

RESERVE BANK OF INDIA
FINANCIAL MARKETS REGULATION DEPARTMENT
9th FLOOR, CENTRAL OFFICE, FORT
MUMBAI 400 001

Reserve Bank of India (Government Securities Lending) Directions, 2023 - Draft

In exercise of the powers conferred under section 45-W of the Reserve Bank of India Act, 1934 (hereinafter called 'the Act') read with section 45-U of the Act, the Reserve Bank of India (hereinafter called the 'Reserve Bank') hereby issues the following Directions to all agencies dealing in Government securities.

1. Short title, commencement and applicability of the directions

- (1) These Directions shall be called as the Reserve Bank of India (Government Securities Lending) Directions, 2023 and shall come into effect from <specified date>
- (2) These Directions shall be applicable to all Government securities lending transactions, undertaken in Over-the-Counter (OTC) markets.

2. Definitions

- (1) In these Directions, unless the context otherwise requires-
 - (a) **“Central Counterparty” (CCP)** means a system provider, who by way of novation interposes between system participants in the transactions admitted for settlement, thereby becoming the buyer to every seller and the seller to every buyer, for the purpose of effecting settlement of their transactions.
 - (b) **“Delivery versus Delivery”** means a settlement mechanism which stipulates that transfer of securities from the borrower of securities is made simultaneously with the transfer of securities by the lender of securities.
 - (c) **“Electronic Trading Platform (ETP)”** means an electronic system as defined under section 2(1)(iii) of [the Electronic Trading Platform \(Reserve Bank\) Directions, 2018](#).
 - (d) **“Exchange”** means a recognized stock exchange as defined under section 2(f) of the Securities Contracts (Regulation) Act, 1956.
 - (e) **“Government Security”** means a security as defined under section 2(f) of the Government Securities Act, 2006.
 - (f) **“Government Securities Lending (GSL) transaction”** refers to dealing in government securities involving lending of eligible Government securities for a GSL

- fee by the owner of those securities (the lender) to a borrower, on the collateral of other Government securities, for a specified period of time, with an agreement that the borrower shall return the security borrowed to the lender and the latter shall return back the security received as collateral to the former at the end of the agreed period.
- (g) **“GSL Fee”** means the fee paid by the borrower to the lender of the Government security for lending the security as mutually agreed between them for undertaking the transaction.
- (h) **“Over-the-Counter (OTC) Markets”** refers to markets where transactions are undertaken in any manner other than on exchanges and shall include those executed on electronic trading platforms (ETPs).

- (2) Words and expressions used but not defined in these Directions, shall have the meaning assigned to them in the Reserve Bank of India Act, 1934.

3. Eligible securities

- (1) Government securities issued by the Central Government excluding Treasury Bills shall be eligible for lending/borrowing under a GSL transaction.
- (2) Government securities issued by the Central Government (including Treasury Bills) and the State Governments shall be eligible for placing as collateral under a GSL transaction.

4. Eligible participants

- (1) The following entities are eligible to participate in GSL transactions as lenders of securities:
- (a) An entity eligible to undertake repo transactions in Government securities in terms of the [Repurchase Transactions \(Repo\) \(Reserve Bank\) Directions, 2018 dated July 24, 2018](#), as amended from time to time.
- (b) Any other entity approved by the Reserve Bank for this purpose.
- (2) Entities that are eligible to undertake short sale transactions in terms of [Short Sale \(Reserve Bank\) Directions, 2018 dated July 25, 2018](#), as amended from time to time, shall be eligible to borrow securities under a GSL transaction.

5. Tenor

GSL transactions shall be undertaken for a minimum period of one day and a maximum period of ninety days.

6. Trading processes

GSL transactions may use any mutually agreed trading process, including but not limited to, bilateral or multilateral, quote driven or order driven processes, anonymous or otherwise.

7. Settlement of trades

- (1) All GSL transactions shall settle on a Delivery versus Delivery basis.
- (2) The first leg of all GSL transactions shall settle either on a T+0 or T+1 basis.
- (3) All GSL transactions shall settle through Clearing Corporation of India Ltd. (CCIL) or any other central counterparty approved by the Reserve Bank for the purpose.

8. Pricing of securities/collateral, haircut and margining

- (1) Securities/collateral under a GSL transaction shall be valued transparently at prevailing market prices in the first leg of the transaction.
- (2) Haircut/ margins relating to GSL transactions shall be decided by the central counterparty settling the transactions.

9. Use of security borrowed and substitution of collateral

- (1) Securities borrowed or received as collateral under a GSL transaction may be sold either through an outright transaction or a repo transaction or lent under another GSL transaction.
- (2) Securities placed as collateral may be substituted by the borrower with other securities in terms of the rules of the central counterparty.

10. Reporting of trades

- (1) All GSL transactions shall be reported to the CCIL, or any other agency approved by the Reserve Bank for the purpose, within 15 minutes of execution (the time when GSL fee is agreed), by both counterparties to the transaction or by the Electronic Trading Platform concerned, as the case may be.
- (2) Any misreporting or multiple reporting of the same OTC market deal by a counterparty shall be immediately brought to the notice of CCIL or the agency referred to in para 10(1) above, as the case may be.

