



TRIPARTY REPO

In Corporate Debt Securities

AMC Repo Clearing Limited

Background

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

An initiative of SEBI in partnership with mutual funds, and promoted by mutual funds, Limited Purpose Clearing Corporation (LPCC) was setup by suitably amending the Stock Exchanges and Clearing Corporations (SECC) Regulations in 2020. 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. 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. The central counterparty services help facilitate:

- efficiency in settlement by providing netting of obligations
- mitigating counterparty default risk by providing settlement guarantee through Core Settlement Guarantee Fund.

ARCL has also obtained approval from RBI to offer triparty repo services in corporate debt securities. The triparty agent services offer efficiency in collateral management, collateral servicing, settlement of repo transactions for the members.

Key Benefits

- Will help market makers to raise liquidity against inventory of bonds in times of need.
- Will assist market to manage their short-term funds efficiently.
- Will help the growth of secondary market in the underlying corporate bonds.
- Acceptance of bonds as collateral will help the issuers of bonds to raise funds in primary market with better pricing.

Repo

As per Section 45U (c) of RBI Act, 1934, “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

As per Section 45U (c) of RBI Act, 1934, “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.

Triparty Repo

According to Repurchase Transactions (Repo) (Reserve Bank) Directions, 2018, triparty repo means a repo contract where a third entity (apart from the borrower and lender), called a Triparty 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.



Triparty Agent

The eligibility criteria, roles and obligation, application procedure for authorization, and exit procedure for Triparty Agent are given in Repurchase Transactions (Repo) (Reserve Bank) Directions, 2018.

Eligible Participants

The following are eligible to participate in repo transaction as per RBI:

- 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.

The above 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 as clients of trading member(s)/clearing member(s).

Registration with ARCL is mandatory for all clients i.e., "Participant" or / and "Constituent". ARCL will assign unique "Constituent Participant Code" (CP Code) to each client. The client must use the same CP code at the time of trading.

Eligible Issuers

- Positive networth as per latest audited financial statements
- Profit making as per latest audited financial statements
- Equity shares shall be listed on stock exchanges
- All PSUs (both listed and unlisted) fulfilling the first two conditions

Eligible Instruments

The list of eligible instruments for tri-party repos is given below:

- All listed NCDs issued by eligible issuers are accepted as eligible collateral for Triparty repo product of ARCL.
- Corporate debt securities with rating AAA and below AA- (with the exclusion of AA- with negative outlook) are accepted as eligible collateral

Bonds with following characteristics are not accepted as eligible collateral:

- Tier I & Tier II Bonds issued by Banks, NBFCs & other institutions.
- Perpetual Debt.
- ATR Bonds
- Floating Rate Bonds.
- Structured Bonds
- Market linked bonds
- Convertible bonds (Optional or Compulsorily).
- Corporate debt securities with rating AA- negative outlook.

Note:

- Commercial Paper (will be considered at a later stage)
- Certificate of Deposit (will be considered at a later stage)
- Bond ETFs etc. (will be considered at a later stage)

Tenor

Repos shall be undertaken for a minimum period of one day and a maximum period of one year. Initially, the repo tenor permitted by AMC Repo Clearing Limited (ARCL) varies from one day to maximum seven calendar days. ARCL will notify when new tenors are made eligible on its platform.

Role of Clearing Member

A clearing member has following roles in the repo transactions:

- For participating in triparty corporate bond repo “trading cum self-clearing membership” is provided to the eligible entities.
- The trading cum self-clearing members are allowed to participate in repo transactions for their own proprietary book and/or for their clients
- They will ensure KYC of both direct and indirect clients for onboarding on Exchange as well as with Clearing Corporation
- They will do clearing and settlement for proprietary and indirect client trades
- Full ownership and obligations for indirect client transactions
- Contribution to settlement guarantee fund, if any.

Pre-requisites for Membership

- Eligible entities are required to take Trading Membership with the stock exchange and will be governed by byelaws, rules, regulations and circulars of respective stock exchanges.
- Eligible entities shall take Clearing Membership with ARCL and will be governed by byelaws, rules, regulations and circulars of ARCL.

