Report of the Technical Group on Phasing Out of Non-banks from Call/Notice Money Market (March 2001)

Introduction

The call/notice money market is the most important segment in the Indian money market. In this market, while banks and primary dealers (PDs) are allowed to both borrow and lend, non-bank participants such as financial institutions, mutual funds and select corporates are permitted to only lend. Though non-bank participants holding current account and SGL account with the RBI are permitted to undertake both repo and reverse repo, the ease of transactions as well as low transaction costs arising from least documentation and same day settlement of funds in call/notice money market act as strong incentives for non-bank participants to prefer the latter to the former. This is impeding the development of a risk free short-term yield curve and, hence, the pricing in other segments of the debt market. Therefore, a "basic restructuring of call money market" to make it a pure inter-bank market, as put forward by the Report of the Committee on Banking Sector Reforms (1998), was considered necessary. Towards this end, the Reserve Bank of India (RBI) has already initiated a number of steps to widen the repo market in terms of increasing the eligible securities and participants. While there is a consensus that complete withdrawal of non-bank participants from the call/notice money market (henceforth, only call money market for convenience) should be co-terminus with full fledged operationalisation of the Clearing Corporation, it is felt that during the intermediate period, their operations should be phased out in such a manner that their migration to repo/reverse repo market becomes smooth and there is no disruption in the call money market. In order to accomplish this restructuring process, the mid-term review on Monetary and Credit Policy in October 2000 indicated that a Technical Group comprising officials from both banks and non-banks should be constituted in order to suggest ways for planned reduction in access by non-bank participants to call money market such that their transition to repo market become smooth. Following this, a Technical Group was constituted by Dr. Y.V. Reddy, Deputy Governor with appropriate representations from banks, non-banks and RBI on December 9, 2000 (Annexure I).

The Report is organised in four Sections. While Section I discusses recommendations of the three Committees with regard to participation of non-banks in call money market followed by international experiences in this regard, Section II analyses the typical characteristics of Indian call money market. Section III delineates the circumstances in which the non-bank participants were allowed entry into the call money market during 1990s despite recommendations to the contrary by the Working Group on the Money Market (Chairman : N. Vaghul) in 1987 as discussed in Section I. This Section also discusses the shift in stance of the RBI during the later part of 1990s and the efforts made by it to phase out non-bank participants from the call money market since then. Finally, Section IV presents policy perspectives and recommendations of the Technical Group.

Section I

Recommendations of Three Committees

The issue of whether non-bank participants should constitute part of call/notice/term money market could be traced first in the Report of the Committee to Review the Working of the Monetary System (Chairman : S. Chakravarty) in 1985.

Since then, the Report of the Working Group on the Money Market (Chairman : N. Vaghul) in 1987 and the Report of the Committee on Banking Sector Reforms (Chairman : M. Narasimham) in 1998 had also deliberated on this issue. It needs to be appreciated that the particular set of recommendations from these three Committees have to be assessed against the specific objectives for which these Committees had been constituted as well as the differing initial conditions reflecting the state of Indian financial market which were prevailing at that particular point of time.

The Chakravarty Committee (1985) viewed this issue essentially from the angle of efficacy of monetary regulation by the Central Bank. It felt that allowing additional non-bank participants into the call market would not dilute the strength of monetary regulation by the RBI as resources from non-bank participants do not represent any additional resource for the system as a whole and their participation in call money market would only imply a redistribution of existing resources from one participant to another. Therefore, the monopoly power to affect the system's reserves continues to rest with the RBI. In view of this, the Chakravarty Committee recommended that additional non-bank participants may be allowed to participate in call money market.

