

## **Issue of Government Securities**

**GOVERNMENT OF INDIA  
MINISTRY OF FINANCE  
(Department of Economic Affairs)  
(Budget Division)**

**New Delhi, the 6th May, 2002**

### **NOTIFICATION**

#### **Issue of Government Securities**

F.No 4(9)-W&M/2000: Government of India, in supersession of Notification F.No. 4(2)-W&M/97 dated 1<sup>st</sup> April 1997 issued by Government of India as amended by the Government of India notification F.No. 4(7)-W&M/99 dated 5<sup>th</sup> April 1999, hereby notifies that issue of Government Securities (hereinafter referred to as "Securities") hereafter will be subject to terms and conditions spelt out in this notification (called the 'General Notification') as also terms and conditions notified separately in the Specific notification issued in respect of each security issue until further notice.

The objective of the General Notification has been to list out the general terms and conditions applicable to issues of Government Securities and the features and methods of issue of different types of Government Securities. The Specific Notification issued from time to time in respect of each security issue will supplement the General Notification and cover specific features pertaining to the particular security issue.

#### **Explanation**

For the purpose of this paragraph 'Specific Notification' means the notification to be issued by Government of India announcing issue of any particular Government Security.

#### **2. General Terms and conditions applicable to Government Securities**

The general terms and conditions applicable to all issues of Government Securities will be as under:

##### **2.1. Eligibility for Investment**

Investment in the Government Securities may be made by any person including firms, companies, Corporate bodies, institutions, State Governments, provident funds and Trusts. Non-Resident Indians (NRIs, viz., Indian citizens and Individuals of Indian origin), Overseas Corporate Bodies predominantly owned by NRIs and Foreign Institutional Investors registered with SEBI and approved by Reserve Bank of India are also eligible to invest in the Government Securities. However, investment by a person resident outside India (whether a citizen of India or not), or a person who is not a citizen of India but is resident in India or a Company which is not incorporated under any law in force in India or any branch of such Company shall be subject to the provisions of the Foreign Exchange Regulation Act, 1973 or the Foreign Exchange Management Act, 1999 in addition to the other provisions of laws applicable to Government Securities as per the terms as stipulated hereinafter.

## 2.2. Minimum Subscription

Government Securities will be issued for a minimum amount of Rs.10,000/- (Face Value) and in multiples of Rs.10,000/- thereafter.

## 2.3. Procedure for Application.

Offers for purchase of Government Securities shall be submitted by interested persons in the form of application (including electronic form) as specified by Reserve Bank of India from time to time. FIIs, NRIs and Overseas Corporate bodies predominantly owned by NRIs, however, should submit their applications through the designated banks which have been authorised by the Reserve Bank of India to act as a banker to FIIs or authorised to deal in Foreign Exchange as the case may be. Applications duly filled in should be submitted to the office of Reserve Bank of India or any other institution notified for the purpose, before the close of banking hours on the specified date/s. Interested persons submitting applications for purchase of Government Securities shall be bound also by the terms and conditions as indicated in the specified form of application.

## 2.4. Payment for Government Securities

Payment for the Government Securities shall be made by the applicants/investors on such dates as mentioned in the Specific Notification, by means of cash or cheque drawn on Reserve Bank of India, Mumbai or any specified office of Reserve Bank of India or Banker's pay order or by authority to debit their current account with Reserve Bank of India or by Electronic Fund Transfer in a secured environment or by any other means as specified by Reserve Bank of India.

## 2.5. Form of Security

The Government Securities shall be issued to the investors by credit to their Subsidiary General Ledger Account or to a Constituents' Subsidiary General Ledger Account of the institution as specified by them, maintained with Reserve Bank of India or by credit to their Bond Ledger Account maintained with Reserve Bank of India or with any institution authorized by the Reserve Bank of India in this behalf as per the Public Debt Rules 1946, or in the form of Stock Certificate. The Form of Stock Certificate will be notified separately, where necessary.

