

CIRCULAR

Circular Reference Number	AMC Repo/Ops/2023/06
Circular Date	21 st July 2023
Department	Operations

To
All Members/Clients,

Subject: Master Circular

This is in pursuance of Regulations of the Repo Segment of AMC Repo Clearing Ltd. (ARCL) and in replacement of all earlier Master Circulars/Consolidated Circular/Member Report Structure issued to the members/clients.

The Triparty Repo product of Repo Segment of ARCL shall be available in live market w.e.f. July 28, 2023. Initially, the Triparty Repo product will be available only for Members proprietary trades and subsequently it will be extended to all eligible clients including Direct Clients and Indirect Clients.

In case of any further clarifications, you may write to us at operation@arclindia.com.

AMC Repo Clearing Limited

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1. Introduction

AMC Repo Clearing Limited (AMC Repo/ARCL/Clearing Corporation) is a Limited Purpose Clearing Corporation (LPCC), constituted under SECC Regulations 2018 of SEBI with the objective of providing clearing and settlement services with guaranteed settlement for repo trades in corporate debt securities. RBI has approved the triparty repo product of AMC Repo and permitted ARCL to act as a Triparty Agent for triparty repos in corporate debt securities. RBI has also granted authorization to AMC Repo under Payment and Settlement System (PSS) Act 2007 to offer Central Counterparty (CCP) services for repo transactions in corporate debt securities.

2. Definitions

- **Repo deals**
“Repo deals” are trades executed on the Triparty Repo Market (TRM) platform in Debt Segment of the National Stock Exchange of India Ltd (Exchange).
- **Clearing Members**
Clearing Members for this purpose shall mean the Members of Repo Segment of ARCL who may participate in repo transactions for its own proprietary book and/or on behalf of its clients.
- **Client**
Clients include Participants, Constituents and may also include proprietary account of Member.
- **Participant:** Participant is a client who is registered with ARCL through Clearing Member. However, Participant will settle its obligations directly with ARCL.
- **Constituent:** Constituent is a client who is registered with ARCL through Clearing Member and settles fund obligations through the Clearing Member.
- **Ready Leg**
Ready Leg is the first leg in a Repo transaction in which the member/client borrows/lends funds against the collateral/margin transferred to the Clearing Corporation for the trades to be executed on the TRM platform of the Exchange.
- **Forward Leg (Repo maturity)**
Forward Leg is the second leg of repo transaction or reversal leg of Ready Leg Repo transaction whereby the member/client who has borrowed fund in the first leg is obliged to return the funds borrowed in the Ready leg of the Repo transaction.
- **Repo Tenor**
Repo tenor means the number of days for which the borrowing or lending is undertaken.
- **Repo Rate**
Repo Rate is the annualized rate for the fund borrowed or lent for the repo tenor.
- **T+0 Settlement**
T+0 settlement indicates that the Ready Leg Repo deal shall be settled on the trade date i.e. same day settlement.
- **T+1 Settlement**
T+1 settlement indicates that the Ready Leg Repo deal shall be settled on the business day immediately succeeding trade date i.e. next business day settlement.

- **Settlement Obligation**
Settlement Obligation means the actual amount payable or receivable by the Clearing Members/Clients for the settlement.
- **“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 repo transaction.

3. **Product – Triparty Repo**

Triparty repo is a type of 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. RBI has accorded approval to ARCL to act as a triparty repo agent and to offer triparty repo in corporate debt securities.

The product specification for triparty repo is given below:

Repo type	Basket Repo. Baskets would be constituted based on the combination of rating, issuers, bond category etc. The Baskets that are available for trading are given in Annexure 1.
Instrument Type	Discounted instrument i.e. discounted consideration in the ready leg and trade value as consideration in the forward leg
Repo Tenor	From one day to 365 days. Initially, repo tenor will be available for maximum of 7 calendar days with daily maturity.
Contract size	Minimum Rs.5 lakh and in multiples of Rs.5 lakh
Ready leg Settlement cycle	T+0 and T+1

4. **Trading**

In terms of SEBI circular dated Nov 06, 2020, ARCL has entered into an agreement with National Stock Exchange of India Ltd (NSE) – identified stock exchange for trading of ARCL’s triparty repo product on their trading platform under triparty repo of the Debt Segment. A detailed circular on trading will be issued separately by the stock exchange.

