REPORT OF THE COMMITTEE TO REVISE PUBLIC DEBT ACT, 1944 PUBLIC DEBT RULES, 1946 ETC.

RESERVE BANK OF INDIA

BOMBAY

REPORT OF THE COMMITTEE

TO REVISE

PUBLIC DEBT ACT, 1944

PUBLIC DEBT RULES, 1946

ETC.

COMMITEE TO REVIEW
PUBLIC DEBT ACT, ETC.
RESERVE BANK OF INDIA

CENTRAL OFFICE

BOMBAY

February 5, 1986
Magha 16, 1907 (Saka)

Shri R.N. Malhotra,
Governor,
Reserve Bank of India,
Central Office,
Bombay.

Dear Sir,

One of the major areas which needed attention for improvement in customer service was the administration of public debt. The Government of India concurred with our views that the present framework - legal as well as administrative - under which public debt was managed by the Bank needed a thorough overhaul and accordingly the task was assigned to an inter-departmental Committee appointed by you,on which I had the privilege to preside.

2. I have great pleasure in submitting to you the Report of the Committee, consisting of ten chapters and nine annexures.

3. As the Committee was set up with the concurrence of the Government of India and as some of the recommendations have implications from taxation angle or involve decisions having a bearing on policies followed by the Central and State Governments in the floatation of their public debt, it is necessary that the report is examined further by the concerned departments of the Government.

4. I would also like to express the Committee's appreciation of the untiring efforts put in by the Member-Secretary, Shri P.Y. Padhye and his colleagues in the Secretariat, Sarvashri M.A. Sait, M. Jesudasan, Deputy Chief Accountants, K. Venkatappa, Assistant Chief Accountant and Shri L.S. Pokhare, Staff Officer and the excellent administrative support lent by the Secretariat to the Committee, which facilitated its deliberations.

5. I hope the recommendations made in the report will be found useful in achieving the desired objective in a substantial measure.

Yours faithfully,

(T.N. Anantharam Iyer)
Chairman

C O N T E N T S

ANNEXURES

-oooOooo-

CHAPTER 1

INTRODUCTION

1.1 Administration of the internal public debt of the Government of India and all the State Governments (except Sikkim) devolves on the Reserve Bank of India. In the administration of the internal public debt, the Reserve Bank acts as the agent of the Central and the respective State Governments.

1.2 A substantial part of public debt administered by the Reserve Bank of India is in the form of market loans floated every year by the Central and State Governments and having short-term (upto 7 years), medium-term (8 to 15 years) and long-term (beyond 15 years) maturities. The Reserve Bank also issues 91-day treasury bills on behalf of the Central Government. These bills are on tap throughout the year and issued at a discount, the current rate being 4.60 per cent per annum. The treasury bills, as presently issued, constitute a part of the 'floating debt' of the Government of India, as distinguished from the 'permanent debt' raised through regular market loans floated every year. It is, these market loans, which are dealt with in this report. The outstandings on account of the internal public debt raised by the Government of India and State Governments at the end of March of the last 5 years are indicated in Annexure 1. It will be seen therefrom that the market loans constituted 65.7% of the total internal debt of Rs.63,554 crores as on 31st March,1985. Besides the issue of such market loans, which are on tap only for a day or two, the Central Government has, since the last couple of years, started offering securities which carry attractive tax benefits and are oriented towards mopping up the savings of the individual investors for developmental purposes. Novel schemes have been introduced for the purpose under which :

i) National Rural Development Bonds
ii) Capital Investment Bonds, and
iii) National Deposit Receipts

are being issued by the Central Government. These issues remain on tap for an indefinite period i.e., till the target is reached. In this context, it may be stated that, in view of the importance of savings for economic growth, the Government is considering introduction of a new investment instrument under a scheme designated as the National Deposit Scheme (New Series).

1.3 The issue of Government securities and their servicing is attended to by the Reserve Bank on a 'decentralised' basis through the Public Debt Offices established at 14 centres, a majority of them being at the State Capitals. The branches of State Bank of India/Associate banks and the district treasuries/ sub-treasuries are also involved in the servicing of public debt. The broad activities of Public Debt Office consist of :

i) issue of securities against new loan applications;
ii) periodical payment of interest/instalments;
iii) renewal, conversion, transfers, etc. of Government securities, issue of duplicate securities in lieu of the lost ones and other matters relating to Government securities; and
iv) repayment of the discharge value of securities on maturity of loans.

The Bank has also to maintain and render detailed accounts of all the Central and State Government loans issued on behalf of the Governments. At present balances of 86 current loans of the Central and 207 current loans of various State Governments are borne on the books of the Bank.

1.4 The legal framework for dealing with Government securities issued by the Bank is provided by the Public Debt Act, 1944 and the Rules framed thereunder. Until April 1946, the Indian Securities Act, 1920 governed the securities issued by both the Central and the then Provincial Governments. Since May 1946, all Government securities came to be regulated, in stages, by the Public Debt Act, 1944 and the Rules framed thereunder. The servicing of the Government securities by the Public Debt Offices and the agency banks/treasuries is presently required to be undertaken within the framework of the Public Debt Act and Rules. These provisions have not undergone any substantial change in spite of the tremendous increase in the volume of the public debt and other changes in the external environment. Consequently some of these provisions are proving onerous and need to be simplified if the customer service is to be improved.

1.5 Based on the provisions of Public Debt Act and the Rules framed thereunder, the Reserve Bank of India has issued administrative instructions to Public Debt Offices in the form of a departmental Manual called the Public Debt Office Manual. Similar instructions are contained in the Government Securities Manual issued by the Government of India, Ministry of Finance, for the guidance of mainly the treasury/sub-treasury officers in administering the statutory provisions of the Public Debt Act and Rules and dealing with Government securities received by the Government departments in the course of their official duties. Separate instructions have been issued in the form of a 'Handbook on Issue of Government Loans' for dealing with receipt, reporting and accounting of subscription to new market loans of Governments received at the branches of State Bank of India/Associate banks.

1.6 The magnitude of the increase in the volume of internal debt can be appreciated from the fact that while the internal debt of the Government of India was only around Rs.200 crores when the Bank took over the management of public debt in 1935, it has touched the level of Rs.58,500 crores in 1985. Greater reliance is being placed by the Government on the market borrowing for mobilising resources to finance the projects planned under the Five-Year Plans. During the first Five-Year Plan the Government of India had borrowed about Rs.49 crores. In the sixth Five-Year Plan, the borrowings went upto Rs.15,000/- crores. During the seventh Five-Year Plan (1985-86 to 1990-91) the Government have planned a borrowing of about Rs.30,000/- crores. This phenomenal increase in public debt has, in its wake, raised a host of operational problems. These mainly relate to the rendering of an efficient service to the customers. To meet the situation, the Bank has progressively decentralised the work by increasing the number of its Public Debt Offices in the country. Thus, as against 4 Public Debt Offices in 1951 there are 15 Public

Debt Offices at present. The locations of the Public Debt Offices and their respective jurisdictions are indicated in Annexure 2. Establishment of Public Debt Offices at a few more centres during the seventh Five-Year Plan period is also under contemplation. The Bank has also been reviewing its administrative procedures within the existing legal framework, to improve debt management. Despite various measures taken by the Bank, the problem of rendering efficient service to the customers continues to elude a satisfactory and lasting solution and there exists considerable scope for improvement in the administration of public debt, viewed from the angle of the investors. Also the expectations of the investors in Government securities have risen high in recent times on account of the stress on efficient customer service by Government agencies and the general consciousness about the 'time-value' of money in the context of availability of alternative investment avenues in which funds could be profitably deployed without much risk.

1.7 The process of public debt administration commences with the receipt of applications along with subscription for new loans floated by the Governments at Public Debt Offices and branches of agency banks authorised to receive them. The securities are issued by Public Debt Offices against such applications. In this context, it may be stated that the issue of Government securities against applications for new loans poses comparatively less problem, it being a one-time activity.

1.8 In regard to the servicing of the Government securities, however, the Bank's responsibility has become more onerous over the last two decades in view of the increase in the loan floatations and the volume of work involved.

1.9 The Government securities are issued mainly in the form of promissory notes payable to order or stock - issued in the form of a certificate of holding or an account called Subsidiary General Ledger Account maintained in the books of Public Debt Office - and bearer bonds. With the exception of the recent issue of Special Bearer Bonds, 1991, the Government have not resorted to the issue of securities in bearer form in the last few decades in view of the security aspects involved.

1.10 The major problems involved in the servicing of public debt can be broadly identified under the following heads:

(a) delays in the issue of Government securities against the loan applications;

(b) delays in payment of interest and in repayment of the principal amount on maturity;

(c) difficulties in effecting transfers, renewals, consolidation, sub-division, conversion, etc;

(d) difficulties faced by trusts, Provident Funds, charitable institutions, etc;

(e) difficulties in obtaining the duplicate of a lost stolen/mutilated, etc. security; and

(f) difficulties in obtaining legal representation in accordance with the provisions of the Public Debt Act.

1.11 The major problems in the prompt and efficient administration of public debt relate to the processing of securities for various purposes and repayment thereof on maturity. In this context it is observed that the form of security plays a crucial role in the sense that the maximum problems enumerated above relate to the securities issued in the form of promissory notes and arise by reason of their distinguishing character of free negotiability - by mere endorsement and delivery - without reference to Public Debt Office. This necessitates:

(a) detailed examination of such notes tendered for any purpose such as renewal, consolidation/sub-division, conversion into stock, repayment, etc. so as to ascertain that the title of the holder is clear and indisputable, before the transaction is given effect to; and

(b) presentation of the notes every time for drawal of interest.

The activity can neither be planned nor controlled by Public Debt Offices and during the rush periods it becomes extremely difficult to arrange for payment of interest and/or putting through any other transaction relating to these notes, in good time. Difficulties in getting a duplicate of a lost Government promissory note arise on account of the arduous and lengthy procedure prescribed in the Public Debt Rules leading to hardships to the investors. Absence of the possibility of extending nomination facilities to Government promissory notes makes it obligatory for the heirs of the deceased holders of Government securities to comply with the requirements of the Public Debt Act in regard to production of legal representation in one of the forms prescribed in Section 7 thereof in most of the cases. Relaxation allowed in this regard is restricted to small holders of securities of nominal amount (Rs.5,000/- aggregate) which is very insignificant in the current context.

1.12 Difficulty also arises on account of the requirement of the Income-Tax Act to deduct tax at source from the amount of interest to be paid on Government securities (subject to certain exceptions). Lot of avoidable additional work is required to be undertaken before interest warrants can be issued to the holders of Government securities on account of this requirement. Besides, in respect of the securities pledged with the banks or lodged with them for safe custody and collection of interest by their different constituents, the banks find it difficult to convert them in the form of Subsidiary General Ledger Account in view of different tax rates applicable to the banks themselves and the different categories of constituents. Thus, the provision requiring income-tax deduction at source makes it difficult to enlarge the holdings of Government securities in the form of stock. This has been discussed separately in the report.

