

RBI releases draft directions on Repurchase transactions (Repo) (Reserve Bank) 2018 under section 45 W of the RBI Act, 1934

The Reserve Bank of India released Draft Directions on Repurchase transactions (Repo) (Reserve Bank) 2018. Reserve Bank of India in its Statement on Developmental and Regulatory Policies dated February 7, 2018 announced that RBI will issue a streamlined and simplified Comprehensive Repo Directions with a view to harmonize regulations across different types of collateral and also to encourage wider participation, especially for repos in corporate bonds and debentures. Accordingly, a draft Repurchase transaction (Repo) (Reserve Bank) Directions, 2018 were issued for feedback.

Repurchase transactions (Repo) (Reserve Bank) Directions, 2018- Draft

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 under section 45W of the Reserve Bank of India Act, 1934 (RBI Act) and of all the powers enabling it in this behalf, hereby gives the following directions to all persons dealing in repurchase transactions (repos).

1. Short title and commencement of the directions

These directions may be called the Repurchase transactions (Repo) (Reserve Bank) Directions, 2018 and shall supersede all other Directions issued in this regard.

2. Definitions

- a. **Government securities mean** a security created and issued by the Central and State Government for the purpose of raising a public loan or for any other purpose as may be notified by the Government in the Official Gazette and having one of the forms mentioned in section 3 of Government Securities Act 2006.
- b. **Corporate bonds and debentures mean** non-convertible debt securities issued in India, which create or acknowledge indebtedness, including (i) debentures (ii) bonds (iii) commercial papers (iv) certificate of deposits and such other securities of a company or a body constituted by or under a Central or State Act, whether

constituting a charge on the assets of the company or body or not, or such other persons as may be specified by the Reserve Bank.

- c. **Municipal bonds means** a debt security created and issued by or on behalf of a municipality or a local authority in India for the purpose of raising a public loan or for any other purpose, which are specified in this behalf by Govt. of India.
- d. **Regulated entity** means any person, other than an individual or HUF, that is subject to the regulatory jurisdiction of an Indian financial regulator viz. Reserve Bank of India, Securities and Exchange Board of India, Insurance Regulatory and Development Authority of India, Pension Fund Regulatory and Development Authority, National Housing Bank and National Bank for Agriculture and Rural Development.
- e. **Listed corporate** means a company or firm whose shares and (or) debt are listed and traded on an official stock exchange recognized by the concerned regulator.
- f. **Delivery versus Payment (DvP)** is a settlement mechanism which stipulates that transfer of funds from the buyer of securities must be made simultaneously with the transfer of securities by the seller of securities.
- g. **Repo** is as defined in Section 45U (c) of RBI Act, 1934.
- h. **Reverse Repo** is as defined in Section 45U (d) of RBI Act, 1934. A 'repo' transaction by an entity is 'reverse repo' transaction for the counterpart entity. Hence, in these Directions, the word 'repo' is used to mean both 'repo' and 'reverse repo' with the appropriate meaning applied contextually.
- i. **Tri-party repo** is a type of repo contract where a third entity (apart from the borrower and 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.
- j. **Haircut** is the difference between the market value of an asset and the purchase price paid at the start of a repo.

3. Types of repos

- a. **Tri-Party repos** are transacted through a Tri-Party agent in terms of Tri-Party Repo (Reserve Bank) Directions dated August 10, 2017.
- b. Standard repos.

4. Eligible collateral for repo

- a. Government securities.
- b. Listed corporate bonds and debentures :provided that no corporate bonds and debentures may be used as collateral for any repo transaction wherein at least one counterparty is either the issuer or a related entity of the issuer.

Listed corporate bonds and debentures also include securities issued in India by Multilateral Development Banks (MDB) like World Bank Group (e.g., The International Bank for Reconstruction and Development, The International Finance Corporation), the Asian Development Bank or the African Development Bank and other such entities as approved by RBI.

- c. Municipal bonds (as specified by Govt. of India)

5. Eligible participants

- a. Any regulated entity.
- b. Any listed corporate.
- c. Any unlisted company which has been issued special securities by the Government of India.
- d. Any All India Financial Institution (FIs) viz. Exim Bank, NABARD, NHB and SIDBI.
- e. Any other entity approved by RBI for this purpose.

6. Tenor

Repos shall be undertaken for a minimum period of one day and a maximum period of one year.

7. Trading

Repo transactions may be traded on recognized stock exchanges, electronic trading platforms (ETP) authorised by RBI or in the over-the-counter (OTC) market.

8. Reporting of trades

All repo trades shall be reported within 15 minutes of the trade to the reporting platform F-TRAC under Clearcorp Dealing Systems (India) Ltd. (CDSIL) and any other entity as specified by RBI.

9. Settlement of trades

- a. The first leg of all repo transactions shall settle either on a T+0 or T+1 basis.
- b. All repo transactions shall settle on a DvP basis.
- c. All government securities repos shall settle on a guaranteed basis through a clearing house approved by RBI.
- d. All repos in corporate bonds and debentures shall settle through the clearing house of exchanges or any other entity approved by RBI.

10. Sale and substitution of repoed security

Securities purchased under repo may be

- i. On-sold either as an outright transaction or as part of another repo transaction.
- ii. Substituted by another security by mutual agreement under pre-existing arrangement.

11. Pricing of collateral, Haircut and Margining

- i. Collaterals shall be priced transparently at prevailing market prices, in the first leg of a repo.
- ii. Haircut will be decided either by the clearing house or may be bilaterally agreed upon, under Global Master Repurchase Agreement (GMRA).

12. Accounting, presentation, valuation and disclosure

Repos shall be accounted for by RBI regulated entities as per guidelines contained in RBI circular no.

IDMD/4135/11.08.43/2009-10 dated March 23, 2010 (Annex I, II & III). Other eligible participants may account as per applicable accounting standards.

13. Computation of Cash Reserve Ratio (CRR) /Statutory Liquidity Ratio (SLR) and borrowing limit

The funds borrowed under market repo in government securities shall be exempted from CRR/SLR computation and the security acquired under repo shall be eligible for SLR. The borrowings of a bank through repo in corporate bonds and debentures and municipal debt shall be reckoned as 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.

14. Documentation

The participants in bilateral OTC market shall enter into Master Repo Agreement as per the documentation finalized by Fixed Income Money Market and Derivatives Association of India (FIMMDA).

Please find enclosed draft directions on Repurchase transactions (Repo) 2018 released by RBI for your kind reference.

RBI seeks comments and feedback on draft directions on Repurchase transactions (Repo) 2018". Please send your suggestions (if any) to Ms. Surbhi Sharma, Senior Research Officer at surbhi@phdcci.in latest by March 10, 2018.

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

Warm regards,

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