

Ready Forward Contracts

DBOD.No.FSC.BC. 90 / 24.76.002/2002-03

March 31, 2003

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

Dear Sirs,

Ready Forward Contracts

Please refer to circular IDMC/PDRS/3432/10.02.01/2002-03 dated February 21, 2003 on the captioned subject advising revised terms and conditions for entering into ready forward contracts (including reverse ready forward contracts). Accordingly, the relevant instructions contained in our undernoted circulars stand superseded: -

- (i) DBOD.No.Dir.BC.127/C.347(PSB)-88 dated April 11, 1988 read with subsequent clarifications issued vide DBOB.No.Dir.BC.72/C.347 (PM/BBA)-91 dated January 23, 1991
- (ii) DBOD.No.BC.67/13.05.001/92 dated January 6, 1992
- (iii) DBOD.No.FSC.BC.91/24.76.002/2001-02 dated April 19, 2002

2. Consequential amendments may be carried out to items (i) and (iii) of paragraph 11.2 of Manual of Instructions Vol. I - Part- I as per [slip](#) attached.

3. Please acknowledge receipt.

Yours faithfully,

(Dr.N.Krishna Mohan)
General Manager

Slip

**[Chapter 11 - Manual of Instructions-DBOD.DBS.IECD]-[IDMC/PDRS/3432 &
DBOD.FSC.BC.90 of 2003]**

11.2 (i) Ready Forward Contracts in Government Securities

(a) In terms of the Notification No.IDMC 1/10.02.02/99-2000/S.O.185(E) dated 1st March 2000, issued by Reserve Bank of India under powers derived under Section 29A of the Securities Contracts (Regulation) Act, 1956, Ready Forward contracts in all Government Securities put through Subsidiary General Ledger Accounts with Reserve Bank of India, in accordance with the terms and conditions specified by Reserve Bank of India, were permitted. The terms and conditions were specified by Reserve Bank of India, vide its Circular DBOD.FSC.BC.150/ 24.76.002/99-2000 dated March 23, 2000. These were further revised vide Circular DBOD.FSC.BC.91/24.76.002/2001-02 dated April 19, 2002.

(b) The above Notification has been further amended vide Notification No.IDMC 2/10.02.01/2002-03 dated January 22, 2003. Consequently, in supersession of the instructions contained in the above referred circulars, the following instructions have come into effect from March 3, 2003. The terms and conditions subject to which Ready Forward contracts (including Reverse Ready Forward contracts) may be entered into, will be as under:

Eligibility

(i) Ready Forward contracts may be undertaken only in (a) Dated Securities and Treasury Bills issued by the Government of India and (b) Dated Securities issued by the State Governments.

(ii) Ready Forward contracts in the abovementioned securities may be entered into by
(a) persons or entities maintaining a Subsidiary General Ledger account (SGL account) with Reserve Bank of India, Mumbai and

(b) the following categories of persons 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 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.
- (j) 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 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 1st March, 2000, issued under Section 29A of the Act, *ibid*.

11.2(ii) to be deleted

11.2 (iii) to be renumbered as 11.2(ii). Clauses (a) (b) and (c) of 11.2(iii) to be deleted and remaining clauses (d) to (f) to be renumbered as (a) (b) (c).