Trading of Government Securities on Stock Exchanges

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January 16, 2003

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

Dear Sir,

Trading of Government Securities on Stock Exchanges

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 nation wide anonymous, order driven, screen based trading system of the stock exchanges, in the same manner in which trading takes place in equities. This facility of trading of government securities on the stock exchanges would be available to banks in addition to the present NDS of the Reserve Bank, which will continue to remain in place.

2. 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 Over the Counter Exchange of India (OTCEI). The scheme will subsequently be extended to GOI treasury bills and State Government securities.

3. In view of the familiarity of the market and its participants with the systems, processes and procedures it has been decided to adopt the equity trading model for trading of Government securities on the exchanges. The trading facility on the above stock exchanges 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 banks have to be settled either directly with clearing corporation/clearing house (in case they are clearing members) or else through a clearing member custodian.

4. As in the case of equities, banks as institutional investors, can undertake transactions only on the basis of giving and taking delivery of securities.

5. With a view to facilitating participation on the Stock Exchanges within the regulations prescribed by RBI, SEBI and the exchanges, banks are being extended the following facilities:

(i) Open demat accounts with a depository participant (DP) of NSDL/CDSL in addition to their SGL/CSGL accounts with RBI.

(ii) Value free transfer of securities between SGL/CSGL and demat accounts is being enabled at Public Debt Office (PDO), Mumbai, subject to operational guidelines being issued by our Department of Government and Bank Accounts (DGBA) separately.

6. The balances in government securities maintained by the banks in the depositories will be included for SLR purpose. Also, any shortfall in maintenance of CRR/SLR resulting from settlement failure (on either the NDS-OTC market or the stock exchanges) will attract the usual penalties.

7. Banks should take specific approval from their Board to enable them to trade in the Stock Exchanges and should frame and implement a suitable policy to ensure that operations in securities on the above stock exchanges are conducted in accordance with the norms laid down by RBI/SEBI and the respective stock exchange.

Operational guidelines:

8. Banks should put in place appropriate internal control systems catering to stock exchange trading/settlement. The back office arrangement should be such that trading on the NDS/OTC market and on the stock exchanges can be tracked easily for settlement/reconciliation. Banks should, therefore, install enabling IT infrastructure and adequate risk management systems.

9. The trades done through any single broker will be subjected to the current guidelines on transactions done through brokers.

10. 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.

11. At the time of trade, securities must be available with the banks either in their SGL or in the demat account with depositories. 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. Further, the purchase transactions by banks should similarly be subject to availability of clear funds in their settlement accounts at the time of pay-in.

12. 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 bouncing will be applicable. Stock Exchanges will report such failures to the respective Public Debt Offices.

13. The settlement banks should ensure that all pay-out of funds must necessarily be clear funds, i.e. the pay-out must not be contingent upon the outcome of any clearing to be conducted on that day. Therefore, either the clients must provide clear funds in their accounts or the bank may provide credit subject to the usual credit appraisal and fixing of prudential limits.

14. Banks should report on weekly basis to their Audit Committee of the Board, giving the details of trades on aggregate basis done on the Stock Exchanges and details of any "closed-out" transactions on the exchanges.

15. Banks should generally follow the guidelines on internal control system (para II), and Audit, Review and Reporting (para V) as advised vide our circular FSC. BC. 143 A/24.48.001/ 91-92 dated June 20, 1992.

Please acknowledge receipt.

Yours faithfully,

(M.R. Srinivasan)
Chief General Manager-in-Charge