo market. RBI could also seek reports institutionwise, on the value of repo contracts entered into, broken down by original maturity for specific periods, total number of deals undertaken during the period, the value of repo transactions outstanding at the end of the period, broken down by residual maturity. As money market on line dealing system is installed and made operative it should become possible for RBI to monitor the market online focusing on participants, market rates, trading patterns etc.

OPERATIONAL IRRITANTS

4.41 There are a few operational irritants which have been plaguing smooth undertaking of securities transactions in general and repo transactions in particular. These include inability to roll over repos, and confusion over maximum period for repos contract which needed to be addressed by the Group.

Roll Over of Repos

4.42 As a part of its policy on repos, RBI does not permit roll over of Repos. The rationale for this is when one repos is replaced with another especially with another especially since the requirement of funds could be a constraint. As long as the securities are valued at the prevailing market prices at time of roll over haircuts freshly applied cash payables/receivables settled rollover is at rates of interest in alignment with prevailing market rates, the Group is of the view that rollover of repos (which is somewhat akin to rollover of forex swaps) could be permitted. The rollovers could be for any period as agreed to by the parties and need not have any relationship with the original contract period.

Duration

4.43. There are at present no restrictions on the duration of repos. Effective October 31, 1998, RBI has already withdrawn the restriction of a minimum of 3 days for a repo transaction which has been operative. However, the convention of 14 days for forward leg came perhaps due to the concept of reporting by banks on fortnightly basis and reserve requirement on inter-bank liabilities. A clarification stating that such restrictions do not exist would help the market.

(2) The arrangement for Tripartite repos will involve the concept of Clearing Corporation which would act as a counterparty and perform novation. It will guarantee all trades done on an exchange as per the terms and conditions of its guarantee framework. In this context, all participants who will use this facility will be governed by the Rules and Regulations framed by the Clearing Corporation. The rules and regulations will focus on various factors as under:

1. Applicability comprising entities and eligibility criteria, eligible securities, eligible trades/contracts 2. Procedures for trade execution, confirmation etc. 3. Methods of settlements, settlement periods etc. 4. Settlement procedure viz. Obligation generation etc. under broad categories comprising securities settlement and cash settlement 5. Guarantee Framework with details on settlement fund, contributions etc. 6. Risk containment framework including, top ups, withdrawals, initial margins, exposures, margins, re-pricing, modifications of a transaction . substitutions depending upon the volatility and risk issues arising in the market etc. Clearing Corporation may introduce other appropriate measures for containment of risk from time to time. 7. Events of defaults and closing out which would include auctions, shortages/exception handling, auto assign, fines and penalties, inflation adjustment to the principal etc. The rules and regulations will act as a binding agreement between Clearing Corporation and participants.