



This circular has been superseded by [Short Sale \(Reserve Bank\) Directions, 2018 dated July 25, 2018](#).

RBI/2011-12/615

IDMD.PCD.21/14.03.07/2011-12

June 21, 2012

All market participants

Dear Sir/Madam

Secondary market transactions in Government Securities - Short Selling

This has reference to [circular IDMD.PCD.14/14.03.07/2011-12 dated December 28, 2011](#) on the captioned subject.

2. As per extant guidelines, banks are permitted to undertake 'notional' short sale whereby they can sell a security short from HFT portfolio even if the security is held under their AFS/HTM portfolio ([circular RBI/2006-07/243 dated January 31, 2007](#)). In view of the various scenarios under which a participant may end up with simultaneous 'long' and 'short' position in specific securities in the HFT portfolio (*Annex*), it has been decided to permit 'notional' short sale from the HFT portfolio even if the concerned security is held under the HFT portfolio subject to the condition that the participant undertaking the 'notional' short sale would cover the same through a subsequent outright purchase or carry the short position beyond overnight by acquiring the security under reverse repo but not use the securities already held in the HFT portfolio for delivery against the short sale.

3. All other terms and conditions contained in the aforementioned circulars remain unchanged.

Yours faithfully

(K K Vohra)
Chief General Manager

Encl.: Annex



Illustration of a few scenarios that can result in simultaneous 'long' and 'short' position in G-Sec

- Odd lots
 - There will be instances in which an entity could end up having an odd lot position in a particular security. Due to lack of liquidity in the odd-lot segment, such an entity would not be able to offload its long position in that security in that market. However, for reacting to negative developments in the market, the entity could end up using the short sale window to create a negative position in the security.
- Auction routing for clients
 - RBI has allowed PDs to take client bids in auction. On allotment, PDs sell securities allotted to clients through the PDO NDS window. If a PD has negative view on a security and is short on it, and at the same time, if its client bids are successful in auction, it could end up having a simultaneous long and short position.
- Securities in margin
 - A security placed as margin is not immediately available for sale. Thus, the only way of expressing a negative view on that security is to short it. However, subsequent to shorting the security, if the security is withdrawn from margin, it comes back as a long position in the trading book, creating a simultaneous long and short position

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