



भारतीय रिजर्व बैंक

RESERVE BANK OF INDIA

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UBD. BPD. (PCB).Cir. No. 37 / 13.01.000/ 2009-10

December 21, 2009

Chief Executive Officer of
All Primary (Urban) Cooperative Banks

Dear Sir/ Madam

Settlement of Interest Rate Futures (IRF) - UCBs

Please refer to circular [UBD \(PCB\) BPD Cir No. 17 /13.01.000/2009-10](#) dated October 28, 2009 on the introduction of Exchange Traded Interest Rate Futures (IRFs).

2. As regards the settlement mechanism for the IRF contracts, it has been decided that all entities having short (sold) position in the IRF contracts and required to deliver securities on the appointed date will move these securities from their respective Subsidiary General Ledger/Constituents' Subsidiary General Ledger (SGL/CSGL) accounts with the RBI to a special "Settlement" SGL account of the respective Clearing Corporations of the Exchanges [Exchange Clearing House (ECH) / Exchange Clearing Corporation (ECC)] authorised to deal in IRF. The ECH/ECC will in turn deliver the securities to the SGL/CSGL accounts of the entities having long (bought) position after ensuring that the settlement of funds has been completed through the designated clearing banks. Thus, the clearing and settlement will essentially be the responsibility of the ECH/ECC. RBI will provide the facility for transfer of Government securities to facilitate completion of the securities leg of the settlement.

3. Operational guidelines:

- a) Each ECH/ECC will have to open a Settlement SGL account and a Proprietary SGL account for which they have to apply to the Public Debt Office (PDO), Mumbai with relevant documents.

- b) Upon the opening of such accounts, each ECH/ECC will be provided with the Negotiated Dealing System (NDS) and the Indian Financial Network (INFINET) connectivity.
- c) Since the IRF contracts will be traded on the authorised exchanges the settlement details will be arrived at by the respective Exchanges and the details of the settlement will be communicated by the ECH/ECC to the parties concerned who are required to either deliver or to receive the securities. The holder of the security (transferor) who has to deliver the securities will initiate the transfer to the Settlement SGL Account of the ECH/ECC in the NDS. The ECH/ECC will authorise each such transfer after which the security will move into their Settlement SGL account. The ECH/ECC in turn will transfer the securities to different transferees who are eligible to receive the securities. All the above transfers in respect of IRF settlements would be effected electronically with digital signatures in terms of Regulation 4 (2) of the Government Securities Regulations, 2007. The above procedure will be applicable only where it involves transfer of securities between two SGL/CSGL accounts or between the two depositories, i.e. NSDL and CDSL, while the transfer of securities between demat accounts maintained with the same depository will be settled through the depository itself.
- d) As only the settlement of securities arising out of obligations under IRF will take place under the above mode, it would be the responsibility of the ECH/ECC to ensure the settlement of the funds leg of the transaction through the designated clearing banks.
- e) The ECH/ECC will ensure that only securities eligible under IRF are transferred to their Settlement SGL account.
- f) The Settlement SGL account will be only for the limited purpose of enabling pay-ins and pay-outs of the Government securities to be delivered for the IRF settlement on the settlement date. As this account is for the limited purpose of holding securities between pay-in and pay-out while the ECH/ECC ensures that the funds leg has been settled, this Settlement SGL Account must have a zero balance at the end of the day.

- g) The ECH/ECC will give a onetime mandate to the PDO, Mumbai that any leftover security in the settlement SGL account (arising out of securities blocked due to defaults in funds settlement or for any other reason) gets automatically transferred to the Proprietary SGL account of the ECH/ECC at the end of the day. Any such incident of transfer to the Proprietary SGL account will result in issue of notification message to the Financial Markets Department, RBI, CO, Mumbai & the PDO, Mumbai and the concerned ECH/ECC.
- h) In case of default in delivery of securities by the SGL account holders, it will be treated as "bouncing" and current penalties in respect of SGL bouncing would apply. In case of default in delivery of security by the CSGL account holders, arising out of the actions of the individual Gilt Account Holders (GAH), it will be the responsibility of the CSGL account holders to suitably deal with the concerned GAH to prevent recurrence of such defaults. The ECH/ECC will inform the PDO, Mumbai about any such default by the SGL/CSGL account holders on the same day.
- i) Individual ECH/ECC may decide upon the time frame for the settlement. However, the pay-out of the securities for settlement of IRF contracts should be completed latest by 2.30 PM.
- j) Any misuse of the SGL/CSGL facility or the IRF settlement mechanism may result in action in terms of section 27, 29 and 30 of the Government Securities Act, 2006 (38 of 2006).

4. Please acknowledge receipt to the Regional Office concerned.

Yours faithfully,

(A. K. Khound)
Chief General Manager-in-Charge