Trading of Government of India Securities on Stock Exchanges

Ref. DBS.FID No.C-1/ 01.02.00 / 2003- 04

July 1, 2003

The CEOs of all-India Term Lending and Refinancing Institutions

Dear Sir,

Trading of Government of India Securities on Stock Exchanges

With a view to encouraging a wider participation of all classes of investors in the secondary market for government securities, the trading in Government of India dated securities at the stock exchanges though a nation-wide, anonymous, order-driven, screen-based system has been introduced with effect from January 16, 2003. The GoI securities can be traded on the automated systems of the National Stock Exchange (NSE); The Stock Exchange, Mumbai (BSE) and the Over The Counter Exchange of India (OTCEI). This Scheme is in addition to the present Negotiated Dealing System (NDS) of the RBI, which would continue to be in operation as hitherto.

2. In the trading system envisaged under the Scheme, the trades concluded on the exchanges will be cleared by their respective clearing corporations/ clearing houses; hence, the FIs will need to settle the trade either directly with the clearing corporations/ clearing houses (in case they are clearing members) or through a clearing member custodian. The FIs, as institutional investors, would be able to undertake the transactions only on the basis of making / receiving delivery.

3. With a view to facilitating participation of the FIs on the Stock Exchanges within the regulations prescribed by RBI, SEBI and the Exchanges, the FIs are being extended the following facilities:

a) the FIs may open demat accounts with a Depository Participant (DP) of National Securities Depositories Limited (NSDL)/ Central Depository Services Limited (CDSL) in addition to their SGL accounts with RBI. (So far, the maintenance of demat account for the Government securities, except the SGL account, was not permissible for the FIs).

b) Value free transfer of securities between SGL/CSGL and demat accounts would be enabled by PDO-Mumbai subject to operational guidelines being issued by our Department of Government and Bank Accounts (DGBA) separately. (Value-free transfer refers to the transfer of GOI securities from the SGL / CSGL account to the demat account of the same party - which, therefore, does not require payment of any consideration).

Operational Guidelines

4. While the FIs should continue to follow the guidelines, as amended from time to time, contained in the Circular DBOD.FSC.BC.143A /24.48.001/91-92 dated June 20, 1992, forwarded to them vide our DO No. FIC. 984-994/01.02.00/9-92 dated June 23, 1992, the FIs are advised to ensure compliance with the following guidelines:

a) The FIs should obtain specific approval from their Board of Directors to enable them to trade in the Government securities on the stock exchanges;

b) The FIs should put in place enabling IT infrastructure, adequate risk management systems and appropriate internal control systems for the trading / settlement of government securities on stock exchanges. The back office arrangements should ensure that the trading on the NDS/OTC market and on the stock exchanges can be readily tracked for settlement / reconciliation purposes.

c) The trades done through any single broker will continue to be subject to the extant guidelines on dealings through brokers.

d) All trades should be settled either directly with clearing corporation / clearing house (in case they are clearing members) or else through clearing member custodians. Brokers / trading members shall not be involved in the settlement process.

e) At the time of trade, securities must be available with the FIs either in their SGL account with the RBI or in the demat account with the depositories. Any sale on (T+3) basis on the Stock Exchanges cannot be covered by a purchase on the NDS/OTC market [even on (T+0) basis] and subsequent transfer from SGL account to their demat account for effecting deliveries. Similarly, no sale is permitted on NDS/OTC on (T+0) basis against pay-in of securities expected on (T+0) on the Stock Exchanges.

f) The purchase transactions by the FIs should similarly be subject to availability of clear funds in their settlement accounts at the time of pay-in.

g) All pay-out of funds should invariably be out of clear funds, i.e. the pay-out must not be contingent upon the outcome of any clearing to be conducted on that day.

5. Any settlement failure on account of non-delivery of securities/ non-availability of clear funds will be treated as SGL bouncing and the current penalties in respect of SGL bouncing will be applicable. Stock Exchanges will report such failures to the respective Public Debt Offices.

6. The FIs should regularly report to their Audit Committee of the Board, the details of transaction in Government securities, on aggregate basis, undertaken on the Stock Exchanges and particulars of any "closed-out" transactions on the exchanges.

7. We also enclose a copy of the RBI Circular IDMC. 2769 /08.01.02/2001-02 dated December 7, 2001 relating to the Scheme for non-competitive bidding facility to retail investors in the primary auctions of Government securities for your information. It may please, however, be noted that since May 2003, the maximum value limit of a single bid by a non-competitive bidder has been enhanced from Rs. 1.00 crore (face value) to Rs. 2.00 crore (face value) in the auctions of Government of India dated securities.

8. Please acknowledge receipt.

Yours faithfully,

(Rajesh Verma)
General Manager-in-Charge

Auction of Government Securities: Non-competitive bidding facility to retail investors

Ref.No.IDMC.2769 /08.01.02/2001-2002.

December 7, 2001

All Scheduled Commercial Banks /All State Co-operative
Banks/All Scheduled Primary (Urban) Co-operative
Banks/ All Primary Dealers

Dear Sirs,

Auction of Government Securities:
Non-competitive bidding facility to retail investors

It was announced in the 'Statement on Monetary and Credit Policy for the year 2001-2002' that in order to encourage retail participation in the primary market for Government Securities, it is proposed to allocate upto a maximum of 5 (five) percent of the notified amount in auctions of select dated securities for allotment to retail investors on a "non-competitive" basis at the weighted average rate. Accordingly the scheme has been formulated. A copy of the Scheme is enclosed for your information.

