NATIONAL STOCK EXCHANGE OF INDIA LIMITED

DEPARTMENT : LEGAL AND SECRETARIAL	
Download Ref.No.: NSE/LEGAL/37912	Date : June, 04, 2018
Circular Ref.No.: 1/2018	

To the Trading Members of applicable segment

Sub : Amendments to Bye-Laws, Rules and Regulations of NSEIL

The Byelaws of the National Stock Exchange of India Limited ("NSEIL") are amended as under:

(i) The definition of 'Trading Member' is modified as under (words in bold letters are included):

Quote

17. TRADING MEMBER
"Trading Member" means a Stock broker and the member of the NSE registered in accordance with Chapter V of the Bye-Laws **and will include such an entity which is permitted by NSE to enter into Tri-party Repo transactions on the TRM segment**.

Unquote

(ii) The term "Tri-party Repo Market (TRM)" is inserted under Chapter I, Byelaw 8, as under (words in bold letters are included):

Quote

Debt segment

(8) Debt Securities…

Tri-party Repo Market ("TRM")
Tri-party Repos on securities may be admitted to dealings on the TRM segment (under the Debt Segment). For the purpose of this Byelaw, securities admitted for trading on the TRM segment shall mean and include all such securities as may be notified by the relevant authority from time to time.
Unquote

(iii) Byelaw 22 of Chapter IX is modified as under (words in bold letters are included):

Quote

“The margin deposits shall be held by the Exchange (**and in case of Tri-party Repos, shall be held by the National Securities Clearing Corporation Limited (“NSCCL”)**) and when they are in the form of Bank Deposit Receipts and securities and such Receipts and securities may at the discretion of the relevant authority be transferred to such persons or to the name of a Bank approved by the Exchange. All margin deposits shall be held by the Exchange and/ or by the approved persons and /or by the approved Bank solely for and on account of the Exchange without any right whatsoever on the part of the depositing trading member or those in its right to call in question the exercise of such discretion.”

Unquote

(iv) Byelaw 1(g) of Chapter XII is modified as under (words in bold letters are included):

Quote

(g) if he, being an individual and /or partnership firm, /it, being a company incorporated under the Companies Act, files **an application** for adjudication of himself as an insolvent or **an insolvency application is filed against it in accordance with the provisions of the Insolvency and Bankruptcy Code 2016 or any other analogous bankruptcy laws applicable to him / it,** as the case maybe.

Unquote

(v) Byelaw 3 of Chapter XII is modified as under (words in bold letters are included):

Quote

“A trading member being an individual and /or partnership firm**, /it, being a company incorporated under the Companies Act, an application is admitted against him/ it in accordance with the provisions of the Insolvency and Bankruptcy Code 2016 or any other analogous bankruptcy laws applicable to him / it, as the case maybe**, shall be declared a defaulter although he/it may not have at the same time defaulted on any of his / its obligations on the Exchange.”

Unquote

<u>The Rules of NSEIL are amended by inserting the following under Rule 4 of Chapter III:—</u>

Quote

"In relation to Tri-Party Repo Market ("TRM"), all such persons shall be eligible to become Trading Members of the TRM segment of the Exchange as may be prescribed by the Exchange/the relevant authority by way of Circulars, Bye Laws, Rules and Regulations from time to time."

Unquote

As a consequence, the serial numbers of remaining Rules in Chapter III are renumbered.

<u>The Capital Market (CM) Segment Regulations of NSEIL are amended as under:</u>

(i) The Applicability of the Capital Market (CM) Regulations is proposed to be modified as under (words in bold letters are proposed to be included):

Quote

"These Regulations (read in conjunction with USER Manual) shall be applicable to all Trading Members and Participants to the extent specified herein, in the Capital Market Segment of National Stock Exchange. They shall be subject to jurisdiction of the Courts of Mumbai irrespective of the place of business of Trading Members in India. These Regulations shall also be applicable mutatis mutandis to all the Trading Members and Participants in the Debt segment of National Stock Exchange unless the context requires otherwise or unless otherwise specified by the relevant authority from time to time.

These Regulations shall also be applicable mutatis mutandis to all Trading Members in the Tri Party Repo Market ("TRM") segment, under the Debt segment of National Stock Exchange unless the context requires otherwise or unless otherwise specified by the relevant authority from time to time including under Chapter 8 of these Regulations."

Unquote

(ii) The definition of "Trading Member" is proposed to be amended as under (words in bold letters are proposed to be included):

Quote

"1.3.16 TRADING MEMBER

Trading Member refers to an entity as defined under Chapter **III of the Rules and Chapter** V of the Byelaws of National Stock Exchange of India Limited."

Unquote

(iii) The following is proposed to be inserted as Chapter 8 to the CM Segment Regulations:

Quote

8. TRI-PARTY REPOS

8.1 DEALINGS IN TRI-PARTY REPOS

8.1.1 REPO

"Repo" means an instrument for borrowing funds by selling securities with an agreement to repurchase the securities on a mutually agreed future date at an agreed price which includes interest for the funds borrowed and will also include all such types of repos which may be prescribed by the relevant authority from time to time.

8.1.2 TRI-PARTY REPOS

Tri-party Repo is a type of repo contract where a third entity (apart from the borrower and lender) 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. Any reference to trades under the Bye-Laws, Rules and Regulations of the Exchange shall also include reference to the Tri-party Repos.

8.1.3 TRI-PARTY REPO AGENT

Tri-party Repo Agent is the third party entity (apart from the borrower and lender) to the Tri-party Repo transaction, which acts as the intermediary between the parties for the purpose of such transaction. For the purpose of these Regulations, NSE will be the Tri-party Repo Agent for the Tri-party Repo transactions between the Trading Members of the TRM segment.

