

**Non-Banking Financial Companies -
Amendments to Regulations**

DNBS PD CC No.21 / 02.01 / 2002-03

October 1, 2002

To
All Non-Banking Financial Companies
including Residuary Non-Banking Companies and
Miscellaneous Non-Banking Companies

**Non-Banking Financial Companies -
Amendments to Regulations**

(i) Transactions in Government Securities

Non-Banking Financial Companies (NBFCs) including Residuary Non-Banking Companies (RNBCs) have been investing in Government securities as part of their compliance with the provisions of Section 45IB of the RBI Act and other directions issued by the Bank thereunder, and/or as a part of their treasury management. Further, NBFCs have been directed to lodge the mandated liquid asset securities with a scheduled commercial bank at a place where the registered office of the company is situated. It has also been provided, vide our circular DNBS(PD)CC. No.18/02.01/2001-02 January 1, 2002 that the companies could, with prior approval of Reserve Bank, entrust these securities to Stock Holding Corporation of India Ltd. (SHCIL) or keep them in the form of Constituent's Subsidiary General Ledger Account (CSGL) or with a SEBI registered depository participant in a demat account. However, it has been specified that only one physical custodian and one demat account would be permitted.

2. These directions have since been reviewed, and it has been decided that with immediate effect

- (i) all NBFCs should necessarily hold their investments in Government securities either in CSGL with a scheduled commercial bank/SHCIL or in a dematerialised account with depositories [National Securities Depository Ltd. (NSDL)/Central Depository Services (India) Ltd. (CDSL)] through a depository participant registered with SEBI. The facility of holding Government Securities in physical form, therefore, stands withdrawn. Government guaranteed bonds, which have not been

dematerialised may be kept in physical form till such time, these are dematerialised.

- (ii) Only one CSGL or a dematerialised account can be opened by any NBFC.
- (iii) In case the CSGL accounts is 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.
- (iv) 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.
- (v) The NBFCs 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.
- (vi) No further transactions by NBFCs should be undertaken in physical form with any broker with immediate effect.
- (vii) All further transactions of purchase and sale of Government securities have to be compulsorily through CSGL/demat account.
- (viii) Government securities held in physical form should be dematerialised on or before October 31, 2002.
- (ix) The NBFCs may also approach any of the following organisations who are equipped to tender advice in this regard:
 - (a) Primary Dealers Association of India (PDAI) [telephone Nos. (022)-261-1094/261-0852-extn 127 (or e-mail helpdesk@pdaindia.org)]
 - (b) Fixed Income and Money Market Derivatives Association of India (FIMMDA) [telephone Nos.(022)-202-5729 or email: helpline@fimmda.org].

3. The NBFCs need not seek prior approval of the Reserve Bank for opening a demat/CGSL Account with any of the organisations mentioned in paragraph 2(i) above, but must inform the concerned Regional Office of the Reserve Bank of India, Department of Non-Banking Supervision of the details of the account within one week of doing so.

4. The NBFCs who have genuine difficulties in meeting the time table may approach the Regional Office of the Department of Non-Banking Supervision of RBI under whose jurisdiction the registered office of their company is located, for considering extension of dates for compliance.

5. We forward herewith, for your guidance, a copy of circular IDMC.PDRS.No.5039/03.64/2001-02 dated May 20, 2002 (annexure I) and a copy of “Dos and Don'ts” (annexure II) for the transactions in securities circulated by the Primary Dealers Association of India, the contents of which are self-explanatory.

Particulars to be furnished in the Advertisement for soliciting public deposits or statement in lieu thereof

6. The NBFCs are aware that the public deposits solicited by them are not insured. It has been felt necessary that this fact should be brought to the notice of the depositors, so as to avoid any misunderstanding on their part. It has, therefore, been decided to direct the NBFCs to include in their advertisements or statements in lieu of advertisement, a statement to this effect. Accordingly, suitable addition has been made in the Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998, Residuary Non-Banking Companies (Reserve Bank) Directions, 1987 and the Miscellaneous Non-Banking Companies (Reserve Bank) Directions, 1977.

