

The New-age Solution to Deepen
the Corporate Bond Market in India



TRIPARTY REPO
IN CORPORATE DEBT SECURITIES

AMC Repo Clearing Limited

Table of Contents

1.	INTRODUCTION	3
2.	KEY BENEFITS	3
3.	TRI-PARTY REPO	3
4.	PRODUCT FEATURES	4
5.	PRODUCT SPECIFICATIONS	4
6.	ELIGIBLE ENTITIES	4
7.	FEES, DEPOSITS AND CHARGES	5
8.	CLEARING AND SETTLEMENT	5
9.	PROCESS FLOW	6
10.	COLLATERAL MANAGEMENT	6
11.	RISK MANAGEMENT	7
12.	SHORTAGE HANDLING	8
13.	CORE SETTLEMENT GUARANTEE FUNDS	8
14.	OTHER FACILITIES	8

1. Introduction

AMC Repo Clearing Limited (ARCL) is a Limited Purpose Clearing Corporation established with the objective to support deepening and widening the corporate bond repo market in India.

An initiative of SEBI in partnership with Asset Management Companies, and promoted by Asset Management Companies, Limited Purpose Clearing Corporation (LPCC) was setup by suitably amending the Securities Contracts Stock Exchanges and Clearing Corporations (SECC) Regulations, 2018. Accordingly, ARCL was incorporated in April 2021 with share capital contribution from Asset Management Companies (AMCs) having debt assets under management (Debt AUM). The authorized and paid-up capital of the company is Rs.150 crore.

ARCL has been granted recognition by SEBI under SECC Regulations 2018. ARCL has been authorized by Reserve Bank of India (RBI) under Payment and Settlement Systems (PSS) Act, 2007 to offer central counterparty services in triparty repo in corporate debt securities.

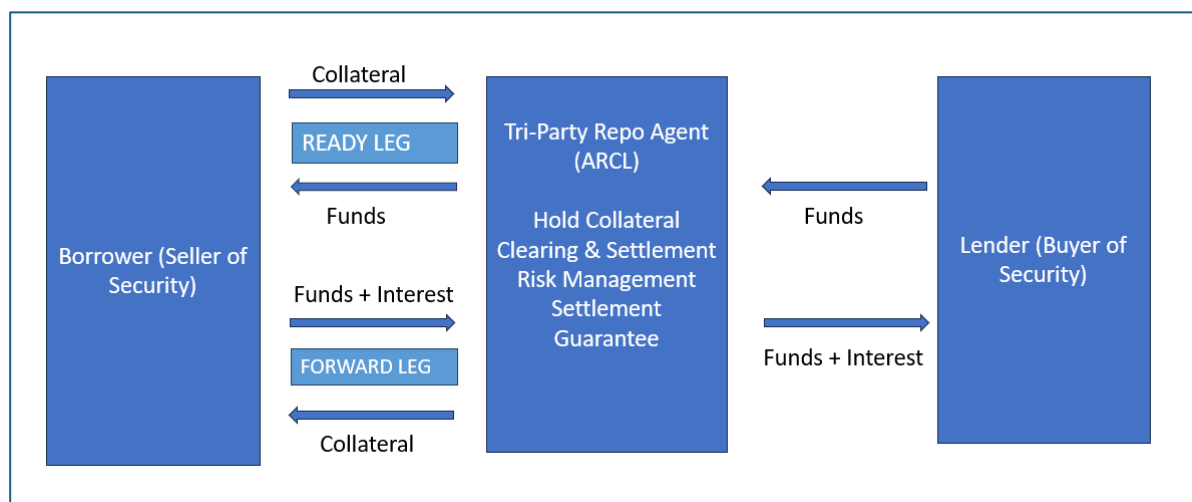
RBI has accorded approval to AMC Repo Clearing Limited to act as a tri-party repo agent and to offer tri-party repo in corporate debt securities. The triparty agent services offer efficiency in collateral management, collateral servicing, settlement of repo transactions for the members. Further, ARCL has been granted Certificate of Authorization by RBI under Payment and Settlement Systems (PSS) Act, 2007 to offer Central Counter Party (CCPs) services for repo transactions in corporate debt securities.

2. Key Benefits

- One time registration with ARCL. No need to sign Global Market Repurchase Agreement with each counter party.
- Settlement guarantees by ARCL for both ready leg and forward leg settlement.
- Mitigation of counter party default risk.
- Multilateral funds netting across obligations.
- Equal access for all eligible participants.
- Underlying bonds exposure limits may not be applicable to lender.
- Basket repo, where collateral selection is based on basket of securities, facilitates more representative money market rates. Also facilitate flexibility in collateral management.

3. Tri-Party Repo

A 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.