1.13 Since the legal provisions (Section 6 of Public Debt Act) preclude Government from receiving any notice of trust, Government promissory notes cannot be issued in the names of trusts/Provident Funds, etc. in a representative capacity. Government promissory notes purchased by the trusts, etc. from the brokers are, therefore, initially endorsed by the sellers in the personal names of the trustee(s). This necessitates conversion of such notes in the form of stock certificates, which can be issued in the names of the trust/Fund under Rule 8 of the Public Debt Rules, 1946. Difficulties arise if before such conversion the trustee(s) in whose personal name(s) the

Government promissory notes are held dies/die. In such an eventuality Public Debt Office is precluded from recognising the claim of the trust or any other co-trustees, etc., since under Section 7, only a succession certificate holder (in the estate of the deceased trustee) can deal with the note as his legal heir, although he may have absolutely nothing to do with the Trust and has no legal interest in the security, which is the property of the Trusts.

1.14 What has been stated above is only by way of illustration of the various difficulties arising in the management of public debt under the existing arrangements. Under these circumstances and in view of the numerous public representations received from institutions, other investing public, etc. the need for a fresh look at the entire gamut of public debt management was keenly felt. At the same time it was realised that the existing legal framework placed severe constraint on making substantial improvements in this behalf. As a comprehensive review of the Act, Rules, manuals of instructions, etc. could not be profitably undertaken by the Bank in isolation, it was proposed that a Committee consisting of representatives from Government of India, State Governments and Reserve Bank of India should undertake such comprehensive review, and make suitable recommendations, with the main objective of rendering prompt and efficient customer service. Accordingly, the Governor of the Bank, in consultation with Government of India, appointed a High Powered Committee in April 1985 under the Chairmanship of Shri T.N. Anantharam Iyer, Executive Director of the Bank.

1.15 The composition of the Committee was as under:

1.	Shri T.N. Anantharam Iyer Executive Director Reserve Bank of India	- Chairman
2.	Shri K.G. Patkar Chief Accountant Reserve Bank of India	- Member
3.	Shri B. Ray Secretary Reserve Bank of India	- Member
4.	Shri S.P. Gothoskar Adviser (Computer Services Division) Department of Statistical Analysis and Computer Services, Reserve Bank of India (presently Principal, Bankers Training College)	- Member
5.	Shri N.V. Deshpande Deputy Legal Adviser Reserve Bank of India	- Member
6.	Shri V. Balasubramanian Addl. Budget Officer Government of India Ministry of Finance (Department of Economic Affairs)	- Member
7.	Shri Jagdishwar Narain Deputy Legislative Counsel Government of India Ministry of Law	- Member
8.	Shri R.K. Gupta Assistant Legal Adviser Government of India Ministry of Law	- Member
9.	Shri C. Ramachandran Commissioner & Secretary(Finance) Government of Tamil Nadu [Nominee: Shri M.F. Farooqui, Deputy Secretary (Finance)]	- Member

10. Shri S.N. Ghosh
Special Secretary
Government of West Bengal - Member

11. Shri R.G. Dashputre
Officer on Special Duty
Government of Madhya Pradesh - Member

12. Shri O.P. Agarwal
Joint Secretary
Government of Uttar Pradesh - Member

13. Shri D.M. Khanorkar
Joint Secretary
Government of Maharashtra - Member

14. Shri P.Y. Padhye
Joint Chief Accountant
Reserve Bank of India - Member-Secretary

1.16 Shri B. Ray, Secretary, Reserve Bank of India was co-opted as a member of the Committee. Shri M.F. Farooqui, Deputy Secretary, represented Government of Tamil Nadu on the Committee on behalf of Shri C. Ramachandran, Commissioner & Secretary (Finance), Government of Tamil Nadu. Shri S.N. Ghosh, Special Secretary, Government of West Bengal was nominated in the place of Shri S.S. Chattopadhyay, Special Secretary, consequent on the latter's transfer. Shri R.K. Gupta, Assistant Legal Adviser, Government of India did not attend any meeting of the Committee.

1.17 The terms of reference of the Committee were as follows:

i) to examine and suggest appropriate amendments to the Public Debt Act, 1944 and the Rules framed thereunder to meet the present and future requirements;

ii) to suggest measures for simplification and rationalisation of the procedures and practices relating to public debt management with a view to increasing productivity and better customer service;

iii) to examine the utility of the various forms of Government securities and suggest changes therein with a view to paving the way for gradual introduction of computerisation in the field of public debt management.

iv) to examine consequential amendments to the Government Securities Manual (Fourth Edition);

v) to examine the present information system regarding public debt management and suggest measures for rationalisation and improvement therein; and

vi) to consider any other matter relating to the public debt management.

1.18 The first meeting of the Committee was held on 20th April 1985. In this meeting the broad approach to be adopted by the Committee to the task was discussed. It was also decided to prepare questionnaires covering the entire gamut of debt management and elicit the views of the various Governments, brokers, bankers and others dealing in/with Government securities. Copies of the questionnaires are reproduced in Annexures 3.1 and 3.2. In the subsequent meetings the questionnaires and the replies received from various respondents were discussed in detail. Meetings of brokers and bankers were also held in Bombay, New Delhi, Calcutta and Madras to ascertain the views of those who directly deal in/with Government securities. The Committee had the benefit of the views expressed by the banks, brokers in the zonal meetings and replies received from the respondents. A small team of three members of the Committee was deputed to West Germany, U.K. and U.S.A. to undertake a quick study of the procedures and practices followed by the central banking institutions in those countries in regard to the issue and servicing of the marketable debt (internal) of the Governments and the benefit of their first-hand information was available to the Committee. The report of this study team is given in Annexure 4. Visit to other countries, and a close look into the debt management brought into focus an altogether new insight in the formulation of framework that has to emerge in the matter of customer service in the foreseeable future.

1.19 This report consists of ten chapters including this chapter and nine Annexures. The chapters have been arranged according to the nature and flow of activities connected with debt management by Reserve Bank of India. Chapter 2 deals with floatation of new loans and Chapters 3, 4 and 5 deal with different matters relating to the servicing of Government loans. Chapter 6 deals with miscellaneous matters and Chapter 7 deals with the scope for and areas of work relating to public debt, which could be computerised. The subject of Management Information System and changes in the Government Securities Manual consequent to the recommendations contained in the report are discussed in Chapters 8 and 9 respectively.

1.20 The Committee received valuable information and guidance in the examination of the issues covered by its terms of reference from bankers, brokers, other financial institutions as also the various Governments and offices of Reserve Bank of India and other persons, who evinced keen interest in the questionnaires circulated to them and favoured the Committee with their frank and considered views, aimed at bringing about an improvement in the debt management. The Committee would like to record its appreciation of the excellent work done by the Central Debt Division (Manual Revision Cell) of Reserve Bank of India, Central Office, which rendered valuable secretarial assistance to the Committee and spared no pains in performing the assigned tasks in time. The Committee wishes to place on record, in particular, its appreciation of the keen sense of devotion to duty displayed and the hard work put in by Shri P.Y. Padhye, the Member-Secretary, Sarvashri M. Jesudasan, M.A. Sait, Deputy Chief Accountants, Shri K. Venkatappa, Assistant Chief Accountant and Shri L.S.Pokhare, Staff Officer, Reserve Bank of India who brought to bear their experience and knowledge of the working of Public Debt Office on the deliberations of the Committee and facilitated the task of the Committee.

CHAPTER 2

FLOATATION OF NEW LOANS

2.1 The process of administration of public debt begins with the issue of new loans by the Central and State Governments. Under the existing arrangement, floatation of new loans is undertaken by these Governments in consultation with Reserve Bank of India. Generally new loans are floated four to five times a year by the Central Government whereas all the State Governments raise new loans once a year simultaneously. While the quantum of new loans to be raised in a financial year is determined by the annual budget, the frequency of loan floatations and their timing are dependent upon the state of liquidity as well as market expectations. It was observed during the discussion with bankers and brokers that while the present frequency of floatation of Central loans was considered adequate, in the case of State loans, it was felt that there should be at least two floatations in a year. The Committee recommends that the State Governments may consider offering the market loans in two tranches, in consultation with Reserve Bank of India. There should be no difficulty for bigger States to do so.

2.2 The terms and conditions on which the loans are offered to public for subscription are contained in the relative Government notification. The notification prescribes places and agencies at which subscription to the new loans can be received, the nominal amount of the loan being raised, denomination in which securities will be issued, forms of securities, rate and periodicity of interest payment, date of repayment of loan, etc.

Number of receiving points for new loans

2.3 Under the present arrangement, all the Public Debt Offices and the branches of State Bank of India at district headquarters are authorised to receive new loan subscription in the case of Central loans. As regards State loans, besides the Public Debt Offices, the branches of associate banks of SBI conducting Government treasury work and branches of SBI at other places in the State concerned, are authorised to receive new loan subscriptions. At present, there are 516 receiving points other than Public Debt Offices for Central loans and 4,503 receiving points for State loans. The objective behind this arrangement is to provide a wide network of receiving points at which subscription to new loans could be paid in by the prospective investors. However, in practice, the subscription to new loans is received at Public Debt Offices and a few mofussil centres, as can be seen from the details of the recent floatations given in Annexure 5.1. The question, therefore, is, whether it is necessary to have such a wide network of receiving points since the subscription to Government loans is no longer received from individual investors in substantial amount. The bulk of the subscription to new loans is presently being received from institutional investors, mostly located in major cities/metropolitan centres, where Public Debt Offices are functioning. The category-wise subscription to new loans floated during the last 5 years is given in Annexure 5.2. It will be seen therefrom that almost the entire subscription to Central Government loans is received from financial, etc. institutions and Funds/Trusts. Subscription received from individual investors is infinitesimal. In view of this, it was felt that a large number of points for receiving subscription towards new loans as at present may not be quite necessary. Further a majority of banks and brokers favoured restriction of receiving points to major cities and metropolitan centres. The present network of the receiving points for Central loans is already streamlined to some extent. Even here also, instead of authorising all the branches of SBI at district headquarters, it would be sufficient if one branch (main branch) at the district headquarters is authorised to receive new loan subscriptions. A suggestion was made that in the case of State loans the criterion of population could be considered for the purpose, say, for example, the branches of agency banks at centres having population over 1 lakh could be authorised to receive subscription to new loans. However, it was not favoured because of the practical difficulties involved in adopting the population criterion as also the meagre subscription such centres may offer, judging from the present trend. Since all district headquarters have by and large a well-developed infrastructure and communication network, the Committee recommends that the receiving points for State loans may also be restricted to one branch at the district headquarters as in the case of Central loans. This will result in substantial reduction in the cost of new issues, without affecting the service to the investing community.

2.4 In this context, the question of utilising the services of other public sector banks to receive subscription to new loans also came up for consideration before the Committee. It was felt that if the present situation, where the subscription to new loans was mostly received from banks and financial institutions were to continue, there may not be much advantage in enlarging or adjusting the network of receiving points so as to include branches of other public sector banks. However, considering the massive borrowing programme of the Government in the seventh Five-Year Plan, increasing reliance on tapping the savings of individual investors seems inevitable. For this purpose, Government will have to think in terms of introducing a variety of innovative schemes with appeal to individual investors, as elsewhere referred to in the report. Services of the network of the nationalised banks may be profitably used to administer such schemes efficiently. The Committee recommends accordingly.

