

July 3, 2004
Aashadha 12, 1926(S)

**The Chairmen/Chief Executives of
all Scheduled Commercial Banks (excluding RRBs) / Co-operative Banks /
Primary Dealers/ Financial Institutions/ Insurance Companies/ Mutual Funds**

Dear Sirs,

Master Circular on Call/Notice Money Market Operations

As you are aware, the Reserve Bank of India has, from time to time, issued a number of guidelines/instructions/directives to banks in regard to matters relating to call/notice money market. To enable eligible institutions to have current instructions at one place, a Master Circular incorporating all the existing guidelines/instructions/directives on the subject has been prepared. It may be noted that this Master Circular consolidates and updates all the instructions/guidelines contained in the circulars issued upto June 30, 2004, in so far as they relate to operations of eligible institutions in the call/notice money markets. This Master Circular has been placed on the RBI website at www.mastercirculars.rbi.org.in.

Yours faithfully

(D. Anjaneyulu)
Principal Monetary Policy Adviser

Encls: As above

Master Circular

Call/Notice Money Market Operations

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Master Circular on Call/Notice Money Market Operations

1. Introduction

1.1 The money market is a market for short-term financial assets that are close substitutes of money. The most important feature of a money market instrument is that it is liquid and can be turned over quickly at low cost and provides an avenue for equilibrating the short-term surplus funds of lenders and the requirements of borrowers. The call/notice money market forms an important segment of the Indian money market. Under call money market, funds are transacted on overnight basis and under notice money market, funds are transacted for the period between 2 days and 14 days.

2. Participants

2.1 Participants in call/notice money market currently include banks, Primary Dealers (PDs), development finance institutions, insurance companies and select mutual funds (Annex I). Of these, banks and PDs can operate both as borrowers and lenders in the market. Non-bank institutions, which have been given specific permission to operate in call/notice money market can, however, operate as lenders only (Table 1).

Table 1: Eligibility for Transactions in Call/Notice Money Market

Borrowing	Lending
1. Scheduled Commercial Banks	1. Scheduled Commercial Banks
2. Co-operative Banks	2. Co-operative Banks
3. Primary Dealers (PDs)	3. Primary Dealers (PDs)
	4. Select all-India Financial Institutions
	5. Select Insurance Companies
	6. Select Mutual Funds

3. Prudential Limit

3.1 The Narasimham Committee (1998) recommended that call/notice money market in India should be made purely an inter-bank market. Accordingly, RBI initiated the process of phasing out of non-bank institutions (i.e., all-India Financial Institutions, Insurance companies and Mutual Funds) from call/notice money market in a gradual manner since May 5, 2001. Further, in order to preserve integrity of the financial market as also to achieve balanced development of various segments of money market, RBI has put in place prudential limits in respect of both borrowing and lending in call/notice money market for banks and PDs since October 5, 2002.

3.2 The present status of prudential limits as applicable to various classes of institutions are given in Table 2.

Table 2: Prudential Limit for Transactions in Call/Notice Money Market

Sr. No.	Participant	Borrowing	Lending
1	Scheduled Commercial Banks	On a fortnightly average basis, borrowing should not exceed 100 per cent of owned funds (i.e., total of Schedule I and Schedule II of audited balance sheet) or 2 per cent of aggregate	On a fortnightly average basis, lending should not exceed 25 per cent of their owned funds; however, banks are allowed to lend a maximum of 50 per cent of their owned funds on any

		deposits as at the end of March of the previous financial year, <u>whichever is higher</u> ; however, banks are allowed to borrow a maximum of 125 per cent of their owned funds on any day, during a fortnight.	day, during a fortnight
2	Co-operative Banks	Borrowings by State Co-operative Banks/District Central Co-operative Banks/Urban Co-op. Banks in call/notice money market on a daily basis should not exceed 2.0 per cent of their aggregate deposits as at end March of the previous financial year.	No Limit.
3	Primary Dealers (PDs)	PDs are allowed to borrow, on average in a reporting fortnight, up to 200 per cent of their net owned funds (NOF) as at end-March of the previous financial year.	PDs are allowed to lend in call/notice money market, on average in a reporting fortnight, up to 25 per cent of their NOF.
4	Financial Institutions	Not Permitted.	Lending is permitted, on average in a reporting fortnight, upto 45 per cent of their average daily lending in call/notice market during 2000-01.
5	Insurance Companies		
6	Mutual Funds		

3.3 No new non-bank institutions are permitted to operate (i.e., lend) in the call/notice money market with effect from May 5, 2001.

