

RBI announces draft framework on introduction of Tri-Party Repo

The Reserve Bank of India has released the draft framework on the introduction of Tri-Party Repo. Tri-party repo will enable market participants to use underlying collateral more efficiently and facilitate development of the term repo market in India. Draft directions allow introduction of tri-party repo on both Government securities and corporate bonds.

Draft Tri-Party Repo (Reserve Bank) Directions, 2017 --The Reserve Bank of India having considered it necessary in public interest and to regulate the financial system of the country to its advantage, in exercise of the powers conferred by section 45W of the Reserve Bank of India Act, 1934 and of all the powers enabling it in this behalf, hereby issues the draft Tri-Party Repo (Reserve Bank) Directions, 2017 dated April 11, 2017 (the Directions).

Short Title and commencement--These directions shall be referred to as the Tri-Party Repo (Reserve Bank) Directions, 2017

Definitions:

- "Repo" means an instrument for borrowing funds by selling securities with an agreement to repurchase the securities on a mutually agreed future date at an agreed price which includes interest for the funds borrowed.
- "Reverse repo" means an instrument for lending funds by purchasing securities with an agreement to resell the securities on a mutually agreed future date at an agreed price which includes interest for the funds lent.
- Tri-party repo is a type of repo contract where a third entity (apart from the borrower or lender), called a Tri-Party Agent, acts as an intermediary between the two parties to the repo to facilitate services like collateral selection, payment and settlement, custody and management during the life of the transaction.

Eligible Collateral: Eligible collateral for tri-party repo shall be securities as specified in Repo Directions FMRD.DIRD.03/14.03.002/2014-15 dated February 3, 2015 and FMRD.DIRD.6/14.03.002/2016-17 dated August 25, 2016 and as updated from time to time. Substitution of collateral will be permitted subject to the terms and conditions prescribed in the bilateral master repo agreement.

Trading Venue: Tri-party repo can be traded Over-the-counter (OTC) including on electronic platforms.

Reporting of Trades: All tri-party repos shall be reported within 15 minutes of the trade to the tri-party agent.

Documentation: The participants shall enter into standard bilateral master repo agreements. Separate agreements between a participant and a tri-party agent would be required as per the documentation prescribed by the tri-party agent which shall stipulate terms of trades.

Tenor, Settlement, Haircut and Disclosures: The tenor, settlement mechanism, minimum haircut, and disclosure requirements for tri-party repos will be identical to those applicable to normal repos, in terms of RBI directions FMRD.DIRD.03/14.03.002/2014-15 dated February 3, 2015 FMRD.DIRD.6/14.03.002/2016-17 dated August 25, 2016 or as permitted by RBI.

Tri-Party Agent:

I. Eligible Tri-Party Agents

- A. All tri-party agents need authorization from RBI to act in that capacity, before they commence operations.
- B. Scheduled commercial banks are eligible to be tri-party agents.
- C. Other entities regulated by RBI or SEBI subject to meeting the following criteria:

(a) Regulatory Approval

The applicant should have approval from the concerned regulator to conduct business of tri-party agent. An applicant will not be eligible for authorisation, if within the last 5 years, it has been subject to litigation or adverse regulatory action or punitive action that the Reserve Bank considers material.

(b) Financial Criteria

The applicant should have minimum net owned funds of Rs. 25 crore which should be maintained at all times.

The foreign shareholding, if any, of the applicant entity would be as per the extant foreign investment policy.

(c) Experience

The applicant should have past experience of at least five years in the financial sector, India or abroad, preferably in offering custodial services.

(d) Infrastructure

Tri-party agents should have adequate system infrastructure to carry out their roles and obligations stated below. They should submit documentation/certification to this effect.

D. Roles and Obligations:

i. The agent shall be responsible for revaluation of the collateral, margining, income payments on the collateral, as well as substitution of any collateral as per terms and conditions prescribed in the agreement.

ii. The agent shall be required to put in place transparent and reliable collateral valuation norms.

iii. The agent would be responsible for reporting the trades to the designated Trade Repository. It is required to set up a mechanism to ensure flow of trade details to the authorised trade repository and the settlement system. The agent should report trades to the Trade Repository within 15 minutes of receiving intimation of trade from counterparties to the trade. However, the agent would not be involved in settlement of tri-party repo transactions, unless it is a bank.

iv. The agent shall be required to maintain records of trades in easily retrievable media for at least 8 years.

v. The agent should take all reasonable measures to ensure adherence to RBI's repo directions.

RBI seeks comments on the draft framework on introduction of Tri-Party Repo. Kindly find enclosed Draft Tri-Party Repo (Reserve Bank) Directions, 2017 released by RBI for your kind reference. Please send your suggestions (if any) to Ms. Surbhi Sharma, Senior Research Officer at surbhi@phdcci.in latest by 24th April 2017.

Please contact for any query related to this mail to Ms. Surbhi Sharma, Senior Research Officer at surbhi@phdcci.in with a cc to Dr. S P Sharma, Chief Economist, PHD Chamber of Commerce & Industry.

Warm regards,

Dr. S P Sharma
Chief Economist

PHD Chamber of Commerce and Industry
PHD House, 4/2 Siri Institutional Area
August Kranti Marg, New Delhi-110016
Ph.: + 91-11-26863801-04, 49545454
Fax: +91- 26855450, 49545451
Email: spsharma@phdcci.in
Website: www.phdcci.in

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PHD CHAMBER OF COMMERCE AND INDUSTRY

PHD House, 4/2 Siri Institutional Area, August Kranti Marg, New Delhi - 110 016 (India)

Tel. : +91-112686 3801-04, 49545454, 49545400 - Fax : +91-11-2685 5450 - E-mail : research@phdcci.in - Website : www.phdcci.in