Product Specification

| Product Specification | Description |
|-----------------------|---|
| Repo Type | Basket Repo |
| Instrument Type | Discounted Instruments |
| Repo Tenure | 1 day to 365 days (initially from 1 day to 7 days. Will be extended depending on market requirements) |
| 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 |
| Settlement Cycle | T+0 and T+1 |
| T+0 Settlement Time | 9:00 a.m. to 1:00 p.m. |
| T+1 Settlement Time | 9:00 a.m. to 5:00 p.m. |
| Pay-in Completion | 2:15 p.m. |
| Pay-out Completion | 2:30 p.m. |

Haircut for Collateral

| Rating | Residual Maturity <= 5 years | Residual Maturity > 5 years |
|-----------|---------------------------------|--------------------------------|
| AAA & AA+ | 7.5% | 15% |
| AA | 10.0% | 15% |
| AA- | 15.00% | 15% |



Initial Margin

In order to deal with market risk arising on account of funds shortage by lenders in the ready leg, ARCL will charge an initial margin at the rate of 0.50% of the lending value in the ready leg. The margin shall be contributed in the form of cash and the initial margin is blocked in the ready leg will be released after successful completion of ready leg settlement.

Participant - Direct Client

Participant is a client who registered with ARCL through clearing member, however, settles obligations directly with ARCL.

Collateral

Participant as a Direct Client will manage collateral and/or margin (i.e. deposit and withdrawal) directly with the clearing corporation (ARCL) from its demat account with a depository for collateral and settlement bank account for margin.

Fund Settlement

Direct Client will do settlement of funds directly with the clearing corporation (ARCL) from its own settlement account maintained with clearing bank.

Constituent - Indirect Client

Constituent is a client who registered with ARCL through clearing member and also settles obligations through clearing member.

Collateral

Constituents will manage collateral and/or margin (i.e., deposit and withdrawal) directly with the clearing corporation from its demat account with depository for collateral and settlement bank account for margin.

Fund settlement

Settlement of funds will be done through the settlement account of the concerned clearing member maintained with the clearing bank. The Indirect Client will transfer funds into the clearing members settlement account for pay-in of funds.

Settlement Obligations

Settlement obligation for members is computed as under:

Ready leg consideration:

Traded Value (Face value) / [1+ (repo interest*repo tenor/365)]
Forward leg consideration: Traded Value (Face value)

Example for discount consideration:

| | |
|--|--|
| Ready leg borrowing Rs.100 crore for one day at 8% per annum | |
| Ready leg consideration | = $100 / (1+(0.08*1/365))$ = Rs.99.9781 crore |
| Forward leg payable | = Rs. 100 crore |

Fund Obligations

Fund obligation is computed on netted basis across T0 ready leg obligation, previous day T1 obligation and forward leg obligation of previous business days' trades

| <u>Day 1</u> | |
|--|--|
| Ready leg borrowing Rs.100 crore for one day at 8% per annum | |
| Ready leg consideration | = $100 / (1 + (0.08 * 1/365))$ = Rs.99.9781 crore |
| Forward leg payable | = Rs. 100 crore |

| <u>Day 2</u> | |
|--|--------------------|
| Ready leg Borrowing (roll-over) of Rs.100 crore for one day at 12% (Ready leg consideration is Rs.99.9671) | |
| Forward leg payable obligation of previous ready leg (a) | = Rs. 100 crore |
| Current ready leg receivable obligation (b) | = Rs.99.9671 crore |
| Net Settlement obligation (a-b) | = Rs.0.03289 crore |

Core Settlement Guarantee Fund (Core SGF)

- Eligible Issuers - 0.5 basis point of the issuance amount over the maturity
- Contributions from Clearing Members / Participants (initially not being taken)
- Contribution of profit by ARCL for next 5 years

Default Handling Mechanism

The default handling waterfall mechanism as per SEBI circular is given-below:

- Monies of defaulting member (including defaulting member's primary contribution to Core SGF):
- Insurance, if any.
- Issuers contribution to Core SGF.
- LPCC resources (equal to 5% of MRC).
- Penalties
- Previous financial years profit of LPCC transferred to Core SGF
- Remaining Core SGF: LPCC contribution and non-defaulting members' primary contribution to Core SGF on pro-rata basis.
- Remaining profit of LPCC transferred to Core SGF
- Remaining LPCC resources (excluding INR 100 Crore).*
- Remaining LPCC resources to the extent as approved by SEBI
- Capped additional contribution by non-defaulting members.**
- Any remaining loss to be covered by way of pro-rata haircut to payouts.

Note:

* INR 100 Crore to be excluded only when remaining LPCC resources are more than INR 100 Crore.

** The maximum capped additional contribution by non-defaulting members shall be lower of 2 times of their primary contribution to Core SGF or 10% of the Core SGF on the date of default.

Shortage Handling Mechanism

- Line of credit from Clearing Banks
- ARCL own fund (its own network)
- Core Settlement Guarantee Fund



Contact Details

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Membership:

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Operations:

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Risk:

Direct line: 022-66907307