



भारतीय रिज़र्व बैंक  
RESERVE BANK OF INDIA  
www.rbi.org.in

Annexure I-A

### **Short sale in Government Securities**

Banks may undertake short sale of Central Government dated securities, subject to the short position being covered within a maximum period of five trading days, including the day of trade. In other words, the short sale position initiated today (trade date, T+0) will have to be covered on or before close of T+4 day. Such short positions shall be covered only by outright purchase of an equivalent amount of the same security. The short positions may be reflected in 'Securities Short Sold (SSS) A/c', specifically created for this purpose. For the purposes of this circular short sale and notional short sale are defined as under:

'Short Sale' is defined as sale of securities one does not own. A bank can also undertake 'notional' short sale where it can sell a security short from HFT even if the security is held under its AFS/HTM book. The resultant 'notional' short position would be subject to the same regulatory requirements as in the case of a short sale. For the purpose of these guidelines, short sale would include 'notional' short sale as well. The short sale by banks and the cover transaction shall not affect the holdings and valuation of the same security in AFS/HTM categories in any way.

Short sale transactions can be undertaken by banks, subject to the following conditions:

#### **Minimum requirements:**

In respect of short sales, banks shall ensure adherence to the following conditions:

- a) The sale leg of the transaction should be executed only on the Negotiated Dealing System – Order Matching (NDS-OM) platform. The cover leg of the short sale transaction can, however, be executed either on or outside the NDS-OM platform.

- b) The sale leg as well as the cover leg of the transaction should be accounted in the HFT category.
- c) Under no circumstances, should participants fail to deliver, on settlement date, the securities sold short. Failures to deliver securities short sold shall be treated as an instance of 'SGL bouncing' and the concerned banks will be liable to disciplinary action prescribed in respect of SGL bouncing, besides attracting such further regulatory action as may be considered necessary.
- d) At no point of time should a bank accumulate a short position (face value) in any security in the HFT category in excess of the following limits:
- i) 0.25% of the total outstanding stock issued of each security in case of securities other than liquid securities.
  - ii) 0.50% of the total outstanding stock issued of each security in case of liquid securities.
- e) Banks shall be entirely responsible for ensuring strict compliance with the above prudential limits on real time basis for which they may put in place appropriate systems and internal controls. The controls provided in the trading platform (NDS-OM) are merely in the nature of additional tools and should not be cited as a reason for any breach of internal or regulatory limits. The information regarding the outstanding stock of each Government of India dated security is being made available on the RBI website (URL: <http://rbi.org.in/Scripts/NDSUserXsl.aspx>). The list of liquid securities for compliance with the limits shall be provided by FIMMDA from time to time.
- f) Banks which undertake short sale transactions shall mark-to-market their entire HFT portfolio, including the short positions, **on a daily basis** and account for the resultant mark-to-market gains / losses as per the relevant guidelines for marking-to-market of the HFT portfolio.
- g) Gilt Accounts Holders (GAHs), under CSGL facility, are not permitted to undertake short sales. Entities maintaining CSGL Accounts are required to ensure that no short sale is undertaken by the GAHs.

### **Borrowing security (through the repo market) to meet delivery obligations:**

Since securities that are short sold are to be *invariably* delivered on the settlement date, participants are permitted to meet their delivery obligations by acquiring securities in the repo market. Accordingly, with a view to enable participants to run short positions across settlement cycles, banks have been permitted to use the securities acquired under a reverse repo to meet the delivery obligation of the short sale transaction. While the reverse repos can be rolled over, it is emphasised that the delivery obligations under the successive reverse repo contracts are also to be invariably met, failing which the concerned banks shall attract the regulatory action as specified above. It may, however, be noted that the permission to use securities acquired under reverse repo as above applies only to securities acquired under market repo and **not** to securities acquired under RBI's Liquidity Adjustment Facility.

### **Policy and internal control mechanisms:**

**Before actually undertaking transactions in terms of this circular**, banks shall put in place a written policy on short sale, which should be approved by their respective Boards of Directors. The policy should lay down the internal guidelines which should include, *inter alia*, risk limits on short position, an aggregate nominal short sale limit (in terms of Face Value) across all eligible securities, stop loss limits, the internal control systems to ensure adherence to regulatory and internal guidelines, reporting of short selling activity to the Board and the RBI, procedure to deal with violations, etc. Banks shall also put in place a system to detect violations if any, immediately, certainly within the same trading day.

