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1. What is Tri-party repo?

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

2. Who are the eligible members?

All the repo eligible entities as listed down in the RBI's Repurchase Transactions (Repo) (Reserve Bank) Directions, 2018 dated July 24, 2018, are entitled to participate in Triparty Repo segment. The entity type includes:

- a. any regulated entity,
- b. any listed corporate,
- c. any unlisted company, which has been issued special securities by the Government of India, using only such special securities as collateral,
- d. any All India Financial Institution (FIs) viz. Exim Bank, NABARD, NHB and Small Industries Development Bank of India (SIDBI), constituted by an Act of Parliament, and
- e. any other entity approved by the Reserve Bank from time to time for this purpose.

3. What is trading membership?

Participants who wish to execute the trades in Tri-party repo segment, will need to become a trading member of the stock exchange through which they propose to participate. Trading membership will be governed by the byelaws, rules and regulations of the concerned stock exchange.

4. What is clearing membership?

The members who wish to participate in the tri-party repo segment, need to become a clearing member of ARCL for clearing and settlement for its own trades. Clearing members will be governed by the bye-laws, rules and regulations of ARCL.

5. What is the procedure to obtain clearing membership?

Members who wish to obtain the clearing membership of ARCL, will first be required to take trading membership of the exchange through which they propose to execute their trades. Parallely, the member will apply to ARCL seeking clearing membership by submitting the application form along with the relevant documents and applicable fee.

6. What are the documents required for clearing membership?

The documents required for obtaining the clearing membership of AMC Repo is provided in the link <http://arclindia.com/documentation>

7. What are Eligible securities?

Eligible securities will be the listed corporate bond and debentures (Non-Convertible Debt securities), commercial paper and certificate of deposits as defined by AMC Repo from time to time. However, initially it is proposed to accept corporate debt securities with rating AAA and below upto AA- (with the exclusion of AA- with negative outlook). Further, commercial paper, certificate of deposit, bond ETFs etc. will be considered at a later stage and a notification to market will be issued. Perpetual bonds, ATR bonds, floating rate bonds, structured bonds are not eligible for triparty repo collateral.

8. What are the pre-requisites for trading?

Borrow: A Member desirous of borrowing shall transfer corporate debt securities (from the eligible list as published by ARCL) from its demat account with depository to the ARCL Settlement Pool Account with the depository and the details are given below:

Lend: A member desirous of lending shall transfer cash margin at the rate 0.50% of their lend value to the margin account of ARCL with clearing banks.

9. What is Haircut margin?

Haircut margin is a percentage rate applied on the market value of collateral placed by members for arriving at the borrowing limit. ARCL would specify hair-cut for securities based on rating and residual maturity (going forward, liquidity factor will also be considered while fixing hair-cut) of the security. Currently, the applicable hair-cut is as under:

<i>Residual Maturity of the security</i>	<i>Rating AAA & AA+</i>	<i>Rating AA</i>	<i>Rating AA-</i>
Up to 5 years	7.50%	10%	15%
Above 5 years	15%	15%	15%

10. How is the valuation of securities done?

The valuation of the securities that have been provided as collaterals, will be carried out using the information viz. clean price, accrued interest and haircut for arriving at the borrowing value for the members. This valuation process will be carried out on a daily basis at the EOD.

An example is given below:

Face Value of the Security: A = 100000

Market Price of the Security: B = 101

Market Value of the Security: C = A X B = 100000 X 101/100 = 101000

Accrued Interest of the Security: D = 1000

Hair-cut % applicable for the security: E% = 10%

Hair-cut Value of the Security: F = (C+D) X E% = (101000 + 1000) X 10% = 10200

Eligible Borrow Value of the security: G = C + D - F = (101000 + 1000 - 10200) = 91800

11. What is the procedure for deposit of cash collaterals?

Members who want to deposit cash with AMC Repo, will need to initiate a transfer from their banks current account to the margin account of AMC Repo maintained with the clearing banks. The intimation of such cash transfers need to be given through the collateral interface system of the clearing corporation. Bank account details are given in ARCL's consolidated circular.

