

RBI PRESS RELEASES

RBI announces guidelines for Primary Dealers in the Government Securities Market (March 29, 1995)

The Reserve Bank of India today announced the guidelines and procedure for enlistment of Primary Dealers in the government securities market.

According to the detailed guidelines released by the Reserve Bank of India:

(i) Subsidiaries of scheduled commercial banks or all India financial institutions and a company incorporated under the companies Act, 1956 dedicated predominantly to the securities business, and in particular, to the government securities market and having net owned funds of a minimum of Rs. 50 crore will be eligible to apply for Primary Dealership.

(ii) A Primary Dealer will be required to have a standing arrangement with the Reserve Bank based on the execution of an undertaking, covering inter alia, (a) a commitment to bid for a minimum amount in central government dated securities and treasury bill auctions during a year and to maintain success ratios of 33.33 per cent and 40 per cent, respectively; (b) to underwrite a per-determined part of the slack in subscriptions/accepted bids against notified amounts; (c) to offer firm two-way quotes for government securities; (d) to achieve an annual turnover of not less than 5 times in government dated securities and 10 times in treasury bills; and (e) to maintain minimum capital standards based on risk weighted assets.

(iii) After an 'in principle' approval by the Reserve Bank and after the applicant gives

the necessary undertaking, the Reserve Bank would issue an authorisation for primary Dealership valid upto March 31, 1996 which would be extended after an annual review.

(iv) The Reserve Bank would extend to Primary Dealers facilities like current account/SGL account, liquidity support linked to bidding commitments, freedom to deal in money market instruments and favoured access to open market operations.

(v) Primary Dealers would be subject to RBI regulation. They would be required to submit periodic returns as prescribed by the Reserve Bank and to provide to the Reserve Bank access to all their records, books, and documents as may be required.

(vi) Authorised Primary Dealers would in due course be required to form a self regulatory organisation (SRO) which will evolve a code of conduct and a system for securities transactions.

The Primary Dealers are expected to strengthen the securities market infrastructure and bring about an improvement in secondary market trading, liquidity and turnover in government securities market and encourage voluntary holding of government securities amongst a wider investor base. Primary Dealers being an effective conduit for open market operations, are expected to lend further support to the development of indirect instruments of monetary control.

Prospective applicants for Primary Dealership can obtain the detailed guidelines along with the proforma of the application from the Internal Debt Management Cell (IDMC), Reserve Bank of India, Central Office Building, Fort, Bombay 400 023.

Applications in the prescribed proforma are required to reach the Chief Officer, IDMC, RBI before April 29, 1995.