5. **Clearing & Settlement**

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

6. Membership

Currently for participating in the triparty corporate bond repo, “trading cum self-clearing membership” is provided to the eligible entities. The trading cum self-clearing member may participate in repo transactions for its own proprietary book and/or for its clients.

- Trading membership shall be 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 NSE from where they will execute the trades.; and
- Clearing Membership shall be with ARCL for clearing and settlement. Clearing Membership will be governed by bye-laws, rules and regulations of ARCL.

For Clearing Membership with ARCL, the necessary documents are required to be submitted to ARCL for registration as well as enablement along with admission fee, membership fees, interest free deposits. The details of the document along with the procedure for registration and enablement of clearing membership is provided on ARCL website in the given link: <http://arclindia.com/documentation>.

Membership Eligibility Criteria

Member Category	Net worth (Rs. In Cr) & Other Conditions
Scheduled Commercial Banks	a) Rs. 500 Crs and above b) CRAR 11.5% and above
Primary dealers	Rs. 150 Crs and above
Trading Members	a) Minimum Net worth as per SEBI guidelines b) profit making as per the latest audited financial statement

- After submission of documents by eligible entities, ARCL will process the documents and inform the status of admission to the entity through a letter and/or email.
- Upon successful admission of an entity, ARCL will activate the entity for triparty repo transaction subject to fulfilment of conditions as specified by ARCL.

7. Clients Registration:

As per Repurchase Transactions (Repo) (Reserve Bank) Directions, 2018- Amendment dated November 28, 2019, the following are eligible to participate in repo transaction:

- Any regulated entity;
- Any listed corporate.
- 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.

These eligible entities (as prescribed by RBI) which are not permitted to take membership on stock exchanges/clearing corporation and those eligible entities which 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).

There are two categories of clients as described under:

a. Participant i.e., Direct Client: 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/margin 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 settlement bank account without routing through its clearing member's account.

The process flow for transfer of collateral & margin, settlement of funds for Participant is similar to the clearing members of ARCL and the details are given in subsequent paragraphs.

To register as "Participant", the necessary documents are required to be submitted to AMC Repo Clearing Limited through clearing member along 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: <http://www.arclindia.com/clientsdocumentation/participants>.

Eligibility Criteria for "Participant"

Participant Category	Net worth (Rs. In Cr) & Other Conditions
Scheduled Commercial Banks	a) Net worth Rs. 500 Crs and above b) CRAR 11.5% and above
Primary dealers	Rs. 150 Crs and above
Mutual Funds	-
NBFCs	NBFC falling in Upper Layer as classified by RBI
Insurance Companies	a) Net worth Rs.100 Crs and above b) Solvency margin 150% or more
All India Financial Institutions	Positive net-worth and profit making as per the latest audited financial statements
Listed Corporates	a) Net worth Rs. 20000 Crs and above b) Profit making as per the latest financial statement

* Net worth should be calculated as per methods provided by their respective regulators

** Any other criteria as specified by ARCL from time to time.

- After submission of documents by eligible entities, ARCL will process the documents and inform status of admission of the Participant through Clearing Member.
- 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.

b. Constituent: This category of clients will take registration through the Clearing Member for participating in repo transactions. In this approach, the constituent shall be responsible for collateral/margin management. With the consent of the Clearing Member, a constituent 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 who in turn will complete fund settlement with its Constituents.**

The process flow for transfer of collateral& margin for “Constituents” is similar to the clearing members of ARCL and the details are given in subsequent paragraphs. To register as “Constituent”, the necessary documents are required to be submitted to ARCL through clearing member along 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: <http://www.arclindia.com/clientsdocumentation/constituent>. After submission of documents by eligible entities, ARCL will process the documents and inform status of admission through the clearing member by way of a letter and/or email. 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.

Currently, Triparty repo will be allowed only for proprietary trading members. This will be made available to “Participants” and “Constituents” subsequently after issuance of notification by SEBI.

Kindly note that registration with ARCL is mandatory for all clients i.e., “Participant” AND “Constituent”. The ARCL will provide the unique “Constituent Participant Code” (CP Code) to each client. The client must use the same CP code at the time of trading.

Further it is mandatory for all clients (including proprietary trading member) to have membership of F-TRAC platform managed by Clearing Corporation of India Ltd. (CCIL) for enablement on repo segment. For trades executed in Tri-party repo product, F-TRAC reporting will be done by ARCL on behalf of Members/clients.