Exposure of NBFCs to the Capital Market

7. With a view to capturing the information relating to exposure of the NBFCs to the capital market, it has been decided to call for information and data from NBFCs holding public deposits of Rs. 50 crore and above and the residuary non-banking companies (RNBCs) having aggregate liabilities to the depositors of Rs. 50 crore and above as on March 31, 2002 or thereafter regarding their exposure to the capital market (CME).

8. Accordingly, all NBFCs and RNBCs covered by the above criteria are advised to furnish the information in the form of a return (Annexure- III). The return should be submitted to the Regional Office of the Reserve Bank of India at quarterly intervals within one month of the close of the relative quarter, and the first such return should be submitted as on December 31, 2002.

9. These instructions may please be placed before the Board of Directors of your company at its next meeting and may also be brought to the notice of statutory

auditors of the company. Compliance with the above instructions may also be reported to the Regional Office of the Reserve Bank.

Information in regard to change of address, directors, auditors, etc. to be submitted by non-public deposit taking NBFCs

10. Every NBFC including a Government company which is not holding / accepting public deposits is required to inform the Reserve Bank of India any change in the address of its registered office and names of its directors / principal officers / authorised signatories / auditors, within 30 days of occurrence of the event.

11. A copy each of the four amending notification Nos. 159 to 162 as also updated notification Nos. 39, 55, 118 and 119 are also enclosed for your scrupulous compliance.

Yours faithfully,

Sd/-
(C. S. Murthy)
Chief General Manager - in - Charge

RESERVE BANK OF INDIA
CENTRAL OFFICE
INTERNAL DEBT MANAGEMENT CELL
CENTRAL OFFICE BUILDING
MUMBAI - 400 023

IDMC .PDRS No.5039/03.64.00/2001 -02 20 May, 2002

To

All RBI regulated entities
(Commercial banks, Co-operative banks, Primary Dealers , Financial
Institutions, Local Area Banks, RRBs ana 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,

Sd/-
(Mohd. Tahir)
Executive Director

**Primary Dealers Association of India
Dos and Donts for Dealing in Government Securities**

Dos

- ❖ Board / Committee / Top Management should actively oversee investment transactions. A comprehensive investment policy approved by Board should be laid down and reviewed each year.
- ❖ Empanel brokers after verifying their credentials, e.g. (a) SEBI registration (b) membership of BSE/NSE/OTCEI for debt market (c) market turnover in the preceding year as certified by Exchange/(s) (d) market reputation, etc. The panel should be reviewed periodically. Ensure that brokers are not on banned list as indicated in SEBI press releases (also available on SEBI website www.sebi.com). Before empanelling brokers check the respective websites of the exchanges.
- ❖ Deal directly with entities having SGL accounts with RBI e.g. banks, Primary Dealers and all India Financial Institutions, to the extent possible.
- ❖ Ensure that the role of brokers is limited to bringing the two counterparties together, whenever their services are used.
- ❖ Insist on disclosure of counterparty on conclusion of deal put through brokers.
- ❖ Check prices in the market from independent sources before concluding deals. Information on trades through SGL can be seen at www.rbi.org.in.
- ❖ Segregate investment, settlement and accounting functions. Ensure frequent and regular reconciliation.
- ❖ Hold and transact government securities only in SGL or CSGL or dematerialised accounts. Only one CSGL or demat account is permissible. Designate a funds account for your securities transactions.
- ❖ Ensure availability of funds in designated funds account for purchases and sufficient securities in the SGL/CSGL/demat account for sales before concluding transactions. Monitor all transactions and ensure receipt of funds/securities.
- ❖ Get holding of investment as per your records reconciled frequently with statement of balances from custodian.

Don'ts

- ❖ Do not involve brokers in settlement process.
- ❖ Do not transact with one or few brokers exclusively.
- ❖ Do not purchase / sell securities in physical form through brokers.
- ❖ Do not sell securities which you do not hold in your account.