11. Obligation to provide information sought by the Reserve Bank

The Reserve Bank may call for any information or statement or seek any clarification, which in the opinion of the Reserve Bank is relevant, from persons or agencies dealing in GSL market, including eligible participants, and such persons, agencies and participants shall furnish such information, statement or clarification within such time as specified by the Reserve Bank.

12. Dissemination of data

The Reserve Bank or any other person authorised by the Reserve Bank, may publish any anonymised data related to transactions in GSL Markets.

13. Accounting and disclosure

- (1) GSL transactions shall be accounted by entities regulated by the Reserve Bank as per the guidelines contained in [Annex](#).
- (2) Other eligible participants may account for GSL transactions as per applicable accounting standards.

14. Computation of Statutory Liquidity Ratio (SLR)

- (1) Securities borrowed under a GSL transaction shall be eligible for SLR for the borrower provided the security is primarily eligible for SLR as per the provisions of the Act under which it is required to be maintained. Accordingly, the security lent under a GSL transaction shall not be eligible for SLR for the lender.
- (2) Securities received as collateral under a GSL transaction shall be eligible for SLR for the lender provided the security is primarily eligible for SLR as per the provisions of the Act under which it is required to be maintained. Accordingly, the security placed as collateral under a GSL transaction shall not be eligible for SLR for the borrower.

15. Documentation:

Participants undertaking GSL transactions shall enter into standard bilateral master GSL agreement, with their counterparty, as per the documentation finalized by FIMMDA.

16. Violation of Directions

In the event of any person or agency violating any provision of these Directions or the provisions of any other applicable law, the Reserve Bank may, in addition to taking any penal or regulatory

action in accordance with law, disallow that person or agency from dealing in GSL Markets for a period not exceeding one month at a time, after providing reasonable opportunity to the person or agency to defend its actions, and such action may be made public by the Reserve Bank.

(Dimple Bhandia)
Chief General Manager

Accounting guidelines for Government Securities Lending (GSL) transactions for entities regulated by the Reserve Bank

The following accounting guidelines will apply to Government Securities Lending transactions:

1. **Eligible portfolio:** Market participants may lend eligible securities from any of the three categories of investments, viz., Held for Trading, Available for Sale and Held to Maturity.
2. **Treatment of securities:** The economic essence of a GSL transaction, viz., borrowing of eligible securities by placing other eligible securities, with the lender, as collateral shall be reflected in the books of the transacting parties, by accounting the same as collateralized lending and borrowing transaction, on the agreed terms. Accordingly,
 - a) the security lender shall not exclude the securities lent under a GSL transaction but continue to carry the same in its investment account reflecting its continued economic interest in the securities during the loan period. On the other hand, the security borrower shall not include the securities borrowed under a GSL transaction in its investment account but show it in a separate subhead;
 - b) security borrower shall carry the securities placed as collateral with the lender under a GSL transaction in its investment account during the loan period; and the security lender shall not include the securities received as collateral under a GSL transaction in its investment account but show it in a separate subhead; and
 - c) securities lent would be transferred from the security lender to the security borrower and securities placed as collateral would be transferred from the security borrower to security lender as in the case of normal outright sale/purchase transactions and such movement of securities shall be reflected using the GSL borrowing/lending accounts and memorandum accounts.
- 3) **Accounts:** The following accounts may be maintained, viz., i) GSL fee Income Account, ii) GSL fee Expenditure Account, iii) GSL fee Receivable Account and iv) GSL fee Payable Account. In addition to the above, the following memorandum accounts may also be maintained, viz., i) GSL-Lent Securities Account ii) GSL-Borrowed Securities Account, iii) GSL-Receivable Securities Account and iv) GSL-Repayable Securities Account. These memorandum accounts shall be used to track securities lent/borrowed or placed as collateral and shall have no bearing on the presentation of the balance sheet or computation of demand and time liabilities for reserve ratio requirements.
- 4) **Accounting:** In a GSL transaction, the securities should be lent (placed as collateral) in the first leg at market related prices and received in the second leg at the same prices.

The second leg would involve a consideration amount viz. the GSL fee to be paid by the borrower to the lender of the security. Though the securities lent (placed as collateral) are not excluded from the security lender's (borrower's) investment account and not included in the security borrower's (lender's) investment account, the transfer of securities shall be reflected by using the necessary memorandum accounts.

To reflect the accrual of income in respect of the outstanding GSL transactions at the end of the accounting period, appropriate entries should be passed in the Profit and Loss account to reflect GSL fee Income / Expenditure in the books of the lender / borrower respectively and the same should be credited / debited as an income receivable / expenditure payable. Such entries passed should be reversed on the first working day of the next accounting period. An illustrative example is set out in [Appendix - 1](#).