In addition to the internal control mechanisms, the concurrent auditors should specifically verify compliance with these instructions, as well as with internal guidelines and report violations, if any, within a reasonably short time, to the appropriate internal authority. As part of their monthly reporting, concurrent auditors may verify whether the independent back/mid office has taken cognizance of lapses, if any, and whether they have reported the same within the required time frame to the appropriate internal authority. Any violation of regulatory guidelines noticed in this regard should immediately be reported to the respective Public Debt Office (PDO) where the SGL account is maintained and Internal Debt Management Department, Reserve Bank of India, Mumbai.

**When Issued Market - Guidelines**

**Definition**

'When, as and if issued' (commonly known as 'when-issued' (WI)) security refers to a security that has been authorized for issuance but not yet actually issued. 'WI' trading takes place between the time a new issue is announced and the time it is actually issued. All 'when issued' transactions are on an 'if' basis, to be settled if and when the actual security is issued.

**Mechanics of Operation**

Transactions in a security on a 'When Issued' basis shall be undertaken in the following manner:

- a) 'WI' transactions can be undertaken in the case of securities that are being reissued as well as newly issued, on a selective basis.
- b) 'WI' transactions would commence on the issue notification date and it would cease on the working day immediately preceding the date of issue.
- c) All 'WI' transactions for all trade dates will be contracted for settlement on the date of issue.
- d) At the time of settlement on the date of issue, trades in the 'WI' security will be netted off with trades in the existing security, in the case of reissued securities.
- e) The originating transactions (sale or purchase of 'WI' securities) shall be undertaken only on NDS-OM. Any reversal of a When Issued transaction can, however, be undertaken on or outside the NDS-OM platform.
- f) Only PDs can take a short position in the 'WI' market. In other words, non-PD entities can sell the 'WI' security to any counterparty only if they have a preceding purchase contract for equivalent or higher amount.
- g) Open Positions in the 'WI' market are subject to the following limits:

Category	Reissued security	Newly issued security
Non-PDs	Long Position, not exceeding 5 per cent of the notified amount.	Long Position, not exceeding 5 per cent of the notified amount.
PD	Long or Short Position, not exceeding 10 per cent of the notified amount	Short Position, not exceeding 6 per cent and Long Position, not exceeding 10 per cent of the notified amount.

h) In the event of cancellation of the auction for whatever reason, all 'WI' trades will be deemed null and void *ab initio* on grounds of force majeure.

### **Internal Control**

All banks participating in the 'WI' market are required to have in place a written policy on 'WI' trading which should be approved by the Board of Directors. The policy should lay down the internal guidelines which should include, inter alia, risk limits on 'WI' position (including, in the case of reissued securities, overall position in the security, i.e., 'WI' plus the existing security), an aggregate nominal limit (in terms of Face Value) for 'WI' and in the case of reissued securities, 'WI' plus the existing security, the internal control arrangements to ensure adherence to regulatory and internal guidelines, reporting of 'WI' activity to the top management, procedure to deal with violations, etc. A system should be in place to detect violations immediately, certainly within the trading day.

The concurrent auditors should specifically verify compliance with these instructions and report violations on the date of trade itself, within a reasonably short time, to the appropriate internal authority. As part of their monthly reporting, concurrent auditors may verify whether the independent back/mid office has taken cognizance of all such lapses and reported the same within the required time frame. Any violation of regulatory guidelines noticed in this regard should immediately be reported to the Public Debt Office (PDO), Mumbai and IDMD, Reserve Bank of India.

**Investment portfolio of banks – Transactions in securities –  
Conditions subject to which securities allotted in the auctions for primary issues can be  
sold**

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(i) The contract for sale can be entered into only once by the allottee bank on the basis of an authenticated allotment advice issued by Reserve Bank of India. The buyer from an allottee in a primary auction is also permitted to re-sell the security subject to compliance with the terms and conditions stipulated in our circular No.IDMD.PDRS.05/10.02.01/2003-04 dated March 29, 2004. Any sale of securities should be only on a T + 0 or T + 1 settlement basis.

(ii) The contract for sale of allotted securities can be entered into by banks with entities maintaining SGL Account with RBI as well as with and between CSGL account holders for delivery and settlement on the next working day through the Delivery versus Payment (DvP) system.