The Vaghul Committee (1987) on the other hand suggested that call money market should be purely an inter-bank market and therefore, the restrictions on entry into call market prevailing at that point of time should continue. The essential rationale for such recommendation was that freeing of entry into the call market coupled with allowing call money rates to be determined entirely by market forces at a time when deposit rates of banks were administered would lead to, it was apprehended, substantial diversion of funds from the bank deposit segment to the call money market segment which would raise the cost of funds to banks markedly. Therefore, while the Vaghul Committee decided in favour of making the call money market a pure inter-bank market, it felt that LIC and UTI which had been permitted in the market as lenders in 1971 would gradually come out of the market as other money market instruments develop with wider array of maturities.

The Narasimham Committee II (1998) concurred with the Vaghul Committee as it also observed that call/notice/term money market in India, like in most other developed markets, should be strictly restricted to banks. It, however, felt that exception should be made for Primary Dealers (PDs) who have been acting as market makers in the call money market and are formally treated as banks for the purpose of their inter-bank transactions and, therefore, they should remain as part of call money market. With regard to non-banks, it expressed concern that these participants "are not subjected to reserve requirements and the market is characterised by chronic lenders and chronic borrowers and there are heavy gyrations in the market". It felt that allowing non-bank participants in the call market "has not led to the development of a stable market with liquidity and depth ……… and the time has come to undertake a basic restructuring of call money market". Like the Vaghul Committee, it had also suggested that the non-bank participants should be given full access to bill rediscounting, Commercial Paper (CP), Certificates of Deposit (CDs), Treasury Bills (TBs) and Money Market Mutual Funds (MMMFs) for deploying their short-term surpluses.

International Experiences

USA

Federal funds market in USA is the counterpart of our call/notice money market in India. In this market, only those depository institutions that are required by the Monetary Control Act of 1980 to hold reserves with the Federal Reserve Banks are permitted to borrow. These include commercial banks, savings banks, savings and loan associations and credit unions. Non-bank participants such as corporates, state and local governments are prohibited from participating in the federal funds market directly. They supply funds to the overnight market through repurchase agreements (RPs) with their banks. Banks' borrowings from federal funds market as well as from RPs are free of reserve requirements. It is found that RP rates closely follow the federal funds rate with the former being lower than the latter as RP market is collateralised and, therefore, safer than the federal funds market and RP involves additional transaction costs in the form of documentation.

It was found that as resources raised under RPs were free of reserve requirements, banks attempted to minimise their burden of reserve requirements by raising more resources through the RP avenue vis-a-vis deposits thereby reducing the volume of required reserves banks had to hold with the Federal Reserve Banks. This in turn reduced the size of the Federal Reserve Banks' balance sheet and, therefore, reduced the interest payments that it could transfer to the US Government. In order to obviate this situation, the Federal Reserve Board passed a resolution in 1969 restricting the collateral to be used for RPs to only direct obligations of the US Government or its agencies. This somewhat offset the revenues that are likely to be lost due to reduced volume of reserves held by banks.

France

Initially, some non-bank entities were allowed in the money market which were able to obtain a market rate of return on their investments. These non-bank entities included insurance companies, pension funds, stock brokers' Boards etc. In order to encourage the spread of negotiable securities among the public as well as to restrict the access to the market for "central bank money", the authorities favoured the creation of a pure inter-bank money market accessible only to credit institutions. The non-bank entities who are no longer part of the inter-bank money market have moved to the repo market as well as sales of negotiable securities as part of their short-term liquidity management. The authorities felt that this sort of restructuring of the market should help in fostering development of short-term securities in the economy.

Among emerging economies also, overnight money markets in countries like Singapore, Malaysia and Thailand have only banks as participants.

