

**Investment Portfolio of banks -
Transactions in Government Securities**

DBOD.No.FSC.BC.113/24.76.002/2001-02

June 7, 2002

The Chairmen/Chief Executives of all
Commercial Banks (excluding RRBs and LABs)

Dear Sir,

**Investment Portfolio of banks -
Transactions in Government Securities**

Please refer to our circular DBOD.No.FSC.BC.143A/24.48.001/91-92 dated June 20, 1992 and the subsequent circulars issued from time to time on the captioned subject. 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 has now been decided to accelerate the measures for further reducing the scope for trading in physical forms. These measures are as under:

- (i) For banks which do not have SGL account with RBI, only one CSGL account can be opened.
- (ii) In case the CSGL accounts are opened with a scheduled commercial bank, the account holder has to open a designated funds account (for all CSGL related transactions) with the same bank.
- (iii) 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.
- (iv) No further transactions by the bank should be undertaken in physical form with any broker with immediate effect.
- (v) Banks should ensure that brokers approved for transacting in Government securities are registered with the debt market segment of NSE/BSE/OTCEI.
- (vi) It should also be ensured that users of NDS deal directly on the system and use the system for transactions on behalf of their clients.

2. A circular [IDMC.PDRS.No.5039/03.64.00/2001-02](#) dated 20th May 2002 issued to all the RBI regulated entities (Commercial banks, Co-operative banks, Primary Dealers, FIs, Local Area Banks, RRBs and NBFCs) in this regard is enclosed for your

information. Banks should ensure that the above instructions are complied with by June 30, 2002.

3. Please acknowledge receipt.

Yours faithfully,

(D.Mishra)
General Manager

Encl: As above

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 reducing the scope for trading in physical form. The measures are as follows

- ✍ All entities regulated by RBI [including financial institutions (FIs), primary dealers (PDs), cooperative banks, RRBs, local area banks (LABs), non banking financial companies (NBFCs)] should necessarily hold their investments in Government securities portfolio in either SGL (with RBI) or CSGL (with a scheduled commercial bank/State Cooperative Bank/PD/FI/sponsor bank (in case 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