

CIRCULAR

Circular Reference Number	AMC Repo/Ops/2023/003
Circular Date	March 03, 2023
Department	Operations

To All Members

Subject: Draft Consolidated Circular

This consolidated circular is being issued in terms of the Repo Segment Regulations of AMC Repo Clearing Limited (AMC Repo)

The members may reach out to us in case of any clarification required.

AMC Repo Clearing Limited

Authorized Signatory

Shweta Bhatt

Contact	022 – 6690 7307 / 6690 7319
----------------	------------------------------------

Encl: Annexure 1

Index

Sr.No.	Topic	Page No
1	Introduction	3
2	Product-Tri party Repo	3
3	Trading	3
4	Clearing and Settlement	3
5	Membership	4
6	Collateral	6
7	Trading, Clearing and Settlement	9
8	Shortage handling	11
9	Allocation of securities to lenders	12
10	Risk Management	12
11	Default handling	13
12	Reports	14
13	Applicability of stamp duty	14
14	Fees and Charges	14

1. Introduction

AMC Repo Clearing Limited (AMC Repo) is a Limited Purpose Clearing Corporation (LPCC), constituted under SECC Regulations 2018 of SEBI with the objective of providing clearing and settlement services for repo trades in corporate debt securities. RBI has approved the triparty repo product of AMC Repo and has also granted authorization to AMC Repo under PSS Act 2007 to offer central Counterparty (CCP) services for repo transactions in corporate debt securities.

2. Product – 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.

Product specifications

AMC Repo has structured the product specification as given below:

Repo type	Basket Repo. Baskets would be constituted based on combination of rating, issuers, bond category etc.
Instrument Type	Discounted instrument i.e. discounted consideration in the ready leg and face value consideration in the forward leg
Repo Tenor	From one day to 365 days. Initially, repo tenor would be kept for lesser duration up to 7 days with daily maturities.
Contract size	Minimum Rs.5 lakh and in multiples of Rs.5 lakh
Settlement cycle	T+0 and T+1

3. Trading

In terms of SEBI circular dated Nov 06, 2020, AMC Repo has entered into agreement with National Stock Exchange (NSE) – identified stock exchange, for trading AMC Repo's tri-party repo product on their trading platform under tri-party repo of debt segment. Detailed circular on contract specifications and trading will be issued separately by respective stock exchanges.

4. Clearing & Settlement

In terms of SEBI Circular dated November 06, 2020, AMC Repo has entered into outsourcing arrangement with NSE Clearing Limited (NCL) for the purpose of clearing and settlement and related activities by using their core critical IT infrastructure. In view of such outsourcing arrangements, the trades executed on NSE will be cleared through AMC Repo Unit NCL.

5. Membership

5.1 As per RBI guidelines issued in 2018, the following are eligible to participate in repo transaction under these Directions:

- 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.

5.2 An eligible entity may participate in repo transactions for its own proprietary book and/or for its clients. Accordingly, the entity shall take-

- trading membership with the stock exchange through which it proposes to trade. Trading membership will be governed by the bye-laws, rules and regulations of the respective stock exchanges. For obtaining trading membership, the applicant will be required to complete the necessary documentation with the respective exchange where they desire to execute the trades.; and
- clearing membership with AMC Repo Clearing Limited (AMC Repo) for clearing and settlement. Clearing membership will be governed by bye-laws, rules and regulations of AMC Repo.

5.3 For Clearing membership, the following documents are required to be submitted to AMC Repo Clearing Limited:

- a. Application Form – Separately for SEBI registered existing members and new members
- b. Undertaking –
- c. Debit Mandate to Clearing Bank –

Clearing Member – Trading Member Agreement (where applicable) –The documents to be submitted to AMC Repo Clearing Limited are listed on AMC Repo Clearing Limited website in the link <http://arclindia.com/documentation>

5.4 Clients Registration:

Those eligible entities which are not permitted to take membership on stock exchanges and those eligible entities which do not want to take membership on stock exchanges may participate in repo transactions as clients of trading member(s)/clearing member(s).

There are two categories of clients as described under:

a. Participant: This category of clients will take registration through the trading member / clearing member for participating in repo transactions. In this approach, the participant shall be responsible for collateral and settlement. With the consent of the clearing member, a participant will manage collateral and/or margin (i.e., deposit and withdrawal) directly with the clearing corporation from its demat account and bank account respectively without routing through the clearing member; and carry

out settlement of funds directly with the clearing corporation in its own account without routing through its clearing member's account.

