

Sale of Government securities allotted in the auctions for Primary issues _____

FSC.BC. 26 /24.76.002/2000

October 6, 2000

All Scheduled Commercial Banks
(Excluding RRBs)

Dear Sir,

Sale of Government securities allotted in
the auctions for Primary issues _____

Please refer to Paragraph 4(i) of our circular D.O.DBOD.No.FSC.46/C.469-91/92 dated 26th July 1991, in terms of which no sale transaction should be put through by any bank without actually holding the securities in its investment account at the time of sale. This restriction is inhibiting banks from selling Government securities allotted in the auctions for primary issues on the day of the auctions. It has been decided to remove the said restriction in respect of **Government securities** by permitting banks to sell the securities after they have been allotted to them.

2. Accordingly it is advised that banks successful in the auction of **Government securities**, may enter into contracts for sale of the allotted securities, in accordance with the following terms and conditions :

(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 selling bank should make suitable noting/stamping on the allotment advice indicating the sale contract number etc., the details of which should be intimated to the buying entity. The buying entity should not enter into a contract to further resell the securities until it actually holds the securities in its investment account.

(ii) The contract for sale of allotted securities can be entered into by banks only with entities maintaining SGL Account with Reserve Bank of India 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 Reserve

Bank of India 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, Reserve Bank of India, 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.

3. Consequently paragraph 11.1(i)(a) of Manual of Instructions Vol. I – Part I may be amended to read as under.

“No sale transactions should be put through without actually holding the security in its investment account i.e. under no circumstances, a bank should hold an oversold position in any security. However, banks successful in the auction of primary issue of **Government securities**, may, enter into contracts for sale of the allotted securities in accordance with the terms and conditions as per Annexure I (a)”.

The existing Annexure I of Chapter 11 of Manual of Instructions Vol. I Part I may be renumbered to read as Annexure – I(b).

4. Please acknowledge receipt.

Yours faithfully,

(P.V. Subba Rao)
Chief General Manager