



CIRCULAR

CIR/MRD/DRMNP/9/2013

March 20, 2013

To

1. All Stock Exchanges & Clearing Corporations
2. All Registered FIs and Custodians

Sir / Madam,

Sub: Corporate bonds and Government securities as collateral

1. Please refer to SEBI circular Nos. SEBI/DNPD/Cir- 32/2007 dated September 11, 2007 and CIR/MRD/DP/15/2010 dated April 28, 2010 permitting FIs to offer, as collateral, cash and foreign sovereign securities with AAA rating in F&O segment and cash, foreign sovereign securities with AAA rating and government securities in cash segment.
2. The Hon'ble Finance Minister, in his announcement in the Union Budget for the year 2013 -14, has proposed, inter-alia, to permit FIs to use their investment in corporate bonds and Government securities as collateral to meet their margin requirements towards their transactions on the recognized Stock Exchanges in India.
3. Reserve Bank of India vide RBI/2012-13/439 A.P. (DIR Series) Circular No. 90 dated March 14, 2013 has permitted FIs to use, in addition to already permitted collaterals, their investments in corporate bonds as collateral in the cash segment and government securities and corporate bonds as collaterals in the F&O segment.
4. In light of the above, henceforth FIs are permitted to offer the following collaterals - government securities, corporate bonds, cash and foreign sovereign securities with AAA ratings, for their transactions in both cash and F&O segments. In this regard, the stipulations specified by SEBI and RBI with regard to the acceptance of various collaterals shall be adhered to.
5. Further, Clearing Corporations while enabling the framework for acceptance of corporate bonds as collateral for transactions of any entity in the cash and F&O segments, shall ensure that:



भारतीय प्रतिभूति और विनिमय बोर्ड
Securities and Exchange Board of India

- i) The bonds shall have a rating of AA or above (or with similar rating nomenclature) by recognised credit rating agencies.
 - ii) The bonds shall be in dematerialized form.
 - iii) The bonds shall be treated as part of the non-cash component of the liquid assets of the clearing member and shall not exceed 10% of the total liquid assets of the clearing member.
 - iv) The bonds shall have a fixed percentage based or VaR based haircut. A higher haircut may be considered to cover the expected time frame for liquidation. To begin with the haircut shall be a minimum of 10%.
6. The earlier circulars issued by SEBI with regard to acceptance of collaterals stand modified accordingly.
7. The Stock Exchanges/Clearing Corporations are advised to:
- a. make necessary amendments to the relevant bye-laws, rules and regulations for the implementation of the above decision.
 - b. bring the provisions of this circular to the notice of the member brokers/clearing members of the Exchange/Clearing Corporation and also to disseminate the same on the website.
 - c. communicate to SEBI, the status of the implementation of this circular in the Monthly Development Report.
8. This circular is being issued in exercise of powers conferred under Section 11 (1) of the Securities and Exchange Board of India Act, 1992 read with Section 10 of the Securities Contracts (Regulation) Act, 1956 to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.

Yours faithfully,

Shashi Kumar
Deputy General Manager
Division of Risk Management and New Products
Market Regulation Department
shashikumarv@sebi.gov.in