The process flow for transfer of collateral, margin, settlement of funds is as applicable for the members of clearing corporation and the details are given in subsequent paragraphs.

The set of documents required for registration of Participants are listed on AMC Repo Clearing Limited website in the link: <http://www.arclindia.com/clientsdocumentation/participants>

b. Constituent: This category of clients will take registration through the trading member / clearing member for participating in repo transactions. In this approach, the participant shall be responsible for collateral management. With the consent of the clearing member, a client will manage collateral and/or margin (i.e., deposit and withdrawal) directly with the clearing corporation from its demat account and bank account respectively without routing through the clearing member. However, the settlement of funds will be done through the settlement account of the concerned clearing member.

The process flow for transfer of collateral and margin is as applicable for the members of clearing corporation and the details are given in subsequent paragraphs.

5.5 The eligibility criteria to participate in triparty repo transaction:

The entities fulfilling the following financial criteria are eligible to participate in triparty repo transaction.

Membership Eligibility Criteria				
Member Category	Sub Category	Net worth (Rs. In Cr)	CRAR	Solvency Margin
Banks	PSU	500	11.50%	---
	Pvt Commercial Universal	500	11.50%	---
	SFB *	200	15%	---
	Payment Banks *	100	15%	---
	Co-Operative Banks	25	9.00%	---
NBFC **	--	Minimum net worth 'As per RBI guidelines	15%	---
Primary dealers **	--	150	--	---
Insurance Companies	--	100		150%
FI	All India Financial Institutions			---
Pvt Corporates - listed	a) Positive net worth as per the latest audited financial statements			---
	b) profit making as per the latest audited financial statement			
	c) Equity Listed in Exchange			

Pvt Corporates - SEBI Regulated entities	a) Positive net worth as per the latest audited financial statements	---
	b) profit making as per the latest audited financial statement	
	c) Minimum Net worth as per SEBI guidelines	
Unlisted Companies-Any unlisted company, which has been issued special securities by the Government of India, using only such special securities as collateral	a) Positive net worth as per the latest audited financial statements	---
	b) profit making as per the latest audited financial statement	
PSU Corporates	a) Positive net worth as per the latest audited financial statements	---
	b) profit making as per the latest audited financial statement	
	c) Equity Listed in Exchange	
Mutual Funds	--	---
* Payment Banks and small finance bank having scheduled status will only be eligible ** For Primary Dealers and NBFC's: "Net owned fund" will be considered in lieu of "Networth".		

5.6 After submission of documents by eligible entities, ARCL will process the documents and inform status of admission to the entity through a letter and/or email.

5.7 Upon successful admission of an entity, ARCL will activate the entity for triparty repo transaction subject to fulfilment of conditions as per the admission letter.

6. Collateral

Chapter IV of Repo Segment Regulations refers to the collateral and margin contribution to be made by the members.

6.1 Eligible Securities

a. The eligible securities are listed corporate bonds and debentures, subject to the condition that no clearing member/participant shall borrow against the collateral of its own securities, or securities issued by a related entity; and

b. AMC Repo will specify the list of eligible securities and the same shall be published on its website on 20th of every month which will be effective from 01st of subsequent month.

AMC Repo may make eligible securities in-eligible based on parameters like change in rating, minimum residual maturity etc. and such securities declared as ineligible shall not be reckoned for collateral contribution by the Clearing Members/Participant from the effective date of such ineligibility. AMC Repo may specify the maximum amount of a single security or group of securities that a Clearing Member/Participant may deposit by way of collateral contribution.

Securities issued by Clearing Member associates, subsidiaries, holding or group companies shall not be considered as eligible collaterals.

6.2 Collateral contribution by Clearing Member/Participant

A member desirous of borrowing shall transfer eligible securities as specified by AMC Repo from time to time. These bonds shall be transferred upfront i.e prior to submitting of borrow orders on the trading platform of the respective exchanges.

Process for transfer of securities – for trades to be executed on NSE:

The Clearing member/Participant shall maintain a DEMAT account with a Depository Participant of the depository namely National Securities Depository Limited (NSDL) and/or Central Depositories (Services) India Limited (CDSL) for the purpose of transferring bond collaterals.

Deposit:

Clearing members/Participants are required to transfer securities towards collateral requirement, from their existing DEMAT account maintained with the respective depositories to the account of AMC Repo. AMC Repo will publish market type and settlement calendar for transfer of securities.

