

## **Ready Forward Contracts**

IDMC/PDRS / 3432 /10.02.01/2002-03

February 21, 2003

**All RBI regulated entities  
(Commercial Banks, Co-operative Banks, Primary Dealers, Financial Institutions,  
RRBs and NBFCs)**

Dear Sirs,

### **Ready Forward Contracts**

Please refer to paragraph 96 of the 'Mid-term review of Monetary and Credit Policy for the year 2002-2003' wherein the proposal to extend eligibility for ready forward (Repo) contracts to select categories of gilt account holders, with adequate safeguards to ensure Delivery Vs Payment (DVP) and transparency was announced.

2. Accordingly, in supersession of the relevant instructions contained in earlier circulars issued by the Reserve Bank of India in this regard, the following instructions are being issued which will come into effect from March 3, 2003.

3. The terms and conditions subject to which ready forward contracts (including reverse ready forward contracts) may be entered into will be as under:

#### **Eligibility**

- (a) Ready forward contracts may be undertaken only in i) dated securities and Treasury Bills issued by the Government of India and ii) dated securities issued by the State Governments.
- (b) Ready forward contracts in the above mentioned securities may be entered into by (i) persons or entities maintaining a Subsidiary General Ledger (SGL) account with the Reserve Bank of India, Mumbai and (ii) the following category of entities who do not maintain SGL accounts with the Reserve Bank of India but maintain gilt accounts (i.e. gilt account holders) with a bank or any other entity (i.e. the custodian) permitted by the Reserve Bank of India to maintain Constituent Subsidiary General Ledger Account (CSGL Account) with its Public Debt Office, Mumbai:
  - i) Any scheduled bank,
  - ii) Any primary dealer authorised by the Reserve Bank of India,
  - iii) Any non-banking financial company registered with the Reserve Bank of India, other than Government companies as defined in section 617 of the Companies Act, 1956,

- iv) Any mutual fund registered with the Securities and Exchange Board of India,
- v) Any housing finance company registered with the National Housing Bank, and
- vi) Any insurance company registered with the Insurance Regulatory Development Authority.

**Restrictions**

- (c) All persons or entities specified at (b) above can enter into ready forward transactions among themselves subject to the following restrictions:
  - i) An SGL account holder may not enter into a ready forward contract with its own constituent. That is, ready forward contracts should not be undertaken between a custodian and its gilt account holder.
  - ii) Any two gilt account holders maintaining their gilt accounts with the same custodian (i.e., the CSGL account holder) may not enter into ready forward contracts with each other, and
  - iii) Cooperative banks may not enter into ready forward contracts with the non-banking financial companies.

**Other Requirements**

- (d) All ready forward contracts shall be reported on the Negotiated Dealing System (NDS). In respect of ready forward contracts involving gilt account holders, the custodian (i.e., the CSGL account holder) with whom the gilt accounts are maintained will be responsible for reporting the deals on the NDS on behalf of the constituents (i.e. the gilt account holders).
- (e) All ready forward contracts shall be settled through the SGL Account/CSGL Account maintained with the Reserve Bank of India, Mumbai, with the Clearing Corporation of India Ltd (CCIL) acting as the central counter party for all such Ready Forward transactions.
- (f) The custodians should put in place an effective system of internal control and concurrent audit to ensure that: (i) ready forward transactions are undertaken only against the clear balance of securities in the gilt account, (ii) all such transactions are promptly reported on the NDS, and (iii) other terms and conditions referred to above have been complied with.

- (g) The RBI regulated entities can undertake ready forward transactions only in securities held in excess of the prescribed Statutory Liquidity Ratio (SLR) requirements.
- (h) No sale transaction shall be put through without actually holding the securities in the portfolio by a seller of securities in the first leg of a ready forward transaction.
- (i) Securities purchased under the ready forward contracts shall not be sold during the period of the contract.

4. The above terms and conditions will be the relevant terms and conditions specified by the Reserve Bank of India under its Notification No.S.O 131 (E) dated January 22, 2003 (copy enclosed) issued in exercise of the powers conferred on the Reserve Bank of India under section 16 of the Securities Contracts (Regulation) Act, 1956 (42 of 1956) vide Government of India Notification No. 183(E) dated 1<sup>st</sup> March, 2000, issued under Section 29A of the Act, *ibid*.

5. Please acknowledge receipt.

Yours faithfully,  
**H.R.Khan**  
Chief General Manager  
Encl : As above