Denominations of securities

2.5 At present, securities under the market loans of Governments are denominated in multiples of Rs.100/- with a minimum of Rs.100/-. This necessitates printing and maintenance of a large number of blank scrips in smaller denominations by all Public Debt Offices. This also results in wastage of costly security paper. In the context of the change in the character and composition of Government stock market and the erosion in the value of money, it was felt that there was no need to issue securities in smaller denominations. Opinion among bankers and brokers favoured issue of scrips in multiples of Rs.1000/- with a minimum of Rs.1000/- and the change in this arrangement has been already given effect to by the Central and State Governments after the constitution of the Committee. The Provident Fund authorities might experience some difficulty in this regard as they will have to invest broken amounts of subscription collected, in other permissible channels. However, the Committee felt that this should not present much difficulty in view of the extension of the Special Deposits Scheme for a further period of 10 years. The Committee, therefore, recommends that the arrangement recently introduced may continue in future. Also the Central and State Governments may, in consultation with Reserve Bank of India, have a periodical review, say, once in 5 years, and decide about a higher/lower minimum amount of loan subscription, if necessary, depending on the market conditions.

Forms of Government securities

2.6 In terms of Section 2(2) of Public Debt Act, 1944 read with Rule 3 of Public Debt Rules, 1946, a Government security may be held or issued in the form of a -

i) promissory note payable to order (which includes a Treasury Bill);

ii) bearer bond payable to bearer;

iii) stock transferable by registration in the books of the Bank;

iv) promissory note in special form, issuable to a Ruler of a former Indian State; and

v) any other form as may be prescribed by Government by notification in the official gazette.

2.7 The above provision is in the nature of an enabling provision and in actual practice the form or forms in which Government securities are to be issued, is/are laid down by the Government concerned in the relative loan notification. Generally, notifications relating to market loans of the Governments (which constitute the bulk of public debt) provide for the issue of securities in the form of stock and promissory notes only. The form in which Government securities are issued have a great bearing on the promptness and efficiency with which investors could be served. For a better appreciation of the problems relating to the management of public debt, a brief outline of the distinguishing features of the principal forms of Government securities is given below :

(i) Stock :

Stock represents 'book debt' which is held in two forms, viz., in the form of a physical certificate of holding or in the form of an account called Subsidiary General Ledger (SGL) Account. When a stock certificate is issued, the name of the holder thereof is registered in the books of Public Debt Office as the proprietor of the amount of Government stock specified therein as pertaining to a specified loan. In the SGL Account, no such certificate of registration is issued in the name of the account-holder. While any person can hold a stock certificate (in physical form), the facility of holding Government stock in the form of SGL Account is presently restricted to institutional investors having corporate status such as commercial banks, state cooperative banks, insurance companies, etc. whose investment in Government securities is very substantial. The facility is extended to them subject to certain conditions. Half-yearly interest on stock certificates and balances held in SGL Accounts is paid automatically by Public Debt Offices by issue of stock warrants on Reserve Bank of India offices/ agency banks or treasuries. The ownership of Government stock does not depend on the possession of a stock certificate, but on the fact that the owner's name is registered in the books of Public Debt Office. A stock certificate is not transferable by endorsement and delivery like a promissory note, but by execution of a transfer deed in the prescribed form and the transfer is complete only when the name of the transferee is registered in the books of Public Debt Offices. As such, transfer of stock cannot be effected without the intervention of Public Debt Office.

(ii) Promissory Notes :

A Government promissory note is a negotiable instrument payable to order which can be held singly, jointly or in the alternative form. The title to a Government promissory note is transferable by endorsement (in the space provided for the purpose on the reverse of the note) and delivery like any other negotiable instrument payable to order. As such a Government promissory note is transferred without the intervention of Public Debt Office. For the same reason, the note is required to be presented at the paying office for drawal of interest thereon, every time by its holder for the time being. Since the space for recording endorsements and interest payments on the note is limited, it becomes obligatory to tender the notes for renewal, if the endorsement/interest cages are exhausted.

(iii) Bearer Bonds :

In the case of bearer bonds, the possession itself constitutes ownership. The bond is transferred by mere delivery without the intervention of Public Debt Office. Interest on a bearer bond is payable to any person who presents the coupons attached to the bond.

2.8 An analysis of the pattern of holding of market loans as on 31st December 1984 shows that in terms of the nominal amount of loans issued, the bulk of the public debt is held in the form of stock and the proportion of Government promissory notes to the total amount of loan balance is very small as indicated below :

		Amount in crores	% to total
1. Government promissory notes		1,956.65	4.94
2. Stock :			
a) Stock Certificates	1,975.99(4.98%)		
b) SGL Account	30,512.56(76.92%)	32,488.55	81.90
3. Bearer Bonds		964.45	2.43
4. Special securities(generally non-negotiable) :			
a) SGL Account form	4,048.00		
b) Special forms	210.00	4,258.00	10.73
TOTAL		39,667.65	100.00

2.9 As against the above, the actual number of Government promissory notes received by Public Debt Offices for payment of interest, renewal, conversion, change of enfacement and repayment in a year was approximately as under :

	More than
a) For payment of interest	10,00,000
b) For renewal	1,25,000
c) Repayment	1,30,000
d) Enfacement	14,500

2.10 It will be observed that in physical terms, the number of Government promissory notes issued and serviced by Public Debt Offices is quite large and disproportionate to the value they represent. Further, the facility to hold Government security in the form of Government promissory notes leads to additional work on account of renewal of such notes, conversion of stock into Government promissory notes and vice versa, whenever the holder so desires.

2.11 The volume of work on account of Government promissory notes has increased manifold and put tremendous pressure on Public Debt Offices. Apart from the work involved in preparation of interest warrants, the scrutiny of Government promissory notes is a time-consuming process, as the chain of endorsements appearing on the notes has necessarily to be subjected to examination in Public Debt Office so as to satisfy that prima facie the title of the presenter is clear and indisputable. This often necessitates calling for and registering of various documents in support of the endorsements and/or reference to the various documents already registered in the books of Public Debt Offices. As a result of this, the Public Debt Offices often find it difficult to arrange for payment of interest or to complete the transaction within a reasonable time. Besides, interest on Government promissory notes can be paid only when they are tendered for the purpose at Public Debt Office (or treasury). Therefore, unlike stock certificates or SGL Account, the work of preparation of interest warrants in respect of Government promissory notes cannot be taken up in advance of the due date of interest as a one-time operation. Delay in the issue of interest warrants gives scope for complaints from the holders/investors. Another area in which considerable difficulty is experienced by the investors in Government securities in the form of Government promissory notes is the procedure required to be followed for getting a duplicate of a lost note or getting repayment of the amount due on a lost note. Further, Government promissory notes being transferable without intervention of Public Debt Office, it would be extremely difficult, if not impossible, to make use of the modern mechanised/computerised devices for the servicing of these notes.

2.12 In contrast to what is stated above about Government promissory notes, the work in respect of the other securities held in the form of stock certificate and SGL Account can be well-planned and organised in a much better manner. Since the holders of stock certificates and SGL Accounts are registered with the Public Debt Office, all that is necessary is to give effect to the mandate of the registered proprietor of the stock so far as interest payment is concerned. The principal amount can also be paid without difficulty on maturity of the loan to the registered owner of stock. It would be in the overall interest of the investing community and the Bank as well as the Government if the existing securities in the form of Government promissory notes are progressively converted into stock certificates and SGL Accounts and if, in future, Government securities are issued in the form of stock only.

2.13 SGL Account is by far the best form of security both from the Public Debt Office point of view and investors' point of view. But the facility of holding Government stock in the form of SGL Account is presently restricted to institutional investors having corporate status such as commercial banks, state co-operative banks, insurance companies, etc. The Committee considered a suggestion that this facility may be extended to other investors like Provident Funds, Trusts, Stock Exchange Brokers, etc. The servicing of Government loans held in the form of SGL Account can be rendered more efficiently by resort to mechanisation of the work. The Committee, therefore, feels that the facility of opening SGL Account should be extended and encouraged progressively. If the recommendation of the Committee about payment of interest without deduction of income-tax at source (cf. paragraph 3.10 infra) is accepted, it may be possible to extend SGL Account facility to individual investors also on a decentralised basis through their bankers. The mechanism for extension of this facility to individual holders through banking system may be made simple. The banks may be permitted to maintain two separate SGL Accounts in the books of Public Debt Offices - one in respect of their own investment and the other in respect of the aggregate amount of Government securities held by them on behalf of their constituents. The individual security account of the constituents could be maintained by the respective banks.

2.14 The Committee recommends that issue of Government securities in the form of Government promissory notes may be dispensed with, except in respect of certain special schemes where this form is considered necessary. It will be seen from the report of the members who visited West Germany, U.K. and U.S.A., that in none of these countries, Government securities are issued in the form of promissory notes. In fact even stock in the form of paper certificates is waning and the current trend is towards issue of Government stock only in the book-entry (i.e.,SGL Account) form. Switch-over to the stock will enable the Bank to administer public debt more efficiently and at the minimum cost to the Government and the Bank. In course of time, it will be possible, like the developed countries in the West, to completely adopt the book-entry form of holding and thereby dispense with the use of physical instrument. This will totally eliminate the risks inherent in the use of physical forms besides making the entire system efficient and customer-oriented.

2.15 Bearer bonds with interest coupons attached thereto is another very convenient form of security as it affords easy transferability and economical servicing. However, it carries with it a high risk of loss of investment if the bond is lost, since possession constitutes ownership, so far as the Bank/ Government are concerned.

2.16 The Government have, in the past, issued bearer bonds (including prize bonds) on three different occasions. On the last occasion, Special Bearer Bonds were issued with the specific objective of mopping up black money. The Special Bearer Bonds scheme ensured complete anonimity and conferred certain special privileges on and immunities to the investors and turned out to be one of the most successful schemes of recent times. However, the general consensus of views of bankers has not been in favour of issue of securities in bearer form in view of the lack of safety of funds to the investor. The stock exchange brokers on the other hand were in favour of the Government issuing bearer bonds with attached coupons and expressed the view that securities in the form of bearer bonds might become very popular with investors and thereby help boost private investment in gilt-edged securities. Although bearer securities may be preferable to Government promissory notes, for reasons discussed above, the Committee feels that it would be advantageous in the long run to move in the direction of minimising the issue of securities in paper form as in the case of Western countries and from this point of view, issue of bearer bonds would not be in consonance with a system aimed at the eventual shift to a book-entry system. The countries visited by the members of the Committee have given up issue of bearer securities in paper form.

2.17 The variety of forms in which Government securities can be issued from the point of view of facilitating efficient servicing of the public debt, also came up for discussion before the Committee. The following variants were discussed.