8. Collateral / Margin

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

8.1. Collateral/Margin by Members / Clients

The collateral/margin shall be towards the following requirement.

- i) Lending position
 - ii) Borrowing position
- i) Lending positions: Member/Client desirous to enter Lend Repo deals shall be required to provide margin in the form of cash. Such margin shall be deposited upfront i.e. before submitting Lend Repo order on the TRM platform. Only those lending orders that satisfy the margin requirement vis-a-vis cash collateral deposited by the Clearing Member/Client will be accepted.
- ii) Borrowing position: Member / Client 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 collateral shall be deposited upfront i.e. before submitting Borrow Repo order on the TRM platform. Only those borrow orders that satisfy collateral requirement will be accepted. Each eligible security is assigned/mapped only to one basket repo. The borrowing limit will be assigned to the basket repo in which the security is mapped.

8.2. Eligible Corporate Debt Securities as Collateral

- ARCL will specify the list of eligible securities which shall qualify for collateral contribution for borrow position. ARCL will publish the list of eligible securities on its website on the 20th of every month which will be effective from the 1st day of subsequent month. ARCL may modify the list of eligible securities based on new additions, rating modifications, etc.
- Clearing Corporation will make eligible securities in-eligible based on parameters like corporate action, change in rating, minimum residual maturity etc. and such securities declared as ineligible will not be reckoned for collateral contribution by the Clearing Members from the effective date of such ineligibility. Clearing Corporation will make securities temporarily ineligible for 45 days (or any other time specified by ARCL) before the date of corporate action such as interest payment, put/call option, redemption etc. Such ineligible securities shall be made eligible again on the day following the corporate action date.
- Clearing Corporation may, at its discretion, specify the maximum amount of a single security or group of securities that a Member/Client may deposit by way of collateral contribution.
- It shall be the responsibility of the Member/Client to ensure that its exposures on the outstanding deals are fully covered by the value of the collaterals maintained by it with Clearing Corporation
- Members cannot place Securities issued by their associates, subsidiaries, holding or group companies as collateral.

Member / Client shall be required to transfer the eligible securities as collateral to ARCL Settlement pool account as specified in point 8.3. The format for addition and release of collateral will be provided in ARCL website under collateral. <https://www.arclindia.com/collateral> .

8.3. Collateral contribution by Member/Client

A Member/Client desirous of borrowing shall transfer eligible securities as specified by ARCL from time to time. These bonds shall be transferred upfront i.e. prior to submitting borrow orders on the trading platform of the exchange.

Process for transfer of securities

The Member/Client shall maintain a DEMAT account with a Depository Participant of the depository (currently with National Securities Depository Limited (NSDL)) for the purpose of transferring bond collaterals to the ARCL settlement pool account.

Deposit:

- Members / Clients are required to transfer securities towards collateral requirement, from their existing DEMAT account maintained with the depository (currently with NSDL only) to the ARCL Settlement Pool account for borrowing in Tri-party repos.
- Clients (like Mutual Funds) who have multiple demat accounts for their schemes, shall open a separate BO account (currently with NSDL) for Tri-party Repo and transfer securities from that BO account to ARCL Settlement Pool account.
- Members/ Clients will send an email to collateral@arclindia.com for collateral deposit intimation. The format for addition and release of collateral is provided in ARCL website under collateral.

Members/Clients are required to transfer securities towards collateral requirement to the below mentioned settlement pool account of Clearing Corporation for participating in Repo deals from their NSDL beneficiary account.

DP ID	IN001192
Client ID	10000012

While transferring securities, the Member / Client should transfer securities with settlement type and settlement number as specified by ARCL from time to time.