4. Product Features

- AMC Repo Clearing Ltd. (ARCL) will act as Tri-party repo agent
- Trading platform is provided by NSE integrated with Clearing and Settlement system of ARCL
- Screen based anonymous trading platform
- Matching strictly on Rate-Time priority
- Repo is available on Basket of Corporate Debt Securities. No special Repo
- Multilateral net settlement.

5. Product Specifications

Product Parameters	Description
Repo Type	Basket Repo (Baskets are created based on Issuer Category, Issuer Credit Rating and Instrument Type)
Instrument Type	Discounted Instrument
Repo Tenure	Currently from 1 day to 7 days
Contract Size	Min. INR 5 lakhs and in multiple of INR 5 lakhs
Quote	Interest rate in percent with a tick size of 1 basis point
Trade Value	Forward Leg Consideration
Quantity Freeze	Rs. 250 crores
Order Type	Normal – Borrow / Lend, Market/Limit Rollover – Borrow, Market/Limit
Settlement Cycle	T+0 and T+1
T+0 Trading Time	9:00 a.m. to 1:00 p.m.
T+1 Trading Time	9:00 a.m. to 5:00 p.m.
Pay-in	2:15 p.m.
Pay-out	3:00 p.m.

6. Eligible Entities

The eligible entities as prescribed by RBI can participate by taking trading and clearing membership of the Exchange and Clearing Corporation. The eligible entities who are not permitted to take membership on stock exchanges/clearing corporation and those eligible entities who do not want to take membership on stock exchanges/clearing corporation may participate in repo transactions by registering themselves as “Participant”.

The trading cum self-clearing member may participate in repo transactions for its own proprietary book and/or for its clients i.e. Participant. However, they will clear and settled only proprietary trades. On the other hand, Participant i.e., Direct Client; will take registration through the trading member / clearing member for participating in repo transactions and trade through such trading member. However, the Participant shall be responsible for collateral/margin maintenance and settlement of their own trades.

The eligibility criteria for member and participant are provided on ARCL website in the given link <https://www.arclindia.com/spages/Downloads/MembershipCriteria.pdf>.

To register as Clearing Member or Participant, the necessary documents are required to be submitted to AMC Repo Clearing Limited with admission fee and interest free deposits. The details of the document along with the procedure for registration is provided on ARCL website in the link: <https://www.arclindia.com/documentation>

7. Fees, Deposits and Charges

• Fees & Deposits

Category	Admission/Membership Fees (one time)	Annual Subscription Fees	Interest Free Deposits
Clearing Member	Rs. 50,000.00	Rs. 10,000.00	Rs. 1,00,000.00
Participant	Rs. 50,000.00	Rs. 10,000.00	Rs. 1,00,000.00

Note:

- Annual Subscription charges will be applicable from subsequent financial year.
- SEBI annual fees of Rs.50,000/- p.a. applicable to clearing members only.
- GST as applicable.

• Charges

Sr. No.	Type of Charge	Details
1	Transaction Charges	Rs. 15/- per crore with a maximum of Rs.1,500/- per trade
2	SEBI Turnover Fees	Rs.2/- per crore collected by Exchange from member
3	Stamp Duty	0.00001% on repo interest from Borrower

8. Clearing and Settlement

• Calculation of Ready Leg and Forward Leg Consideration

- Ready leg consideration: $\text{Traded Value (Face value)} / [1 + (\text{repo interest} * \text{repo tenor} / 365)]$
- Forward leg consideration: Traded Value (Face value)

Example for discount consideration:

Traded Value of Rs.100 crore with repo tenor of one day at 8% per annum	
Ready leg consideration	$= 100 / (1 + (0.08 * 1 / 365))$ = Rs.99.9781 crore
Forward leg payable	= Rs. 100 crores

• Settlement Obligation

Details of computation of funds settlement obligations is as under:

- Settlement shall be on a net obligation basis at client level.
- A net obligation shall be generated comprising following legs:

- Current day trade with Ready leg settlement T0
- Previous day trade will Ready leg settlement T1
- Previous day's trade with forward leg settlement

Example of fund obligation:

Day 1 Borrow transaction of Rs.100 crore for one day repo tenor at 8% per annum	
Ready leg consideration	$= 100 / (1 + (0.08 * 1 / 365)) = \text{Rs.99.9781 crore}$
Forward leg payable	= Rs. 100 crores
Net Receivable (Funds pay-out) for borrower	Rs.99.9781 crore