8.1.4 TRI-PARTY REPO MARKET / TRM

Tri-party Repo Market ("TRM") is the sub segment under the Debt Segment of NSE, which facilitates trading in Tri-party Repos.

8.1.5 REPO TYPE

The type of Repo permitted to be transacted on the TRM segment will be Basket Repo or such other type of Repo as may be prescribed by the relevant authority from time to time. Basket Repos shall facilitate borrowing and lending of funds against various baskets of securities. The baskets and the securities eligible to be included in respective baskets shall be as notified by the Exchange / National Securities Clearing Corporation Limited (NSCCL) from time to time.

Additional facility for special repos and any other type of Repo may also be provided, as may be prescribed by the relevant authority from time to time.

8.1.6 PERMITTED REPO TRADES

The Exchange shall prescribe from time to time permitted trades based on basket type/ any other type of repo, repo tenor and settlement type. The Exchange shall make available a combination of these repo parameters on the TRM segment.

8.1.7 BASKET TYPE

The baskets would comprise either one or more securities that have been grouped together based on criteria such as tenor, instrument category, instrument type, number of securities or any other attribute as prescribed by the Exchange / NSCCL from time to time. The Exchange / NSCCL shall also provide details in relation to the number of baskets to be made available for trading from time to time.

NSCCL will define baskets and securities available in each basket. The securities in each basket will be mutually exclusive.

8.1.8 COLLATERAL

(a) The permitted collateral for the Tri-party Repos, i.e. the permissible ‘Securities’ for the purpose of Tri-party Repos would mean:

(i) Listed corporate debt securities of original maturity of more than one year which are rated ‘AA’ or above by the rating agencies registered with SEBI, that are held in the security account of the Repo seller, in the dematerialised form.

(ii) Commercial Papers (CPs) and Certificates of Deposit (CDs) of original maturity upto one year which are rated A2 or above by the rating agencies registered with SEBI.

(iii) Such other securities as may be prescribed by the relevant authority from time to time.

(b) The Trading Member of the TRM segment will be provided the facilities of intra-day substitution of collateral, early pay-in of funds, intraday release of securities etc.

(c) In case of cancellation of the order before matching (as stated under the Trade Process Flow below), the collateral will be released to that extent.

8.2 MARGIN REQUIREMENTS

8.2.1 Subject to the provisions as contained in the Exchange Bye-laws and such other regulations as may be in force or prescribed by the relevant authority from time to time, every

Trading Member of the TRM segment shall in respect of trades in which he is a lender, deposit a margin with NSCCL, in the form of cash margin.

8.2.2 Such margin will be required to be deposited in the manner and to the extent and from such date as may be specified by the Exchange / NSCCL. Whenever margin is payable by a Trading Member in the TRM segment, it shall pay such margins directly to NSCCL, unless otherwise directed by the Exchange / NSCCL.

8.2.3 The Exchange / NSCCL shall permit placing of the order on behalf of the lender only on the receipt of margin of minimum such percentage as the relevant authority may decide from time to time. In case of margin being insufficient at the time of validation of the order, the order will get cancelled. The lender in such a scenario, will be intimated in case of such cancellation by means of a message.

8.3 ORDER MATCHING RULES

8.3.1 Orders in the Basket Repo will be matched on Repo rate - time priority basis.

8.3.2 The best borrow order shall match with the best lend order. The best borrow order in the Basket Repo shall be the one which seeks to borrow at the highest Repo rate.

The best lend order in the Basket Repo shall be the one which seeks to lend at the lowest Repo rate.

8.3.3 The best Repo rate for a lend order shall be the borrow Repo rate equal to or more than the lend Repo rate. The best Repo rate for a borrow order shall be the lend Repo rate equal to or lesser than the borrow repo rate.

8.3.4 Without prejudice to the generality of the above, the relevant authority may prescribe additional order matching rules/ modify the existing order matching rules by way of circulars, for various types of repos as may be introduced from time to time.

8.4 TRADE PROCESS FLOW

8.4.1 On the day of the trade, the borrower under the Tri-party Repo will enter borrow order (i.e. selling of security) and the lender will enter lend order (i.e. buying of security) on TRM segment. The borrower and lender will specify the value and rate for the trade.

8.4.2 Before confirmation of order by the Trading Member in the TRM segment, the Exchange will display the first leg consideration and second leg consideration to the Trading Member in the TRM segment.

- Both borrowing and lending orders would be validated against the security and margin availability before accepting those orders for matching;

- Security value would be blocked for the forward leg consideration (i.e. the first leg consideration plus repo interest for the repo tenor) for the borrowing orders.

8.4.3 The first leg consideration would be the transaction value of borrowing and lending.

8.4.4 The settlement obligation for forward leg shall be based on the repo rate at which trade has been executed. The settlement value shall be computed as under:

- Forward leg obligation = Ready leg obligation + Repo Interest
- The repo interest shall be computed based on Actual/365 day count convention

8.4.5 The order will be matched on order matching logic defined by the Exchange. The partial value of matching will be allowed.

8.4.6 Once the trade is executed, the confirmation slip will be generated and also the appropriate message will be broadcast on the TRM segment.

8.4.7 Without prejudice to the generality of the above, the relevant authority may prescribe additional rules/modify the existing rules relating to trade process flow in the TRM segment by way of Circulars, Bye Laws, Rules and Regulations from time to time.

Unquote

For and on behalf of
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