

May 11, 2005

All RBI regulated entities

Dear Sirs

Ready Forward Contracts

Please refer to paragraph 72 of the 'Annual Policy Statement for the year 2005-06' dated April 28, 2005 wherein it was proposed that participation in market repo facility in Government Securities by non – scheduled Urban Co-operative Banks and listed companies having gilt accounts with scheduled commercial banks may be allowed subject to eligibility criteria and safeguards.

2. In this connection, a reference is invited to our circular IDMC/PDRS/3432/10.02.01/2002-03 dated February 21, 2003 on the captioned subject. As indicated under paragraph 3 (b) of the circular, the following categories of entities are currently eligible to enter into ready forward contracts (repos) in Government Securities and Treasury Bills:

- (a) persons or entities maintaining a Subsidiary General Ledger (SGL) account with the Reserve Bank of India, Mumbai and
- (b) the following categories of entities which 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 and Development Authority.

3. In order to further widen the repo market in Government Securities, it has been decided to permit participation in repo market, both repos and reverse repos, to the following entities having gilt account with an SGL Account holder subject to conditions and restrictions stipulated in our circular dated February 21, 2003:

- (a) Any non-scheduled Urban Co-operative bank; and
- (b) Any listed company, having a gilt account with a scheduled commercial bank.

4. In addition, the following conditions are applicable for repo transactions by the listed companies:

(a) The minimum period for Reverse Repo (lending of funds) by listed companies is seven days. However, listed companies can borrow funds through repo for shorter periods including overnight;

(b) Where the listed company is a 'buyer' of securities in the first leg of the repo contract (i.e. lender of funds), the custodian through which the repo transaction is settled should block these securities in the gilt account and ensure that these securities are not further sold or re-repoed during the repo period but are held for delivery under the second leg; and

(c) The counterparty to the listed companies for repo/reverse repo transactions should be either a bank or a Primary Dealer maintaining SGL Account with the Reserve Bank.

5. Further, it was indicated in para 3 (c) (iii) of the above circular dated February 21, 2003 that co-operative banks may not enter into repo transactions with non-banking financial companies (NBFCs). It is clarified that this restriction would not apply to repo transactions between Urban co-operative banks and authorised Primary Dealers in Government Securities.

6. All other conditions of our circular IDMC/PDRS/3432/10.02.01/2002-03 dated February 21, 2003 will apply.

7. Please acknowledge receipt.

Yours faithfully

(B. Mahapatra)
Chief General Manager-in-Charge