Section II

Characteristics of the Indian Call Money Market

As indicated above, call money is the most important segment of the Indian financial system. It consists of overnight money and money at short notice for a period of upto 14 days. The call money market essentially serves the purpose of equilibrating the short-term liquidity position of banks and other participants. It is also the focal point through which the RBI attempts to influence the short-term interest rates. Its average daily turnover at more than Rs.40,000 crore in recent period is the highest among all money market instruments including Government securities market. In this market, while banks and primary dealers (PDs) are allowed to both borrow and lend, non-bank participants such as financial institutions, mutual funds and select corporates are permitted to only lend. The demand for funds in this market is mainly governed by the banks' need for resources to meet their statutory reserve requirement; it also offers to some participants a regular funding source for building up short-term assets. It is, however, felt that the demand for funds for reserve requirements dominates any other demand in the market. Viewed from this angle, it may be noted that total reserves transacted (i.e., aggregate borrowings) in the call money market as proportion of aggregate cash balances maintained by commercial banks with the RBI, on average, ruled around 32 per cent in recent period.

As regards the number of participants, apparently the market is very broad based as on the borrowing side, there are as many as 169 participants (banks - 154 and PDs - 15) while on the lending side, apart from these 169 participants, there are additional 105 participants taking the total to 274 (Table 1).

Table 1 : Number of Participants in Call/Notice Money Market
(as on March 12, 2001)

Category	*Bank*	*PD*	*FI*	*MF*	*Corporate*	*Total*
I. Borrower	154	15	-	-	-	169
II. Lender	154	15	20	35	50	274

A typical characteristic of this market is that except PDs who are participating in both sides of the market, there is hardly any bank who operates both as borrower and lender simultaneously on any given day. It is generally found that public sector banks with their vast branch network in the country are generally the supplier of funds in the market while foreign and private sector banks with their urban-centric structure coupled with their relatively advanced treasury operations are regular borrowers in the market.

Keeping this as perspective, the overall shares of various constituents based on their daily transactions during the last two years are as follows :

Table 2 : Market Shares of Constituents in Call/Notice Money Market

(In Percent)

	Borrowings		*Lendings*		
Year	Banks	PDs	Banks	PDs	Others
1999	68	32	52	11	37
2000	66	34	45	11	44

Note : a) Figures do not include operations of co-operative banks.
b) "Others" constitute financial institutions, mutual funds and select corporates.

An analysis of participant-wise shares in both borrowings and lendings in call/notice money market reveals a highly skewed nature of the market. On the lending side, State Bank of India (SBI) is the largest participant accounting for as much as 15 per cent in 1999 which, however, declined to 13 per cent in the following year (Table 3). On the whole, four public sector banks and five financial institutions (FIs) supplied to the tune of 38 per cent of the aggregate supplies of funds in the market in 1999 which dropped to 31 per cent in 2000. What is important to note here is that though there are as many as 274 participants (Table 1) who are eligible to lend in the market, there are only 9 participants as indicated above who control about one-third of aggregate lendings in the market.

Table 3 : Shares of Select Participants in Call/Notice Money Market : Lending

(In Percent)

Year	*Banks*	*FIs*	*Total*
1999	20 (15)	18	38
2000	17 (13)	14	31

Banks : Canara Bank, Central Bank, PNB and SBI
FIs : ICICI, IDBI, LIC, SIDBI and UTI
Parenthetic figures relate to those of the SBI.

Similarly, on the borrowing side, the shares of only ten foreign and private sector banks accounted for as much as 36 per cent of aggregate borrowings in 1999 which increased further to 39 per cent in the following year (Table 4).

Table 4 : Shares of Select Banks in Call/Notice Money Market : Borrowings
(In Percent)

Year	*Banks*
1999	36
2000	39

Select banks include ABN-AMRO Bank, Bank Nationale De Paris, Centurion Bank, Citi Bank, Deutsche Bank, Grindlays Bank, HDFC Bank, Hongkong Bank, IDBI Bank and Standard Chartered Bank.

From this analysis, it needs to be noted that though apparently the market is quite broad based, in reality, the market is quite lopsided in both borrowing and lending segments. In other words, despite the market having the highest turnover in Indian money market, it lacks depth and liquidity as absence of one or two major participants in either of the segments may have the potential to cause sharp volatility in the market. This not only impairs efficient price discovery process in the market, it also necessitates more active liquidity management practices by the RBI in order to keep interest rates within a reasonable corridor.