## 2.6 Payment of Interest

(i). Interest on Government Securities will be paid at the Public Debt Offices of the Reserve Bank of India at Ahmedabad, Bangalore, Bhubaneswar, Kolkata, Chennai, Guwahati, Hyderabad, Jaipur, Kanpur, Mumbai, Nagpur, New Delhi, Patna and Thiruvananthapuram, or any other Office of Reserve Bank of India notified for this purpose from time to time, or at branches of State Bank of India and Associate banks conducting Government business or at any Treasury or Sub-Treasury served by the Public Debt Office where there is no Office of Reserve Bank of India or branch of State Bank of India or its associates except the States of Jammu & Kashmir and Sikkim. Interest on securities held in Bond Ledger Account with any of the Offices of Reserve Bank of India/ Agency as specified by Reserve Bank of India in this behalf, will be paid at such Office/Agency.

(ii) Interest will be paid after rounding off the amount to the nearest whole rupee. For this purpose, amount of interest less than fifty paise will be ignored and fifty paise or more will be rounded off to the next rupee.

## 2.7 Repayment of Government Securities

i) The Government Securities will be repaid at Public Debt Offices of the Reserve Bank of India or any other institution at which they are registered at the time of repayment.

ii) The Government Security may be repaid at the option of Government of India, before the specified redemption date, where a “call option” is specified in the Specific Notification relating to the issue of a Government Security.

iii) The Government Security may be repaid, at the option of the holder of the Security, before the specified redemption date, where a ‘put option’ is specified in the Specific Notification relating to the issue of a Government Security.

iv) The Government Security will be repaid on the date of redemption specified in the Specific Notification, where neither a ‘Call Option’ nor a ‘Put Option’ is specified/ exercised.”

## 2.8 Transferability of Government Securities

(i) Government Securities can be renewed, sub-divided, consolidated, converted and transferred in accordance with the provisions of the Public Debt Act, 1944 (or any other Act repealing the Public Debt Act, 1944), the Public Debt Rules, 1946 framed thereunder (or any other Rules repealing the Public Debt Rules, 1946) and the terms of this notification and any further notification which may be issued by the Government of India from time to time in this behalf.

(ii) The conversion of the security issued pertaining to the security from one form to the other will be subject to the restriction with respect to the forms in which the Government Securities shall be issued.

(iii) The transfers of Government Securities by FIIs, will be subject to SEBI (FIIs') Regulations and those of NRIs and Overseas Corporate Bodies predominantly owned by NRIs will be subject to RBI guidelines.

## 2.9 Laws applicable in regard to the Government Securities

(i) The rights of all persons subscribing to or holding the Government Securities shall be determined with all such questions as are dealt with by the Public Debt Act, 1944 (or any other Act repealing the Public Debt Act, 1944) and the Public Debt Rules, 1946 (or any other Rules repealing the Public Debt Rules, 1946) read with the terms of this Notification and such other Notification as may be issued from time to time or by the terms of Press Releases as may be issued in future by Reserve Bank of India, in consultation with Government of India in this regard.

(ii) The provisions of the tax laws for the time being in force in India will be applicable for the purposes of assessing and determining the liability of the investor or holder of the Government Securities.

(iii) Any dispute in relation to the Government Securities shall be decided by the Courts in India.

### 3. Participation by Reserve Bank of India

The Reserve Bank of India may also, if it considers appropriate to do so participate in the auction as a "non-competitor" or subscribe to the Government Securities in other issues. Allotment of Securities to Reserve Bank of India will be at the cut off price/yield emerging in the auction or at any other price/yield decided by the Government of India.

### 4. Modes of issue of Government Securities

Government of India may issue from time to time Government Securities through the following modes:

- i) Issue of Securities through auction.
- ii) Issue of Securities with pre-announced coupon rates.
- iii) Issue of Securities through tap sale.
- iv) Issue of Securities by conversion of treasury bills/dated securities.
- v) Issue of Securities through any other mode, as may be notified.

### 5. Features of Different modes of issue of Government Securities

#### 5.1. Issue of Securities through auction

(i) The Securities will be issued through auction either on price basis or on yield basis. Where the issue is on price basis, the coupon will be pre-determined and the bidders have to quote the price per Rs.100.00 face value of the security, at which they desire to purchase the security. Where the issue is on yield basis, the coupon of the security is decided in an auction conducted by Reserve Bank of India in the manner hereinafter as provided and further provided by the Specific Notifications issued from time to time. The security carries the same coupon till maturity.

