प्रेस प्रकाशनी PRESS RELEASE

भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA
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March 01, 2018

RBI releases Draft Directions on Repurchase transactions (Repo) (Reserve Bank) 2018 under section 45 W of the RBI Act, 1934

The Reserve Bank of India today released Draft Directions on Repurchase transactions (Repo) (Reserve Bank) 2018. Comments on the draft directions are invited from banks, market participants and other interested parties by March 16, 2018.

Feedback on the draft directions may be forwarded to:

The Chief General Manager, Reserve Bank of India
Financial Markets Regulation Department
1st Floor, Main Building
Shahid Bhagat Singh Marg,
Mumbai – 400001

Or by email with subject line “Feedback on draft directions on Repurchase transactions (Repo) 2018”.

Background

Reserve Bank of India in its Statement on Developmental and Regulatory Policies dated February 7, 2018 announced that RBI will issue a streamlined and simplified Comprehensive Repo Directions with a view to harmonize regulations across different types of collateral and also to encourage wider participation, especially for repos in corporate bonds and debentures.

Accordingly, a draft Repurchase transaction (Repo) (Reserve Bank) Directions, 2018 is being issued for feedback.

Jose J. Kattoor
Chief General Manager

Press Release: 2017-2018/2341

(120 kb)

Repurchase transactions (Repo) (Reserve Bank) Directions, 2018- Draft

RESERVE BANK OF INDIA
FINANCIAL MARKETS REGULATION DEPARTMENT
1ST FLOOR, CENTRAL OFFICE, FORT
MUMBAI 400 001

FMRD.DIRD./CGM (TRS)-2018 dated March 1, 2018

Repurchase transactions (Repo) (Reserve Bank) Directions, 2018- Draft

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 the powers conferred under section 45W of the Reserve Bank of India Act, 1934 (RBI Act) and of all the powers enabling it in this behalf, hereby gives the following directions to all persons dealing in repurchase transactions (repos).

1. Short title and commencement of the directions

These directions may be called the Repurchase transactions (Repo) (Reserve Bank) Directions, 2018 and shall supersede all other Directions issued in this regard.

2. Definitions

a. **Government securities mean** a security created and issued by the Central and State Government for the purpose of raising a public loan or for any other purpose as may be notified by the Government in the Official Gazette and having one of the forms mentioned in section 3 of Government Securities Act 2006.
b. **Corporate bonds and debentures mean** non-convertible debt securities issued in India, which create or acknowledge indebtedness, including (i) debentures (ii) bonds (iii) commercial papers (iv) certificate of deposits and such other securities of a company or a body constituted by or under a Central or State Act, whether constituting a charge on the assets of the company or body or not, or such other persons as may be specified by the Reserve Bank.
c. **Municipal bonds means** a debt security created and issued by or on behalf of a municipality or a local authority in India for the purpose of raising a public loan or for any other purpose, which are specified in this behalf by Govt. of India.
d. **Regulated entity** means any person, other than an individual or HUF, that is subject to the regulatory jurisdiction of an Indian financial regulator viz. Reserve Bank of India, Securities and Exchange Board of India, Insurance Regulatory and Development Authority of India, Pension Fund Regulatory and Development Authority, National Housing Bank and National Bank for Agriculture and Rural Development.
e. **Listed corporate** means a company or firm whose shares and (or) debt are listed and traded on an official stock exchange recognized by the concerned regulator.
f. **Delivery versus Payment (DvP)** is a settlement mechanism which stipulates that transfer of funds from the buyer of securities must be made simultaneously with the transfer of securities by the seller of securities.
g. **Repo** is as defined in Section 45U (c) of RBI Act, 1934.

h. **Reverse Repo** is as defined in Section 45U (d) of RBI Act, 1934.
A 'repo' transaction by an entity is 'reverse repo' transaction for the counterpart entity. Hence, in these Directions, the word 'repo' is used to mean both 'repo' and 'reverse repo' with the appropriate meaning applied contextually.
i. **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.
j. **Haircut** is the difference between the market value of an asset and the purchase price paid at the start of a repo.

3. Types of repos

a. **Tri-Party repos** are transacted through a Tri-Party agent in terms of Tri-Party Repo (Reserve Bank) Directions dated August 10, 2017.
b. Standard repos.

4. Eligible collateral for repo

a. Government securities.
b. Listed corporate bonds and debentures

   provided that no corporate bonds and debentures may be used as collateral for any repo transaction wherein at least one counterparty is either the issuer or a related entity of the issuer.