Clearing Members/Participants are required to transfer securities towards collateral requirement to the below mentioned account of Clearing Corporation for participating in Repo deals.

DP ID	IN001192
Client ID	10000012

6.3 Withdrawal and substitution of securities:

- (i) Clearing Member/Participant shall be entitled to withdraw securities from its collateral contributions. AMC Repo shall allow such withdrawal of securities provided the remaining value of securities is sufficient to cover outstanding obligations of the concerned Clearing Member/participant. AMC Repo through its agent NSE Clearing Limited, shall provide a facility to the Clearing Members/Participants to submit securities withdrawal request through Collateral interface Module (CIM). For valid securities withdrawal requests, the securities shall be released in batches by AMC Repo from time to time.

- (ii) Clearing Member/Participant shall be entitled to substitute securities deposited as collateral contribution with the eligible securities as specified by AMC Repo from time to time.

For substitution of collateral, a member shall deposit eligible collateral first and then shall submit withdrawal request for the collateral already deposited with clearing corporation.

- (iii) Substitution shall be allowed only if the borrowing outstanding of the Clearing Member/Participant remains fully covered with the substitution of securities.
- (iv) The Clearing Member/Participant will be responsible to ensure that its exposure on the outstanding deals is fully covered by the value of collaterals maintained by it with AMC Repo.

6.4 Process for Transfer of Cash Margin – For trades to be executed on NSE

Members desirous of lending in repo transaction shall provide a cash margin at the rate 0.50% of lent value by transferring the amount to the margin account of AMC Repo maintained with the clearing banks. This instruction to the AMC Repo Units can be provided through the web-based facility – Collateral Interface for Members (CIM) in case of trades done through NSE.

Following is the procedure to be followed by the members for transfer of cash margin.

- i. The facility of transfer of cash margin will be available to clearing members/participants.
- ii. The facility of intra-day transfer shall be available for Cash.
- iii. Member shall request for transfer of cash margin through CIM under menu option “Collateral Release – New Request/inquiry – Transfer Request”.
- iv. Transfer request received from the members via CIM shall be treated as request from the members and no separate transfer letter need to be submitted for Cash.
- v. Intra-day transfer shall be subject to maintenance of minimum deposits as per regulatory requirement and other applicable parameters.
- vi. Member may verify the details of the request for transfer and its status in CIM under menu option “Collateral Release – New Request/inquiry- Transfer Inquiry”.
- vii. Benefit of the cash deposited by the members shall be given subject to the confirmation received from respective clearing banks.

6.5 Valuation of Collateral

The securities transferred by the members as collaterals will be valued as below:

Value of Security = Clean price + Accrued Interest – Applicable Haircut

Example:

Face Value of the Security: $A = 100000$

Market Price of the Security: $B = 101$

Market Value of the Security: $C = A \times B = 100000 \times 101/100 = 101000$

Accrued Interest of the Security: $D = 1000$

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

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

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

Bonds deposited towards collateral contribution by the members will be marked – to – market on a daily basis. AMC Repo will make a margin call in case the value of such securities falls short of the outstanding borrowing position of the clearing member. Further, AMC Repo may require its members to provide additional collateral in case there is a sudden increase in the volatility of the bond or change in the ratings of the bonds. AMC Repo may also impose any such additional collateral requirement at any time during the day.

In any such events, if it is observed that the collateral balance of the clearing member/participant is inadequate to cover the requirement on account of existing borrowing, the clearing member/participant will be required to replenish the shortfall as MTM margin as directed by AMC Repo. Mark-to-market margin shall be payable by members and shall be paid before 8.30 a.m. on the next business day or such other time stipulated by AMC Repo depending on the event that has led to the deterioration in the value of collateral. Mark to market margin in case of borrowers will be collected in form of eligible securities and in the instances where the borrowers do not have the eligible bonds, then they will have an option to provide cash. Failure to provide such additional contribution by the members within the stipulated time shall be treated as violation and will be handled as per byelaws, rules and regulations of AMC Repo.

7. Trading, Clearing and Settlement

7.1 AMC Repo has designated NSE for the purpose of execution of Tri-party repo trades in corporate debt securities. The systems for trading will be provided by the respective exchanges. Clearing and settlement of these trades will be undertaken by AMC Repo by availing the services of their linked Clearing Corporations viz. NSE Clearing linked to NSE Below are the market timings.

