

Annexure V

Draft Code of Conduct for Repo Market

1. The objective of this Code is to set out standards of best practices or the repurchase agreements (repos) market. A high standard of conduct and professionalism is vital to the development of any market and it would be hoped that the code of conduct laid down will be followed in letter and spirit by not only principals and intermediaries in the market but all those who deal in the repo market. Also, all individuals must comply with the rules and regulations governing the market and keep up-to-date with changes that may happen from time to time.
2. A Repo transaction is defined as a transaction wherein the securities are sold at a particular price by one party (Seller) to the other (Buyer) with commitments on the Seller's part to repurchase the equivalent securities from the buyer (and a corresponding commitment on the part of the Buyer to sell the equivalent securities back to seller) on a certain date and at a certain price, both such date and price being fixed as a part of the same transaction. Securities are equivalent to other securities for the purpose of this framework, if they are (i) of the same issuer; (ii) part of the same issue; and (iii) are of identical type, nominal value, description as those other securities.
3. Reverse Repo Transaction is defined as a transaction wherein the securities are bought at a particular price by one party (Buyer) from the one (seller) with a commitment on the Buyer's part to sell the Equivalent Securities back to the Seller (and to corresponding commitment on the part of the Seller to repurchase the Equivalent Securities from the Buyer) on a certain date and at a certain price both such date and price being fixed as a part of the same transaction. Securities are equivalent to other securities for the purpose of this accounting framework, if they are (i) part of the same issue; and (ii) are of identical type, nominal value, description and amount as those other securities.
4. Repos will fall within the definition of "investments" as far as the purchaser of securities is concerned since the title of the securities bought is transferred to the buyer.
5. Participants in the repo market should at all times treat the names of parties to transactions as confidential.
6. Participants should know their counterparties and will maintain records of their conversion – both internal or with the investor – material to their relationship. Where these are in written form, records must be kept in line with statutory requirements.

7. Participants must accept responsibility for the actions of their staff and all participants must ensure that any individual of one institution who commits to any other institution does so within authority.

8. Personnel in back office functions should be functionally separate from those in the front office. Persons who conclude trades shall not be involved in the confirmation or settlement of deals.

9. Deals recorded by the trader should be confirmed independently by the back office in all details recorded by the trader. Back office must respond immediately to confirmations received for which they do not have a

10. Experience has shown that recourse to tapes proves invaluable to the speedy resolution of differences and disputes. Tapes relating to disputed transactions should be retained until the problem is resolved.

11. All firms, whether acting as principals, agent or broker, have a duty to make absolutely clear whether the prices they are quoting are firm or corresponding trade. Also, there is need to define the time by which confirmation should be returned. Exceptions should be brought to the attention of management by back office and the management should satisfy themselves of the genuineness of the trade. Prices quoted by brokers should be taken as indicative unless otherwise qualified.

12. The principals should regard themselves as bound to deal once the price, name acceptability, credit approved and any other key commercial terms have been agreed. Original agreements are considered binding.

13. The written confirmation provides a necessary final safeguard against dealing errors. Confirmations should be dispatched and checked promptly, even when oral deal checks have been undertaken. The issue of checking of confirmation should be a back office responsibility which should be carried out independently from those who initiate deals.

14. Participants should act with due skill, care and diligence and to facilitate the same staff should be properly training in the practices of the repo market. Also, they should be familiar with this code.

15. The market participants should pay particular attention to ensuring fair treatment for their clients especially where conflicts of interest cannot be avoided.

16. Participants should ensure that they are eligible, legally to undertake repo transactions and have obtained all the required permissions from their regulatory authorities, wherever required for the purpose.

17. Where a custodian undertakes a repo transaction on a client, if and when explicitly permitted by the regulatory authority, the provisions given in the operational guidelines for Constituents' SGL Account by RBI will be kept in view as far as transactions in Government securities are concerned. This is apart from obtaining the necessary authority for this activity from the client in a clear legal agreement stating therein the terms and conditions for undertaking the transaction.

18. Participants should ensure that they have adequate systems and control with a view to satisfying that any repo transactions have been properly authorised before cash or stock is released, adequate documentation to cover the types of transactions are undertaken and appropriate accounting systems in general and taxation treatment in particular are followed.

19. Repo transactions should be subject to a legal agreement between the two participants concerned. A Master Repurchase Agreement should be used for this purpose. The agreement should provide for the absolute transfer of title to securities, daily marking to market of transactions, appropriate initial margin and for the maintenance of margins whenever the mark to market reveals a material change of value, the events of default and consequential rights and obligations of the counterparties, clarification on rights of the parties regarding substitution of collateral and the treatment of coupon and interest payments in respect of securities subject to it etc.

20. Suitable initial margins as per norms laid down by the regulatory authority should be reflected in the transaction apart from daily margins as required for essential protection for participants in repo transactions. Collateral including where relevant margins should be delivered to the account of the counterparty or his agent or a designated third party.

21. The dealing hours will have to be uniform and as stipulated by the regulatory authority. In cases where deals are undertaken outside of these hours the management should satisfy themselves that there were good reasons for concluding deals after prescribed dealing hours.
