

## **Guidelines on Securities Transactions to be followed by Primary Dealers**

IDMC.No.PDRS. 5122 /03.64.00/99-2000

June 14, 2000

All Primary Dealers in the Government securities market

Dear Sirs,

### **Guidelines on Securities Transactions to be followed by Primary Dealers**

As you are aware, in terms of our Circular IDMC.No.PDRS/2049A/03.64.00/99-2000 dated December 31, 1999, a set of guidelines – to serve as standards for internal organisation and prudential operational conduct of the PDs – have been conveyed. Part A of the guidelines contained the control mechanisms which are compulsorily to be adopted / implemented by the PDs while Part B contained the prudential systems / controls the PDs are expected to have in place like any market participant. The PDs, after adopting / putting in place the guidelines, are required to submit a Report to us on the implementation by February 29, 2000.

2. The implementation reports have since been received from the PDs. While reporting implementation of the guidelines, some PDs have made certain suggestions / requested for clarification on few items in the guidelines. The suggestions / clarifications desired and the views taken thereon on examination are indicated below for information and guidance of the PDs.

#### **(a) Limit regarding transactions put through a broker.**

##### Views / Clarification

No change in the guidelines is proposed for the present. The matter, however, is under continuous review.

#### **(b) 100 per cent Concurrent Audit of the transactions etc.**

##### Views / Clarification

Since Concurrent Audit is considered the first line of defense and enables detection of violations / omissions on a real time, it is essential that Concurrent Audit should cover 100 per cent of the securities transactions. Irregularities should be rectified immediately and brought to the notice of the competent authority on a concurrent basis.

#### **(c) Treatment of brokerage, commission, fees etc.**

##### Views / Clarification

Normally, for securities firms where the securities are stock-in-trade, charges such as brokerage, commission etc. – any expenditure to purchase and sell the current assets – would be of revenue / deferred revenue nature. The broken period interest received / paid also get adjusted at the time of coupon payment. There could however, be differences in the treatment of these items between the IAS and the GAAP accounting standards. Whichever is the standard followed, the requirement would be that the method should be true and fair; should not result in overstating the profit or assets value; should be followed consistently; and be generally acceptable. The requirements of the tax authorities need also be fulfilled. It has therefore been felt that in case the system followed by a particular PD does not dilute these principle and conforms to generally adopted accounting standards such as IAS, GAAP etc. and if the same is acceptable to the tax

The buying entity accepting the SGL form should subject the form to verification of the signature etc. in order to ensure its authenticity before submitting for transfer.

**(e) The other suggestions received viz.** the stipulations regarding sale of securities only when they are held in own account; sale of securities obtained in repo not being allowed, should be removed; securities lending should be permitted and the cash / securities grid lock issues need to be solved.

Views / Clarification

All these issues have been taken on hand and are being / have been examined separately. Views / decisions, when finalised, have been / would be advised to the PDs.

Yours faithfully,

**(A.S. Rao)**  
**Dy. General Manager**