(ii) The yield per cent per annum or the price, as the case may be, expressed up to and rounded off to two decimal places, should be clearly stated in the application.

(iii) An applicant may submit more than one bid at different rates of yield or prices, as the case may be, through separate applications for each bid. The aggregate amount of bids submitted by a person should not exceed the aggregate amount of Government Securities offered for sale.

(iv) On the basis of the bids received, the Reserve Bank of India will determine the maximum rate of yield or the minimum offer price as the case may be at which offers for purchase of Government Securities will be accepted at the auction. Except in the case of price-based auctions, the maximum rate of yield determined at the auction will be the coupon rate percent per annum on the Securities sold at the auction.

(v) The auctions for issue of securities (on either yield basis or price basis) will be held either on 'Uniform price' method or on 'Multiple price' method or any other method decided by the Government of India or the Reserve Bank of India in consultation with the Government of India.

Where an auction is held on 'Uniform price' method, competitive bids offered with rates up to and including the maximum rate of yield or the prices up to and including the minimum offer price, as determined by the Reserve Bank of India will be accepted at the maximum rate of yield or minimum offer price so determined. Bids quoted higher than the maximum rate of yield or lower than the minimum price as determined by the Reserve Bank of India will be rejected.

Where an auction is held on 'Multiple price' method, competitive bids offered at the maximum rate of yield or the minimum offer price as determined by the Reserve Bank of India will be accepted. Other bids tendered at lower than the maximum rate of yield or higher than the minimum offer price determined by the Reserve Bank of India will be accepted at the rate of yield or price as quoted in the respective bid. In yield-based auctions, successful bidders, whose quotes are lower than the maximum rate of yield, are required to pay the price differential in the form of a premium. Bids quoted higher than the maximum rate of yield or lower than the minimum price as determined by the Reserve Bank of India will be rejected.

Where the auction is held on any other method, the method of acceptance of the bids will be decided by the Government of India.

(vi) Individuals and institutions as may be specified by the Reserve Bank of India (called 'Retail investors') can participate in the auctions on 'non-competitive' basis, indirectly through a Scheduled bank or a Primary dealer offering such services or any other agency permitted by Reserve Bank of India for this purpose. Eligibility criteria for participation on non-competitive basis and the manner in which such bids should be submitted will be announced by Reserve Bank of India. Allocation of the Securities to non-competitive bidders will be at the discretion of the Reserve Bank of India and will be at a price not higher than the weighted average price arrived at on the basis of the competitive bids accepted at the auction or any other price announced in the Specific Notification. The nominal amount of Securities that will be allocated to Retail investors on non-competitive basis will be restricted to a maximum percentage of the aggregate nominal amount of the issue, within or outside the nominal amount, as specified by the Government of India or any other percentage determined by Reserve Bank of India.

(vii) The Reserve Bank of India will have the discretion to accept excess subscriptions to the extent as may be specified in the 'Specific Notification' pertaining to the issue of the Security and make allotment of the security accordingly.

(viii) The Reserve Bank of India will have full discretion to accept or reject any or all bids either wholly or partially, without assigning any reason.

## 5.2. Issue of Securities with pre-announced coupon rates

(i) The coupon on such Securities will be announced before the date of floatation and the Securities will be issued at par.

(ii) In case the total subscription exceeds the aggregate amount offered for sale in respect of a fixed coupon Security, the Reserve Bank of India may make partial allotment to all the applicants.

(iii) The Reserve Bank of India will have the discretion to accept excess subscriptions to the extent as may be specified in the 'Specific Notification' pertaining to the issue of the Security and make allotment of the security accordingly.

(iv) Reserve Bank of India will have the discretion to accept or reject any or all applications either wholly or partially, without assigning any reason.

(v) The amount of excess subscription in terms of clause (ii) of this paragraph or amount of subscription in case of rejection of application in terms of clause (iv) of this paragraph, will be refunded by the Reserve Bank of India to the respective subscribers as soon as possible and no interest will be paid on the amount so refunded.

