

January 8, 2010

To All Market Participants

Ready Forward Contracts in Corporate Debt Securities

A reference is invited to [paragraph 111](#) of the Second Quarter Review of the Annual Policy Statement for 2009-10 regarding the introduction of repo in corporate bonds.

2. It has been decided to introduce repo in corporate bonds. In this regard, the Reserve Bank of India has issued a direction IDMD.DOD.04/11.08.38/2009-10 dated January 08, 2010 under section 45W of the RBI Act, 1934, which has been placed on the Reserve Bank of India website. A copy of the direction is enclosed.

3. The Reserve Bank of India Notification, in exercise of the powers conferred on the Reserve Bank of India under section 16 of the Securities Contracts (Regulation) Act, 1956 (42 of 1956) vide Government of India Notification No. 183(E) dated March 1, 2000 issued under Section 29 A of the Act, *ibid*, is being issued separately.

Yours faithfully,

(K V Rajan)
Chief General Manager

Encl.: as above

**RESERVE BANK OF INDIA
INTERNAL DEBT MANAGEMENT DEPARTMENT
23RD FLOOR CENTRAL OFFICE
FORT MUMBAI 400 001**

Mumbai, January 08, 2010

Repo in Corporate Debt Securities (Reserve Bank) Directions, 2010

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 its powers conferred by section 45W of the Reserve Bank of India Act, 1934 and of all the powers enabling it in this behalf, hereby gives the following directions to all the persons dealing in repo in Corporate Debt Securities.

1. Short title and commencement of the directions

These directions may be called the Repo in Corporate Debt Securities (Reserve Bank) Directions, 2010 and they shall come into force with effect from **March 01, 2010**.

2. Definitions

- a. **'Corporate Debt Security'** means non-convertible debt securities, which create or acknowledge indebtedness, including debentures, bonds and such other securities of a company or a body corporate constituted by or under a Central or State Act, whether constituting a charge on the assets of the company or body corporate or not, but does not include debt securities issued by Government or such other persons as may be specified by the Reserve Bank, security receipts and securitized debt instruments"
- b. **'Security Receipts'** means a security as defined in clause (zg) of section 2 of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (54 of 2002)
- c. **'Securitized debt instrument'** means securities of the nature referred to in sub-clause (ie) of clause (h) of section 2 of the Securities Contracts (Regulation) Act, 1956(42 of 1956).

3. Eligible securities for repo in Corporate Debt Securities

- a. Only listed corporate debt securities which are rated 'AA' or above by the rating agencies, that are held in the security account of the repo seller, in demat form, shall be

eligible provided that Commercial Papers (CPs), Certificates of Deposit (CDs) and other instruments including Non-Convertible Debentures (NCDs) of less than one year of original maturity, shall not be eligible securities for undertaking repo.

4. Eligible Participants

The following entities shall be eligible to undertake repo transactions in corporate debt securities:

- a. Any scheduled commercial bank excluding RRBs and LABs;
- b. Any Primary Dealer authorised by the Reserve Bank of India;
- c. Any non-banking financial company registered with the Reserve Bank of India (other than Government companies as defined in section 617 of the Companies Act, 1956);
- d. All-India Financial Institutions, namely, Exim Bank, NABARD, NHB and SIDBI;
- e. Other regulated entities, subject to the approval of the regulators concerned, viz.,
 - i. Any mutual fund registered with the Securities and Exchange Board of India;
 - ii. Any housing finance company registered with the National Housing Bank; and
 - iii. Any insurance company registered with the Insurance Regulatory and Development Authority
- f. Any other entity specifically permitted by the Reserve Bank

5. Tenor

Repos in corporate debt securities shall be for a minimum period of one day and a maximum period of one year.

6. Trading

Participants shall enter into repo transactions in corporate debt securities in the OTC market.

7. Reporting of Trades

- a. All repo trades shall be reported within 15 minutes of the trade on the FIMMDA reporting platform.
- b. The trades shall also be reported to any of the clearing houses of the exchanges for clearing and settlement.

8. Settlement of trades

- a. All repo trades in corporate debt securities shall settle either on a T+1 basis or a T+2 basis under DvP I (gross basis) framework.
- b. Repo transactions in corporate debt securities shall settle in the same manner as outright OTC trades in corporate debt securities.
- c. On the date of reversal of repo trades, the clearing houses shall compute the obligations of the parties and facilitate settlement on DvP basis.

9. Prohibition on sale of repoed security

The security acquired under repo shall not be sold by the repo buyer (lender of the funds) during the period of repo.

10. Haircut

- a. A haircut of 25% (or higher as maybe decided by the participants depending on the term of the repo) shall be applicable on the market value of the corporate debt security prevailing on the date of trade of 1st leg.
- b. Participants may refer to the rating-haircut matrix that may be published by the Fixed Income Money Market and Derivatives Association of India (FIMMDA), to determine the appropriate haircut.

11. Valuation

For arriving at the market value of the corporate debt security, the participants undertaking repo in corporate bonds may refer to the credit spreads published by the FIMMDA.

12. Capital Adequacy

The repo transactions in corporate debt securities shall attract capital charge in terms of para 7.3.8 of the Master Circular [DBOD No.BP.BC.21/21.06.001/2009-10](#) dated July 01, 2009.

13. Disclosure

The details of corporate debt securities lent or acquired under repo or reverse repo transactions shall be disclosed in the “Notes on Accounts” to the Balance Sheet.

14. Accounting

The repo transactions in corporate debt securities shall be accounted as per the revised guidelines on uniform accounting for repo/reverse repo transactions in Government securities, which would be issued separately.

15. Computation of CRR/SLR & borrowing limit

- a. The amount borrowed by a bank through repo shall be reckoned as part of its Demand and Time Liabilities (DTL) and the same shall attract CRR/SLR as per the provisions of the Master Circular [DBOD.Ret.BC.45/12.01.001/2009-10](#) dated September 18, 2009.
- b. The borrowings of a bank through repo in corporate bonds shall be reckoned as its 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. Such borrowings shall, however, be subject to the prudential limits for inter-bank liabilities prescribed vide circular [DBOD.BP.BC.66/21.01.002/2006-07](#) dated March 06, 2007.

16. Documentation

The participants shall enter into bilateral Master Repo Agreement as per the documentation finalized by the FIMMDA.

IDMD.DOD. 04 /11.08.38/2009-10

H R Khan
Executive Director