3.4 In case any eligible institution has genuine difficulty in deploying its excess liquidity, RBI may consider providing temporary permission to lend a higher amount in call/notice money market for a specific period on a case-by-case basis.

4. Interest Rate

4.1 Eligible participants are free to decide on interest rates in call/notice money market.

5. Reporting Requirement

5.1 To facilitate monitoring of an entity's operations in call/notice money market on a daily basis, the daily return should be submitted on a daily basis to the Monetary Policy Department, Reserve Bank of India, Central Office, Mumbai by 2.30 P. M. on weekdays and 1.30 P.M. on Saturdays (Annex II).

5.2 It is also mandatory for all Negotiated Dealing System (NDS) members to report all their call/notice money market deals on NDS. Deals should be reported within 15 minutes on NDS, irrespective of the size of the deal or whether the counterparty is a member of the NDS or not.

5.3 In case, there is repeated non-reporting of deals by an NDS member, it will be considered whether non-reported deals by that member should be treated as invalid with effect from a future date.

Annex I

I. List of Institutions Permitted to Participate in the Call/Notice Money Market both as Lenders and Borrowers as on July 1, 2004

- a) All Scheduled Commercial Banks (excluding RRBs).
- b) All Co-operative Banks other than Land Development Banks.
- c) All Primary Dealers (PDs)
 1. Discount and Finance House of India Ltd.
 2. Securities Trading Corporation of India Ltd.
 3. PNB Gilts Ltd.
 4. Gilt Securities Trading Corporation Ltd.
 5. ICICI Securities and Finance Company Ltd.,
 6. ABN Amro Securities (India) Pvt. Ltd.
 7. J.P. Morgan Securities India Pvt. Ltd.
 8. Kotak Mahindra Capital Company (Unlimited)
 9. DSP Merrill Lynch Ltd.
 10. Deutsche Securities (India) Pvt. Ltd.
 11. IDBI Capital Markets Services Ltd.
 12. Corpbank Securities Ltd.
 13. HSBC Primary Dealership (India) Pvt. Ltd.
 14. Bank of America Securities Pvt. Ltd.
 15. Standard Chartered - UTI Securities India Pvt. Ltd.
 16. BoB Capital Markets Ltd.
 17. Citicorp Capital Markets Ltd.

II. List of Institutions Permitted to Participate in the Call/Notice Money Market only as Lenders as on July 1, 2004

A. Financial Institutions

1. Export Credit Guarantee Corporation of India Ltd.
2. Export Import Bank of India
3. Industrial Development Bank of India
4. Industrial Finance Corporation of India Ltd.
5. Industrial Investment Bank of India
6. National Bank for Agriculture and Rural Development
7. National Housing Bank
8. Small Industries Development Bank of India
9. Special Undertaking of Unit Trust of India
10. Tourism Finance Corporation of India

B. Insurance Companies

1. General Insurance Corporation of India
2. ICICI Prudential Life Insurance Co.
3. Life Insurance Corporation of India
4. National Insurance Co.
5. New India Assurance Co.
6. Oriental Insurance Co.
7. Royal Sundaram Alliance Insurance Co. Ltd.
8. United India Insurance Co.
9. IFFCO -TOKIO General Insurance Co. Ltd.