12. Is it possible to deposit the collateral intra-day and borrow?

It is possible to deposit collateral intra-day and can be utilized for borrowing subject to the Member Exposure Limit availability for the member.

13. Is it possible to withdraw the collateral intra-day?

It is possible to deposit or withdraw collateral intra-day. Members wishing to withdraw their bond collaterals, will need to put through the request through the collaterals interface provided by the clearing corporation. However, in the case of withdrawal of collateral, a validation will be performed to ensure that the collateral is not blocked for the outstanding borrowing position, if any, of the respective member. If there is an outstanding position and collateral is blocked, then the collateral will not be released to the member else will be released.

14. What will happen to the coupon received on the bond placed as collaterals with AMC Repo?

The coupons on the bonds placed as collaterals with AMC Repo will be received into the account of AMC Repo and in case there is no outstanding borrow position, then the same will be transferred to the member (holder of the bond) on the next business day of receipt of coupons from the issuer.

15. What are the features of triparty repo product?

- Instrument Type: Discounted instrument
- Repo type: Basket Repo initially. Baskets would be constituted with corporate debt securities based on combination of rating, issuers industry etc.
- Repo tenor: From one day to 365 days. Initially, repo tenor would be kept at for lesser duration i.e. up to 7 days with maturity on every business day.
- Contract size: Minimum Rs.5 lakh and in multiples of Rs.5 lakh
- Quote: Interest rate in percent with a tick size of 1 bps
- Settlement cycle: T+0 (Settlement on the same day of trade) and T+1 (settlement on the next business day of the trade)
- Trading time proposed: 9 am to 1.30 pm for T+0 settlement; and 9 am to 5 pm for T+1 settlement

Trading contract specifications will be notified by stock exchanges

16. What will be the type of repo that will be traded?

Initially the trades will be executed in basket repo.

17. What are baskets?

Baskets will be created based on the rating of bonds, issuers and industry which issuer represents. There can be multiple baskets available for trading, each of them having distinct list of eligible securities. Examples of baskets are given below:

Ratings	AAA	AA+	AA	AA-
Sectors	Basket Identifier			
PSU	PSUAAA	PSUAA+	PSUAA	PSUAA-
BANK	BANKAAA	BANKAA+	BANKAA	BANKAA-
HFC	HFCAAAA	HFCAA+	HFCAA	HFCAA-
NBFC	NBFCAAAA	NBFCAA+	NBFCAA	NBFCAA-
Corporate (MC** > = 50 k Cr)	LCorpAAA	LCorpAA+	LCorp AA	LCorpAA-
Corporate (MC < 50 k Cr)	MCorpAAA	MCorpAA+	MCorpAA	MCorpAA-

** MC – Market capitalisation of the issuers

18. What is member Exposure Limit?

It is the maximum exposure that ARCL will take against members on account of their outstanding borrowing and lending transactions. Member Exposure Limits are fixed based on financial and non-financial criteria of the entity as per ARCL's internal risk criteria.

19. What is the initial margin for lenders?

Initial margin is collected from the lenders on the ready leg for the value lent. The initial margin will be collected at a rate of 50 basis point (0.50%) of the lent amount. The initial margin is to be deposited in the form of cash.

20. How to execute borrowing and lending trades?

The borrowing and lending trades can be executed on the anonymous trading platform provided by the exchanges.

21. What are the order level risk management tools?

In case of a borrower order, there is a system check on the available borrow limit (within the Member Exposure Limit) that has been given to the members based on the collateral contribution provided by the borrower. In case of a lend order, the system check is on the initial margin contribution provided by the lenders subject to availability of Member Exposure Limit.

