

Transaction in Government Securities

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20 May, 2002

To

All RBI regulated entities

(Commercial banks, Co-operative banks, Primary Dealers , Financial Institutions, Local Area Banks, RRBs and NBFCs)

Dear Sir,

Transaction in Government Securities

Reserve Bank of India, has been, over a period of time, encouraging holding of government securities in the dematerialised mode in the following ways:

- ? All entities having a Subsidiary General Ledger (SGL) account with RBI are allowed to open Constituent Subsidiary General Ledger (CSGL) accounts on behalf of their clients.
- ? Although being non-banks, depositories (NSDL/CDSL) and organisations such as SHCIL have been provided an additional SGL account to open CSGL accounts on behalf of their clients.
- ? The cost of postage incurred by the depositories on remitting interest and redemption proceeds is being reimbursed by RBI so as to encourage dematerialised holding and retail participation in Gilts.
- ? Guidelines have been issued to the banks prescribing the safeguards to be adopted for maintenance of CSGL accounts.
- ? To impart transparency in government securities traded by clients (through CSGL accounts), a special feature has been incorporated in the Negotiated Dealing System (NDS) for reporting and settlement of such trades. Provision has also been made in the NDS for giving quotes on behalf of clients i.e. CSGL account holders.

2. At present, as a result of above measures , 99% of the trading in government securities takes place through SGL accounts with RBI for which the Delivery versus Payment (DVP) system ensures simultaneous transfer of securities against funds. Of the new issuances in 2001-02 of government securities, 99.9% was in SGL form.

3. In the light of recent fraudulent transactions in the guise of Government securities transactions in physical format by a few co-operative banks with the help of some broker entities, it is now proposed to accelerate the measures under contemplation for further

of RRBs)) and SHCIL or in a dematerialised account with depositories (NSDL/CDSL).

- ✍ Only one CSGL or dematerialised account can be opened by any such entity.
- ✍ In case the CSGL accounts are opened with a scheduled commercial bank or State Cooperative bank, the account holder has to open a designated funds account (for all CSGL related transactions) with the same bank.
- ✍ In case a CSGL account is opened with any of the non-banking institutions indicated above, the particulars of the designated funds account (with a bank) should be intimated to that institution.
- ✍ The entities maintaining the CSGL/designated funds accounts will be required to ensure availability of clear funds in the designated funds accounts for purchases and of sufficient securities in the CSGL account for sales before putting through the transactions.
- ✍ No further transactions by a regulated entity should be undertaken in physical form with any broker with immediate effect.

4. A specific time table is being separately indicated for each category of regulated entities to comply with these guidelines. Those who have genuine difficulties in meeting the time table may approach the concerned regulatory department in RBI for considering extension of dates for compliance.

5. Any regulated entity which requires help in this regard may approach Self Regulatory Organisations who are equipped to tender advice in this regard. These are Primary Dealers Association of India (PDAI) { telephone nos. (022)- 261-1094 / 261-0852 - extn 127 (helpdesk@pdaindia.org)} or the Fixed Income and Money Market Derivatives Association of India (FIMMDA) {telephone nos.(022)- 202-5729. (email: helpline@fimmda.org)}

6. Detailed instructions are being issued in regard to the above by the concerned regulatory departments.

Yours faithfully,

(Mohd. Tahir)

Executive Director