(iii) The face value of securities sold should not exceed the face value of securities indicated in the allotment advice.

(iv) The sale deal should be entered into directly without the involvement of broker/s.

(v) Separate record of such sale deals should be maintained containing details such as number and date of allotment advice, description and the face value of securities allotted, the purchase consideration, the number, date of delivery and face value of securities sold, sale consideration, the date and details of actual delivery i.e. SGL Form No., etc. This record should be made available to RBI for verification. Banks should immediately report any cases of failure to maintain such records.

(vi) Such type of sale transactions of Government securities allotted in the auctions for primary issues on the same day and based on authenticated allotment advice should be subjected to concurrent audit and the relative audit report should be placed before the Executive Director or the Chairman and Managing Director of the Bank once every month. A copy thereof should also be sent to the Department of Banking Supervision, RBI, Central Office, Mumbai.

(vii) Banks will be solely responsible for any failure of the contracts due to the securities not being credited to their SGL account on account of non-payment / bouncing of cheque etc.

**Annexure – II**

**Para 1.1.6 (i) (g)**

**Investment portfolio of banks - Transactions in securities -  
Aggregate contract limit for individual brokers**

<b>Sr. No.</b>	<b>Issue Raised</b>	<b>Response</b>
1.	The year should be calendar year or financial year?	Since banks close their accounts at the end of March, it may be more convenient to follow the financial year. However, the banks may follow calendar year or any other period of 12 months provided, it is consistently, followed in future.
2.	Whether the limit is to be observed with reference to total transactions of the previous year as the total transactions of the current year should be known only at the end of the year?	The limit has to be observed with reference to the year under review. While operating the limit, the bank should keep in view the expected turnover of the current year which may be based on turnover of the previous year and anticipated rise or fall in the volume of business in the current year.
3.	Whether to arrive at the total transactions of the year, transactions entered into directly with counter-parties i.e. where no brokers are involved would also be taken into account	Not necessary. However, if there are any direct deals with the brokers as purchasers or sellers the same would have to be included in the total transactions to arrive at the limit of transactions to be done through an individual broker.
4.	Whether in case of ready forward deals both the legs of the deals i.e. purchase as well as sale will be included to arrive at the volume of total transactions?	Yes. This is however only theoretical as R/F transactions in Govt. security now prohibited except in Treasury Bills and the 3 year dated securities issued by conversion of Treasury Bills recently
5.	Whether central loan /state loan /treasury bills etc. purchased subscriptions/ auction will be, included in the volume of total transactions?	No, as brokers are not involved as intermediaries.
6.	It is possible that even though bank considers that	If the offer received is more



	a particular broker has touched the prescribed limit of 5% he may come with an offer during the remaining period of the year which the bank may find it to its advantage as compared to offers received from the other brokers who have not yet done business upto the prescribed limit.	advantageous the limit for the broker may be exceeded the reasons therefor recorded and approval of the competent authority / Board obtained post facto.
7.	Whether the transactions conducted on behalf of the clients would also be included in the total transactions of the year?	Yes. If they are conducted through the brokers.
8.	For a bank which rarely deals through brokers and consequently the volume of business is small maintaining the broker-wise limit of 5% may mean splitting the orders in small values amongst different brokers and there may also arise price differential.	There may be no need to split an order. If any deal causes the particular broker's share to exceed 5% limit, our circular provides the necessary flexibility in as much as Board's post facto approval can be obtained.
9.	During the course of the year it may not be possible to reasonably predict what will be the total quantum of transactions through brokers as a result of which there could be deviation in complying with the norm of 5% .	The bank may get post facto approval from the Board after explaining to it the circumstances in which the limit was exceeded.
10.	Some of the small private sector banks have mentioned that where the volume of business particularly the transactions done through brokers is small the observance of 5% limit may be difficult. A suggestion has therefore been made that the limit may be required to be observed if the business done through a broker exceeds a cut-off point of say Rs.10 crores	As already observed the limit of 5% can be exceeded subject to reporting the transactions to the competent authority post facto. Hence, no change in our instructions is considered necessary.