T0 session – 9:00 am to 1:30 pm

T1 session – 9:00 am to 5:00 pm

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 of T0
- Ready leg settlement of T1 for a trade executed in the previous business day

- Forward leg settlement for trades executed in the previous business days maturing on the current business day

The ready leg consideration of the trade will be discounted and the forward leg will be the face value of the trade.

Ready leg consideration = Face value / [1 + (repo interest*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 = $100 / (1 + (0.08 * 1/365))$ = Rs.99.9781 crore.

Forward leg payable is Rs.100 crore.

7.2 Rollover of Borrowing Position –

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 made available.

7.3 Settlement Obligation computation including the roll-over:

An example for computation of settlement obligation (considering roll-over of borrowing) is given 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 |

7.4 Settlement

The funds settlement will happen through the clearing banks. Currently, HDFC Bank Limited and ICICI Bank Limited are the empaneled clearing banks. The members will be required to open Settlement Current account with any one of the empaneled banks for the purpose of settlement. The nomenclature to be used for opening a settlement account with the clearing banks is ARCL Settlement Account. For example, in case of XYZ Bank Limited, the settlement account will be opened in the name of XYZ Bank Limited – ARCL Settlement Account.

7.5 Pay-in / Pay-out of Funds

The pay-in of funds shall be effected by 2.15 p.m. Pay-out of funds shall be done by 2.30 p.m.

The funds pay-in and pay-out shall be through the clearing banks designated by AMC Repo. Net obligations of members will be sent by AMC Repo to the clearing banks. The pay-in process will be initiated first and followed by pay-out of funds. Clearing banks will debit members' account having payable position and credit members' account having receivable position.

On the settlement date, the Clearing member/Participant having payable position shall have to maintain clear funds in their settlement accounts by 2 pm.

The settlement account opened by members with the respective clearing banks will be used solely for the purpose of settlement of trades done in Tri-party repo in corporate debt securities.

8. Shortage Handling

In terms of Chapter IX of Repo Segment Regulations an instance of shortage may arise on account of failure on part of the clearing member/participant to deliver funds due from it on the settlement date.

AMC Repo shall have the absolute discretion to decide on the mode of handling shortages and the decision of AMC Repo shall be binding on all the Clearing Members/Participants. AMC Repo shall initiate all measures that are prudent, practicable and necessary to meet the funds shortage to ensure that the deals are settled, and all the non-defaulting Clearing Members/Participants receive funds due to them and there might be instances where shortage allocation to non-defaulting members might be done.

8.1 Lender commits shortage in the ready leg: Shortage of funds will be met from the line of credit arrangements made by ARCL with clearing banks / own funds / Core SGF, to complete the settlement for members. Then the position, if required, will be auctioned and any adverse difference between the traded repo rate and the auction rate will be collected from the initial margin contribution of the concerned lender who has committed shortage. In case line of credit is not sufficient, then there could be a temporary shortfall allocation to members in proportion to their net receivable value for the day and the settlement would be completed. The shortage allocation process is detailed in Annexure 1. The entire settlement will be carried out post allocation.

8.2 Borrower commits shortage in the forward leg: Shortage of funds will be met from the line of credit arrangements made by ARCL with clearing banks / own funds / Core SGF, so as to complete the settlement for members. In case borrower fails to repay the shortage amount within the stipulated time as specified by ARCL, the collateral given by the shortage member will be liquidated and the proceeds will be utilized to repay the line of credit. In case line of credit is not sufficient, there could be temporary shortfall allocation to members and the allocated amount will be repaid to the affected members with appropriate compensation. The shortage allocation process is detailed in Annexure 1.

8.3 Mark-to-market shortfall: ARCL will do daily valuation of securities in order to ensure that sufficient collateral value (net of hair-cut) is available to support outstanding borrowing. In case of any depletion in the collateral value OR in case of any down grade/credit event in a security, then the concerned borrower will be asked to top-up/substitute the depleted value/collateral. If the borrower fails to top-up / substitute, ARCL will then close out the outstanding position (may be to the required extent) against lenders having position in that maturity in the ratio of their positions. In this case also, collaterals provided by the borrower will be liquidated, if required through auctions as above with bidding commitments from the members. Penalty would be collected from the concerned borrower and the affected lenders would be compensated adequately for such premature close out.

