

## **Investment Portfolio of Banks Transactions in securities**

Reserve Bank of India  
Central Office  
Urban Banks Department  
1<sup>st</sup> Floor, Garment House  
Worli, Mumbai 400 018.

Ref.UBD.No.Plan.PCB.CIR.41/09.29.00/2001-2002

April 20, 2002

Chief Executive Officers  
All Primary (Urban) Co-operative Banks

Dear Sir,

### **Investment Portfolio of Banks Transactions in securities**

Please refer to our circular UBD.No.Plan.13/UB.81/92-93 dated 15 September 1992 giving detailed guidelines relating to investment portfolio of banks. We had also issued instructions to urban co-operative banks relating to empanelment of brokers and other matters relating to investment transactions vide our undernoted circulars.

- (i) UBD.No.Plan.74/UB.81/92-93 dated May 17, 1993
- (ii) UBD.No.21/12.15.00/93-94 dated September 21, 1993
- (iii) UBD.No.3/09.29.00/93-94 dated August 2, 1993
- (iv) UBD.No.Plan.PCB.32/09.29.00/94-95 dated November 24, 1994
- (v) UBD.No.Plan.PCB.Cir.19/09.29.00/97-98 dated November 10, 1997
- (vi) UBD.No.Plan.PCB.Cir.22/09.29.00/00-01 dated December 30, 2000

2. A recent scrutiny of investment transactions of some of the urban co-operative banks has revealed that some banks had not observed guidelines issued by us and had undertaken transactions which might have exposed the banks to significant risks. While reiterating the guidelines contained in our above mentioned circulars, we advise that the urban co-operative banks may strictly follow the undernoted instructions, in particular.

- (i) UCBs should not undertake any purchase/sale transactions with broking firms or other intermediaries on principal to principal basis.
- (ii) UCBs should seek a Scheduled Commercial Bank (SCB), a Primary Dealer (PD) or a Financial Institution (FI) as a counter-party for their transactions. Preference should be for direct deals with such counter parties. It will be desirable to check prices from the banks or PDs with whom UCBs may be maintaining constituent SGL Account (CSGL).
- (iii) UCBs should take advantage of non-competitive bidding facility provided to them for acquiring Government of India securities in the primary auctions by the Reserve Bank of India.

- (iv) If a deal is put through with the help of broker, the role of the broker should be restricted to that of bringing the two parties to the deal together. Under no circumstances, bank should give power of attorney or any other authorisation to brokers/intermediaries to deal on their behalf in the money and securities markets.
- (v) Only brokers registered with NSE or BSE or OTCEI should be utilised for acting as intermediary. A disproportionate part of the business should not be transacted with or through one or a few brokers. Banks should have a list of approved brokers. A limit of 5% of total transactions (both purchases and sales) entered into by a bank during a year should be treated as the aggregate upper contract limit for each of the approved brokers.
- (vi) Brokers should not be used in the settlement process at all viz. both fund settlement and delivery of security should be done with the counter-parties directly. CSGL Accounts should be used for holding the securities and such accounts should be maintained in the same bank with whom the cash account is maintained. For all transactions delivery versus payment must be insisted upon by the UCBs.
- (vii) All transactions must be monitored to see that delivery takes place on settlement day. The funds account and investment account should be reconciled on the same day before close of business.
- (viii) Dealing and back-up functions should be properly segregated. Officials deciding about purchase and sale transactions should be separate from those responsible for settlement and accounting.
- (ix) All investment transactions should be perused by the Board at least once a month.
- (x) The banks may keep a proper record of the SGL forms received/issued to facilitate counter-checking by their internal control systems/RBI inspectors/other auditors.

3. We shall be glad if you will please ensure that all investment transactions are undertaken strictly in conformity with RBI guidelines. Any deviations from the guidelines/instructions issued by RBI shall be viewed very seriously. Please acknowledge receipt of this circular to our regional office under whose jurisdiction your bank falls, and advise them the steps taken by your bank in this regard.

4. This circular is issued by the Reserve bank in exercise of the power conferred under Section 35A of the Banking Regulation Act, 1949 (AACs).

Yours faithfully,

**(R. Derhgawen)**  
**Deputy General Manager**