C. Mutual Funds

1. Alliance Capital Mutual Fund
2. BOB Mutual Fund
3. BOI Mutual Fund
4. Birla Mutual Fund
5. Canbank Mutual Fund

6. Chola Mutual Fund
7. DSP Merrill Lynch Mutual Fund
8. Escort Mutual Fund
9. GIC Mutual Fund
10. HDFC Asset Management Co. Ltd.
11. IDBI Mutual Fund
12. IL and FS AMC Mutual Fund
13. ING Assets Management
14. JM Capital Management
15. Jardine Fleming Mutual Fund
16. Kotak Mahindra Mutual Fund
17. LIC Mutual Fund
18. Morgan Stanley Mutual Fund
19. PNB Mutual Fund
20. Prudential ICICI Mutual Fund
21. Reliance Capital Mutual Fund
22. SBI Mutual Fund
23. Sriram Mutual Fund
24. Sun F & C Mutual Fund
25. Sundaram Mutual Fund
26. Tata Mutual Fund
27. Taurus Mutual Fund
28. Templeton Mutual Fund
29. UTI Mutual Fund
30. Standard Chartered Mutual Fund
31. SBI Offshore Mutual Fund

Annexure - II

Daily Return on Call/Notice/Term Money Market Transactions

Name of the Bank/Institution : _____

Code No.(As specified by RBI) : _____

Date : _____

	Borrowed			Lent		
	<i>Amount (Rs. crore)</i>	<i>Range of Interest Rates (% p.a.)</i>	<i>Weighted Average Interest Rates (% p.a.)</i>	<i>Amount (Rs. crore)</i>	<i>Range of Interest Rates (% p.a.)</i>	<i>Weighted Average Interest Rates (% p.a.)</i>

1.	Call Money (Overnight)						
2.	Notice Money (2-14 Days)						
(a)	Transacted on the day						
(b)	Outstanding * (including day's transactions)						
3.	Term Money @						
(a)	Transacted on the day						
	(15 Days-1 Month)						
	(1 Month-3 Months)						
	(3 Months-6 Months)						
	(6 Months-1 Year)						
(b)	Outstanding * (Including day's transactions)						
	Amount					Amount	
	Borrowed					Lent	
	(15 Days-1 Month)						
	(1 Month-3 Months)						
	(3 Months-6 Months)						
	(6 Months-1 Year)						

* In case of outstandings, rates need not be given.

@ Where applicable.

Authorised Signatories

Phone No. :

Annex III

Definitions

In these guidelines, unless the context otherwise requires:

- "Call Money" means deals in overnight funds.
- "Notice Money" means deals in funds for 2 - 14 days
- "Fortnight" shall mean the period from Saturday to the second following Friday, both days inclusive.
- "Bank" or "banking company" means a banking company as defined in clause (c) of Section 5 of the Banking Regulation Act, 1949 (10 of 1949) or a "corresponding new bank", "State Bank of India" or "subsidiary bank" as defined in clause (da), clause (nc) and clause (nd) respectively thereof and includes a "co-operative bank" as defined in clause (pci) of Section 5 read with Section 56 of that Act

5. "Scheduled bank" means a bank included in the Second Schedule of the Reserve Bank of India Act, 1934.
6. "Primary Dealer" means a financial institution which holds a valid letter of authorisation as a Primary Dealer issued by the Reserve Bank, in terms of the "Guidelines for Primary Dealers in Government Securities Market" dated March 29, 1995, as amended from time to time.
7. "Owned Funds" means the aggregate of the Schedule I and Schedule II as disclosed in the latest balance sheet of the entity.