   Listed corporate bonds and debentures also include securities issued in India by Multilateral Development Banks (MDB) like World Bank Group (e.g., The International Bank for Reconstruction and Development, The International Finance Corporation), the Asian Development Bank or the African Development Bank and other such entities as approved by RBI.
c. Municipal bonds (as specified by Govt. of India)

5. Eligible participants

a. Any regulated entity.
b. Any listed corporate.
c. Any unlisted company which has been issued special securities by the Government of India.
d. Any All India Financial Institution (FIs) viz. Exim Bank, NABARD, NHB and SIDBI.
e. Any other entity approved by RBI for this purpose.

6. Tenor

Repos shall be undertaken for a minimum period of one day and a maximum period of one year.

7. Trading

Repo transactions may be traded on recognized stock exchanges, electronic trading platforms (ETP) authorised by RBI or in the over-the-counter (OTC) market.

8. Reporting of trades

All repo trades shall be reported within 15 minutes of the trade to the reporting platform F-TRAC under Clearcorp Dealing Systems (India) Ltd. (CDSIL) and any other entity as specified by RBI.

9. Settlement of trades

a. The first leg of all repo transactions shall settle either on a T+0 or T+1 basis.
b. All repo transactions shall settle on a DvP basis.
c. All government securities repos shall settle on a guaranteed basis through a clearing house approved by RBI.
d. All repos in corporate bonds and debentures shall settle through the clearing house of exchanges or any other entity approved by RBI.

10. Sale and substitution of repoed security

Securities purchased under repo may be

i. On-sold either as an outright transaction or as part of another repo transaction.
ii. Substituted by another security by mutual agreement under pre-existing arrangement.

11. Pricing of collateral, Haircut and Margining

i. Collaterals shall be priced transparently at prevailing market prices, in the first leg of a repo.
ii. Haircut will be decided either by the clearing house or may be bilaterally agreed upon, under Global Master Repurchase Agreement (GMRA).

12. Accounting, presentation, valuation and disclosure

Repos shall be accounted for by RBI regulated entities as per guidelines contained in RBI circular no. IDMD/4135/11.08.43/2009-10 dated March 23, 2010 (Annex I, II & III). Other eligible participants may account as per applicable accounting standards.

13. Computation of Cash Reserve Ratio (CRR) /Statutory Liquidity Ratio (SLR) and borrowing limit

The funds borrowed under market repo in government securities shall be exempted from CRR/SLR computation and the security acquired under repo shall be eligible for SLR. The borrowings of a bank through repo in corporate bonds and debentures and municipal debt shall be reckoned as 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.

14. Documentation

The participants in bilateral OTC market shall enter into Master Repo Agreement as per the documentation finalized by Fixed Income Money Market and Derivatives Association of India (FIMMDA).

ANNEX I

1. Applicability of the accounting guidelines: The revised accounting guidelines will apply to market repo transactions in government securities and corporate debt securities. These accounting norms will, however, not apply to repo / reverse repo transactions conducted under the Liquidity Adjustment Facility (LAF) with RBI.

2. Market participants may undertake repos from any of the three categories of investments, viz., Held For Trading, Available For Sale and Held To Maturity.

3. The economic essence of a repo transaction, viz., borrowing (lending) of funds by selling (purchasing) securities shall be reflected in the books of the repo participants, by accounting the same as collateralized lending and borrowing transaction, with an agreement to repurchase, on the agreed terms. Accordingly, the repo seller, i.e., borrower of funds in the first leg, shall not exclude the securities sold under repo but continue to carry the same in his investment account (please see the illustration given in the Annex) reflecting his continued economic interest in the securities during the repo period. On the other hand, the repo buyer, i.e., lender of funds in the first leg, shall not include the securities purchased under repo in his investment account but show it in a separate sub-head (please see the Annex). The securities would, however, be transferred from the repo seller to repo buyer as in the case of normal outright sale/purchase transactions and such movement of securities shall be reflected using the Repo/Reverse Repo Accounts and contra entries. In the case of repo seller, the Repo Account is credited in the first leg for the securities sold (funds received), while the same is reversed when the securities are repurchased in the second leg. Similarly, in the case of repo buyer, the Reverse Repo Account is debited for the amount of securities purchased (funds lent) and the same is reversed in the second leg when the securities are sold back.

4. The first leg of the repo transaction should be contracted at the prevailing market rates. The reversal (second leg) of the transaction shall be such that the difference between the consideration amounts of first and second legs should reflect the repo interest.

5. The accounting principles to be followed while accounting for repo / reverse repo transactions are as under:

(i) Coupon /Discount

a. The repo seller shall continue to accrue the coupon/discount on the securities sold under repo even during the repo period while the repo buyer shall not accrue the same.

b. In case the interest payment date of the security offered under repo falls within the repo period, the coupons received by the buyer of the security should be passed on to the seller of the security on the date of receipt as the cash consideration payable by the seller in the second leg does not include any intervening cash flows.