9. Allocation of securities to lenders

After successful completion of settlement in the ready leg transactions, ARCL will generate a report for lenders by allocating value of securities to lenders equivalent to the amount lent by them. This allocation will be reversed after completion of forward leg of the transaction. The logic for allocation of securities within a basket is as under:

- a. The earliest maturing securities are considered first for allocation;
- b. If there are more than one security having same maturity, then the security having higher coupon will be considered;
- c. The allocation of securities selected based on the above logic will be allocated to lenders selected randomly.

10. Risk Management

To guard against various types of risks, ARCL has implemented the following risk mitigation control measures: The risk mitigation measures will be reviewed periodically and may be revised depending on risk perceptions and risk parameters subject to the approval of ARCL's Board.

10.1 Limit for members: ARCL would fix cap on borrowing amount and lending amount of members. The limit would be fixed as ARCL's internal criteria based on specific financial and non financial parameters. The limit in absolute terms would be fixed for each member. The applicable limit for a member will be communicated after successful admission of the member.

10.2 Initial Margin: In order to market risk arising on account of funds shortage by lenders in the ready leg, AMC Repo will charge initial margin at the rate of 0.50% of the lent value in the ready leg. The

margin shall be contributed in the form of cash and the initial margin blocked in the ready leg will be released after successful completion of ready leg settlement.

Currently no interest on cash margin shall be payable to members.

10.3 Hair-cut: In order to address the price risk of collateral in the event of a default by the borrower on its obligation. Hair-cut is a flat percentage applicable on the market value of the securities based on rating and residual maturity of securities as given below:

Sl.No.	Rating equivalent	Residual maturity up to 5 years	Residual maturity > 5 years
1	AAA & AA+	7.50%	15%
2	AA	10%	
3	AA- *	15%	

*AA- with negative outlook will not be accepted as an eligible collateral

11. Default Handling

AMC Repo will constitute Core Settlement Guarantee Fund (Core SGF) with contribution from (as prescribed by SEBI in its Circular dated December 21, 2020):

- Issuers (at the rate equivalent to 0.5 basis points of the issuance value of debt securities,)
- AMC Repo from its profit
- Clearing Member primary contribution based on the risk the CM brings to the system – Initially the contribution is not proposed to collect from the clearing members.

In case of any residual loss i.e. if the realization of collateral value is less than the outstanding obligation of borrower etc. as stated above, such loss would be absorbed by the Core SGF as per the default waterfall structure defined by SEBI as under:

- monies of defaulting member (including defaulting member's primary contribution to Core SGF)
- Insurance, if any.
- Issuers contribution to Core SGF.
- AMC Repo resources (equal to 5% of MRC).
- Core SGF in the following order:
 - Penalties
 - Previous financial years profit of AMC Repo transferred to Core SGF
 - Remaining Core SGF: AMC Repo contribution and non-defaulting members' primary contribution to Core SGF on pro-rata basis.
 - Remaining profit of AMC Repo transferred to Core SGF
- Remaining AMC Repo resources (excluding higher of INR 100 Crore or the capital requirement towards orderly winding down of critical operations and services).#

- Remaining AMC Repo 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.

higher of INR 100 Crore or the capital requirement towards orderly winding down of critical operations and services to be excluded only when remaining AMC REPO resources are more than higher of INR 100 Crore or the capital requirement towards orderly winding down of critical operations and services

12. Reports

AMC Repo Clearing Unit NCL will make available the intraday and End of day reports in the member portals. The formats of the reports for the transactions cleared by ARCL through NCL are given in Annexure – I

13. Applicability of stamp duty:

Stamp duty is applicable at the rate of 0.00001% on the difference between the ready leg and forward leg consideration. This is payable on every transaction and is collected

14. Fees and Charges

The fees and charges applicable for seeking clearing membership and payable to AMC Repo at the time of membership application are as below

- Admission Fees (one time) – INR 50,000 /- (plus GST)
- Annual Subscription charges – INR 10,000/- (plus GST)

In addition to the above, upon admission, the member will need to transfer a minimum cash deposit (interest free) of INR 1 lac to AMC Repo to get activated for the services.

Transaction charges: The transaction charges will be INR 15 per crore (subject to minimum of Rs.15 per trade and max of INR 1,500 per trade). GST and applicable taxes shall be charged separately.

The bill will be generated by on the first day of every month and made available to the members in their respective report portals. The members will be required to make the payment on or before 10th (in case of holiday then the previous business day) of the subsequent month.