**Recommendations of the Group on Non-SLR Investments of Banks**

**Pro-forma of minimum disclosure requirements in respect of private placement issues - Model Offer Document**

All issuers must issue an offer document with terms of issue, authorised by Board Resolution not older than 6 months from the date of issue. The offer document should specifically mention the Board Resolution authorising the issue and designations of the officials who are authorised to issue the offer document. The offer document may be printed or typed "For Private Circulation Only". The 'Offer Document' should be signed by the authorised signatory. The offer document should contain the following minimum information:

**I. General Information**

1. Name and address of registered office of the company
2. Full names (expanded initials), addresses of Directors and the names of companies where they are Directors.
3. Listing of the issue (If listed, name of the Exchange)
4. Date of opening of the issue  
Date of closing of the issue  
Date of earliest closing of the issue.
5. Name and addresses of auditors and Lead Managers / arrangers
6. Name address of the trustee - consent letter to be produced (in case of debenture issue)
7. Rating from any Rating Agency and / or copy of the rationale of latest rating.

**II. Particulars of the issue**

- (a) Objects

(b) Project cost and means of financing (including contribution of promoters) in case of new projects.

**III. The model offer document should also contain the following information:**

- (1) Interest rate payable on application money till the date of allotment.
- (2) Security: If it is a secured issue, the issue is to be secured, the offer documents should mention description of security, type of security, type of charge, Trustees, private charge-holders, if any, and likely date of creation of security, minimum security cover, revaluation, if any.
- (3) If the security is collateralised by a guarantee, a copy of the guarantee or principal terms of the guarantee are to be included in the offer document.
- (4) Interim Accounts, if any.
- (5) Summary of last audited Balance Sheet and Profit & Loss Account with qualifications by Auditors, if any.
- (6) Last two published Balance Sheet may be enclosed.
- (7) Any conditions relating to tax exemption, capital adequacy etc. are to be brought out fully in the documents.
- (8) The following details in case of companies undertaking major expansion or new projects :- (copy of project appraisal may be made available on request)
  - (a) Cost of the project, with sources and uses of funds
  - (b) Date of commencement with projected cash flows
  - (c) Date of financial closure (details of commitments by other institutions to be provided)
  - (d) Profile of the project (technology, market etc)
  - (e) Risk factors
- (9) If the instrument is of tenor of 5 years or more, projected cash flows.

**IV. Banks may agree to insist upon the following conditionalities for issues under private placements**

All the issuers in particular private sector corporates, should be willing to execute a subscription agreement in case of all secured debt issues, pending the execution of Trust Deed and charge documents. A standardised subscription agreement may be used by the banks, inter-alia, with the following important provisions:

- (a) Letter of Allotment should be made within 30 days of allotment. Execution of Trust Deed and charge documents will be completed and debentures certificates will be

dispatched within the time limit laid down in the Companies Act but not exceeding in any case, 6 months from the date of the subscription agreement.

(b) In case of delay in complying with the above, the company will refund the amount of subscription with agreed rate of interest, or, will pay penal interest of 2% over the coupon rate till the above conditions are complied with, at the option of the bank.

(c) Pending creation of security, during the period of 6 months (or extended period), the principal Directors of the company should agree to indemnify the bank for any loss that may be suffered by the bank on account of the subscription to their debt issue. (This condition will not apply to PSUs).

(d) It will be the company's responsibility to obtain consent of the prior charge-holders for creation of security within the stipulated period. Individual banks may insist upon execution of subscription agreement or a suitable letter to comply with the terms of offer such as appointment of trustee, creation of security etc. on the above lines.

(e) Rating: The Group recommends that the extant regulations of SEBI in regard to rating of all debt instruments in public offers would be made applicable to private placement also. This stipulation will also apply to preference shares, which are redeemable after 18 months.

(f) Listing: Currently, there is a lot of flexibility regarding listing required by banks in private placement issues. However, the Group recommends that listing of companies should be insisted upon, (exceptions, if any, to this rule shall be provided in the Investment Policy of the banks) which would in due course help develop secondary market. The advantage of listing would be that the listed companies would be required to disclose information periodically to the Stock Exchanges which would also help develop the secondary markets by way of investor information. In fact, SEBI has advised all the Stock Exchanges that all listed companies should publish unaudited financial results on a quarterly basis and that they should inform the Stock Exchanges immediately of all events which would have a bearing on the performance / operations of the company as well as price sensitive information.