Section III
Position since 1990s

Following the freeing of interest rates in call money market in June 1989, there had been bouts of extreme volatility in call rates on many occasions during 1989-90. Despite the Vaghul Committee recommendation that call money market should be made purely an inter-bank market, with a view to reducing volatility and widening the market, the policy relating to the entry into the call/notice money market was gradually liberalised since 1990. In May 1990, three more financial institutions (viz., GIC, IDBI and NABARD) besides LIC and UTI were permitted to participate in the call/notice money market as lenders. In October 1990, with a view to further widening the call/notice money market and to bringing about a greater integration in various segments of the money market, all the participants in the Bills Rediscounting Scheme who were not operating in the call/notice money market till then, were granted entry into the call/notice money market as lenders. Subsequently, eight mutual funds sponsored by public sector banks/financial institutions were also permitted to participate in the call/notice money market as lenders.

In April 1991, the policy relating to entry in the call/notice money market was further liberalised and it was decided to provide access as lenders to such entities as were able to provide evidence to RBI of bulk lendable resources. Such entities were required to observe a minimum size of operations of Rs.20 crore per transaction and such transactions were to be routed through Discount and Finance House of India (DFHI) only. Furthermore, such entities were also required to give an undertaking that they had no outstanding borrowings from the banking system. In April 1997, the facility of routing of transactions by these entities was extended to all the PDs as against only DFHI earlier and the minimum size of operations was also reduced from Rs.20 crore to Rs.10 crore. The minimum size of operations was further reduced to Rs.5 crore and finally to Rs.3 crore in October 1997 and in May 1998 respectively. Consequent upon the relaxations granted to entities for routing of call transactions, the number of entities routing their call transactions through PDs rose sharply. At present, there are 50 such entities (Table 1 and Annexure II).

Earlier only the public sector mutual funds were allowed to operate as lenders in the call/notice money market but with a view to facilitating a level playing field, it was decided in April 1995 to provide access to mutual funds set up in the private sector and approved by the Securities and Exchange Board of India (SEBI) also as lenders in the call/notice money market after these entities obtained specific permission from the Reserve Bank. In 1996, 4 primary dealers, in addition to DFHI and STCI were permitted to operate both as lenders as well as borrowers in the call/notice money market. As of now, the number of PDs have increased to 15.

As on March 12, 2001, there are 55 financial institutions and mutual funds which are allowed to operate in the market as lenders, besides all scheduled commercial banks, co-operative banks and primary dealers which are operating as both lenders as well as borrowers. List of participants permitted to participate in the call money market as lenders is given in Annexure II.

Shift in stance in RBI

There has been a change in policy stance regarding permission to non-bank participants to operate in the call/notice money market. This issue was also examined by the "Internal Group to Examine the Development of Call Money Market" in 1997 which had observed that the call money market was an inter-bank market the world over. Furthermore, when non-banks are allowed to participate in the call money market, it partly distorts the signals of liquidity conditions in the system. Analysis done by the Group revealed that intermediate lenders in call money were in a position to exploit the situation of tight money conditions and dictate terms to the banking system thereby causing undue volatility in the call/notice money market. The view was that non-bank institutions should instead be allowed to deploy their short-term funds in alternative money market instruments like Repos, Money Market Mutual Funds (MMMFs) and Certificates of Deposit (CDs), etc. and until these markets develop, the existing non-bank participants may be allowed to continue in the call money market.

Similarly, following the recommendations of the Narasimham Committee II (1998), the general consensus of members of the Standing Committee on Money Market (which was since reconstituted as Technical Advisory Committee on Money and Government Securities Markets) was that ultimately we should move towards a pure inter-bank market along with only primary dealers, and in the meantime steps should be taken to widen the repo market and increase non-bank participation in other money market instruments.

