**Scheme for Bidding, Underwriting and Liquidity Support to Primary Dealers – 2001-02**

IDMC No. 4135 /03.64.00/2000-01

Dated April 19, 2001

All Primary Dealers

**Scheme for Bidding, Underwriting and Liquidity Support to Primary Dealers – 2001-02**

Please refer to our letter IDMC No. 3514 / 03.64.00 /99-2000 dated April 27, 2000, forwarding to you the Scheme for Bidding, Underwriting and Liquidity Support to Primary Dealers.

2. It may be recalled the Scheme for providing Liquidity Support to the PDs for the year 2000-01 was based on bidding commitment and primary and secondary market performance. The system of providing liquidity support has been reviewed in the light of the performance of PDs under the scheme during the year 2000-01. The proposed revisions were discussed with the Primary Dealers in the meeting held on 31st March 2001 and their suggestions and comments elicited. The revised "**Scheme for Bidding, Underwriting and Liquidity Support to Primary Dealers – 2001-02 "** is enclosed and it supercedes the earlier scheme with immediate effect.

Yours faithfully,

**(Smt. Usha Thorat)**
**Chief General Manager – in- Charge**

Encl : Scheme for Underwriting and Liquidity Support to Primary Dealers

## SCHEME FOR BIDDING, UNDERWRITING AND LIQUIDITY SUPPORT TO PRIMARY DEALERS – 2001-02

This Scheme replaces the existing Scheme for Bidding, Underwriting and Liquidity Support to Primary Dealers, sent to the Primary Dealers vide IDMC No. 3514 / 03.64.00 / 99-2000 dated April 27, 2000.

## 1. SCHEME FOR UNDERWRITING

**<u>Terms And Conditions For Underwriting</u>**

### (A) Dated Securities

**a)** On announcement of the notified amount for dated securities of the Central Government and the State Governments for which auction is held, Primary Dealers will be collectively offered to underwrite upto 100 per cent of the notified amount in respect of all issues where amounts are notified**.**

b) A Primary Dealers shall offer to underwrite an amount not exceeding five times of its net owned funds The amount so arrived at should not also exceed 30 per cent of the notified amount of the issue. An illustration has been appended in Annexure I.

c) Bids will be tendered by Primary Dealers in a specified proforma (Annexure II) indicating the amounts and fees at which they would be willing to accept underwriting commitments. A PD would be allowed to submit multiple bids for underwriting.

d) The bids will be tendered by each Primary Dealer in a sealed cover so as to reach the Chief General Manager, Internal Debt Management Cell, RBI, Central Office, Mumbai, before 2.30 p.m. (upto 12.30 p.m. if it is a Saturday) <u>on the working day immediately preceding the day of auction of the loan.</u> A Primary Dealer who does not wish to participate in the underwriting of a particular issue should submit 'NIL' bid.

e) Depending upon the bids submitted for underwriting, the Reserve Bank will decide the cut-off rate of fee and the underwriting amount upto which bids would be accepted. Bids would be accepted at the fee as quoted by individual Primary

Dealers upto the cut-off fee. All bids quoted above the cut-off fee would be rejected.

f) RBI reserves the right to accept any amount of underwriting upto 100 per cent of the notified amount or even reject all the bids tendered by PDs for underwriting, without assigning any reason.

g) Primary Dealers will invariably bid at all auctions at least to the extent of their underwriting commitment as accepted by the Reserve Bank. PDs would be allowed to set-off the accepted bids in the auction against their underwriting commitment accepted by the Bank, in case of devolvement.

h) Devolvement of securities, if any, on Primary Dealers will take place on pro-rata basis, depending upon the amount of underwriting obligation of each Primary Dealer after setting off the successful bids in the auction. An illustration has been provided in Annexure III.

i) The cut-off fee and the underwriting amount accepted by Reserve Bank will be intimated to the Primary Dealers at the earliest after a decision is taken in the matter.

j) Underwriting fee will be paid on the entire amount accepted for underwriting by the Reserve Bank, irrespective of the actual amount of devolvement.

k) Underwriting Fee will be paid by the Reserve Bank by credit to the current account of the respective Primary Dealers at the Reserve Bank of India, Fort, Mumbai, on the date of the auction.

l) In case of State Government floatation through auction, the same system of underwriting will be followed.

