

Access to Call/Notice Money Market for Primary Dealers: Prudential Norms

REF:No.MPD. / 07.01.279//2002-03

**July 31, 2002
Shravana 9, 1924 (S)**

To
All Primary Dealers

Dear Sirs

Access to Call/Notice Money Market for Primary Dealers: Prudential Norms

Please refer to Paragraphs 85-88 of the Governor's Statement on Monetary and Credit Policy for the Year 2002-03 enclosed with letter No.MPD.BC.214/07.01.279/2001-02 dated April 29, 2002 (copy of the Paragraphs enclosed).

2. As per the policy announced earlier, and following the recommendations of the Working Group constituted to suggest the criteria for fixing limits for transactions of Primary Dealers (PDs) in call/notice money market as also to suggest a roadmap for phasing them out from call/notice money market, it has been decided to stipulate prudential limits on the lending and borrowing of PDs in call/notice money market as indicated below.

- ? With effect from October 5, 2002, PDs are permitted to lend in call/notice money market upto 25 per cent of their net owned funds (NOF).
- ? Access of PDs to borrow in call/notice money market would be gradually reduced in two stages:
 - In Stage I, PDs would be allowed to borrow up to 200 per cent of their NOF as at end-March of the preceding financial year. However, this limit would not be applicable for the days on which government dated securities are issued to the market. Stage I would be operational upon the finalisation of uniform accounting and documentation procedures for repos, allowing rollover of repos, introduction of tripartite repos or collateralised borrowing and lending obligation (CBLO) to the satisfaction of RBI and permitting repos out of available for sale (AFS) category.
 - In Stage II, PDs would be allowed to borrow upto 100 per cent of their NOF. Days on which government dated securities are issued to the market will continue to be exempted from this limit. The implementation of Stage II will commence from one month after permitting sale of repoed securities.
 - On implementation of the real-time gross settlement (RTGS) system, the above exemptions would be reviewed.

3. The date of implementation of the Stage I mentioned above would be notified later.
4. In order to ensure smooth adjustment to the stipulation pertaining to lending in call/notice money market, without any disruption in asset-liability management (ALM), you are advised to unwind your position as lender in call/notice money market in excess of the prudential limit by October 4, 2002.
5. In case you have, for a temporary period, some mismatches in your liquidity position, RBI, on request, may consider allowing you further access to call/notice money market.
6. You are advised to indicate your latest audited position on net owned funds as at the end of March of the previous financial year to the Adviser-in-Charge, Monetary Policy Department (MPD), RBI, Fort, Mumbai – 400 001 not later than August 31, 2002.
7. To facilitate monitoring of your operations in call/notice money market on a daily basis, you are requested to submit the daily return in time to the Adviser-in-Charge, MPD, RBI as per the extant practice.
8. It is also proposed to convene a meeting of the representatives of selected PDs in the second half of November 2002 to review money market developments.

Kindly acknowledge receipt.

Yours faithfully
Sd/-
(D. Anjaneyulu)
Adviser-in-Charge