### 5.3. Issue of Securities through tap sale

No aggregate amount is indicated in the notification in respect of the Securities sold on tap. Sale of such Securities may be extended to more than one day and the sale may be closed at any time during the banking hours on any day.

### 5.4. Issue of Government Securities in conversion of maturing Treasury Bills/dated securities

The holders of Treasury Bills of certain specified maturities and holders of specified dated securities are provided an option to convert the respective Treasury Bills/dated security at specified prices into new Securities offered for sale. The new Securities could be issued on an auction/pre-announced coupon basis.

## 6. Different types of Government Securities.

Government of India may issue from time to time the following types of Government Securities:

- i)* Securities with fixed coupon rates.
- ii)* Securities with variable coupon rates, viz, Floating Rate Bonds.
- iii)* Zero Coupon Bonds
- iv)* Securities for which the subscription is received in specified instalments
- v)* Securities for which repayment is made in specified instalments.
- vi)* Securities with Embedded Derivatives (e.g. Call and Put Options).
- vii)* Securities with any other features as notified in the Specific Notification.

## 7. Features of different types of Government Securities

### 7.1. Securities with fixed coupon rates

- (i) The securities will carry a specific coupon rate remaining fixed during the term of the security and payable periodically.
- (ii) Issue of security may be at a discount, at par or at a premium to the face value.
- (iii) Redemption of the security will be at par.

## 7.2. Securities with variable coupon rates, viz, Floating Rate Bonds etc.

- (i) The Security will carry a coupon rate which will vary according to the change in the Base Rate to which it is related. The description of the Base Rate and the manner in which the coupon rate is linked to the Base Rate will be announced in the Specific Notification.
- (ii) The coupon rate may be subject to a floor or cap, if any, as the case may be, as prescribed in the Specific Notification.
- (iii) Where the Base Rate is pre-announced and the Security is issued at par, the method of issue in respect of securities/bonds with variable coupon rate will be as announced in the Specific Notification.

## 7.3. Zero Coupon Bonds

- (i) Zero Coupon Bonds are issued at a discount and redeemed at par. No interest payment is made on such bonds at periodic intervals before maturity.
- (ii) In respect of Zero Coupon Bonds issued by auction, the price at which the Zero Coupon Bonds are proposed to be purchased per Rs.100/- (Nominal), expressed up to two decimal places should be clearly stated in the application. Applications which do not contain details such as the nominal value of the Bonds, the price per Rs.100/- at which Bonds are proposed to be purchased or which contain incomplete details are liable to be rejected, without any reference to the applicant.
- (iii) An applicant may submit more than one bid at different prices through separate applications for each bid. The aggregate amount of bids submitted by a person should not exceed the aggregate amount of Bonds offered for sale.
- (iv) On the basis of the bids received through tenders, the Reserve Bank of India will determine the cut-off price at which tenders for purchase of Zero Coupon Bonds will be accepted at the auction.
- (v) All such bids, which are found to be up to the cut-off price, will be accepted and all other bids, which are found to be lower than the said cut-off price, will be rejected.

## 7.4. Securities for either the subscription is received or the repayment is made in instalments

The Securities are issued either by auction or by pre-announcing a coupon rate. The special feature of the Securities is that either the payment for the securities is received in specified instalments or the repayment of the securities is made in specified instalments as notified in the Specific notification relating to the issue of the security.

## 7.5 Securities with Embedded Derivatives ( e.g. Call and Put Options)

Government Securities may be issued with embedded derivative features, for example Call and Put Options. The Government security may be repaid at the option of Government of India, before the specified redemption date, where a “call option” is specified in the Specific Notification relating to the issue of a Government Security and the Government Security may be repaid, at the option of the holder of the Security, before the specified redemption date, where a ‘put option’ is specified in the Specific Notification relating to the issue of a Government Security.

8. Other Terms and conditions to be announced in the Specific Notification

The other terms and conditions specific to each issue of Government Securities will be notified separately in the Specific Notifications from time to time.

By Order of the President of India

Sd/-  
Addl. Secretary (Budget)