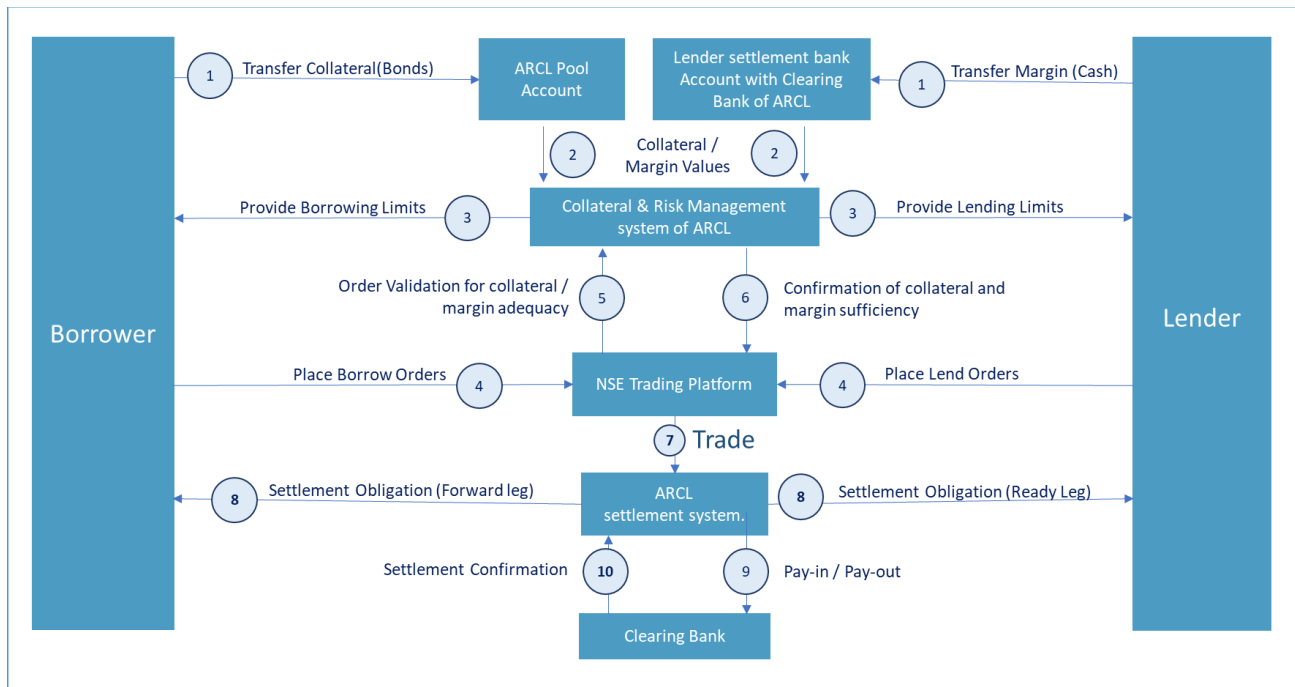
Day 2	
On next day, same borrower rollover the borrow position of Rs.100 crore for one day repo tenor at 12%	
Forward leg payable obligation of previous ready leg (a)	= Rs. 100 crores
Current ready leg receivable obligation (b)	= Rs.99.9671 crore
Net payable (funds pay-in) for borrower (a-b)	= Rs.0.03289 crore

• Funds Settlement

The funds settlement will happen through the clearing banks. On the settlement date, the Clearing member/Participant having payable position shall have clear funds in their settlement account on or before the cut-off time i.e., before 2:00 p.m. The Clearing member/Participant having receivable position shall received funds in their settlement bank account by 3:00 p.m.

Activity	Pay-in	Pay-out
Funds Settlement	2.15 PM	3.00 PM

9. Process Flow



10. Collateral Management

- Members/Participants, desirous to enter Borrow Repo deals shall be required to provide eligible corporate debt securities as specified by Clearing Corporation from time to time.
- Such collaterals shall be deposited upfront i.e. before submitting Borrow Repo order on the TRM platform.
- ARCL specifies the list of eligible securities which shall qualify for collateral contribution for borrow position on daily basis on the ARCL website.
- The Members/Participants shall maintain a DEMAT account with a Depository Participant of the depository (currently with National Securities Depository Limited (NSDL)) for the purpose of transferring collaterals to the ARCL settlement pool account.
- While transferring securities, the Members/Participants should transfer securities with settlement type and settlement number as specified by ARCL from time to time.

- Members/Participants shall be entitled to withdraw securities from its collateral contributions. ARCL shall allow such withdrawal of securities provided the remaining value of securities is sufficient to cover the outstanding obligations of the concerned Members/Participants.

11. Risk Management

• Issuer and ISIN Selection Criteria

The ARCL have various selection criteria while considering the issuer whose bonds would be accepted as eligible collateral for tri-party repo. Further, this exercise is done to ensure that only good companies with a track record of credentials are included in the collateral to minimize the issuer related credit risk. Within the identified issuers, ARCL accepts ISINs which can be readily offloaded in the market, and which can be legally enforceable in the event of bankruptcy of the issuer.