8.4. Withdrawal and substitution of securities:

- Member/Client 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 outstanding obligations of the concerned Member/Client. ARCL shall provide a facility to the Members/Client to submit securities withdrawal request by sending a request at collateral@arclindia.com. For valid securities withdrawal requests, the securities shall be released in batches by AMC Repo.
- ARCL will transfer the securities from ARCL Settlement Pool account to Members/Clients demat account.
- Member/Client 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/client shall deposit eligible collateral first and then shall submit withdrawal request for the collateral already deposited with clearing corporation.
- Substitution shall be allowed only if the borrowing outstanding of the Member/Client remains fully covered with the substitution of securities.
- The Member/Client will be responsible for ensuring that its exposure on the outstanding deals is fully covered by the value of collaterals maintained by it with ARCL.
- Members/Clients shall monitor securities deposited as collateral to ensure that the securities due for redemption/corporate action are withdrawn 45 days (or any other time specified by ARCL) before the redemption/corporate action date and substituted by eligible securities of equivalent

value, if needed. In the event of Member/Client not withdrawing such security, Clearing Corporation shall transfer such securities back to the demat account of the Members/Client in case such securities are not utilized for borrowing. The Member / Client can make the request for release or substitution of securities within time specified by ARCL. Initially, the member/client can send the request for addition and/or release of collateral by 5:30 pm.

- (vii) The release of collateral/securities for “Constituent” is done only after approval by clearing member.

8.5. Process for Transfer/Release of Cash Margin –

Members/Clients desirous of lending in repo transaction shall provide a cash margin at the rate 0.50% of lending value by transferring the amount to the settlement bank account maintained with the clearing banks. Constituents will designate / open bank account with the clearing bank only for margin purpose.

- This instruction to the AMC Repo Unit can be provided by sending a request at margin@arclindia.com. The funds should be transferred to settlement bank account only
- Based on the request from clearing member/client, ARCL will pull money from the settlement bank account to ARCL margin account.
- The benefit of such cash deposit requests shall be subject to bank confirmation from the respective clearing bank.
- Facility is provided to clearing member/client to release margin during the day. Member/client shall request for release of cash margin by sending the request to margin@arclindia.com.
- The release of the cash margin subject to the remaining margin is sufficient to cover outstanding positions of the concerned Clearing Member/Client. The release of the cash margin will be done in batches. The margin will be released to settlement bank account of the member / client.
- The release of the cash margin for “Constituent” is done only after the approval of clearing member.
- The clearing member / client can provide the request for margin release within the time specified by ARCL. Initially, the clearing member/client can send the request for addition and/or release of collateral by 5:30 pm.
- The format for addition and release of margin is provided on ARCL website in Collateral section.

8.6. Valuation of Collateral

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

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

For calculation of accrued interest, “Actual/Actual” day count convention will be used.

Example

Face Value of the Security: A = 100000

Market Price of the Security: B = 101

Market Value of the Security: C = A X B = 100000 X 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: $G = C + D - F = (101000 + 1000 - 10200) = 91800$

8.7. Margin Requirement:

Margin requirement for Lending:

- i. The margin rates for Repo deals shall be arrived at based on Value at Risk (VaR) or such other model as may be decided by Clearing Corporation from time to time.
- ii. The margin obligations for Repo deals of a Clearing Member/Client shall be computed by multiplying the net position for each maturity within each basket with the corresponding margin rates as applicable for the Clearing Member/client and then aggregating the margin obligations.
- iii. To begin with the margin rate applicable for the Lend Repo deal shall be 0.50% on the lending amount.
- iv. The collateral blocked shall be the margins applicable to the extent of net lending position for each maturity date within each basket as decided by Clearing Corporation from time to time.

Collateral requirement for Borrowing:

The Collateral required for borrowing shall be as under:

- a. Forward leg obligation = Trade Value
- b. Ready leg consideration = $\text{Forward Obligation} / [1 + (\text{repo rate} \times \text{repo tenor}/365)]$
- c. The repo rate amount shall be computed based on Actual/365 day-count convention.

Example: traded value Rs.100 crore for one day at repo rate of 8% per annum.

Ready leg consideration = $100 / (1 + (0.08 \times 1/365)) = \text{Rs.}99.9780870 \text{ crore.}$

Forward leg payable is Rs.100 crore.

The collateral blocked shall be to the extent of net borrowed position at the forward leg for each maturity date within each eligible basket as decided by Clearing Corporation from time to time.

For the above example, margin is blocked 0.5% of Rs.99.9780870 crore and collateral is blocked for Rs.100 Crore.

8.8. Mark to Market Margin

Bonds deposited towards collateral contribution by the members/clients 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/client. Further, AMC Repo may require its members/clients 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/client is inadequate to cover the requirement on account of existing borrowing, the clearing member/client will be required to replenish the shortfall as MTM margin as directed by ARCL. 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. Such cash can be provided into the settlement bank account and intimate the same to ARCL. Failure to provide such an additional contribution by the members/clients within the stipulated time shall be treated as a violation and will be handled as per byelaws, rules and regulations of ARCL.

