RBI/2005/445
REF: No. MPD. BC.266/07.01.279/ 2004-05

April 29, 2005
Vaishakha 08, 1927(S)

To
All-India Financial Institutions, Insurance Companies
and select Mutual Funds

Dear Sirs

Participation in Call/Notice Money Market

Please refer to our circular No. MPD. BC. 259/07.01.279/ 2004-05 dated October 26, 2004 in terms of which non-bank participants are allowed to lend, on average in a reporting fortnight, up to 30 per cent of their average daily lending in call/notice money market during 2000-01.

2. In this connection, a reference is invited to the paragraph 72 (i) of the annual policy Statement for the year 2005-06 dated April 28, 2005 (copy of the paragraph enclosed).

3. In view of further market developments, effective from the fortnight beginning June 11, 2005, non-bank participants, except PDs, would be allowed to lend, on average in a reporting fortnight, up to 10 per cent of their average daily lending in call/notice money market during 2000-01.

4. Further, with effect from August 6, 2005, non-bank participants, except PDs, would be completely phased out from the call/notice money market.

Yours faithfully

(Deepak Mohanty)
Adviser-in-charge

Encl.: as above

Extract from Governor's Annual Policy Statement for the year 2005-06

Money Market

Framework for Development of Money Market

72. Money market provides a focal point for the central bank's operations in influencing system liquidity and thereby transmitting the monetary policy impulses. The broad policy objectives that are being pursued for the development of money market include ensuring stability in short-term interest rates, minimising default risk and achieving a balanced development of various segments of the money market. In order to review the recent developments and current status of money market in the context of evolving monetary policy framework, fiscal scenario, regulatory regime and extent of financial integration, both domestic and external, a Technical Group on Money Market was constituted. The Report of the Group was discussed in the Technical Advisory Committee on Money, Foreign Exchange and Government Securities Markets (TAC) and certain recommendations have been accepted for implementation. Accordingly, the following measures are proposed:

(i) Call/Notice/Term Money Market

- With effect from the fortnight beginning June 11, 2005, non-bank participants, except PDs, would be allowed to lend, on average in a reporting fortnight, up to 10 per cent of their average daily lending in call/notice money market during 2000-01.
- With effect from August 6, 2005, non-bank participants, except PDs, would be completely phased out from the call/notice money market.
- With effect from the fortnight beginning April 30, 2005, the benchmark for fixing prudential limits on exposures to call/notice money market in the case of scheduled commercial banks would be linked to their capital funds (sum of Tier I and Tier II capital).
- From April 30, 2005, all NDS members are required to report their term money deals on NDS platform.
- A screen-based negotiated quote-driven system for all dealings in call/notice and term money market transactions is proposed.