(g) Security / documentation: To ensure that the documentation is completed and security is created in time, the Group has made recommendations, which is contained in this model offer document. It may be noted that in case of delay in execution of Trust Deed and Charge documents, the company will refund the subscription with agreed rate of interest or will pay penal interest of 2% over the coupon rate till these conditions are complied with at the option of the bank. Moreover, Principal Directors of the company will have to agree to indemnify the bank for any loss that may be suffered by the bank on account of the subscription to the debt issue during the period of 6 months (or extended period) pending creation of security.

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**Guidelines on Investments by Banks in Non-SLR Investment Portfolio by Banks -**  
**Definitions**

1. With a view to imparting clarity and to ensure that there is no divergence in the implementation of the guidelines, some of the terms used in the guidelines on non-SLR investments are defined below.

2. A security will be treated as rated if it is subjected to a detailed rating exercise by an external rating agency in India, which is registered with SEBI and is carrying a current or valid rating. The rating relied upon will be deemed to be current or valid if

(i) The credit rating letter relied upon is not more than one month old on the date of opening of the issue, and

(ii) The rating rationale from the rating agency is not more than one year old on the date of opening of the issue, and

(iii) The rating letter and the rating rationale is a part of the offer document.

(iv) In the case of secondary market acquisition, the credit rating of the issue should be in force and confirmed from the monthly bulletin published by the respective rating agency.

Securities, which do not have a current or valid rating by an external rating agency, would be deemed as unrated securities.

3. The investment grade ratings awarded by each of the external rating agencies operating in India would be identified by the IBA / FIMMDA. These would also be reviewed by IBA / FIMMDA at least once a year.

4. A 'listed' security is a security which is listed in a stock exchange. If not so, it is an 'unlisted' security.

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**Prudential Guidelines on Management of the Non-SLR Investment Portfolio by Banks -  
Disclosures Requirements**

Banks should make the following disclosures in the 'Notes on Accounts' of the balance sheet in respect of their non-SLR investment portfolio, with effect from the financial year ending 31 March 2004.

(i) **Issuer composition of Non SLR investments**

(Rs. in crore)						
Sl. No	Issuer	Amount	Extent of private placement	Extent of 'below investment grade' securities	Extent of 'unrated' securities	Extent of 'unlisted' securities
1	2	3	4	5	6	7
1.	PSUs					
2.	FIs					
3.	Banks					
4.	Private Corporates					
5.	Subsidiaries / Joint ventures					
6.	Others					
7.	Provision held towards depreciation		XXX	XXX	XXX	XXX
	<b>Total *</b>					

**Note:** 1. \* Total under column 3 should tally with the total of investments included under the following categories in Schedule 8 to the balance sheet:

- (a) Shares
- (b) Debentures & Bonds
- (c) Subsidiaries / joint ventures
- (d) Others

2. Amounts reported under columns 4, 5, 6 and 7 above may not be mutually exclusive.

(ii) **Non-performing Non-SLR investments**

Particulars	Amount (Rs. Crore)
Opening balance	
Additions during the year since 1st April	
Reductions during the above period	
Closing balance	
Total provisions held	

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**Annexure VI**  
**Para 1.3.1**

**RETURN/STATEMENT NO. 9**

Proforma Statement showing the position of Reconciliation of Investment Account as on 31st March

Name of the bank/ Institution: \_\_\_\_\_

(Face value Rs. in crore)

Particulars of securities	General Ledger Balance	SGL Balance		BRs held	SGL Forms held	Actual Scrips Held	Outstanding deliveries
		As per PDO Books	As per bank's / institution's books				
1	2	3	4	5	6	7	8
Central Govt							
State Government							
Other approved securities							
Public Sector Bonds							
Units of UTI (1964)							
Others (Shares & Debenture etc)							
<b>TOTAL</b>							

Signature of the Authorised Official  
with the Name and Designation

**Note :** Similar statements may be furnished in respect of PMS client's Accounts and other constituents' Accounts (including Brokers). In the case of PMS/other constituents' accounts, the face value and book value of securities appearing in the relevant registers of the bank should be mentioned under Column 2.



## **General instructions for compiling reconciliation statement**

### **a) Column - 2 (GL balances)**

It is not necessary to give complete details of securities in the format. Only aggregate amount of face value against each category may be mentioned. The corresponding book value of securities may be indicated in bracket under the amount of face value of securities under each category.

### **b) Column - 3 and 4 (SGL balances)**

In the normal course balances indicated against item three and four should agree with each other. In case of any difference on account of any transaction not being recorded either in PDO or in the books of the bank this should be explained giving full details of each transaction.