2. The scheme will be operated through banks and Primary Dealers. The retail investors will be allowed to bid through a bank or a Primary Dealer in the auctions of dated Government of India securities as may be notified from time to time. Each bank or PD, on the basis of firm orders from the retail investors, will submit separately a single customer bid for allotment on non-competitive basis for the aggregate amount on the day of the auction. The details of individual customers, viz., name, amount, etc. should be enclosed to the bid application.

3. Banks/ Primary Dealers are advised to formulate the modalities to assist the retail investors in bidding for the Government Stock under the aforesaid Scheme. Since this is an innovative scheme, we shall be glad to have their suggestions for educating the retail clients and for giving adequate publicity to the Scheme.

Yours faithfully,

Sd/
(H.R. Khan)
Chief General Manager

Encls : as above.

Annexure

Scheme for Non-competitive Bidding Facility in the Auctions of Government Securities

I. Scope : With a view to encouraging wider participation and retail holding of Government securities it is proposed to allow participation on "*non-competitive*" basis in *select* auctions of dated Government of India securities. Accordingly, non-competitive bids *up to 5 percent* of the notified amount will be accepted in the auctions of dated securities. The reserved amount will be **within** the notified amount.

II. Eligibility: Participation on a non-competitive basis in the auctions of dated GOI securities will be open to investors who satisfy the following:

1. do not maintain current account (CA) *or* Subsidiary General Ledger (SGL) account with the Reserve Bank of India.

   Exceptions: Regional Rural Banks (RRBs), Urban Cooperative Banks (UCBs) and Non-banking Financial Companies (NBFCs) shall be covered under this Scheme in view of their statutory obligations.

2. make a *single* bid for an amount not more than Rs.one crore (face value) per auction

3. submit their bid *indirectly* through any *one* bank or PD offering this scheme.

   Exceptions: Regional Rural Banks (RRBs), Urban Cooperative Banks (UCBs) and Non-banking Financial Companies (NBFCs) shall be eligible to submit their non competitive bids directly.

III. Coverage: Subject to the conditions mentioned above, participation on "non-competitive" basis is open to any person including firms, companies, corporate bodies, institutions, provident funds, trusts, and any other entity as may be prescribed by RBI. The minimum amount for bidding will be Rs.10,000 (face value) and thereafter in multiples in Rs.10,000 as hitherto for dated stocks.

IV. Other Operational Guidelines:

1. It will *not* be mandatory for the retail investor to maintain a constituent subsidiary general ledger (CSGL) account with the bank or PD through whom they wish to participate. However, an investor can make only a single bid under this scheme. An undertaking to the effect that the investor is making only a single bid will have to be obtained and kept on record by the bank or PD.

2. Each bank or PD on the basis of *firm* orders submit a single *customer bid* for the aggregate amount on the day of the auction. Details of individual customers viz. name, amount, etc shall be provided as an Annexure to the bid.

3. Allotment under the non-competitive segment to the bank or PD will be at the weighted average rate of yield/price that will emerge in the auction on the basis of the competitive bidding. The securities will be issued to the bank or PD against payment on the date of issue irrespective of whether the bank or PD has received payment from their clients.

4. In case the aggregate amount of bid is more than the reserved amount (5% of notified amount), pro rata allotment would be made. In case of partial allotments, it will be the responsibility of the bank or PD to appropriately allocate securities to their clients in a transparent manner.

5. In case the aggregate amount of bids is less than the reserved amount, the shortfall will be taken to competitive portion.

6. Security would be issued *only* in SGL form by RBI. RBI would credit either the main SGL account or the CSGL account of the bank or PD as indicated by them. The facility for affording credit to the main SGL account is for the sole purpose of servicing investors who are not their constituents. Therefore, the bank or PD would have to indicate clearly at the time of tendering the non-competitive bids the amounts (*face value*) to be credited to their SGL account and the CSGL account. Delivery in physical form from the main SGL account is permissible at the instance of the investor subsequently.

7. It will be the responsibility of the bank or the PD to pass on the securities to their clients. Except in extraordinary circumstances, the transfer of securities to the clients shall be completed within *five* working days from the date of issue.

8. The bank or PD can recover upto six paise per Rs.100 as brokerage/commission/ service charges for rendering this service to their clients. Such costs may be built into the sale price or recovered separately from the clients. In case the transfer of securities is effected subsequent to the issue date of the security, the consideration amount payable by the client to the bank or PD would also include accrued interest from the date of issue.

9. Modalities for obtaining payment from clients towards cost of the securities, accrued interest wherever applicable and brokerage/commission/service charges may be worked out by the bank or PD as per agreement with the client. It may be noted that no other costs such as funding costs should be built into the price or recovered from the client.

V. Banks and PDs will be required to furnish information relating to operations under the Scheme to the Reserve Bank of India (Bank) as may be called for from time to time within the time frame prescribed by the Bank.

VI. The aforesaid guidelines are subject to review by the Bank and accordingly, if and when considered necessary, the Scheme will be modified.