Accordingly, in the "Mid-Term Review of Monetary and Credit Policy for 1998-99" announced in October 1998, the Reserve Bank indicated its intention to ultimately move towards a pure inter-bank call/notice/term money market including PDs. It was indicated that simultaneously measures would be taken to widen the repo market and improve non-bank participations in a variety of other instruments and this would be implemented in a manner that existing lenders in the market would have operational flexibility to adjust their asset-liability structures.

It was decided, as a first step, that permission only to non-bank participants for routing their call transactions through PDs be withdrawn and other non-bank institutions (financial institutions and mutual funds) be allowed to continue in the call/notice money market until such time the other avenues for short-term deployment of funds are available. Accordingly, in April 1999, it was indicated that permission given to non-bank entities to lend in the call/notice money market by routing their transactions through PDs would be available only upto end-December 1999. This permission was, however, extended in stages upto June 2001.

Simultaneously, Reserve Bank has taken several steps to widen the participation in repo market as indicated below:

(i) Following the amendment to the Securities Contract (Regulations) Act, 1956 (SCRA) in March 2000 delegating regulatory powers to RBI to regulate, inter alia, dealings in Government securities and money market securities, all those non-bank entities maintaining current account and SGL account with RBI, Mumbai had been permitted to undertake both repo and reverse repo.

(ii) Minimum maturity for repo transactions was reduced to 1 day.

(iii) State Government securities have been made eligible for undertaking repos.

(iv) RBI also opens its purchase window to impart liquidity to Treasury Bills whenever situation warrants.

(v) Clearing Corporation is being set up for money and securities settlement.

In addition to the above, the minimum period for transferability in case of Certificates of Deposit has recently been abolished. This would provide an additional avenue to non-banks to lend short-term funds to the banking system.

Section IV

Policy Perspective and Recommendations

The Technical Group appreciated the need for non-banks to be phased out of the call/notice money market in the interest of development of a risk-free short-term yield curve in the economy. Towards this end, the Group concurred fully with the view expressed by Dr. Y.V. Reddy, Deputy Governor of the RBI that complete withdrawal of non-banks from call money market should be co-terminus with the full fledged operationalisation of the Clearing Corporation. Keeping this in perspective, the Group deliberated on various suggestions in order to achieve a smooth transition to the repo/reverse repo market. These suggestions broadly relate to call money market and Government securities market including repo market.

Call Money Market

With regard to gradual phasing out of access to call money market by such non-bank participants as financial institutions and mutual funds, the Group recommends that such access may be reduced in three stages by placing cap in relation to their average daily lendings during April 2000 - March 2001. In the first stage, each such non-bank participant should be allowed to lend only upto 70 per cent of their average daily lendings in call money market during 2000-2001 for a period of three months which should come into effect at the earliest after March 31, 2001. In the second stage, access should be reduced further to 40 per cent of their average daily lendings during 2000-01. The final stage should commence with the setting up of Clearing Corporation or after a period of three months from the conclusion of the second stage whichever is later. The final stage by which time the Clearing Corporation is expected to be established should last for a period of three months. During this phase, the Group feels that access to call money market should be permitted to these participants to the extent of 10 per cent of their average daily lending during 2000-01. This is considered necessary to enable these particular classes of non-bank participants to be familiar with the operations of the Clearing

Corporations. After the end of this stage, these entities would not be permitted to lend in call money market at all.

While the Group appreciates that there is a strong need to gradualise the process of phasing out non-banks from the call money market for ensuring their smooth transition to the repo market as has been indicated above, there is a consensus that among the non-bank participants, select corporates who route their funds through PDs may be withdrawn immediately as these entities could always place their funds with PDs through the inter-corporate deposits (ICDs) route. Accordingly, the Group recommends that corporates permitted to lend in call money market should not be permitted to lend after end-June 2001.