(i) Government promissory notes with <u>interest ccupons attached thereto</u>

The Government promissory notes in the present form require to be presented to Public Debt Offices/treasuries every time the interest is due. Apart from the inconvenience to the holders, the servicing costs are rather high. On the other hand, if Government promissory notes with interest coupons attached are issued, the present characteristics and advantages of Government promissory notes will be retained. At the same time, since the attached coupons can be filled in and presented separately for drawal of interest by the concerned holder, presentation of the Government promissory notes can be dispensed with. The workload on Public Debt Offices in examining the notes will be reduced. The Committee to review the working of the monetary system (Shri Sukhamoy Chakravarty, Chairman) while noting that payment of interest on promissory notes to the holder involved a heavy load of work on Public Debt Office on due dates, suggested payment of interest on the basis of coupons attached to these notes without insisting on presentation of these notes for drawing of interest, as a possible solution to the problem (Paragraph 3.37 of its report). This Committee has elsewhere recommended discontinuance of Government promissory notes for regular market loans. When this is accepted the question of issue of Government promissory notes with coupons, would not arise.

(ii) Stock certificates with provision
<u>for recording more than one transfer</u>

The form of stock certificate presently in use provides for recording only one transfer on the reverse thereof. It takes at least 6 working days for examination of a certificate lodged for transfer, cancelling it from records and issuing a new stock certificate after entering the transferee's name in the register. A suggestion was made to the Committee that as in the case of the shares of the companies, transfers of stock certificates may be effected by execution of a separate transfer deed so that the same certificate could be issued to the transferee after entering his name in the books of Public Debt Office. This could be done by providing for a suitable column on the reverse of the stock certificate for recording the names of successive transferees so that in one certificate five or six such transfers could be accommodated. This will save time involved in cancellation of old certificates and issue of new ones and also result in economy in the use of security forms. This will also enable stock brokers to settle deals between the sellers and buyers more conveniently. The Committee recommends that the issue of stock certificates with provision for recording multiple transfers may be considered.

Issue of securities at a discount and other innovative schemes

2.18 At present the Central as well as State loans are generally issued at par. A suggestion to consider issue of securities at a discount came up for consideration before the Committee. The merit of the proposal is that there would be no question of interest payment every half-year on such securities. The difference between the nominal amount payable on maturity and the issue (i.e., purchase) price would represent a lump sum income of the investor and Public Debt Offices will not be burdened with the work of paying half-yearly interest. Most of the banks and State Governments did not favour the idea, though for different reasons. The banks felt that it would create problem of accounting in their books, while the Governments felt that it would result in heavy lump sum payment at the time of maturity and consequent drain on their resources. In the light of the recommendation made by the Sukhamoy Chakravarty Committee, this Committee had occasion to further consider the matter along with some other innovative schemes for tapping the savings of the different target groups. The salient features of the schemes are given in Annexure 9. The Committee recommends that of these various schemes, the Central Government may, in the first instance, consider experimenting with the issue of short-dated bonds at a discount and stocks on tap.

Date of repayment of loans

2.19 Under the present arrangement, principal amount in respect of market loans floated by the Government is payable on or after the date of repayment indicated in the loan notification. Three types of market loans are floated by the Governments :

i) short-dated (maturing within 7 years);
ii) medium-dated (maturing between 8 and 15 years); and
iii) long-dated (maturing after 15 years)

There is no well-developed secondary market for Government securities in India as a result of which normally the investors have to wait till the date of maturity for receiving back the amount of investment without any capital loss. In the context of this position, a suggestion was made to the Committee that in the case of medium and long-dated loans floated by Government, a buy-back facility should be made available to the investors. Such a facility is available in respect of non-convertible debentures and has added to their popularity. The Government may like to consider whether new issues of medium-term loans could contain an element in the nature of'buy-back' facility in some form; such buy-back facility could be afforded in respect of Government securities to individual investors. No reliance should be placed in this regard on Reserve Bank of India and the buy-back support should come from the financial institutions like Life Insurance Corporation of India, Unit Trust of India, General Insurance Corporation of India,etc. (as in the case of non-convertible debentures).

CHAPTER 3

Servicing of Government loans - Payment of interest

3.1 As stated in paragraph 1.3, administration of public debt is done by Reserve Bank of India on a decentralised basis through the Public Debt Offices at 14 centres. Each Public Debt Office is required to undertake the servicing of the Government securities, Central as well as State, borne on its books. A major part of the servicing activity relates to payment of interest on the securities during their life time. Rule 9 of the Public Debt Rules, 1946 deals with interest payments. Interest on Government promissory notes is payable at the Public Debt Office which has issued it or a treasury or sub-treasury in its jurisdiction. For drawal of interest on a Government promissory note, it is obligatory for the holder to present the note itself at the Public Debt Office or treasury/sub-treasury and to comply with other formalities.

3.2 In the case of stock held in the form of stock certificates or SGL Accounts, interest is paid by Public Debt Office by warrants issued payable at the local office of the Bank or at a treasury/sub-treasury in India or within the State as may be the case. Interest on stock is also remitted, at the instance of the holder, by money order or bank draft after deducting the commission charges. Presentation of stock certificate is not required at the time of interest payment.

3.3 As regards bearer bonds, coupons for half-yearly payments are attached to the bond and interest is paid to any person who presents the coupon at the Public Debt Office or treasury where the bond is registered for payment of interest.

3.4 So far as the payment of interest on stock certificates or SGL Accounts is concerned, not much difficulty is experienced in organising the activity. This is because the names of the holders are registered in the books of Public Debt Office and payment of interest can be planned well in advance of the due date of interest payment and warrants despatched to the holders in good time in accordance with the instructions which are recorded by the Public Debt Office. In major Public Debt Offices the work is mechanised and use of Adrema machines is made for printing and despatch of warrants. In respect of one specific loan which is issued only in the form of stock, viz., 7% Capital Investment Bonds, the work has been computerised.

3.5 The position in respect of payment of interest on Government promissory notes is, however, not quite satisfactory as stated in the paragraphs 2.10 and 2.11. In physical terms, the number of Government promissory notes presented for payment of interest is very high. Further, the work of interest payment is not amenable to mechanisation or computerisation, as in the case of stock. The dates of half-yearly interest payment on Government loans are not very evenly spread throughout the year and there is a concentration of interest payments in a few months, as can be seen from the statement in Annexure 6, and the quality of service tends to suffer during rush periods. It is necessary to even out the due dates of interest payment on various Government loans in such a way that interest payments get well-dispersed throughout the year. This could be done by fixing, in advance, the dates of interest payments and providing for drawal of broken-period interest, if need be.

3.6 As a measure to relieve the pressure of work on Public Debt Offices a suggestion was made to the Committee that interest on Government promissory notes should be made payable annually instead of half-yearly as at present. However, the representatives of Life Insurance Corporation of India, General Insurance Corporation of India and commercial banks, in the course of their discussions, brought out that under the present arrangement they are in a position to take credit in respect of interest accrued on their investment in gilt-edged security on a half-yearly basis and arrange for presentation of the Income and Expenditure Accounts on that basis. This may not be possible if interest is payable annually. Receipt of income by way of interest at shorter (i.e.,half-yearly) intervals ensures a proper cash flow enabling them to meet their expenses. Some of the State Governments also expressed the apprehension that annual payment of interest will result in heavy outflow of cash at one time and therefore they were also not in favour of annual interest payments. On balance, it seems advantageous to continue the present system of half-yearly interest payments and the Committee recommends accordingly.

3.7 There are two aspects concerning the amount of interest payment that add to considerable avoidable work. The rates of interest are generally fractional (e.g., 5.75% p.a.) and the denominations in which the Government securities can be held are also very low (Rs.100 or multiple thereof). As a result, the half-yearly interest amount in many cases works out to an odd fraction making it difficult to effect payment, particularly at treasuries/sub-treasuries. The second aspect relates to calculation of appropriate income-tax and deduction thereof from the gross amount of interest before effecting payment. This necessitates waiting for announcement of the appropriate rates of income-tax deductible at source from payment of interest on Government securities, calculation of income-tax and surcharge applicable to different categories at different rates, issue of certificates of deduction of tax at source, recording of exemption/abatement certificates issued by the income-tax authorities, etc.

3.8 In the context of this, a suggestion was made to the Committee to consider rounding off of the half-yearly interest payment to the nearest whole rupee and to dispense with the requirement of deduction of tax at source from interest payment. It will make for all round convenience if the amount of interest is rounded off to the nearest whole rupee. Since the Committee has recommended in paragraph 2.5 that Government securities should be issued in multiples of Rs.1,000/-, the rounding off as recommended in this paragraph will be automatically achieved if the coupon rate is slightly adjusted and expressed in either whole rupees (e.g., 10%, 11%) or decimal fractions representing multiples of 20 paise (e.g., 11.40% or 11.60% instead of 11.50%).

3.9 As for the deduction of tax at source, it may be mentioned that recently the Government have relaxed the requirement of deduction of tax at source from payment of dividend on shares, etc. upto Rs.1,000/- p.a. It is, therefore, felt that requirement of deduction of tax at source from interest payment on Government securities may be dispensed with by making necessary amendments in the relevant provisions of the Income Tax Act, 1961.

3.10 An important point to be considered in this context is whether the non-deduction of tax at source from interest payment may lead to a substantial fall in the revenue through tax evasion. In the Committee's view, this is unlikely to happen because :

i) the banks and financial institutions, which are presently the major investors in Government securities, are required to pay advance income-tax to the Government under the Income-Tax Act;

ii) investors like Provident Funds, Pension Funds, Gratuity Funds, religious and charitable trusts, are exempt from tax; and

iii) the amount of investment in Government securities by individuals is negligible and the rate of tax deductible at source in their case is only 10 per cent.

A test check carried out by reference to interest payment on Government securities made by Reserve Bank of India, Bombay(Fort) reveals that on the gross amount of interest of Rs.61 crores(approx.) in the financial year 1984-85, the tax deducted at source amounted to only Rs.5 crores (approx.), which is insignificant. Besides, attempts to evade tax could be detected as the name of the holder of securities to whom interest has been paid by the Public Debt Office is recorded in the warrant. On balance, the Committee feels that there could be no adverse impact on the receipt of tax revenue by the Government merely on this account. On the other hand, a big source of irritant to investors will be removed and Government securities may become more attractive and popular if tax deduction at source is dispensed with. The Public Debt Offices, once relieved of the burden of calculating tax, preparation of tax deduction certificates, etc., will be in a position to render better service to investors. The Committee, therefore, recommends that the interest paid on investment in Government securities should be exempt from the statutory requirement of tax deduction at source.

3.11 In West Germany there is no system of what they call 'tax withholding' (i.e., deduction of tax at source) from any payment of interest, etc. excepting the dividends paid on equity shares of companies. The greatest advantage of this is that gross interest can be uniformly paid to all categories of holders irrespective of their status for assessment under the tax laws. This would facilitate not only mechanisation of interest payments by Public Debt Offices but also enable them to enlarge the scope for extending SGL Account facility to all categories of investors.