(ii) Repo Interest Income / Expenditure

After the second leg of the repo / reverse repo transaction is over,

a. The difference between consideration amounts of the first leg and second leg of the repo shall be reckoned as Repo Interest Income / Expenditure in the books of the repo buyer / seller respectively ; and

b. The balance outstanding in the Repo Interest Income / Expenditure account should be transferred to the Profit and Loss account as an income or an expenditure. As regards repo / reverse repo transactions outstanding on the balance sheet date, only the accrued income / expenditure till the balance sheet date should be taken to the Profit and Loss account. Any repo income / expenditure for the remaining period should be reckoned for the next accounting period.

(iii) Marking to Market

The repo seller shall continue to mark to market the securities sold under repo transactions as per the investment classification of the security. To illustrate, in case the securities sold by banks under repo transactions are out of the Available for Sale category, then the mark to market valuation for such securities should be done at least once a quarter. For entities which do not follow any investment classification norms, the valuation for securities sold under repo transactions may be in accordance with the valuation norms followed by them in respect of securities of similar nature.

6. Accounting Methodology

The accounting methodology to be followed along with the illustrations is given in Annexes II and III. Participants using more stringent accounting principles may continue using the same principles.

7. Classification of Accounts

Banks shall classify the balances in Repo A/c under Schedule 4 under item I (ii) or I (iii) as appropriate. Similarly, the balances in Reverse Repo A/c shall be classified under Schedule 7 under item I (ii) a or I (ii) b as appropriate. The balances in Repo interest expenditure A/c and Reverse Repo interest income A/c shall be classified under Schedule 15 (under item II or III as appropriate) and under Schedule 13 (under item III or IV as appropriate) respectively. The balance sheet classification for other participants shall be governed by the guidelines issued by the respective regulators.

8. Disclosure

The following disclosures should be made by banks in the "Notes on Accounts' to the Balance Sheet:

	Minimum outstanding during the year	Maximum outstanding during the year	Daily Average outstanding during the year	Outstanding as on March 31
Securities sold under repo i. Government securities ii. Municipal debt iii. Corporate debt securities				

Securities purchased under reverse repo i. Government securities ii. Municipal debt iii. Corporate debt securities				

ANNEX II

Recommended Accounting Methodology for accounting of Repo / Reverse Repo transactions

i The following accounts may be maintained, viz. i) Repo Account, ii) Reverse Repo Account, iii) Reverse Repo Interest Income Account, iv) Repo Interest Expenditure Account v) Reverse Repo Interest Receivable Account and vi) Repo Interest Payable Account.

ii In addition to the above, the following 'contra' accounts may also be maintained, viz. i) Securities Sold under Repo Account, (ii) Securities Purchased under Reverse Repo Account, (iii) Securities Receivable under Repo Account and (iv) Securities Deliverable under Reverse Repo Account.

Repo

iii In a repo transaction, the securities should be sold in the first leg at market related prices and re-purchased in the second leg at the same prices. The consideration amount in the second leg would, however, include the repo interest. The sale and repurchase should be reflected in the Repo Account.

iv Though the securities are not excluded from the repo seller's investment account and not included in the repo buyer's investment account, the transfer of securities shall be reflected by using the necessary contra entries.

Reverse Repo

v In a reverse repo transaction, the securities should be purchased in the first leg at prevailing market prices and sold in the second leg at the same prices. The consideration amount in the second leg would, however, include the repo interest. The purchase and sale should be reflected in the Reverse Repo Account.

vi The balances in the Reverse Repo Account shall not be a part of the Investment Account for balance sheet purposes but can be reckoned for SLR purposes if the securities acquired under reverse repo transactions are approved securities.

Other aspects relating to Repo/Reverse Repo

vii In case the interest payment date of the securities sold under repo falls within the repo period, the coupons received by the buyer of the security should be passed on to the seller on the date of receipt as the cash consideration payable by the seller in the second leg does not include any intervening cash flows.

viii To reflect the accrual of interest in respect of the outstanding repo transactions at the end of the accounting period, appropriate entries should be passed in the Profit and Loss account to reflect Repo Interest Income / Expenditure in the books of the buyer / seller respectively and the same should be debited / credited as an expenditure payable/income receivable. Such entries passed should be reversed on the first working day of the next accounting period.

ix Repo seller continues to accrue coupon/discount as the case may be, even during the repo period while the repo buyer shall not accrue the same.

x Illustrative examples are given in Annex III