Government Securities/Repo Market

With the phasing out of non-bank participants from call money market to repo/reverse repo market, it is expected that the latter would emerge as a vibrant short-term money market for both banks and non-banks. In fact, it is envisaged that in future, both call money market and repo/reverse repo market would constitute as a unified market for equilibrating short-term funds positions for both banks and non-bank participants because repo/reverse repo (henceforth, it is indicated as repo market for convenience unless otherwise stated) market would afford both borrowing and lending facility to non-bank participants. However, during the intermediate period, it is apprehended that funds flow between these two markets may not be as smooth as one expects it to be eventually. This is because distribution of surplus liquidity and that of surplus securities over statutory liquidity requirements (SLR) in the banking sector are such that those who are persistent borrowers in the market (i.e., foreign and private sector banks) do not maintain sufficiently large volume of surplus securities in their portfolio (Table 5) so as to enable them to borrow easily from the repo market.

Table 5 : Distribution of Excess SLR Securities among Categories of Banks

(Rupees Crore)

Group of Bank		Average holding of Excess SLR Securities		Percentage share in total	
		1999	***2000***	***1999***	***2000***
1.	SBI Group	28,324	35,703	36.4	37.3
2.	Nationalised Banks other than SBI Group	39,355	46,455	50.6	48.5
3.	Private Sector Banks	6,054	8,749	7.8	9.1
4.	Foreign Banks	4,219	4,819	5.4	5.0
Total		77,952	95,726	100	100

Note : For this purpose, required SLR investments have been worked out as 25 per cent of "Liability to Others" for the category of banks concerned. Excess SLR securities have been defined as "Investments in Government and other Approved Securities" less required SLR investments.

It may be worthwhile to note that while the average daily aggregate lending in call money market by non-bank participants stood at Rs.7,672 crore during the years 1999 and 2000, average net borrowings by banks and PDs were Rs.3,488 crore and Rs.4,184 crore, respectively, during the period. As against this, the average surplus securities available with the foreign and private sector banks were at Rs.11,920 crore of which the average volume of surplus securities with foreign banks was at Rs.4,519 crore during the period. Moreover, a part of securities held by PDs would also be available for undertaking repo transactions. Again, since these classes of entities are also more active in trading in Government securities market, the effective volume of surplus securities available for repo for borrowing of funds would be lower for them. While the Group is aware that chronic borrowers should need to reduce their call money borrowing keeping in view the asset-liability management (ALM) guidelines, it is generally perceived that these borrowers could face some transition problems. However, considering the fact that non-bank participants such as financial institutions and mutual funds would be permitted to lend upto 70 per cent of their average daily lending during 2000-2001 for three months in the first phase, it is expected that market participants on both lending and borrowing sides would have sufficient time to adjust their portfolios accordingly without any disruption in the market. Moreover, with the establishment of Clearing Corporation, repo operations would not only become more efficient and the need for securities would be relatively less, it would also be possible to undertake repo transactions in non-Government securities. Non-bank participants under the new set up may also like to build up a portfolio of repoable securities for meeting their occasional short-term borrowing needs over time. This may represent an additional demand in the debt market including Government securities. Eventually, it is envisaged that since call money rates would be higher than the repo rates, banks with surplus SLR securities may act as conduits for funds from repo market to call market.

Under the ambit of the Clearing Corporation, rollover of securities in repo transactions would also become possible (provided it is not considered a short sale). Similarly, the Group feels that securities obtained under reverse repo may be allowed to be used for undertaking repo. These apart, at present repo is permitted only at Mumbai. Such activities may be allowed in other centres as well. The Group feels that since repo market will attract larger volume of transactions in the wake of phasing out of non-bank participants from the call money market, there is a strong need for introduction of a master repo agreement with uniform documentation and accounting standards. The Group, however, appreciates that such an effort is underway under the aegis of the Fixed Income Money Market and Derivatives Association of India (FIMMDA). Though non-bank participants are allowed to invest in all other money market instruments with a much wider array of maturities, the Group has suggested that floating stock of Treasury Bills particularly at the shorter end may be increased for providing an additional avenue to non-bank participants for deploying their short-term surplus funds.

