Trading of Government Securities on Stock Exchanges

IDMC.PDRS.No. 2896 / 03.05.00 /2002-03.

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To All Primary Dealers in Government Securities Market.

Dear Sir,

Trading of Government Securities on Stock Exchanges

1. With a view to encouraging wider participation of all classes of investors, including retail, in Government Securities, it has been decided to introduce trading in government securities through a nationwide, anonymous, order driven screen based trading system on stock exchanges, in the same manner in which trading takes place in equities. Accordingly, with effect from January 16, 2003, trading of dated Government of India (GOI) securities in dematerialized form is being allowed on automated order driven system of the National Stock Exchange (NSE), The Stock Exchange, Mumbai (BSE) and the Over the Counter Exchange of India (OTCEI). The Scheme will subsequently be extended to GOI Treasury Bills and State Government Securities.

2. This trading facility is in addition to the present system of trading in government securities. Being a parallel system, the trades concluded on the exchanges will be cleared by their respective clearing corporations/clearing houses. The trades of Primary Dealers have to be settled either directly with clearing corporation/clearing house (in case they are clearing members) or else through clearing member custodian.

3. Primary Dealers (PDs) are expected to play an active role in providing liquidity to the government securities market and promote retailing. They may, therefore, make full use of proposed facility to distribute government securities to all categories of investors through the process of placing and picking-up orders on the exchanges. With a view to facilitating participation on the Stock Exchanges within the regulations prescribed by RBI, SEBI and the exchanges, the PDs are being extended following facilities:

    a. PDs may open demat accounts with a Depository Participant (DP) of NSDL/CDSL in addition to their accounts with RBI.

    b. Value free transfer of securities between SGL/CSGL and demat accounts would be enabled by PDO-Mumbai subject to operational guidelines being issued by our Department of Government and Bank Accounts (DGBA) separately.

4. **Operational Guidelines**

    i) PDs should take specific approval from their Board of Directors to enable them to trade in the Stock Exchanges.

ii) PDs should put up an effective internal control system and enabling IT infrastructure to track the orders executed for settlement / reconcile balances with the custodians, etc.

iii) As in the case of equities, PDs as institutional investors, would be exempted from margin requirements. As a consequence, they can undertake transactions only on the basis of giving and taking delivery of securities.

iv) Brokers/trading members shall not be involved in the settlement process; all trades have to be settled either directly with clearing corporation/clearing house (in case they are clearing members) or else through clearing member custodians.

v) The trades done through any single broker will also be subjected to the current regulations on transactions done through brokers.

vi) At the time of trade, securities must be available with the PDs either in their SGL or in the demat account.

vii) Any sale on T+3 basis on the Stock Exchanges cannot be covered by a purchase on the NDS/OTC market (even on T+0) and subsequent transfer from SGL account to their demat account for effecting deliveries. Similarly, no sale is permitted on NDS/OTC on T+0 against pay-in of securities expected on T+0 on the Stock Exchanges. Any purchase transactions by PDs should similarly be subject to availability of clear funds in their settlement accounts at the time of pay- in.

viii) Any settlement failure on account of non-delivery of securities/ non-availability of clear funds will be treated as SGL bouncing and the current penalties in respect of SGL transactions will be applicable. Stock Exchanges will report such failures to the respective Public Debt Offices.

ix) PDs who are trading members of the Stock Exchanges may have to put up margins on behalf of their non-institutional client trades. Such margins are required to be collected from the respective clients. PDs are not permitted to pay up margins on behalf of their client trades and incur overnight credit exposure to their clients. In so far as the intra day exposures on clients for margins are concerned, the PDs should be conscious of the underlying risks in such exposures.

x) PDs who intend to offer clearing /custodial services should take specific approval from SEBI in this regard. Similarly, PDs who intend to take trading membership of the Stock Exchanges should satisfy the criteria laid down by SEBI and the Stock Exchanges.

xi) PDs are required to submit a weekly statement to IDM Cell giving the aggregate of trades done on the Exchanges and details of any closed out transactions in the Exchanges

5. Any failure to comply with the requirements of this circular will invite regulatory action.

6. The Scheme will be reviewed in due course based on the experience and feedback from the market participants.

7. Please acknowledge receipt.

Yours faithfully,

(H.R. Khan)
Chief General Manager