3.12 There is a side-effect of the requirement of deduction of tax at source, on the management of public debt. This arises from the fact that Government promissory notes lodged with the banks by their constituents for safe custody and/or collection of interest cannot be easily converted by them into book debt form, since the rates of tax applicable to different constituents will be varying in practice and as such the securities cannot be consolidated and converted into an account form as in the case of their own holdings (cf. paragraph 1.12 supra). As per the current instructions of the Central Board of Direct Taxes, while deducting income-tax at source, the status of the <u>beneficial</u> owner cannot be taken into consideration by the payer unless an income-tax exemption/abatement certificate granted in favour of the beneficial owner is produced. In fact many of the banks' constituents may be exempted categories of Provident Funds and Trusts and may not be required to pay tax on the interest income. In such cases, the bank's declaration about the ownership of the securities should be accepted and the tax should be deducted at the (lower) rates applicable to such beneficial owners or not deducted at all, as the case may be. However, the need for this will not arise if the Committee's recommendation about dispensing with the system of deducting tax at source from interest payments on Government securities, is accepted.

<u>Period of currency of interest warrants</u>

3.13 Interest warrants on Government securities are valid for three months from the date of issue, if payable at the local office of Reserve Bank of India and eight months from the date of issue, if payable at mofussil centres. The different periods of validity for local and mofussil warrants are not based on any statutory provisions, but are observed on the basis of a long-established banking practice. The period of validity of warrants drawn payable at mofussil centres was fixed as eight months at a time when the network of communication was not satisfactorily developed and a sufficiently long time was required to be made available to mofussil holders of Government securities for encashment of the interest warrants. The different periods of validity are not called for. Further, this causes hardship to holders in mofussil centres in case of loss of warrants as they have to compulsorily wait till the expiry of eight months, to obtain a duplicate thereof. It is noted that the period of currency of Government cheques is three months after the month of issue and that of cheques and bank drafts, six months from the date of issue. In order to evolve a uniform period of currency for all interest warrants-whether drawn payable at Reserve Bank of India Office or at a mofussil centre and to enable a holder to apply and obtain a duplicate warrant in case of loss of original in quicker time, the Committee recommends that the period of currency of a warrant may be fixed uniformly at three months.

Issue of duplicate warrants in lieu of
<u>Warrants reported lost, destroyed, etc.</u>

3.14 The Public Debt Offices follow an elaborate procedure for issue of a duplicate interest warrant in lieu of a warrant reported lost, mutilated or destroyed, etc. As per this procedure, on receipt of the report of loss of interest warrant:

i) a stop is recorded in the drawee office (if the warrant is current) and in Public Debt Office against the warrant reported lost;

ii) Public Debt Office obtains a non-payment certificate from the drawee office;

iii) if the amount of warrant is less than Rs.100/- issue of duplicate is considered during the period of currency of the instrument itself after obtaining a simple letter of declaration from the holder;

iv) if the warrant is for Rs.100/- and above but less than Rs.300/- issue of duplicate is considered, after the expiry of the period of currency and on obtaining a simple letter of declaration from the holder;

v) duplicate of a lost, etc. warrant for Rs.300/- and above is issued after obtaining a stamped letter of guarantee by the payee alone or with one or two sureties as may be prescribed by the Bank. The solvency of the sureties is verified by reference to a banker if the amount involved is less than Rs.5,000/- and in other cases by reference to Revenue authorities.

3.15 The Bank recognises the claim of the holder of warrants reported lost, etc. primarily on the basis of non-payment certificates issued by the drawee offices. After satisfying that the warrant has not been encashed, a duplicate warrant is issued after the expiry of the period of currency as a measure of abundant caution except in cases where the amount involved is very small. This procedure has been found to be cumbersome in operation and time-consuming. The Bank has been receiving a number of complaints about the hardship experienced by the holders and the delay in issuing duplicate interest warrants particularly where a letter of guarantee has to be executed by the holder with sureties. The process of obtaining solvency reports on the proposed sureties from bankers or Revenue authorities is very irksome to the customers and sometimes proves fruitless as the Revenue authorities generally do not respond. There have also been cases where the investors have refused to execute a letter of guarantee on the ground that the warrants had not reached them at all. Apparently the procedure has been evolved as a measure of abundant caution to avoid any possible double payment. But it also hurts the investors when a duplicate is not issued for the asking even when the fault does not lie with them. The Committee has gone into this matter and observed that the element of risk arises from the fact that warrants issued on Reserve Bank of India offices are transferable by endorsement and delivery lending scope to a possibility of payment being obtained by more than one person against such warrants. This could be substantially overcome if payment of interest on Government security is made only by warrants crossed 'account payee'. In that case, even if double payment occurs, recovery may be facilitated. Further, there will be hardly any risk of such double payment if a duplicate is issued after the expiry of the currency period of the warrant is over and after ascertaining that the original warrant has not been encashed. The hardship/inconvenience presently caused to the holders can thus be minimised without exposing the Bank/ Government to undue risk if the duplicate warrant is issued after the expiry of the period of its currency without insisting on any guarantee, irrespective of the amount involved. In paragraph 3.13, the Committee has recommended that a uniform period of currency of three months may be observed in respect of all interest warrants. If this recommendation is accepted, it will afford relief to the investors in case of loss of warrants, as the waiting period for issue of duplicate will be substantially reduced in most of the cases and they may not have any objection if the duplicate is issued after the expiry of the period of validity.

3.16 Another impediment in the prompt issue of duplicate warrant is the delay in the receipt of non-payment certificate from the drawee office. Before issue of a duplicate, Public Debt Office obtains a non-payment certificate from the drawee office, i.e. the Public Accounts Department (Department of the Bank dealing with Government transactions) or the concerned branch of the agent bank. Since Public Debt Offices are maintaining an Interest Warrant Register where date of payment of all warrants is marked off on the basis of paid warrants. Public Debt Office itself could verify its records and decide about issue of duplicate warrant without insisting on a non-payment certificate from Public Accounts Department. For this purpose, the Bank may provide that the marking off of dates of payment in the Interest Warrant Register should be authenticated by an officer so that the Public Debt Office may, for the purpose of issuing duplicate warrant, take the entry as a conclusive proof of payment/non-payment of the relative warrants. Further, Public Accounts Department may furnish a copy of the daily scrolls duly authenticated to Public Debt Office for marking off the date of payment and retention as a part of its records for future reference,if any. However, n the case of warrants payable at mofussil centres a non-payment certificate from the drawee bank/agency is necessary since the paid warrants are received in Public Debt Office after a long time.

CHAPTER 4

Servicing of Government Loans - Renewal, Consolidation/Sub-division and Conversion, etc.

4.1 Apart from the half-yearly payment of interest, the servicing of Government securities involves numerous further transactions like renewal, consolidation/sub-division and conversion from one form of security to another. Bulk of these transactions relate to Government promissory notes on account of their very nature. In the case of long-dated loans, for instance, it becomes necessary to have a promissory note renewed compulsorily on the expiry of 10 years, since there is no further provision on the note to record interest payments beyond that period. Likewise such renewal becomes inevitable when the endorsement cages on the note are utilised and the last holder wants to negotiate the note further. Unlike other negotiable instruments, separate paper (i.e., allonge) is not permitted to be used for recording additional endorsements since Rule 7 of the Public Debt Rules, 1946 expressly provides that no endorsement of Government promissory note shall be valid unless it is inscribed by the holder on the back of the note itself. There are many other circumstances which make such renewal obligatory. Apart from this, the holder of a Government promissory note has always an option, on payment of the prescribed fees, to ask for renewal of a note. This is generally done to avail of the advantage of the statutory protection, which is inherent in such renewal viz., that it constitutes a new contract and, therefore, the title of the holder of the renewed note is free from defects in the title of the last holder of the old Government promissory note from whom he acquired it. In view of what is stated above, the Public Debt Office is burdened with the work of renewal of notes throughout the year and is required to process every such security in detail, before giving effect to the transactions. Likewise, securities are also received for consolidating smaller denomination securities into larger denomination and vice versa. This also necessitates detailed processing of the securities to be cancelled before the new ones are issued in lieu thereof. It has been stated in paragraph 2.7 that loan notifications generally provide for the issue of securities in the form of Government promissory notes and stock certificates. Consequently, requests are often received in Public Debt Office for conversion of Government promissory notes into stock certificates/SGL Account and vice versa. The variety of forms in which the Government securities are offered for subscription, therefore, has a bearing on the management of public debt. The work can be considerably simplified, if the Government securities are offered in a standardised single form, namely, Stock transferable by registration in the books of the Public Debt Office. This will minimise a large amount of current workload arising out of avoidable as well as unavoidable renewals and conversions. However, suitable simplification of the procedures will have to be thought of for dealing with the Government securities in different forms already issued under the existing framework.

4.2 At present the work of processing Government securities received in the Public Debt Offices for various purposes is organised in different sections. Each section is dealing with a part of the whole process. Consequently there is considerable inter-sectional movement of Government securities from the time of their receipt till final action is taken. In the process, bottlenecks tend to develop leading to delays in putting through the transactions. The Bank is contemplating suitable reorganisation of the Public Debt Offices so that the securities can be dealt with in self-contained sections with reference to the types of transactions for which they are tendered. For instance, if securities are tendered for renewal, all incidental actions such as payment of overdue interest, writing of new notes, etc. will be handled in one section. The Committee feels that with the contemplated reorganisation of work and other measures recommended in the report, servicing of Government securities would be considerably improved.

4.3 Apart from procedural matters there are certain specific aspects relating to the servicing of securities held by certain categories of the investors where difficulties are experienced under the existing legal framework. These are discussed in the following paragraphs.

Securities in the name of minor

4.4 As the Public Debt Act stands, a minor can hold or deal with Government securities. In such cases the father or, if the father be dead, the mother of a Hindu minor, is entitled to act as the guardian while dealing with the Government securities held by the minor without obtaining a certificate of guardianship under the Guardians and Wards Act (Act 8 of 1890). However, in other cases, a guardianship certificate granted by a competent court under the provisions of the Guardians and Wards Act is required to be produced by the applicant for dealing with Government securities on behalf of a minor. This places the guardians (parents) of a minor holder who is not Hindu in a disadvantageous position as compared to the guardians of a Hindu minor. The provision should be such as to apply uniformly to all holders. There should normally be no objection if either of the parents of a minor holder applies for the Government securities and wants to deal with them on behalf of his or her minor child. In fact, under the Government Savings Certificates Act, 1959 either of the parents of a minor is empowered to apply for, hold or deal with Government savings certificates on behalf of the minor. The Committee recommends that a similar provision applicable to all holders may be incorporated in the Public Debt Act.