ANNEXURE I

Memorandum
Reserve Bank of India

Technical Group on Phasing out of Non-banks from Call/Notice Money Market

In the mid-term Review of Monetary and Credit Policy in October 2000, it was announced that a Group would be constituted to suggest a smooth phasing out of non-bank participants by a planned reduction in their access to call/notice money market and that the Group would also include representatives of non-bank institutions. Accordingly, it has been decided to constitute a Technical Group comprising the following members:

I. Financial Institutions/Banks/Primary Dealers/Mutual Funds

1. Shri P.A. Balasubramanian
   Executive Director (Investment & Actuarial)
   Life Insurance Corporation of India
2. Smt. Prema Madhuprasad
   General Manager
   Unit Trust of India
3. Shri M.H. Kulkarni
   Deputy General Manager (Treasury)
   Industrial Development Bank of India
4. Shri V.G. Kannan
   Assistant General Manager (Treasury)
   State Bank of India
5. Shri Hrishikesh Chitneni
   Assistant General Manager (Funds)
   Bank of Baroda
6. Shri Avijit Agarwal
   Chief Dealer (Money & Securities)
   ABN-AMRO Bank
7. Shri M.S. Annigeri
   Executive Vice President (Treasury & Forex)
   ICICI Bank
8. Shri Ashish Parthasarthy
   Head - Trading (Treasury & Capital Markets)
   HDFC Bank
9. Shri C. Chakrabarty
   Vice President
   Discount & Finance House of India Ltd.
10. Shri S.R. Kamath
    General Manager
    Securities Trading Corporation of India Ltd.
11. Shri S.V. Prasad
    President
    Zurich Asset Management Company (India) Private Ltd.

II. Reserve Bank of India

1. Dr. V.B. Angadi
   Director
   Financial Institutions Division
2. Smt. Chitra Chandramouliswaran
   General Manager
   Department of Banking Operations & Development
3. Shri Chandan Sinha
   Deputy General Manager
   Internal Debt Management Cell
4. Shri Amitava Sardar Convenor
   Director
   Monetary Policy Department

2. The Group would prepare a Technical Paper backed up by significant technical work analysing, inter alia, (i) the international experiences on the functioning of inter-bank market, (ii) the background in which non-bank entities were permitted in call/notice money market and the trends in volume and extent of their participation, and (iii) the pre-conditions for phasing out of non-bank entities. Based on the analysis, the Group would suggest an approach to phasing out of non-bank entities from the call/notice money market in a non-disruptive manner to the functioning of money and securities markets in general and the participation of non-bank entities in particular.

3. The Technical Group would be free to associate as special invitees representatives of other departments of RBI and banks/FIs, etc., as it deems fit.

4. The Technical Group will submit its Report within two months from the date of its first meeting.

(Y. V. Reddy)
Deputy Governor

December 9, 2000

ANNEXURE - II

List of Institutions Permitted to Participate in Call/Notice Money Market only as Lenders - As on March 12, 2001

A. Financial Institutions

Export Credit Guarantee Corporation of India Ltd.
Export Import Bank of India
General Insurance Corporation of India

HDFC Standard Life Insurance Co. Ltd.
ICICI Ltd.
ICICI Prudential Life Insurance Co.
Industrial Developsment Bank of India
Industrial Finance Corporation of India Ltd.
Industrial Investment Bank of India
Life Insurance Corporation of India
National Bank for Agriculture and Rural Development
National Housing Bank
National Insurance Co.
New India Assurance Co.
Oriental Insurance Co.
Royal Sundaram Alliance Insurance Co. Ltd.
Small Industries Development Bank of India
Tourism Finance Corporation of India
Unit Trust of India
United India Insurance Co.

