

Draft Guidelines for Banks for Undertaking PD business

As announced in the Annual Policy Statement for the year 2005-06, it has now been decided that permitted structure of PD business will be expanded to include banks, which fulfill certain minimum criteria subject to safeguards. Accordingly, banks are eligible to apply for Primary Dealership, subject to the following guidelines.

2. The following categories of banks would be eligible to apply for PD license. (RBI's approval would be subject to compliance with all other relevant laws).

(i) Banks which do not at present have a partly or wholly owned subsidiary and fulfill the following criteria :

(a) Minimum net owned funds (NOF) of Rs.1, 000 crore

(b) Minimum CRAR of 9 per cent

(c) The net NPA of the bank should be less than 3 per cent and should have a profit making record for the last three years.

(ii) Indian banks which are undertaking PD business through a partly or wholly owned subsidiary and wish to undertake PD business departmentally by merging / taking over PD business from their partly / wholly owned subsidiary subject to fulfilling the criteria at 2(i)(a) to (c).

(iii) Foreign banks operating in India who wish to undertake PD business departmentally by merging the PD business being undertaken by group companies subject to fulfillment of criteria at 2(i)(a) to (c).

3. The authorization granted by RBI will be for one year (July-June) and thereafter, RBI will review the authorization on a yearly basis based on the performance criteria, such as underwriting in auctions of primary issuance of Government Dated Securities and Treasury Bills or fulfilment of bidding commitment and success ratio in the primary market and achieving the turnover ratio in the secondary market, etc.

4. Obligation for Bank-PDs

The Bank-PDs will be subject to underwriting and all other obligations as applicable to standalone PDs and as may be prescribed from time to time. The bank may maintain, at any point of time, a minimum size of Rs.100 crore in its separate SGL account for PD business.

5. Prudential norms

- (i) No separate capital adequacy is prescribed for PD business, and the capital adequacy requirement for a bank will also apply to the PD business.
- (ii) The Government Dated Securities and Treasury Bills under PD business will count for SLR.
- (iii) The investment valuation guidelines applicable to banks in regard to 'Held for Trading' will apply to the portfolio of Government Dated Securities and Treasury Bills earmarked for PD business.
- (iv) The bank shall have to maintain a separate SGL account for its subsidiaries. The bank must also develop proper MIS in this regard.

6. Regulation and Supervision

- (i) RBI's instructions to Primary Dealers will apply to Bank-PDs, to the extent applicable.
- (ii) As banks have access to the call money market and the Liquidity Adjustment Facility (LAF) of RBI, Bank-PDs will not have separate access to these facilities.
- (iii) RBI will conduct on-site inspection of Bank-PD business.
- (iv) Bank-PDs will be required to submit prescribed returns, as advised by RBI from time to time.
- (v) Bank-PDs should bring to the RBI's attention any major complaint against it or action initiated / taken against it by authorities such as the Stock Exchanges, SEBI, CBI, Enforcement Directorate, Income Tax, etc.
- (vi) Reserve Bank of India reserves the right to cancel the Bank-PD authorization if, in its view, the concerned bank has not fulfilled any of the prescribed eligibility and performance criteria.

7. Reserve Bank of India reserves its right to amend or modify these guidelines from time to time, as may be considered necessary.