

Draft Operational Guidelines for Constituents' SGL Account

ANNEXURE III

Introduction:

1. Banks, Primary Dealers and Satellite Dealers (hereinafter referred to, purely for the sake of convenience, as Gilt Dealers- GDs) are provided the facility to maintain a second SGL Account in the books of Public Debt Offices. Described as "Constituents' SGL Account", the GDs can, in these accounts hold government securities the beneficial ownership of which belong to their constituents. The system of constituents SGL Accounts is intended to facilitate a simple and indirect form of investment in government securities by investors.
2. Such beneficial ownership of the constituents is not recognized in the Public Debt Rules 1946. The relationship between the GDs and their constituents is contractual while that between the GDs, as holders of government securities, and RBI/Government is governed by the Public Debt Act and the rules made thereunder.
3. In the context of gradual deepening of the government securities market and the policy to promote the retail segment of the market, it is felt desirable and expedient to frame a set of guidelines governing the maintenance of the Constituents' SGL Accounts by GDs. The privilege to maintain Constituents' SGL Accounts by any GD is conditional on their strict adherence to these guidelines.

The Guidelines are divided into four sections:

Section I: Eligibility to hold Government Securities

Section II: Responsibilities of GDs.

Section III: Custody, transfer and settlement

Section IV: Formats of transfer forms and acknowledgements

I : Eligibility to hold government securities in indirect form

4. GDs should ensure that the constituents, on whose behalf the government securities in the Constituents SGL Accounts are held, do themselves satisfy the eligibility conditions for holding government securities. The eligibility conditions are specified in the General Notifications F.No. 4(2)-W&M/97 dated April 1, 1997 and F.No.2(12)_W&M/97 dated March 31, 1998 and announcements made by the RBI relating to investments by Foreign Institutional Investors.

A GD (other than a Primary/Satellite Dealer) should provide the facility only to the customers who maintain Current/ Savings Bank account with it.

Section II: Responsibilities of GDs

5. GDs merely hold the government securities beneficially owned by the constituents and keep proper records thereof and the GD should not have beneficial interest in the securities held in the Constituents' SGL Account.

The GD shall :-

- (i) Carry out the orders of the constituent to submit bids in the auction for sale of

government securities quoting such yields/prices as authorised by the constituent or submit loan applications, when the issue of security is by way of floatation where the coupon rate is pre-announced. Immediately after the announcement of auction results, the constituent should be issued an advice specifying the amount to be paid. The GD should arrange to make the payment to RBI on the date specified in the Loan notification. On the Constituent's SGL Account being credited, the GD should issue a nonnegotiable and nontransferable acknowledgement receipt to the constituent specifying the details of the security allotted and held on behalf of the constituent in the SGL Account.

- (ii) Make best efforts to carry out the orders of the constituent to purchase or sell securities at such prices to be specified by the constituent. The GD should give priority to satisfy the order of the constituents before meeting their own trading requirements. The stipulation is intended to ensure that the needs of small investors are met expeditiously and also the GD does not avoid for itself the market impact of any large constituent transaction. Alternatively, the GD should segregate propriety and client trading so as to avoid any conflict of interest and in order to ensure that the interests of the constituents are best served.
- (iii) Maintain in their books a separate record of each individual constituent's transactions and balances and furnish statement thereof to the constituent at monthly or more frequent intervals as mutually agreed.
- (iv) Restrain from utilising balances held in the Constituents' SGL Account to meet their delivery commitments unless they have entered into a transaction with the constituent concerned in respect of the security.
- (v) Restrain from setting off securities in the Constituent's SGL Account or otherwise deal with them to extinguish partly or fully any amounts due to it from the constituent without the latter's due consent in writing.
- (vi) Pay the interest and redemption value in respect of the securities to the constituents concerned on the day of receipt from the Reserve Bank of India, in case the constituent's account is locally maintained. In case of outstation parties, the amount should be remitted by without avoidable delay.
- (vii) Ensure that the sum total of individual constituents' holdings of securities as per the books of the GD are reconciled with the Security wise aggregate balances in the Constituents' SGL Account of the GD in the books of Public Debt Office. This reconciliation should be made by the GD on regular intervals and also when demanded by the constituent.
- (viii) Provide to each constituent an audited statement at half yearly intervals of the Constituent's holdings as per the GD's books.

Section III: Custody, transfer and settlement of securities held in Constituents' SGL Accounts

6. Reserve Bank of India, Public Debt Office maintain the Constituents' SGL Account of the GD. The GDs have to maintain separate record in respect of each constituent showing full particulars of the securities transactions. The details of each transaction such as the date of

transaction, name of the security, face value, price, name of the counterparty, broker, if any and date of credit/debit in the SGL Account should be indicated in respect of each constituent. The aggregate face value in respect of each security as per the statement issued by PDO should be tallied with the total of the balances as per the books of the GD periodically.

7. The transfer of securities between the SGL/ Constituents' SGL Account of one GD and SGL/Constituents' SGL Account of another GD are transfers under the provisions of Public Debt Rules, 1946 and are to be effected by execution of the SGL transfer forms as specified.

8. As regards transfer of securities between the SGL Account and Constituents' SGL Account of the same GD, the transfer will be effected by the Public Debt Office on receipt of the non-statutory transfer form as specified.

9. Transfer between constituents of the same GD would be effected by the GD in their books on receipt of non-statutory transfer form as specified.

10. On receipt of the transfer form from the buyer constituent, the GD should issue acknowledgement evidencing the transaction as per prescribed.

11. Settlement should be on the basis of delivery against payment.

Section IV:Formats of transfer forms, acknowledgements and monthly statements

12. As explained above, for the purpose of transfer between SGL Accounts and Constituents' SGL Accounts of GDs or between Constituents' SGL Accounts of different GDs, the transfer forms specified under the Public Debt Rules are to be used. Inter -Constituent Account transfers should be effected in the books of the GD on receipt of transfer form as specified. On effecting the transfers, the transferor and transferee should be provided the acknowledgement. A monthly statement of transactions in the constituent's account should be sent to each constituent before the 10th day of the following month in the format specified.