B. <u>Mutual Funds</u>

Alliance Capital M. Fund
ANZ Grindlays M. Fund
B.O.B. Mutual Fund
B.O.I. Mutual Fund
Birla Mutual Fund
CANBANK Mutual Fund
Cholamandalam Cazenove M. Fund
DSP Merril Lynch M. Fund
Dundee Mutual Fund
Escort Mutual Fund
G.I.C. Mutual Fund
HDFC Asset Management Co. Ltd.
I.D.B.I. Mutual Fund
IL and FS AMC M. Fund
Indbank offshore M. Fund
Indian Bank Mutual Fund
ING Assets Management
J.M. Capital Management
Jardine Fleming M. Fund
Kotak Mahindra
Kothari Pioneer Mutual Fund
L.I.C. Mutual Fund
Morgan Stanley M. Fund
P.N.B. Mutual Fund
Prudential I.C.I.C.I. M. Fund
Reliance Capital M.Fund
S.B.I. Mutual Fund
SBI Offshore M. Fund

Sriram Mutual Fund
Sun F and C Mutual Fund
Sundaram Newton M. Fund
Tata Mutual Fund
Tauras Mutual Fund
Templeton Mutual Fund
Zurich India Mutual Fund

C. <u>Select Corproates</u>

Bajaj Auto Ltd.
Berger Paints India Ltd.
BSES Ltd. (Bomhay Suburban Electric Supply Co.)
Citicorp Finance Ltd.
Citicorp Maruti Finance Ltd.
Dabhol Power Co.
DSP Merrill Lynch Ltd.
Grasim Industries Ltd.
Gujarat Industrial Investment Corp.
Gujarat Mineral Development Corporation Ltd.
Gujarat State Financial Services Ltd.
Haldia Petrochemicals Ltd.
HDFC Ltd.
Hindustan Organic Chemicals Ltd.
Hindustan Zinc Ltd.
HLL (Hindustan Lever Ltd.)
Housing and Urban Development Corporation Ltd.
Indian Tobaco Co.
Indoburma Petroleum Co. Ltd.
Infrastructure Development Finance Co.Ltd.
LIC Housing Finance Ltd.
Lubrizol India Ltd.
Madras Refineries Ltd.
Mahindra & Mahindra Ltd.
Max Telecom Venture Ltd.
Minerals and Mining Trading Corporation
Mishra Dhatu Nigam Ltd
National Thermal Power Corporation Ltd. (NTPC)
Peerless General Finance & Investment Co. Ltd.
Power Finance Corporation
Power Trading Corporation of India Ltd.
Project Equipment Corporation Ltd.
Rabo India Finance Pvt. Ltd.
Reliance Industries Ltd.
Reliance Telecom Ltd.
Rural Electrification Corporation
Sage Investments Ltd.
Saiinfo Services Ltd.

SBI Capital Markets Ltd.
Southern Petrochemical Industries
State Industrial and Investment Corporation of Maharashtra
Stock Holding Corporation of India Ltd.
Summit Investments Ltd.
Tata Electric Companies
Tata Iron & Steel Co. Ltd.
The Great Eastern Shipping Co. Ltd.
TVS Suzuki Ltd.
Videsh Sanchar Nigam
Vindhya Telelinks Ltd.
Voltas Ltd.

Dr. Y.V. Reddy
Deputy Governor
Reserve Bank of India
Central Office
Mumbai - 400 001. March 12, 2001

Dear Sir

We have great pleasure in forwarding the Report of the Technical Group on Phasing out of Non-banks from Call/Notice Money Market constituted on December 9, 2000.

Yours faithfully,

(Ashish Parthasarthy)	(Avijit Agarwal)	(C. Chakrabarty)
(Chandan Sinha)	(Chitra Chandramouliswaran)	(Hrishikesh Chitneni)
(M.H. Kulkarni)	(M.S. Annigeri)	(P.A. Balasubramanian)
(Prema Madhuprasad)	(S.R. Kamath)	(S.V. Prasad)
(V.B. Angadi)	(V.G. Kannan)	(Amitava Sardar) Convenor