### **c) Column - 5 (BRs held)**

If the bank is holding any BRs for purchases for more than 30 days from the date of its issue, particulars of such BRs should be given in a separate statement.

### **d) Column - 6 (SGL forms held)**

Aggregate amount of SGL forms received for purchases, which have not been tendered with PDO, should be given here.

### **e) Column - 7**

Aggregate amount of all scrips held in the form of bonds, letters of allotments, subscription receipts as also certificates of entries in the books of accounts of the issuer (for other than government securities), etc. including securities which have been sold but physical delivery has not been given should be mentioned.

### **f) Column - 8 (outstanding deliveries)**

This relates to BRs issued by the bank, where the physicals/scrips have not been delivered but the balance in General Ledger has been reduced. If any BR issued is outstanding for more than thirty days the particulars of such BRs may be given in a separate list indicating reasons for not affecting the delivery of scrips.

### **g) General**

Face value of securities indicated against each item in column two should be accounted for under any one of the columns from four to seven. Similarly, amount of outstanding deliveries (BRs issued) which has been indicated in column eight will have to be accounted for under one

of the columns four to seven. Thus the total of columns two and eight should tally with total of columns four to seven.

**Annexure - VII**  
**Para 4.5.5**

**Disclosures**

The following disclosures should be made by banks in the 'Notes on Accounts' to the Balance Sheet.

(Rs. in crore)				
	<b>Minimum outstanding during the year</b>	<b>Maximum outstanding during the year</b>	<b>Daily Average outstanding during the year</b>	<b>As on March 31</b>
Securities sold under repos				
Securities purchased under reverse repos				

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**Illustrative examples for uniform accounting of  
Repo / Reverse repo transactions**

**A. Repo / Reverse Repo of Coupon bearing security**

**1. Details of Repo in a coupon bearing security:**

Security offered under Repo	11.43% 2015	
Coupon payment dates	7 August and 7 February	
Market Price of the security offered under Repo (i.e. price of the security in the first leg)	Rs.113.00	<b>(1)</b>
Date of the Repo	19 January, 2003	
Repo interest rate	7.75%	
Tenor of the repo	3 days	
Broken period interest for the first leg*	$11.43\% \times 162 / 360 \times 100 = 5.1435$	<b>(2)</b>
Cash consideration for the first leg	$(1) + (2) = 118.1435$	<b>(3)</b>
Repo interest**	$118.1435 \times 3 / 365 \times 7.75\% = 0.0753$	<b>(4)</b>
Broken period interest for the second leg	$11.43\% \times 165 / 360 \times 100 = 5.2388$	<b>(5)</b>
Price for the second leg	$(3) + (4) - (5) = 118.1435 + 0.0753 - 5.2388 = 112.98$	<b>(6)</b>
Cash consideration for the second leg	$(5) + (6) = 112.98 + 5.2388 = 118.2188$	<b>(7)</b>

\* Computation of days based on 30 / 360 day count convention

\*\* Computation of days based on Actual / 365 day count convention applicable to money market instruments

**2. Accounting for seller of the security**

We assume that the security was held by the seller at the book value (BV) of Rs.120.0000

**First leg Accounting**

	<b>Debit</b>	<b>Credit</b>
Cash Repo Account	118.1435	120.0000 (Book value)
Repo Price Adjustment account	7.0000 (Difference between BV & repo price)	
Repo Interest Adjustment account		5.1435

**Second Leg Accounting**

	<b>Debit</b>	<b>Credit</b>
Repo Account Repo Price Adjustment account	120.0000	7.02 (the difference between the BV and 2nd leg price)
Repo Interest Adjustment account Cash account	5.2388	118.2188

The balances in respect of the Repo Price Adjustment Account and Repo Interest Adjustment Account at the end of the second leg of repo transaction are transferred to Repo Interest Expenditure Account. In order to analyse the balances in these accounts, the ledger entries are shown below :

***Repo Price Adjustment account***

<b>Debit</b>		<b>Credit</b>	
Difference in price for the 1st leg	7.00	Difference in price for the 2nd leg	7.02
Balance carried forward to Repo Interest Expenditure account	0.02		
<b>Total</b>	<b>7.02</b>	<b>Total</b>	<b>7.02</b>