**(B) Treasury Bills**

a) Each PD will individually commit, at the beginning of the year, to submit minimum bids as a fixed percentage of the notified amount of Treasury Bills in each auction.

b) The minimum percentage of the bids for each PD will be determined by the Reserve Bank, by negotiation with the PD so that the whole issue of Treasury Bills at 100 per cent is apportioned amongst all PDs collectively. The percentage of minimum bidding commitment so determined by the Reserve Bank will remain unchanged for the entire financial year or till the conclusion of agreement on bidding commitments for the next financial year, whichever is later. In determining the minimum bidding commitment, RBI will take into account the offer made by the PD, its net owned funds and its track record.

c) If any Primary Dealer in any auction of Treasury Bills, fails to submit the required minimum bid or submits a bid lower than its commitment, the Reserve Bank will reduce assured liquidity support to the extent of shortfall/ failure in submission of bids for a period of six months from the date the decision is communicated to the Primary Dealer. For instance, if a bid is short by an amount of Rs. 10 crore, liquidity support will be reduced by an amount of Rs. 10 crore for six months.

## 2. SCHEME FOR LIQUIDITY SUPPORT TO PRIMARY DEALERS

In terms of the “Guidelines for Primary Dealers in the Government Securities Market”, PDs are provided with liquidity support by the Reserve Bank Of India through repos/refinance against Central Government securities. Under the existing scheme liquidity support is linked to bidding commitment, success in primary auctions and secondary market operations. With a view to fine tune the scheme further, certain changes in the scheme have been effected. The parameters based on which liquidity support will be allocated among the PDs are also given below.

a) Under the existing system, the liquidity support is provided at Bank Rate for Level –I as determined by the Reserve Bank for each PD. With the introduction of LAF, PDs have been participating alongwith banks in the LAF. Under the Monetary and Credit Policy 2001-02 announced by RBI, in order to facilitate a smooth transition to full fledged LAF, it is proposed to split the Level I liquidity support at Bank Rate into two parts – normal facility and backstop facility. The normal facility will be provided at Bank Rate while the backstop facility will be at a variable daily rate. The daily variable rate will b e linked to cut-off rates emerging in LAF auctions and in the absence of such rates to National Stock Exchange, Mumbai Interbank Offer Rate (NSE- MIBOR) as detailed below:

i) The variable rate for the backstop facility, to be fixed on a daily basis would be 1 percentage point over the reverse repo cut-off rate at which funds were injected earlier during the day in thew regular LAF auctions.

ii) Where no reverse repo bid was accepted as part of LAF auction, the rate will be 2.0 to 3.0 percentage points over the repo cut off rate of the day which emerged in LAF auction as may be decided by RBI.

iii) On Saturdays and on other days when no bids for repo or reverse repo auctions have been received/accepted, the rate for back stop facility will be between 1.0 to 3.0 percentage points over NSE-MIBOR as may be decided by RBI. The exact mark-up will depend upon the assessment of liquidity conditions.

b) Of the total limits of liquidity support available to PDs, the normal facility would initially constitute about two thirds and the backstop facility about one-third.

c) Backstop facility would be operated till close of banking hours.

d) Liquidity support against the collateral of Government securities available to PDs will be based on the bidding commitment and other parameters. Approximately 75% of the total assured liquidity support (Level I plus backstop) will be provided on the basis of bidding commitments. The ratio for G Secs to T Bills will be 3:1. In finalising bidding commitments the RBI will take into account the NOF, the offer made by the PD and its track record. The prescribed success ratio in respect of Government dated securities and Treasury Bills will continue to be 40%.

e) The balance quantum of 25 % of the total assured liquidity support will be distributed on the basis of secondary and primary market performance in the ratio 3:2.

f) The total assured liquidity support (normal plus backstop facility) will be subject to maximum of thrice the net owned funds of respective PD. For application of this clause, in order to bring in uniformity, the latest available paid up capital as on 31st March 2001 certified by the Statutory Auditors will be considered. Till such time the figures as per the latest audited balance sheet will be relied upon.