• Member Wise/Client wise Limit Capping

Members/Participants borrowing and lending limit is fixed to manage settlement risk related to borrowers and lenders committing funds shortage/default. The limit is fixed based on the quantitative and qualitative parameter such as category of the members/Participants, financial net-worth, profitability etc. Further the maximum borrowing and lending limit is capped based on the availability of the Core SGF Fund with ARCL.

• Issuer Limit Capping

ARCL has prescribed member wise issue and issuer limit and cumulative issuer limit. This limit is prescribed to address the concentration risk of issuer and of an individual security at a members/participants level and market-wide concentration risk of an issuer respectively.

• Haircut

To address the price risk of collateral in the event of a default by the borrower on its obligation, haircut will be applicable on securities. Haircut is a flat percentage applicable on the market value (clean price + accrued interest) of the securities based on type of securities, credit rating and residual maturity of securities. The haircuts are kept much higher compared to minimum haircuts stipulated by Reserve Bank of India.

• Order Level Risk Management

There is order level risk management. Only those borrowing / lending orders that satisfy the collateral / margin requirement will be accepted subject to the prudential limits of member/participants.

• Initial Margin

ARCL will levy an Initial Margin of 0.5% (for repo tenure up to 7 days) of the transaction value on the Lender. The Initial Margin shall be collected on an upfront basis in cash.

• Mark to Market Margin Requirement

The eligible repo securities are marked-to-market daily at the end of the day to ensure that the collateral value after application of haircut is sufficient to collateralize the outstanding borrowing of the members/participants. The Mark to Market Margin shall be levied on the Borrower. The Borrower would be required to bring in additional eligible collateral/cash within the stipulated time provided by the ARCL in case of a downward movement in the price resulting in a mark-to-market loss on the eligible repo securities portfolio of the borrower.

For additional information you are requested refer risk management document available on ARCL website.

<https://www.arclindia.com/spages/Downloads/RiskManagement.pdf>.

12. Shortage Handling

Settlement shortage can be encountered on two occasions as under:

- Lender commits shortage in the ready leg; and
- Borrower commits shortage in the forward leg

The shortage of funds will be met from the line of credit arrangements made by ARCL with banks so as to complete the settlement for members. In case the line of credit available is not sufficient, ARCL will utilize its own funds and Core SGF.

13. Core Settlement Guarantee Funds

ARCL has established a Core SGF based on stress events to meet any loss arising on account of default of members/participants. The contribution to Core SGF is as per SEBI Circular dated December 21, 2020 & June 19, 2024:

- Issuers (at the rate equivalent to 0.5 basis points of the issuance value of debt securities)
- Clearing Members/Participants primary contribution based on the risk the CM brings to the system.
- ARCL contribution from its profit

Contribution of Clearing Members shall be risk based and equivalent to deficit in MRC post contribution buy issuers. Contribution of Participants to Core SGF shall be risk based and equivalent to deficit in MRC post contribution by Issuers and Clearing Members. Currently there is no contribution to Core SGF from Clearing Members/Participant.

14. Other Facilities

• Rollover of Borrowing Position

To facilitate members/client 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.
- The members/Participants can use the roll-over borrow order facility provided by NSE for the same.

• Facility to Collateral & Margin Release and Substitution of Collateral

- Members/Participants shall be entitled to withdraw securities from its collateral contributions during the day as well as at EOD. ARCL shall allow such withdrawal of securities provided the remaining value of securities is sufficient to cover outstanding obligations of the concerned Member/Client.
- Members/Participants shall be entitled to substitute securities deposited as collateral contribution with the eligible securities from same basket.
- Members/Participants allow to release cash margin/collateral during the day subject to remaining value is sufficient to cover outstanding obligations of the concerned Members/Participants.

• Rollover of lending position

- In case participants have receivable position on account of forward leg settlement, members are allowed to take lend position against such receivable position without any initial margin.

Contact Details

AMC Repo Clearing Limited

Unit No 503, Windsor,
Off. CST Road, Kalina, Santa Cruz East,
Mumbai 400098

www.arclindia.com

Membership:

Direct line: 022-69068000 (Extn: 8007 / 8017)

Operations:

Direct line: 022-69068000 (Extn: 8008 / 8009)

Risk:

Direct line: 022-69068000 (Extn: 8010 / 8012)

Disclaimer:

The material provided here is for general information purpose only. While care has been taken to ensure accuracy, the information furnished to reader with no warranty as to accuracy or completeness of its contents and on condition that any changes, omission, or errors shall not made the basis for any claim demand or cause for action.