9. Settlement Obligation:

Obligation generation:

Details of computation of funds settlement obligations is as under:

Repo Deals

- a) Settlement shall be on a net obligation basis.
- b) A net obligation shall be generated comprising following legs:
 - a. Current day trade with Ready leg settlement T0
 - b. Previous day trade will Ready leg settlement T1
 - c. Previous day's trade with forward leg settlement

Auction Deal

- a) Settlement shall be on a net obligation basis.

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.
- In case the rollover order requires any additional collateral, then such an order shall only be accepted if additional collateral is made available.
- The members/client can use the roll-over borrow order facility provided by NSE for the same.

9.1. Funds Settlement

The funds settlement will happen through the clearing banks. Currently, Axis Bank Limited, HDFC Bank Limited and ICICI Bank Limited are the empaneled clearing banks. List of clearing banks is made available on ARCL website. The clearing members / Participants 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 the case of XYZ Bank Limited, the settlement account will be opened in the name of XYZ Bank Limited – ARCL Settlement Account. The constituents will also require to open the bank account with the clearing banks only for the cash margin purpose.

9.2. **Pay-in / Pay-out of Funds**

The pay-in of funds shall be done 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/participant 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'/participant account having payable position and credit members'/participant account having receivable position.

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. Collateral/margin of the clearing member/client blocked towards the settlement obligation if any, shall be unblocked on completion of the settlement.

The settlement bank account opened by members / participant with the respective clearing banks will be used solely for the purpose of margin and settlement of trades done in Tri-party repo in corporate debt securities & settled through ARCL.

9.3. **Allocation of securities to lenders**

After successful completion of settlement, ARCL will generate a report for net lenders by allocating the value of securities to lenders equivalent to the amount lent by them. 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 is more than one security having the 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.

Please note that the securities will be only allocated to the lender and it will not be transferred to lender BO account.

10. **Shortages 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. The mode of handling shortages will be as decided by ARCL from time to time and the decision of ARCL shall be binding on all the Clearing Members/Clients.

Handling of Shortage

ARCL 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. However, there might be instances where shortage allocation to non-defaulting members/participant might be done.

10.1. Lender commits shortage in the ready leg:

The 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. Subsequently, 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 will be allocated in below mentioned priority –

1. Matching borrowings in similar tenor and underlying repo basket
2. Lending 2nd leg as the part of gross pay-out
3. Borrowers' 1st leg (except matching borrowings).

The entire settlement will be carried out post allocation.

10.2. 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 the 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 will be allocated in below mentioned priority:

1. Allocation to members on a/c of lending repayment
2. Members having net pay-out on account of borrowings 1st leg as part of gross pay-out

The entire settlement will be carried out post allocation.

10.3. Mark-to-market (MTM) Margin shortfall:

ARCL will do daily valuation of securities in order to ensure that sufficient collateral value (net of haircut) is available to support outstanding borrowing. In case of any depletion in the collateral value OR in case of any downgrade/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 (maybe 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. A penalty would be collected from the concerned borrower and the affected lenders would be compensated adequately for such premature close out. The borrower needs to provide the MTM margin shortfall by 8:30 am next day or within any other time specified by ARCL from time to time. Borrower having MTM margin up to Rs. 5,00,000, may provide collateral anytime during the next business day. Such MTM shortfall up to Rs.

5,00,000 at borrower level will not be treated as violation. In case borrower has MTM margin above Rs. 5,00,000 then it is mandatory for borrower to provide full MTM margin before 8:30 am.

11. 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 relevant authority.

11.1. Exposure Limit for members/clients:

ARCL would fix a cap on borrowing amount and lending amount of members/clients. 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/client. The applicable limit for a member/client will be communicated after successful admission of the member/client. ARCL may also fix limit on borrowing amount for specific member/client against single issuer. The same will also be communicated to members/clients from time to time.

11.2. Initial Margin:

In order to deal with market risk arising on account of funds shortage by lenders in the ready leg, AMC Repo 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 blocked in the ready leg will be released after successful completion of ready leg settlement. Interest on margin, if any, will be as notified by Clearing Corporation from time to time.