## Annexure I

Illustration showing the amount a PD can offer for underwriting.

Notified Amount of the issue : Rs.2,000 crore

| Name of PD | NOF | 5 times of NOF | 30 % of Notified Amount | Admissible amount |
|---|---|---|---|---|
| A | 50 | 250 | 600 | 250 |
| B | 500 | 2500 | 600 | 600 |
| C | 200 | 1000 | 600 | 600 |
| D | 120 | 600 | 600 | 600 |

Note: PD can underwrite a maximum of 5 times NOF in an issue, subject to this amount being less than or equal to 30 % of the notified amount.

## Annexure II

To

The Chief General Manager,
Internal Debt Management Cell,
Reserve Bank of India,
Central Office,
Mumbai - 400 001.

Madam,

**Tender for Underwriting**

In terms of the Scheme for Bidding, Underwriting and Liquidity Support to Primary Dealers issued by RBI on April 19, 2001, we hereby submit the following bids for underwriting:

Tender for Underwriting

| | |
|---|---|
| Security | ------------------- |
| Date of Auction | ------------------- |
| Net Owned Funds (audited figure) | ------------------- |

**Bid/s for underwriting**

| Sr.No. | Underwriting Amount | Underwriting Fees |
|---|---|---|
| 1. | | |
| 2. | | |
| 3. | | |
| 4. | | |
| 5. | | |
| Total | | --------- |

We hereby undertake that on acceptance of our bid/s, we shall take up the devolvement, if any, upto the underwriting amount as decided by the Reserve Bank.

Yours faithfully,

(Signature)
Name
Designation

## Annexure III

**Illustration showing the underwriting amount, cut-off rate of under-**
**Writing fee accepted by the Reserve Bank and devolvement on PDs.**

RBI sells GOI security of 5-year tenure for an aggregate amount of Rs.2000 crore (nominal) through an auction. Assuming that RBI offers maximum amount of 100 per cent of the notified amount for underwriting by all the Primary Dealers and the PDs submit the bids for underwriting as follows, the amount of underwriting fee payable and the devolvement would be as under:

Rs. in crore

| Name of PD | Amount of underwriting offered | Cumulative figure | Underwriting fee quoted (Paise) | Cut-off rate | Underwriting amount accepted by RBI | Underwriting fee payable |
|---|---|---|---|---|---|---|
| A | 100 | 100 | 15 | - | 100 | 0.1500 |
| B | 250 | 350 | 16 | - | 250 | 0.4000 |
| C | 350 | 700 | 17 | - | 350 | 0.5950 |
| D | 300 | 1000 | 18 | - | 300 | 0.5400 |
| E | 200 | 1200 | 19 | - | 200 | 0.3800 |
| F | 300 | 1500 | 20 | 20 | 300 | 0.6000 |
| G | 300 | 1800 | 21 | Rejected | - | - |
| H | 200 | 2000 | 22 | Rejected | - | - |
| Total | 2000 | | | | 1500 | 2.6650 |

Setting off of successful bids in the auctions

| Name of PD | Bids tendered in the auction | Bids accepted in the auction | Amount of underwriting obligation | Possible devolvement on each PD |
|---|---|---|---|---|
| A | 100 | 50 | 100 | 50 |
| B | 250 | 200 | 250 | 50 |
| C | 350 | 320 | 350 | 30 |
| D | 300 | 280 | 300 | 20 |
| E | 200 | 120 | 200 | 80 |
| F | 300 | 260 | 300 | 40 |
| G | 150 | 75 | - | - |
| H | 135 | 95 | - | - |
| Total | 1785 | 1400 | 1500 | 270 |

Amount of devolvement on PDs/RBI

| Scenario | Amount of devolvement | Devolvement on PDs | Devolvement On RBI |
|---|---|---|---|
| **Case I** | **135** | **135 *** | **0** |
| **Case II** | **270** | **270** | **0** |
| **Case III** | **500** | **270** | **230** |

In Case I, the amount of devolvement will be on pro-rata basis i.e. 50% of the amount of possible devolvement.