- 5) **Intervening coupon payments:** In case the interest payment date of the securities lent (placed as collateral) under a GSL transaction falls within the loan period, the coupon received by the borrower (lender) of the security should be passed on to the lender (borrower) on the date of receipt as the cash consideration payable by the seller in the second leg does not include any intervening cash flows.
- 6) **Marking to market:** The transacting parties shall continue to mark to market the securities lent or placed as collateral under GSL transactions as per the investment classification of the security. To illustrate, in case the securities lent by banks under GSL transactions are out of the Available for Sale category, then the mark to market valuation for such securities should be done at least once a quarter. For entities which do not follow any investment classification norms, the valuation for securities lent or placed as collateral under GSL transactions may be in accordance with the valuation norms followed by them in respect of securities of similar nature.
- 7) **Classification of Accounts:** Banks shall classify balances in GSL fee Income A/c and GSL fee Expenditure A/c under Schedule 14 (item I) and under Schedule 16 (item XII) respectively. The balance sheet classification for other participants shall be governed by the guidelines issued by the respective regulators.
- 8) **Disclosure:** Entities regulated by the Reserve Bank shall make the disclosures set out in [Appendix – 2](#) in the “Notes on Accounts” to the Balance Sheet:

Illustrative examples for accounting of GSL transactions

A. GSL transaction on a normal date

Security lent under GSL transaction	05.85% GS 2030
Market Price of security	₹ 98.50
Date of the GSL transaction - first leg	Jan 18, 2021
GSL fee in % percentage terms	3.00%
Tenor of borrowing	4 days
Date of the GSL transaction - second leg	Jan 22, 2021
GSL fee in ₹ terms [^]	$98.5 \times 3\% / 365 \times 4 = 0.032$

[^] *Using actual /365 day count convention*

1. Accounting for Borrower of Securities

First Leg

	Debit	Credit
GSL-Borrowed Securities A/c	98.5	
GSL-Repayable Securities A/c		98.5

Second Leg

	Debit	Credit
GSL fee Expenditure A/c	0.032	
Cash		0.032
GSL-Borrowed Securities A/c		98.5
GSL-Repayable Securities A/c	98.5	

2. Accounting for lender of securities

First leg

	Debit	Credit
GSL-Lent Securities A/c		98.5
GSL-Receiveable Securities A/c	98.5	

Second Leg

	Debit	Credit
GSL fee Income A/c		0.032
Cash	0.032	
GSL-Lent Securities A/c	98.5	
GSL-Receiveable Securities A/c		98.5

3. Ledger entries for the memorandum accounts

GSL-Borrowed Securities A/c

Debit		Credit	
To GSL-Repayable Securities A/c (GSL transaction 1 st leg)	98.5	By GSL-Repayable Securities A/c (GSL transaction 2 nd leg)	98.5

GSL-Repayable Securities A/c

Debit		Credit	
To GSL-Borrowed Securities A/c (GSL transaction 2 nd leg)	98.5	By GSL-Borrowed Securities A/c (GSL transaction 1 st leg)	98.5

GSL-Lent Securities A/c

Debit		Credit	
To GSL-Receiveable Securities A/c (GSL transaction 2 nd leg)	98.5	By GSL-Receiveable Securities A/c (GSL transaction 1 st leg)	98.5

GSL-Receiveable Securities A/c

Debit		Credit	
To GSL-Lent Securities A/c (GSL transaction 1 st leg)	98.5	By GSL-Lent Securities A/c (GSL transaction 2 nd leg)	98.5

B. GSL transaction with an intervening balance sheet date

If the balance sheet date falls during the tenor of a GSL transaction, participants may use the transit accounts, i.e., GSL fee payable account and GSL fee receivable account to record the accrued income/expenditure and reverse the same the following day. The balances in the GSL fee payable account and GSL fee receivable account shall be taken to the P & L Account with appropriate entries passed in the Balance sheet, as below (for 05.85% GS 2030 paper with market price at ₹98.5 and GSL fee at 3%).

Transaction Leg	1st leg	Balance Sheet Date	2nd leg
Dates	26-Mar-21	31-Mar-21	02-Apr-21

a) Entries in the Books of borrower of securities on 31-Mar-21

Account Head	Debit	Credit
GSL fee Expenditure A/c [Balances under the account to be transferred to P & L]	0.049 ^{^^} (being the GSL fee for 6 days)	
GSL fee payable A/c		0.049

$$^{\wedge}98.5 \times 3\% / 365 \times 6 = 0.049$$

Account Head	Debit	Credit
P & L A/c	0.049	
GSL fee expenditure A/c		0.049

b) Reversal of entries in the Books of borrower of securities on 01-Apr-21

Account Head	Debit	Credit
GSL fee payable A/c	0.049	
GSL fee expenditure A/c		0.049

c) Entries in books of lender of securities on 31-Mar-21

Account Head	Debit	Credit
GSL fee receivable A/c	0.049	
GSL fee income A/c [Balance under the account to be transferred to P & L]		0.049 (being the GSL fee for 6 days)

Account Head	Debit	Credit
GSL fee income A/c	0.049	
P & L A/c		0.049

d) Reversal of entries in the Books of lender of securities on 01-Apr-21

Account Head	Debit	Credit
GSL fee income A/c	0.049	
GSL fee receivable A/c		0.049