Securities held by Trusts

4.5 As per Section 6 of the Act and Rule 8 of the Public Debt Rules, 1946 no notice of trust in respect of any Government security shall be receivable by the Government nor shall the Government be bound by any such notice. However, the Bank may, as an act of grace, record in its books such directions by the holder of stock for the payment of interest on, or the maturity value of, or the transfer, etc. of stock as the Bank thinks fit. In other words, a trust cannot hold a Government promissory note in its name but it can hold a stock certificate in its name. In view of this provision, if a Government promissory note endorsed in favour of a trust or a person(s) described as trustee(s), such a note is treated as the personal property of the person(s) named as trustee(s).This provision is causing considerable inconvenience to the trusts. To overcome this difficulty, in many cases the trustees hold the Government promissory notes belonging to the trust in their personal names. This is not desirable as a Government promissory note held in the individual name of the trustee is treated as his personal property and all requirements of the Act and the Rules relating to signature/production of legal representation, etc. as applicable to the individual holders, apply in such cases. As such, on the one hand it affords scope for misuse of trust funds, while on the other hand, difficulties arise in the case of death of the trustee in whose personal name the Government promissory note stands endorsed/issued. It is worthwhile to note that some financial institutions like IDBI, NABARD, IFC, etc., which raise funds through market borrowings, allow a trust to hold their bonds in the form of promissory notes in the name of the trust. Now-a-days, Provident Funds, charitable and other private trusts are subscribing to Government securities on an increasing scale. It will, therefore, be in the fitness of things if the present restriction precluding a trust from holding Government promissory notes in its own name is removed. The Committee recommends that Section 6 and Rule 8 be amended to permit a trust to hold and deal with Government securities in any form.

CHAPTER 5

Servicing of Government loans - Lost Note Procedure, Legal Representation, etc.

5.1 One of the important terms of reference to which the Committee is required to apply its mind is to review the provisions of the Public Debt Act, 1944 and the Rules framed thereunder with a view to improving customer service. In this context, it may be mentioned that although the Act was passed 41 years ago, its substantive structure has remained unchanged except for introduction of a couple of Sections (Sections 9A, 9B and 9C) aimed at provision of nomination facility in respect of small savings certificates. The existing provisions are proving increasingly inadequate to ensure prompt and efficient servicing of the enormous volume of public debt and it is necessary to introduce suitable simplifications/relaxations in the existing legal provisions for rendering better customer service.

5.2 From this point of view, the Committee examined in detail the various provisions of the Act and the Rules. In this task it had the benefit of the expert advice from the Reserve Bank's Legal Department as well as the members representing the Ministry of Law, Government of India. The recommendations of the Committee on the amendments necessary in the Public Debt Act and Rules are contained in Annexure 7. If these recommendations are accepted, the Committee would suggest that the existing Public Debt Act may be replaced by a new Act incorporating the recommendations. In particular, the areas in which the need for such simplification is keenly felt are :

i) statutory procedure required to be followed for obtaining duplicate of a lost security; and

ii) legal representation on the death of the holder.

These and some other more important amendments and the rationale therefor are discussed in the following paragraphs.

Lost Note Procedure

5.3 The procedure for issue of duplicate security in the case of loss of a stock certificate is fairly simple, inexpensive and less time-consuming. An application explaining the circumstances attending the loss, accompanied by an affidavit sworn before a Magistrate, are the principal formalities required to be complied with and the duplicate certificate is issued soon thereafter if the Bank is satisfied of the loss, etc. This is not, however, the position in the case of Government promissory notes. The statutory procedure for issue of duplicate in lieu of lost/destroyed, etc. Government promissory notes is based on the provisions of Rules 11, 12 and 18 of the Public Debt Rules, 1946, Rules 6 and 7 of the Public Debt (Compensation Bonds) Rules, 1954 applicable to Compensation Bonds issued in the form of a promissory note. In brief, the procedure is as under :

5.4 Immediately after receipt of holder's intimation about the loss or destruction, etc. of a Government promissory note, if the security is outstanding (i.e., not already paid/cancelled), a stop is recorded in the books of the Public Debt Office under advice to all concerned. The holder is called upon to submit a Written Statement in the prescribed form (PDO 197) explaining the circumstances in which loss, etc. has taken place, with his signature thereon duly attested. If the Public Debt Office is satisfied of the loss and that the security is not in adverse possession, the applicant is advised to comply with following further requirements :

(i) Government promissory note for
an amount over Rs.1000/-

(a) to notify the loss in three successive issues of the Gazette of India and of the local official Gazette where the loss, etc. has occurred, if the Government promissory note pertains to a Central Government loan. If the promissory note pertains to a State Government loan, the loss is required to be notified by the applicant in three successive issues of the official Gazette of the State concerned and in three successive issues of the local official Gazette if the loss has occurred at a place outside the State to which the loan pertains. The form of the Gazette notification is laid down in Rule 12(3)(b). In all cases the applicant is required to furnish copies of the relative Gazette notifications to the Public Debt Office;

(b) to submit a copy of the police report, if the loss/ theft was reported to the police; Post Office registration receipt if the note was lost in transmission by post;

(c) to submit an affidavit, sworn before a Magistrate, testifying that the applicant was the last legal holder of the note and that the note was not endorsed by him in favour of any one else; and

(d) where the applicant is not the original holder, to produce 'bills of sale', i.e., documentary evidence tracing back his title to the lost note, step by step, to the original holder thereof.

On receipt of the above documents and in the absence of any doubt about the bonafides of the case, the claim of the applicant is provisionally admitted by the Public Debt Office. After such provisional order has been passed, the Bank is required to include the particulars of the lost Government promissory note(s) in question in the first list after provisional orders to be published by the Bank in the Gazette of India (for Central Government notes) or in the local State Government Gazette (for State Government notes) under Rule 18. The particulars continue to be published in the Gazette half-yearly until the expiry of the period prescribed for the issue of duplicate. The duplicate note is issued three years after the date of the first publication of the list in the Gazette by the Bank under Rule 18. During this waiting period, accrued/accruing interest on the lost note can be drawn by the applicant on his executing a bond of indemnity with one or two sureties acceptable to the Bank on the basis of inquiry into their creditworthiness by reference to their bankers or the Revenue authorities.

(ii) Government promissory notes upto Rs.1000/-

To afford monetary relief to small holders, the above statutory lost note procedure has been relaxed, by administrative instructions. Under the relaxed procedure, if the value of a Government promissory note (or compensation bond) does not exceed Rs.1000/-, the applicant is not required to notify the loss in the manner indicated at (a) under item (i) above, provided he undertakes to execute a bond of indemnity with two sufficient sureties and does not claim interest before the issue of a duplicate. In such cases, duplicate note/bond is issued after expiry of three years from the date of first publication of the half-yearly list of lost securities by the Bank under Rule 18. (The option to follow either statutory procedure or the relaxed procedure is exercised by the claimant).

5.5 It will be seen from the above that the statutory procedure is very cumbersome, time-consuming and expensive for the holders of Government promissory notes. The operative part of the provision, viz., loss should be published in three successive issues of Government Gazette by the applicant at his cost makes the provision onerous and creates difficulty for the holder if the publishing authorities do not, for some reason or the other, ensure publication of the loss in three successive issues. In such an event, the particulars are required to be published over again which means avoidable additional expenses and further delay in getting a new security. The holders also feel that the charges levied by State Governments for such publication are exorbitant and, in many cases, out of proportion to the value of the securities involved. Also there is no uniformity in the charges levied by various Governments. Some of the Governments levy charges on the basis of space required for publishing the text of the notification, while some others levy ad valorem charges. Government of Maharashtra levy publication charges @ about 15% of the face value of the Government security lost. Thus, if a Government promissory note for Rs.1 lakh is lost in Maharashtra, the applicant will be required to incur an expenditure of at least Rs.15,000/- for such publication.

5.6 The waiting period of three years before the expiry of which duplicate of the lost Government promissory note is not issued, is also rather long. Generally, it takes about one or two years to complete the various formalities before the applicant's claim can be provisionally admitted. Thereafter the particulars of the lost Government promissory notes are first published by the Bank under Rule 18, and the claimant has to wait for further three years from the date of such publication. In other words, in actual practice, the claimant has to wait for nearly 5 years from the time he reports loss of the Government promissory note before a duplicate is issued to him. This long waiting period creates further complications. Instances are not wanting where the holders who had reported the loss and initiated the lost note procedure, died before issue of the duplicate note. In such cases the legal heirs have to complete the unfinished formalities after obtaining the prescribed legal representation, which again, involves a costly and arduous process.

5.7 The Committee feels that there is need to make the statutory lost note procedure less cumbersome and less time-consuming. A suggestion was made by bankers and brokers that the publication of the loss by the holders may be made in leading newspapers instead of the official Gazettes. The Committee recommends that the relevant Rules may be amended to provide for :

i) notification of loss, etc. by the applicant in Government Gazette or insertion of an advertisement in a leading newspaper;

ii) loss may be notified/advertised only once (and not three times);

iii) issue of a duplicate note in lieu of the lost note to the holder 3 months after the date of publication of the particulars of the lost security by the Bank in the list referred to in Rule 18;

iv) deletion of the clause regarding payment of interest after six months against indemnity bond;

v) deletion of the words, "and all documentary evidence necessary to trace back the title to the original holder" and substitution in their place of words to the following effect; "such other form of evidence as the Bank may call for" in Rule 12(1)(e).

Documents :

5.8 In the course of their day-to-day work, Public Debt Offices receive a number of documents along with Government securities. Some of these documents are required to be produced according to the provisions of the Public Debt Act or Rules framed thereunder. Since these are statutory requirements, the Public Debt Offices have no discretion to waive production of these documents even in genuine cases. Obtaining these documents is time-consuming and involves disproportionate expenditure to the applicants. The Committee has examined such statutory documents and recommends as under :

Heirship Certificate

5.9 Section 9 of the Public Debt Act provides for a relaxed procedure for the acceptance of the claim of legal heirs of a deceased holder where the aggregate face value of Government securities held by the deceased at the time of his death does not exceed Rs.5,000/-. As per this provision the Public Debt Office can accept a simple heirship certificate granted by a District Magistrate where the legal heirs are unable to produce any of the documents specified in Section 7 and the amount of securities does not exceed Rs.5,000/-. The monetary ceiling of Rs.5,000/- for availing of the relaxed procedure was fixed long back and is considered too low, in view of the erosion in the value of money. The fixation of the limit with reference to the "face value" (and not the amount outstanding) of securities causes hardship, particularly in respect of securities like compensation bonds where principal is repaid in instalments along with interest, thereby progressively reducing the outstanding amount due on the securities. The Committee, therefore, recommends that the monetary ceiling may be raised to Rs.25,000/- and the words 'face value' may be replaced by the words 'principal outstanding'. Provision may also be made authorising the Government to raise this monetary limit by issue of a notification in the Gazette, if and when necessary.

Nomination by the holders of Government securities

5.10 Sections 9B and 9C of the Public Debt Act provide for the facility of nomination by a holder of Government security in the prescribed manner. However, this facility is available only in respect of securities issued under small savings or special schemes introduced by the Government of India, such as Treasury Savings Deposit Certificate, Defence Deposit Certificate, National Rural Development Bonds, National Deposit Scheme, etc. and it is not available in the case of securities of State Government loans and other market loans of Government of India. Extension of nomination facility to holders of Government securities in the form of stock is feasible. This will help smaller investors to have their claims recognised without loss of time and money. In view of the distinct advantages of the nomination facility, it has been recently introduced in respect of bank accounts vide Banking Companies (Nomination) Rules, 1985 The Committee, therefore, recommends that appropriate provision may be made in the Public Debt Act and Rules enabling an individual sole/joint holder(s) holding Government stock in personal capacity to nominate a person or persons who will be authorised to receive the amount of securities in the event of his/their death.