***Repo Interest Adjustment account***

Debit		Credit	
Broken period interest for the 2nd leg	5.2388	Broken period interest for the 1st leg	5.1435
		Balance carried forward to Repo Interest Expenditure account	0.0953
<b>Total</b>	<b>5.2388</b>	<b>Total</b>	<b>5.2388</b>

### ***Repo Interest Expenditure Account***

Debit		Credit	
Balance from Repo Interest Adjustment account	0.0953	Balance from Repo Price Adjustment account	0.0200
		Balance carried forward to P & L a/c.	0.0753
<b>Total</b>	<b>0.0953</b>	<b>Total</b>	<b>0.0953</b>

### **3. Accounting for buyer of the security**

When the security is bought, it will bring its book value with it. Hence market value is the book value of the security.

#### **First leg Accounting**

	Debit	Credit
Reverse Repo Account	113.0000	
Reverse Repo Interest Adjustment account	5.1435	
Cash account		118.1435

#### **Second Leg Accounting**

	Debit	Credit
Cash account	118.2188	
Reverse Repo Price Adjustment account (Difference between the 1st and 2 <sup>nd</sup> leg prices)	0.0200	

Reverse Repo account		113.0000
Reverse Repo Interest Adjustment account		5.2388

The balances in respect of the Reverse Repo Interest Adjustment Account and Reverse Repo Price adjustment account at the end of the second leg of reverse repo in these accounts are transferred to Repo Interest Income Account. In order to analyse the balances in these two accounts, the ledger entries are shown below:

***Reverse Repo Price Adjustment Account***

Debit		Credit	
Difference in price of 1st & 2nd leg	0.0200	Balance to Repo Interest Income a/c.	0.0200
<b>Total</b>	<b>0.0200</b>	<b>Total</b>	<b>0.0200</b>

***Reverse Repo Interest Adjustment Account***

Debit		Credit	
Broken period interest for the 1st leg	5.1435	Broken period interest for the 2nd leg	5.2388
Balance carried forward to Repo Interest Income Account	0.0953		
<b>Total</b>	<b>5.2388</b>	<b>Total</b>	<b>5.2388</b>

***Reverse Repo Interest Income Account***

Debit		Credit	
Difference between the 1st & 2nd leg prices	0.0200	Balance from Reverse Repo Interest Adjustment account	0.0953
Balance carried forward to P & L account	0.0753		
<b>Total</b>	<b>0.0953</b>	<b>Total</b>	<b>0.0953</b>

**4. Additional accounting entries to be passed on a Repo / Reverse Repo transaction on a coupon bearing security, when the accounting period is ending on an intervening day**

<b>Transaction Leg --- &gt;</b>	<b>1st leg</b>	<b>End of accounting period</b>	<b>2nd leg</b>
<b>Dates --- &gt;</b>	<b>19 Jan 03</b>	<b>21 Jan 03*</b>	<b>22 Jan 03</b>

The difference in the clean price of the security between the first leg and the second leg should be apportioned upto the Balance Sheet date and should be shown as Repo Interest Income / Expenditure in the books of the seller / buyer respectively and should be debited / credited as an income / expenditure accrued but not due. The balances under Income / expenditure accrued but not due should be taken to the balance sheet

The coupon accrued by the buyer should also be credited to the Repo Interest Income account. No entries need to be passed on " Repo / Reverse Repo price adjustment account and Repo / Reverse repo interest adjustment account" . The illustrative accounting entries are shown below:

a) **Entries in Seller's books on January 21, 2003**

<b>Account Head</b>	<b>Debit</b>	<b>Credit</b>
Repo Interest Income account [Balances under the account to be transferred to P & L]		0.0133 ( Notional credit balance 0.0133 in the Repo Price Adjustment Account by way of apportionment of price difference for two days i.e. upto the balance sheet day)
Repo interest Income accrued but not due	0.0133	

\* January 21, 2003 is assumed to be the balance sheet date

b) **Entries in Seller's books on January 21, 2003**

<b>Account Head</b>	<b>Debit</b>	<b>Credit</b>
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Repo interest income	0.0133	
P & L a/c		0.0133

(c) **Entries in Buyer's Books on January 21, 2003**

Account Head	Debit	Credit
Repo interest income accrued but not due	0.0502	
Repo Interest Income account [Balances under the account to be transferred to P & L]		0.0502 (Interest accrued for 3 days of Rs. 0.0635* - Apportionment of the difference in the clean price of Rs. 0.0133)

\* For the sake of simplicity the interest accrual has been considered for 2 days.