22. What is the clearing and settlement procedure?

The trades will be executed on the anonymous trading platform of the exchanges. Based on the trades executed, a single net funds obligation shall be generated for each of the members for each settlement date which will include the following legs

- Ready leg settlement consideration of T0
- Ready leg settlement consideration of T1 for a trade executed in the previous business day
- Forward leg settlement consideration for trades executed in the previous business days maturing on the current business day

The Ready Leg Settlement consideration (T0 and T1) for the Clearing Member shall be net borrowed or net lent amount to be settled for the Repo Deals. Ready leg consideration is computed as under:

Ready leg consideration: $\text{Face Value} / 1 + (\text{Repo Interest Rate} * \text{Repo tenor} / 365)$

Forward leg consideration = Face Value

Example: Ready leg borrowing Rs.100 crore for one day at 8% per annum.

Ready leg consideration = $100 / (1 + (0.08 * 1 / 365)) = \text{Rs.}99.9781 \text{ crore.}$

Forward leg payable is Rs.100 crore.

23. Can a borrower rollover the borrow position on the day of forward leg?

Yes. It is possible. In order to facilitate members to borrow against the same collateral used for existing borrowing.

- Rollover can be done on the forward leg settlement day for the original borrow positions payable
- Rollover can be done for the tenor which may be same or different from the original transaction.
- Collateral shall remain blocked till the settlement of forward leg of the rollover position.
- In case if the rollover order requires any additional collaterals, then such order shall only be accepted if additional collaterals are available.

Settlement Obligation computation including the roll-over:

An example for computation of settlement obligation (considering roll-over of borrowing) is give below:

Day-1: Ready leg borrowing Rs.100 crore for one day at 8% per annum.
Ready leg consideration is Rs.99.9781 crore.

Forward leg payable is Rs.100 crore.

Day-2: Ready leg Borrowing (roll-over) of Rs.100 crore for one day at 12%.
Ready leg consideration is Rs.99.9671

Settlement Obligation on Day-2:

- | | |
|---|--------------------|
| a. Forward leg payable obligation of previous ready leg | : Rs.100 crore |
| b. Current ready leg receivable obligation | : Rs.99.9671 crore |
| c. Settlement obligation (a-b) | : Rs.0.03289 crore |

24. Will there be movement of securities from borrower to lender account?

There will be no movement of securities from the borrower to the lenders account. The Securities will be lying in the demat account of AMC Repo. The lenders will be provided with an allocation report at the EOD reflecting the securities against which the lending has been done.

25. Which are the clearing banks

Currently HDFC Bank Limited and ICICI Bank Limited are empanelled as clearing banks. The details of clearing banks are given in the consolidated circular

26. What are the membership fees payable?

Following fees and charges are applicable for clearing membership of AMC Repo

Admission fees (one time) – INR 50,000 /-

Annual Subscription fees – INR 10,000 /-

GST charges will be extra.

27. What are the transaction charges payable?

Transaction charges payable by the members are INR 15 per crore of Face Value, with minimum of INR 15 and maximum of INR 1,500 per trade.

GST charges will be extra.

28. What is the stamp duty applicable for the repo transaction?

The stamp duty will be charged at 0.00001% on the difference between the ready leg consideration and forward leg consideration.

29. Is SEBI turnover fee applicable for clearing members?

In terms of Schedule VI of SEBI Stock Brokers Regulations, an annual fee of Rs.50000 is payable by a self-clearing member/clearing member. However, the fee shall not be applicable for clearing member or self-clearing member in case the said clearing member or self-clearing member is already a clearing member or self-clearing member in any other segment and is paying fee for such segment.

30. What are the reports available for members?

Following member reports are provided by NSE Clearing

- Trade Listing
- Outstanding Position
- Obligation
- Penalty
- Margin Utilisation
- MTM Margin
- Blocking Summary
- Blocking Details
- Allocation Summary
- Allocation detailed
- Auction trade
- Obligation for Auction trades
- Settlement Status
- Coupon Payment
- Collateral Break up