Annex I

Master Circular on Investments by UCBs- Certain clarifications on brokers' limits [Ref: Para 7.3]

Sr.No.	Issue raised	Response
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, if it is consistently followed in future.
2.	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.
3.	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
4.	Whether central loan/state loan/treasury bills etc. purchased though direct subscriptions/auctions will be included in the volume of total transactions?	No, as brokers are not involved as intermediaries.
5.	It is possible that even though bank considers that 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 to its advantage as compared to offers received from the other brokers who have not yet done business upto the prescribed limit.	If the offer received is more advantageous the limit for the broker may be exceeded and the reasons therefore recorded and approval of the competent authority/Board obtained post facto.
6.	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.

7.	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 inasmuch as Board's post facto approval can be obtained.
8.	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.
9.	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 crore	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 instructions are considered necessary.
10.	Whether the limit is to be observed with reference to total transactions of the previous year as the total transactions of the current year would 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 be 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.