

RBI Press Release

RBI Withdraws its Guidelines on Money Market Mutual Funds (March 7, 2000)

The Reserve Bank of India has withdrawn with effect from the close of business on March 7, 2000, all the guidelines on Money Market Mutual Funds (MMMFs) issued by it. All scheduled commercial banks and financial institutions have been accordingly advised. In effect, the regulation of money market mutual fund schemes would now come under the scope of the Securities and Exchange Board of India (Mutual Funds) Regulations. Banks and financial institutions which are desirous of setting up MMMFs would, however, have to seek necessary clearance from the Reserve Bank for undertaking this additional activity before approaching SEBI for registration.

It may be recalled that in the Mid-Term Review of Monetary Policy for the year 1999-2000 announced on October 29, 1999, it was indicated that the Reserve Bank of India would withdraw its guidelines on Money Market Mutual Funds (MMMFs) and advise banks/financial institutions that in future, MMMFs would be governed by Securities and Exchange Board of India (SEBI) regulations.

RBI Notifies Rules for Ready Forward Contracts in Government Securities (March 8, 2000)

In accordance with the powers delegated recently by the Government of India, the Reserve Bank of India has issued a notification dated March 1, 2000 permitting ready forward contracts in Government securities entered into by eligible banks/institutions/non-banks in accordance with the terms and conditions laid down by it. The terms and conditions include:

- a) Ready forward contracts should be undertaken only in treasury bills and dated securities of all maturities issued by the Government of India and State Governments.
- b) Ready forward contracts as above may be entered into by banking companies, co-operative banks or any person maintaining Subsidiary General Ledger (SGL) account and current account with the Reserve Bank of India Mumbai, only among themselves. Presently there are 64 entities, i.e., other than banking companies and co-operative banks having SGL and current accounts with the Reserve Bank, Mumbai. The list of 64 eligible entities is enclosed.
- c) Such ready forward contracts should be settled through the SGL account of the participants with the Reserve Bank at Mumbai only, and
- d) No sale transaction should be put through without actually holding the securities in the portfolio.

Forward trading in securities was so far prohibited in terms of a notification dated June 27, 1969 issued under Section 16 of the Securities Contracts (Regulation) Act, 1956 by the Government of India. Ready forward contracts in Government securities by specified entities were being

permitted by the Government of India by way of exemption from the 1969 notification from time to time, on the recommendations of the Reserve Bank. The Government of India has recently rescinded the 1969 notification prohibiting forward trading in securities and delegated powers to the Reserve Bank under Section 16 of the Securities Contracts (Regulation) Act for regulating contracts in Government securities, money market securities, gold related securities and derivatives based on these securities as also the ready forward contracts in all debt securities in terms of Section 16 of the Act.

The List of Non-bank Entities for Entering into Ready Forward Contracts

- 1) The Discount and Finance House of India Ltd.
- 2) Gilt Securities Trading Corporation Ltd.
- 3) ICICI Securities and Finance Co. Ltd.
- 4) PNB Gilts Ltd.
- 5) SBI Gilts Ltd.
- 6) Securities Trading Corporation of India Ltd.
- 7) DSP Merrill Lynch Ltd.
- 8) Ceat Financial Services Ltd.
- 9) Kotak Mahindra Capital Company (unlimited)
- 10) Birla Global Finance Company Ltd.
- 11) Hoare Govett (India) Securities Ltd.
- 12) Dil Vikas Finance Ltd.
- 13) SREI International Securities Pvt. Ltd.
- 14) Tower Capital and Securities Pvt. Ltd.
- 15) Tata Finance Securities Ltd.
- 16) Canbank Mutual Fund
- 17) Export Credit Guarantee Corporation of India Limited
- 18) Export Import Bank of India
- 19) General Insurance Corporation of India
- 20) GIC Mutual Fund
- 21) Indian Bank Mutual Fund
- 22) Industrial Credit and Investment Corporation of India Limited
- 23) Industrial Development Bank of India
- 24) IDBI Mutual Fund
- 25) ITC Thread Needle Mutual Fund
- 26) Life Insurance Corporation of India
- 27) National Bank for Agriculture and Rural Development
- 28) National Housing Bank
- 29) New India Assurance Company Limited
- 30) Oriental Insurance Company Limited
- 31) Reliance Capital Mutual Fund
- 32) SBI Mutual Fund
- 33) Small Industries Development Bank of India
- 34) Unit Trust of India
- 35) LIC Mutual Fund
- 36) J.M. Mutual Fund

- 37) Birla Mutual Fund
- 38) Kothari Pioneer Mutual Fund
- 39) Jardine Fleming Mutual Fund
- 40) Kotak Mahindra Mutual Fund
- 41) JP Morgan Securities India Private Limited
- 42) ABN AMRO Securities (India) Private Limited
- 43) Deutsche Securities (India) Pvt. Limited
- 44) Industrial Investment Bank of India Limited
- 45) Bank of India Mutual Fund
- 46) Sun F and C Mutual Fund
- 47) Prudential ICICI Mutual Fund
- 48) Housing Development Finance Corporation Limited
- 49) Stock Holding Corporation of India Limited
- 50) SICOM Limited
- 51) Dundee Mutual Fund
- 52) Templeton Mutual Fund
- 53) IDBI Capital Market Services Limited
- 54) Tata Trustee Company Limited A/c Tata Mutual Fund
- 55) DSP Merrill Lynch Mutual Fund
- 56) Deposit Insurance and Credit Guarantee Corporation
- 57) Industrial Finance Corporation of India
- 58) Corpbank Securities
- 59) Zurich India Mutual Fund
- 60) Alliance Capital Mutual Fund
- 61) I I and FS Mutual Fund
- 62) BoB Mutual Fund
- 63) National Securities Clearing Corporation Ltd.
- 64) National Securities Depository Ltd.

**Enhanced Investment Limits by FIIs under PIS
(March 18, 2000)**

Indian companies, including those which have already enhanced the aggregate ceiling from the normal level of 24 per cent to 30 per cent of its issued and paid up capital, would now be permitted to allow Foreign Institutional Investors (FII) investment under Portfolio Investment Scheme (PIS), up to 40 per cent of their issued and paid up capital subject to :

- (i) the approval by the board of directors of the company to the enhanced limit up to 40 per cent;
- (ii) a special resolution passed by the general body of the company approving the enhanced limit up to 40 per cent.

All other conditions applicable to FII portfolio investment continue to be operative as before. The revised alert limits would continue to be 2 per cent less than the overall respective ceiling limits.

It may be recalled that enhancement of the aggregate ceiling for FII investments under the Portfolio Investment Scheme in Indian companies from the normal level of 24 per cent to 40 per cent of the issued and paid up capital of these companies under the specified procedure was announced by the Finance Minister in his recent Budget Speech 2000-2001. The government had notified the enhancement on March 1, 2000.