11.3. 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 will be applicable on securities. Hair-cut is a flat percentage applicable on the market value (clean price + accrued interest) of the securities based on rating and residual maturity of securities as given below:

Sr.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

The list of eligible issuers, eligible securities, baskets are made available under Collateral section of ARCL's website – www.arclindia.com

12. Default Handling

AMC Repo will constitute Core Settlement Guarantee Fund (Core SGF) with contribution as prescribed by SEBI from time to time:

- Issuers (at the rate equivalent to 0.5 basis points of the issuance value of debt securities per annum based on the maturity of debt securities)
- ARCL 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.
- Any penalties levied by Clearing Corporation and interest accruals on Core SGF contribution.

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 from time to time and as specified in the By-laws and regulations of ARCL.

- I. Monies of defaulting member (including defaulting member's primary contribution to Core SGF)
- II. Insurance, if any.
- III. Issuers contribution to Core SGF.
- IV. ARCL resources (equal to 5% of MRC).
- V. Core SGF in the following order:
 - a. Penalties
 - b. Previous financial years profit of AMC Repo transferred to Core SGF
 - c. Remaining Core SGF: AMC Repo contribution and non-defaulting members' primary contribution to Core SGF on pro-rata basis.
 - d. Remaining profit of AMC Repo transferred to Core SGF
- VI. Remaining AMC Repo resources (excluding higher of INR 100 Crore or the capital requirement towards orderly winding down of critical operations and services).*
- VII. Remaining AMC Repo resources to the extent as approved by SEBI.
- VIII. Capped additional contribution by non-defaulting members**
- IX. 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.

** (i) Clearing Corporation shall call for the capped additional contribution only once during a period of 30 calendar days regardless of the number of defaults during the period. The period of 30 calendar days shall commence from the date of notice of default by Clearing Corporation to market participants
 (ii) Clearing Corporation shall have relevant regulations/ provisions for non-defaulting members to resign un-conditionally within the abovementioned period of 30 calendar days, subject to member closing out/settling any outstanding positions, paying the capped additional contribution and any outstanding dues to SEBI. No further contribution shall be called from such resigned members.

- (ii) 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.
- (iii) In case of shortfall in recovery of assessed amounts from non-defaulting members, further loss can be allocated to layer (VII) with approval of SEBI.

*** In case loss allocation is done through haircut to payouts, any subsequent usage of funds shall be with prior SEBI approval. Further, any exit by Clearing Corporation post using this layer shall be as per the terms decided by SEBI in public interest.

13. Reports

ARCL will make available the intraday and End of day reports in the portals to members as well as participants. The formats of the reports for the transactions cleared by ARCL are given in **Annexure 2**.

14. Applicability of stamp duty:

This is with reference to the Indian Stamp (Collection of Stamp Duty through Stock Exchanges, Clearing Corporations and Depositories) Rules, 2019 notified by the Ministry of Finance (Department of Revenue) on December 10, 2019, Indian Stamp Act, 1899 amended vide Finance Act, 2019 (No. 7 of 2019), stamp duty is applicable at the rate of 0.00001% on the difference between the ready leg and forward leg consideration. Pursuant to the above and as per the authorization received from Stock Exchange this will be collected from the borrower for every transaction. The clearing member / participant shall be required to pay stamp duty as part and along with the pay-in obligation. The stamp duty is collected as per the timeline stipulated for pay-in. The money will be collected from the settlement bank account of a clearing member / participant as per process followed for settlement obligation.

15. Fees and Charges

Clearing members, Participants and Constituents are required to pay the following fees and deposit for registration with ARCL. Additionally Clearing members are required to pay SEBI fees as specified by SEBI from time to time.

Category	Admission/Membership fees (one time)	Annual Subscription Fees	Interest free deposits
Clearing Member	Rs. 50000	Rs. 10000	Rs. 100000
Participant	Rs. 50000	Rs. 10000	Rs. 100000
Constituent	Rs. 25000	Rs. 5000	Rs. 100000

Annual Subscription charges will be applicable from subsequent financial year.

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 on the first day of every month and made available to the members/participants 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.

Penalties

Clearing Members / Participants failing to fulfil their funds obligations/MTM obligation by the scheduled date and time to Clearing Corporation shall be subjected to the following penalty structure any other penalty as specified by ARCL from time to time:

Type of Shortages	Penalty Charges per day
Fund Shortages	0.07%/day on value of shortages
Mark to Market Shortages	0.07%/day of value of shortages