Vesting Order in the case of securities held by a minor or an insane person

5.11 As per Section 10 of the Act, the Bank may pass an order in the case of a security of the face value of less than Rs.5,000/- belonging to a minor or an insane person vesting its title in favour of any person as it considers to be representing the minor or insane person. The monetary ceiling of Rs.5,000/- was fixed long back and is too low, in view of the erosion in the value of money. The Committee recommends that the monetary ceiling prescribed in Section 10 may be raised to Rs.25,000/- and the words 'face value' replaced by the words 'principal outstanding' Provision may also be made authorising the Government to raise this monetary limit by issue of notification in the Gazette, if and when necessary.

Bond of Indemnity

5.12 Where the Bank is required to pass an order under the Act or Rules and where any possible risk is involved, the Act and the Rules provide for obtaining a bond of indemnity from the concerned persons indemnifying the Bank against any possible loss. Thus, Section 16(1) and Rules 12, 13, 14 and 15 provide for obtention of such bonds. When a bond of indemnity is taken the Bank also insists on one or two sureties joining the claimant in execution of the bond, as a measure of abundant caution. The sureties are required to be acceptable to the Bank, and before accepting any surety, the Bank usually obtains a solvency report on him from the Revenue authorities with reference to the means of the proposed sureties. These requirements were prescribed when landed property was considered the sole/principal means of assessing the creditworthiness of a person and when banking habits had not developed to the extent to which they are today. Moreover, when the Public Debt Offices apply to the Revenue authorities for such certificates, either the authorities take a long time to furnish such certificates or they do not reply at all. As a result the Public Debt Offices enter into prolonged and futile correspondence with the Revenue authorities. With the phenomenal growth of the network of the major commercial banks throughout the country, it may be possible for an investor/ claimant to obtain a report on his creditworthiness from his own bankers. This should be accepted, if favourable. Alternatively, the holder may be asked to give a bank guarantee in lieu of sureties whenever the Bank is required to pass a vesting order in future in favour of a person and there is a risk of loss to the Bank by making such vesting orders. The Committee recommends that Section 16 of the Act and Rules 12, 13, 14 and 15 may be amended to provide for obtaining a bank guarantee as an alternative to bond of indemnity with sureties. Such bank guarantee will be a continuing guarantee, valid till the maturity of the security in question.

District Magistrate

5.13 Rule 2(3) of Public Debt Rules defines District Magistrate as every person exercising all or any of the powers of a District Magistrate as defined under the Code of Criminal Procedure. Other provisions of the Public Debt Rules such as Rule 23 provide for issue of certain documents like Heirship Certificate, Mitakshara Certificate, only by a District Magistrate. Insistence on obtaining such documents only from a District Magistrate sometimes creates difficulties to the claimants. Since such certificate is only in the nature of a piece of evidence, the Committee considered whether it was possible to accept such certificates granted by other Magistrates such as Judicial Magistrates. In this context, the Committee was advised by the members representing legal side that the revised set-up under the Code of Criminal Procedure, 1973, allocates magisterial functions between two categories of Magistrates, namely, Judicial and Executive, based on separation of the Judiciary from the Executive. Broadly speaking, functions which are essentially judicial in nature will be performed by Judicial Magistrates while functions which are in the nature of 'police' or administrative functions will be the concern of the Executive Magistrates. As such, it would not be possible to include Judicial Magistrates in the definition of the term 'District Magistrate' in the Public Debt Rules. While taking note of the above view, the members representing Governments suggested that the Sub-divisional Magistrates, who are in charge of sub-divisions, can be included in the definition of District Magistrate under Rule 2(3) for the purposes of issue of Mitakshara/Heirship certificates. The Committee considered the suggestion and felt that the existing machinery at sub-divisions which offers a wider coverage could be utilised with advantage. The Committee accordingly recommends that the definition of the term 'District Magistrate' in Rule 2(3) of the Public Debt Rules, 1946, be enlarged to include 'Sub-divisional Magistrates'.

Public Debt Office Fees

5.14 The Public Debt Offices render a variety of services to the holders of Government securities. These include renewal, conversion, consolidation, sub-division, issue of duplicate security, supply of information, copy of the documents, etc. For these services, they charge nominal fees as prescribed in Rules 30 and 31 of the Public Debt Rules, 1946. These fees range from a minimum of 25 paise per cent to a maximum of Re.1/- per security. These were fixed long back and are inadequate to reasonably compensate Public Debt Offices for the spiralling cost of labour, security paper, printing, etc. involved in the process. In view of the significant expenses incurred by the Public Debt Offices in processing securities tendered for renewal, conversion, etc. it may not be advisable that the Public Debt Office may forego the small amount of fees. On the contrary, there is a case for substantial revision of the scale of such fees on the ground that any extra service rendered should be paid for by those who are benefitted by the service. Initially the Committee felt that a scale of fees at Re.1 per cent, subject to a maximum of Rs.25 per security may be prescribed in Rule 31. However, since the fees may have to be revised from time to time to be in tune with the costs, there should be a degree of flexibility in the Bank's powers to determine the fees which will not be possible if a specified rate is prescribed in the Rule itself as at present. The Committee, therefore, feels that instead of laying down a scale of fees in the Rules, it would be better to vest discretion in the Bank to determine the scale of fees for the various services rendered, and to revise them from time to time by notice to the public. This could be done by promoting suitable amendment to Rules 30 and 31. The Committee recommends that Public Debt Rules may be amended accordingly.

CHAPTER 6

Management of public debt - Miscellaneous matters

6.1 Certain miscellaneous matters relating to public debt management have not been covered in other chapters of this report. These are discussed in this chapter.

Payment of brokerage

6.2 The Government notification issued in connection with floatation of loans contains a provision for payment of brokerage to recognised banks and brokers on allotments made in respect of applications for loans tendered by them on behalf of their constituents. This provision contains a stipulation to the effect that the claim for payment of brokerage should be preferred at the concerned Public Debt Office within six months from the date of floatation of the loans. In practice submission of bills for brokerage is almost a continuous process, which very often goes beyond the prescribed time limit of six months. However, such delayed claims are not rejected on the technical ground of delay but are settled after obtaining explanation or pointing out the time limit for submission of bills. As a result the preparation of statement of charges by the Public Debt Offices gets delayed, necessitating submission of supplementary statement of charges to the Government. It has also been observed that due to the time lag, a number of discrepancies creep into the bills, necessitating avoidable correspondence.

6.3 To obviate these difficulties it was suggested that payment of brokerage may be made on an 'automatic' basis, that is, without insisting on the banks'/brokers' formal claim for payment of the charges. This implies that the Public Debt Offices should pay the brokerage to the recognised bankers and brokers on the basis of the new loan applications bearing their stamp or code number. This will facilitate early settlement of the claims towards brokerage and consequently early submission of the statement of charges by the Public Debt Offices to the Government. A similar procedure for payment of brokerage to banks and brokers on the basis of applications bearing their code numbers is already in vogue in respect of 7% Capital Investment Bonds and the system is working satisfactorily. The Committee recommends that this may be extended to other market loans also.

Mode of payment of interest

6.4 At present interest on Government securities is payable by means of interest warrants or by money order, if the holder so desires. The provision to pay the interest amount by money order sometimes creates difficulties to the Public Debt Offices. To comply with the instructions of the holder, the Public Debt Office has to keep the stock of the money order forms with proper accounts, arrange for sending the money order and accounting the same, if returned undelivered. This facility was extended when the banking facilities had not developed so much as they are today. The Committee feels that the option available to the investor to get the interest payment by money order may be withdrawn and interest payment effected only by issue of warrants/bank drafts crossed Account Payee as recommended in paragraph 3.15.

Registration of documents

6.5 The Public Debt Offices receive various documents such as Powers of Attorney, Probates, Letters of Administration, Succession Certificates, etc. in connection with the transactions relating to Government securities. While some of these documents are statutory, which have been dealt with in Chapter 5, other documents are non-statutory but called for by Public Debt Offices for various purposes. Under the present procedure, the documents are registered in the books of Public Debt Offices and returned to the tenderers thereafter, except those which have one-time utility. After examining the documents, the relevant portions concerning the Government securities are copied in the registers maintained by the Public Debt Offices. These registers have become unwieldy and locating a particular registry often takes a long time.

6.6 With a view to simplifying the procedure for registration of documents, the Bank has introduced Kardveyer retrieval system in three major Public Debt Offices viz., Madras, Bombay and New Delhi. Under this system important provisions of the documents are standardised and these standard clauses are printed in loose cards.

These cards with specimen signature of the authorised officials are kept in the Kardveyer units and retrieved by a mechanical system whenever required. The advantage of this system is that extracts from the document need not be copied manually in the documents registers and retrieval of a particular registry is quicker. In other Public Debt Offices, the practice of copying the relevant portions of the documents manually in the registers is continuing. The Committee feels that cards with standard clauses may be printed in suitable sizes and stored in convenient places with locking system. This will obviate the need to copy the extracts from the documents in the documents registers and save space in keeping the large number of registers in Public Debt Offices.

Certificate of Identity

6.7 A certificate of identity is called for if the signature of the endorser on a Government promissory note is not legible or decipherable or the signature is in any regional language not included in the Eighth Schedule to the Constitution. Such certificate is also insisted upon in cases where documents produced for registration or otherwise reveal a discrepancy in the name and the signature of the holder. At present certificates of identity granted by a Magistrate, Notary Public or a bank official are accepted. Confirmed Grade 'B' officers of Reserve Bank of India can also give such a certificate in respect of securities not exceeding Rs.2000/-. In the case of a certificate granted by a bank official, a pre-requisite for the acceptance thereof is that the authority of the granting official should be registered with the Public Debt Office and operative at the time of registration of the document certified. Generally a bank would not issue a certificate unless the concerned person has been keeping an account with the bank. Thus, the certificate would be based on its own records. The certificate may also be issued on the basis of the banker's acquaintance with the writing/signature of the party concerned. The certificates are admissible as a piece of evidence in both the cases.

6.8 Considering the evidentiary value and largely the dependability of the banker's certificate, the Committee recommends that a certificate of identity granted by a bank official may be accepted without insisting on the registration of his authority in the books of the Public Debt Office provided the certificate is on the letter-head and bears the seal/stamp of the bank and the name and designation of the signatory are clearly stated below the signature. The present monetary ceiling of Rs.2,000/- for the issue of such a certificate by Reserve Bank of India officers in Grade 'B' may also be removed.

Certificate of Marriage

6.9 A certificate of marriage is called for whenever there is a change in the name of a female holder after marriage. At present the certificates granted by only the competent authority, viz. Registrar of Marriages, or Churches and Magistrates, are accepted. It is sometimes difficult to obtain such a certificate from the Registrar of Marriages, or a Magistrate. To alleviate the hardship in such cases, it is suggested that the certificates issued by bankers, Reserve Bank of India officers in Grade 'B' or above or any other responsible person like Head Master of a School or Head of a Gram Panchayat may also be considered for acceptance by Public Debt Offices. In many States, based on local law, a register of family, called Kutumb Register, is maintained by the Secretary, Gram Panchayat. The Voters' list is also maintained by the Election Office for purpose of Gram Panchayat or other elections. As regards banker's certificate, if granted, it will be for their customers and may be from their personal knowledge or based on the certificates already filed by the parties with them. The legal view is that the certificates issued by the competent authorities under the Hindu Marriage Act and the Special Marriages Act carry greater evidentiary value. Considering the limited purpose for which such a certificate is obtained by Public Debt Offices, the Committee feels that certificates granted by bankers, Heads of Gram Panchayats, Reserve Bank of India officers and Head Masters of Schools may also be accepted.