(d) **Entries in Buyer's Books on January 21, 2003**

Account Head	Debit	Credit
Repo interest income account	0.0502	
P& L a/c		0.0502

The difference between the repo interest accrued by the seller and the buyer is on account of the accrued interest forgone by the seller on the security offered for repo.

**B. Repo / Reverse Repo of Treasury Bill**

**1. Details of Repo on a Treasury Bill**

Security offered under Repo	GOI 91 day Treasury Bill maturing on 28 February, 2003	
Price of the security offered under Repo	Rs.96.0000	(1)
Date of the Repo	19 January, 2003	
Repo interest rate	7.75%	
Tenor of the repo	3 days	



Total cash consideration for the first leg	96.0000	(2)
Repo interest	0.0612	(3)
Price for the second leg	(2)+(3) = 96.0000 + 0.0612 = 96.0612	
Cash consideration for the 2nd leg	96.0612	

## 2. *Accounting for seller of the security*

We assume that the security was held by the seller at the book value (BV) of Rs.95.0000

### First leg Accounting

	Debit	Credit
Cash Repo Account	96.0000	95.0000 (Book value)
Repo Price adjustment account		1.0000 (Difference between BV & repo price )

### Second Leg Accounting

Repo Account	95.0000	
Repo Price adjustment account	1.0612 (the difference between the BV and 2nd leg price)	
Cash account		96.0612

The balances in respect of the Repo Price Adjustment Account at the end of the second leg of repo transaction are transferred to Repo Interest Expenditure Account. In order to analyse the balances in this account, the ledger entries are shown:

### *Repo Price Adjustment account*

Debit		Credit	
Difference in price for the 2nd leg	1.0612	Difference in price for the 1st leg	1.0000
		Balance carried forward to Repo	0.0612

		Interest Expenditure account	
<b>Total</b>	<b>1.0612</b>	<b>Total</b>	<b>1.0612</b>

***Repo Interest Expenditure Account***

Debit		Credit	
Balance from Repo Price Adjustment account	0.0612	Balance carried forward to P & L a/c.	0.0612
<b>Total</b>	<b>0.0612</b>	<b>Total</b>	<b>0.0612</b>

The Seller will continue to accrue the discount at the original discount rate during the period of the repo.

**3. Accounting for buyer of the security**

When the security is bought, it will bring its book value with it. Hence market value is the book value of the security.

**First leg Accounting:**

	Debit	Credit
Reverse Repo Account	96.0000	
Cash account		96.0000

**Second Leg Accounting**

	Debit	Credit
Cash account	96.0612	
Repo Interest Income account (Difference between the 1st and 2nd leg prices)		0.0612
Reverse Repo account		96.0000

The Buyer will not accrue for the discount during the period of the repo.

**4. Additional accounting entries to be passed on a Repo / Reverse Repo transaction on a Treasury Bill, when the accounting period is ending on an intervening day**

<b>Transaction Leg -&gt;</b>	1st leg	B/S date	2 <sup>nd</sup> leg
<b>Date -&gt;</b>	19 Jan.03	21 Jan.03*	22 Jan.03

\* 21 January, 2003 is assumed to be the balance sheet date

**(a) Entries in Seller's books on January 21, 2003**

<b>Account Head</b>	<b>Debit</b>	<b>Credit</b>
Repo Interest Expenditure account (after apportionment of repo interest for two days) [ Balances under the account to be transferred to P & L]	0.0408	
Repo interest expenditure accrued but not due		0.0408

**(b) Entries in Seller's books on January 21, 2003**

<b>Account Head</b>	<b>Debit</b>	<b>Credit</b>
Repo interest expenditure account		0.0408
P & L a/c	0.0408	

**(c) Entries in Buyer's Books on January 21, 2003**

<b>Account Head</b>	<b>Debit</b>	<b>Credit</b>
Repo interest income accrued but not due	0.0408	
Repo Interest Income account [Balances under the account to be transferred to P & L]		0.0408

**(d) Entries in Buyer's Books on January 21, 2003**

<b>Account Head</b>	<b>Debit</b>	<b>Credit</b>
Repo interest income account	0.0408	
P & L a/c		0.0408