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Appendix

List of Circulars

Sr. No.	Circular Number	Subject
1.	CPC.BC.103/279A-90 dated.12-4-1990	Access to the Call Money Market
2.	Ref.DBOD.No.Dir.BC.97/C.347-90 dated April 18, 1990	
3.	CPC.BC.111/279A-91 dated.12-4-1991	Call/Notice Money and Bills Rediscounting Market.
4.	CPC.BC.144/07.01.279/94-95 dated.17-4-1995	Widening Access to Call/Notice Money Market
5.	Ref.DBOD.No.FSC.BC.68/24.91.001-95 dated June 27, 1995	
6.	CPC.BC.162/07.01.279/96-97 dated April 15, 1997	Money Market - Routing of Transactions through DFHI
7.	CPC.BC.165/07.01.279/97-98 dated. April 21, 1997	Money Market - Routing of Transactions through Primary Dealers
8.	CPC.BC.175/07.01.279/97-98 dated April 29, 1998	Money Market
9.	CPC.BC.185/07.01.279/98-99 dated April 20, 1999	Measures for Developing the Money Market - Call/Notice Money Market
10.	Ref.No.MPD.2785/279A(MM)/98-99 dated April 24, 1999	Call/Notice Money and Bills Rediscounting Markets - Routing of Transaction
11.	CPC.BC.190/07.01.279/99-2000 dated October 29, 1999	Money Market
12.	CPC.BC.196/07.01.279/99-2000 dated April 27, 2000	Money Market
13.	Ref.No.MPD.3513/279A(MM)/1999-2000 dated April 28, 2000	Call/Notice Money and Bills Rediscounting Markets - Routing of Transactions - Extract from the Statement on Monetary and Credit Policy for the Year 2000-01 dated April 27, 2000
14.	MPD.BC.201/07.01.279/2000-01 dated October 10, 2000	Permission to non-banks to lend in the call money market
15.	MPD.BC.206/07.01.279/2000-01 dated April 19, 2000	Moving towards Pure Inter-bank Call Money Market
16.	DS.PCB.CIR.40/13.01.00/2000-01 dated April 19, 2001	Operations in call/notice money market
17.	MPD.2991/03.09.01/2000-01 dated April 21, 2001	Participation in Call/Notice Money Market
18.	MPD.3173/03.09.01/2000-01 dated May 8, 2001	Participation in Call/Notice Money Market

Sr. No.	Circular Number	Subject
19.	Ref.DBOD.No.FSC.BC.125/24.92.001/2000-01 dated May 25, 2001	Permission to participate in Call/Notice/Term Money Market and Bills Rediscounting Scheme - Primary Dealers
20.	MPD.BC.214/07.01.279/2001-02 dated April 29, 2002	Money Market - Moving towards Pure Inter-bank Call Money Market
21.	DS.PCB.CIR.52/13.01.00/2001-02 dated June 24, 2002	Reporting of Call Money Transactions
22.	MPD.217/07.01.279/2001-02 dated June 27, 2002	Reliance on Call/Notice Money Market: Prudential Norm
23.	MPD.220/07.01.279/2002-03 dated July 31, 2002	Access to Call/Notice Money Market for Primary Dealers: Prudential Norms.
24.	MPD.222/07.01.279/2002-03 dated October 29, 2002	Money Market
25.	MPD.225/07.01.279/2002-03 dated November 14, 2002	Reliance on Call/Notice Money Market: Prudential Norm
26.	MPD.226/07.01.279/2002-03 dated December 11, 2002	Reliance on Call/Notice Money Market: Prudential Norm
27.	DBOD.FSC.BC.85/24.91.001/2002-03 dated March 26, 2003	Permission to participate in Call/Notice Money Market and Bills Rediscounting Scheme - Private Sector Mutual Funds
28.	DBOD.FSC.BC.86/24.91.001/2002-03 dated March 26, 2003	Permission to participate in Call/Notice/Term Money Market and Bills Rediscounting Scheme - Primary Dealers
29.	MPD.BC.230/07.01.279/2002-03 dated April 29, 2002	Money Market - Moving towards Pure Inter-bank Call Money Market
30.	MPD.BC.234/07.01.279/2002-03 dated April 29, 2003	Participation of Non-bank Entities in Call/Notice Money Market
31.	MPD.BC.235/07.01.279/2002-03 dated April 29, 2003	Reporting of Call/Notice Money Market Transactions on NDS Platform.
32.	MPD.BC.241/07.01.279/2003-04 dated November 3, 2003	Money Market - Moving towards Pure Inter-bank Call/Notice Money Market
33.	MPD.BC.244/07.01.279/2003-04 dated November 5, 2003	Primary Dealers' Access to Call/Notice Money Market
34.	MPD.BC.242/07.01.279/2003-04 dated November 5, 2003	Moving towards Pure Inter-bank Call/Notice Money Market
35.	MPD.BC.250/07.01.279/2003-04 dated May 25, 2004	Moving towards Pure Inter-bank Call/Notice Money Market