

RBI Press Release

RBI extends eligibility in repo market to certain category of Gilt Account Holders (February 21, 2003)

In addition to participants, such as, banks, primary Dealers holding Subsidiary General Ledger (SGL) accounts with RBI, who are currently eligible to enter into Ready Forward (repo) contracts, Reserve Bank of India have now permitted certain other entities to enter into repos in Government Securities including treasury bills. To be operationalised from March 3, 2003, this facility will be available to any scheduled bank, primary dealer, non-banking financial company registered with the Reserve Bank of India (other than Government Companies as defined in section 617 of the Companies Act, 1956), any mutual fund registered with the Securities and Exchange Board of India, any housing finance company registered with the National Housing Bank and any insurance company registered with the Insurance Regulatory Development Authority. These entities will be able to enter into ready forward contracts through their gilt accounts maintained with the custodians under the Constituent Subsidiary General Ledger (CSGL) facility.

While announcing participation of other entities in ready forward market, the Reserve Bank has clarified that ready forward contracts between CSGL account holders will be subject to certain restrictions.

These are:

- (i) An SGL account holder cannot enter into a ready forward contract with its own constituent, i.e, with any person or entity maintaining gilt account with itself;
- (ii) Any two gilt account holders maintaining their gilt accounts with the same custodian (i.e., CSGL account holder) may not enter into ready forward contracts with each other; and
- (iii) Cooperative banks may not enter into ready forward contracts with non-banking financial companies.

The Reserve Bank of India has further clarified that :

- (a) All ready forward contracts should be reported on the Negotiated Dealing System (NDS). In respect of ready forward contracts involving gilt account holders, the custodian (i.e., the CSGL account holder) with whom the gilt account is maintained will be responsible for reporting the deals on the NDS on behalf of the constituents (i.e., gilt account holders),
- (b) Ready forward transactions could be undertaken by the RBI - regulated entities only in securities held in excess of the prescribed Statutory Liquidity Ratio (SLR) requirements, and
- (c) No sale transaction should be put through in the first leg of a ready forward transaction without the seller actually holding the securities in his portfolio.

The facility of demat form of holding government securities with the Reserve Bank is provided through SGL account or CSGL account. Investors who cannot hold government securities in SGL account with the Reserve Bank, hold them in a gilt account with a bank, primary dealer or any other service provider. The service provider keeps the securities on behalf of customers in a

segregated CSGL account with the Reserve Bank.

Currently, only SGL account holders with the Reserve Bank of India, Mumbai, are permitted to enter into ready forward (repo) transactions in Government securities and treasury bills. In order to expand the repo market, the Reserve Bank of India had, in the Mid term review of Monetary and Credit Policy for the year 2002-03, announced the proposal to extend repo eligibility to a select category of non-SGL account holders with adequate safeguards to ensure delivery versus payment and transparency. With the issuance of the notification, non-SGL account holders have been permitted to enter the repo markets. The detailed instructions are available on the RBI website (www.rbi.org.in).