<u>Birth Certificate</u>

6.10 A birth certificate is required in the case of investment in Government securities in the name of a minor, so as to know the date on which he will attain majority. The birth certificates granted by the municipal or other competent authorities, a Church, Registrar of Births & Deaths, or a Magistrate or specified Gram Panchayats are accepted at present. It is sometimes difficult to obtain a birth certificate from the municipal authorities of the place where the person was born, particularly when the holder has shifted to another town/city or if the relevant record of the municipality is not available. It was, therefore, suggested that certificates granted by a banker or Head Master of the School or head of a Gram Panchayat may also be accepted. The certificates granted by the head of a Gram Panchayat or Head Master of the School are admissible in evidence. The Committee recommends accordingly.

Certificate of incorporation/
registration

6.11 The certificate is required for ascertaining the judicial status of the company/co-operative society investing in Government securities. The certificate is issued by the Registrar of Companies/Co-operative Societies. At present production of the original certificate is insisted upon by Public Debt Offices. The institutions concerned often find it difficult to part with the original documents, since these may be required for various other purposes and in view of their importance. Even after protracted correspondence, they are reluctant to submit original certificates. It was, therefore, suggested that a copy of the certificate duly attested by a

Gazetted Officer of the Central/State Government could be accepted. The matter was considered and it was observed that the certified copies of the documents issued by the Registrar of Companies at the request of parties for a nominal fee under Companies Act, 1956 are admissible in evidence in all legal proceedings. Likewise, in respect of Co-operative Societies, copies certified by the office of Registrar of Co-operative Societies under its seal may be accepted. The Committee recommends that such certified copies may be accepted to afford relief to the investing companies.

Mode of payment of discharge
value of Government securities

6.12 Under the existing procedure, the payment of discharge value of the securities notified for repayment is authorised by the Public Debt Office by affixing a 'Pay Order' on the reverse of the security itself. The security is thereafter handed over to the holder who may collect the proceeds himself personally or through his bankers. In case of payment of cumulative value of certain types of securities notified for repayment and repayment of securities held in SGL Account form, the Public Debt Offices issue separate payment orders. With a view to expediting clearance of cheques, the Bank is contemplating introduction of MICR technology for processing local as well as outstation cheques and other instruments initially at four metropolitan centres. As standardisation of the instruments in regard to size, quality of paper, printing, etc. is necessary, the Bank has since decided to issue separate payment orders representing discharge value of Government promissory notes/stock certificates to the holders instead of on the Government promissory notes/stock certificates themselves. The proposal has the concurrence of the Comptroller and Auditor General, New Delhi. The proposed mode of payment in the form of separate payment orders will eliminate the risk involved in transmitting the actual securities. The Committee recommends that the system of payment by a separate instrument may be introduced in all Public Debt Offices. In cases where the investor has tendered more than one security for the purpose, the Public Debt Office may issue one consolidated payment order covering all the securities tendered by the same investor.

CHAPTER 7

Computerisation of the Issue and Servicing of Government Securities

7.1 In this Chapter, we consider the scope for the issue of Government loans and their servicing through computerisation. Already, Reserve Bank of India has computerised various operational areas at different places. The issue of 7% Capital Investment Bonds and their subsequent servicing at all the stages has already been computerised. The bond itself is printed on computer. Commercial banks are also installing ledger posting machines with memory modules, microprocessors and the main-frame systems in their branches/offices. It is, therefore, appropriate to consider whether the management of public debt can be computerised, at least in those stages which do not involve qualitative work of physical verification and handling of documents.

7.2 The work in a Public Debt Office has become so complex that it is required to be organised in about a minimum of sixteen sections. The varied nature of servicing a stock certificate or a Government promissory note, the volume of activity, and the need for ensuring safety of securities which require movement of securities from one desk to another, create a lot of tension for the staff and duplication of work in maintaining so many registers on the one hand and result in delay in rendering customer service on the other hand. Computerisation can offer solution to some of these problems.

7.3 The type of work involved in the issue of Government loans in various forms and their subsequent servicing is far more varied and voluminous than the type of work involved in equity share certificates. In the first place, for a given company, equity shares or debenture issue is of a single denomination and sporadic and is located at a single office whereas Government loans are in multiple forms and varied denominations and are issued at different locations. Transfer of share certificates or issue of duplicates and their annual servicing through dividend/interest warrants is again located at a single point whereas the post-issue activity on Government loans involves voluminous work of varied nature at different locations.

7.4 The following table shows the growth in the volume of activities in Public Debt Offices over the last two decades. Subscriptions to new loans which amounted to Rs.243 crores in 1962 have now increased to about Rs.8,021 crores.

Growth in selected items under Public Debt Management

		1962	1984
(1)	Number of new loan applications handled	7,000*	19,150*
(2)	Number of scrips issued	68,900*	41,600*
(3)	Number of new Government promissory notes issued by renewal, etc.	38,700	73,800
(4)	Number of transactions on SGL Account	6,000	33,500
(5)	Number of interest warrants issued	1,67,000	3,36,000
(6)	Number of Government promissory notes posted	Not available	10,00,000

*The scrips are issued in the denominations indicated by the investor in the new loan application.

The above table shows only the selected final output indicators, which do not fully reflect the total workload handled in Public Debt Offices. The intermediate processing between the acceptance of documents from the investors for a particular activity and their final delivery requires a number of registers to be posted and their balancing within the office every day besides periodic reconciliation of transactions between different offices.

7.5 To understand the problems in management and audit control, it is necessary to study the work flow through various sections of Public Debt Offices. The starting point may be taken as the issue of Government promissory notes/stock certificates or crediting of SGL Accounts against new loans floated. Applications for new loans are received along with cash, cheques or matured notes/stock, etc. to be redeemed. These are entered in jotting sheets along with Cash Application Register.

7.6 The progressive totals are struck for being advised to the Bombay Office of Reserve Bank of India which monitors the loan subscription. Steps are taken for collection of cheques and credit to Special Current Account as also for transfer of the balance to Government account after closure of the loan. The matured securities tendered along with the applications and applications eligible for brokerage are entered in separate registers for further action. A list of applicants for Rs.1 lakh and above is prepared by Public Debt Offices. Meanwhile applications are subjected to scrutiny and an indent for blank scrip is sent to the New Note Writing Section. On receipt of the blank scrips, necessary entries are made in the Issue Registers for Government promissory notes/stock and accounting vouchers passed. The scrips duly signed/completed are forwarded to the Delivery Section/Correspondence Section for delivery/despatch by post. The final agreement of figures as also verification of credit to Government account is carried out after the issue of new scrips in respect of all applications.

7.7 In respect of applications for Government promissory notes received at State Bank of India, etc. branches, consolidated indents indicating, denomination-wise, the aggregate number of Government promissory notes required to be issued, are sent to Public Debt Offices. The latter issue Government promissory notes favouring State Bank of India Associate Banks, which, in turn, endorse the notes to the applicants and deliver them against surrender of the temporary receipt.

7.8 After the issue of scrips to parties on the basis of their applications, these scrips may be received back as and when they are required to be modified in the form of renewal, consolidation, sub-division, conversion and enfacement. Each of these transactions is a specialised function, requiring qualitative examination and book-keeping work. The entire work is organised in different sections of the Public Debt Office and registers indicating receipt and movement of securities/ documents between sections are maintained. This book-keeping work has a lot of built-in duplication and can be avoided in a computerised system.

7.9 There are two main irritating features in the public debt management to-day, from the investor's point of view. First is the necessity of production of varied documents, and the long waiting period entailed in processing and effecting changes, getting duplicates, etc. The second irksome feature is the delay in servicing of debt in the form of issue of interest warrants. The Committee has in the earlier chapters of this report commented in detail on these aspects and recommended certain remedial measures.

7.10 The main objectives of computerisation of public debt management should be to :

a) improve customer service;
b) facilitate management and audit control; and
c) generate statistical information as a by-product of administration of debt.

7.11 As stated earlier, management of public debt involves a wide range of inter-linked processes, some of which are qualitative while others could be executed in "batches" under repetitive actions. These batch-processing items of work in the public debt management are amenable to computerisation. Besides, various books of account/ledgers/registers can be maintained and updated as computer files.

7.12 Floatation of a particular new loan, in general, is a one-time activity because the loan is available on tap only for a short period. The issue of stock certificates or Government promissory notes or crediting SGL Accounts for the new loans is decentralised in Public Debt Office. The applications along with subscriptions are received in numerou Reserve Bank of India/State Bank of India, etc. offices authorised to do so. The Committee first considered whether the activities relating to processing of these applications could be computerised.

7.13 As stated earlier, the issue of 7% Capital Investment Bonds in 1982 was computerised including printing of the holder's particulars, amount, etc. on the bond. The computer processing is, however, undertaken on the Bank's computer at Bombay while the applications and subscriptions continue to be received in a large number of Reserve Bank of India/State Bank of India offices. Computerised system also generates all the accounting files, listing of brokerage to be paid, prints interest warrants and their registers as also carries out reconciliation of accounts. The system consists of two sub-systems, one for printing of bonds from the Applications Register and another for all other subsequent stages. The time and motion study of this system shows that the first sub-system involves delay because of the time taken for the physical transmission of the application forms by post from the place of their origin to the computer point and it generally takes about a month for the customers to receive the stock certificates. Subsequent alterations in the stock certificates by way of sub-division or consolidation also involve similar time lag. This has led to some customer dissatisfaction. The second sub-system is, however, working very satisfactorily and has relieved the Public Debt Office of considerable effort in the issue of interest warrants, calculation of brokerage, maintenance of registers and reconciliation of accounts. The delay in the first sub-system arises due to centralisation of computer services.

7.14 The time delay in printing of 7% Capital Investment Bonds arises mainly due to decentralisation in the receipt of application forms and the centralised computer system for printing of bonds. This deficiency can be removed if each of the Public Debt Offices is equipped with a microprocessor to handle this work for the designated application receiving offices falling within its jurisdiction. Even in the manual system, the applications received in respect of new loan floatations other than 7% Capital Investment Bonds are transferred to the concerned Public Debt Office of the Reserve Bank of India from where the stock certificates/Government promissory notes are issued. The advantages of the computerised printing would be simultaneous generation of all the accounting registers/ledgers for recording issue of stock certificates Government promissory notes.

7.15 In the light of the above experience, the Committee feels that printing of stock certificates or Government promissory notes may be undertaken on the computer systems. SGL Accounts may also be opened and operated through computerised systems. Some of the activities of servicing of loans stated subsequently should be computerised, as the advantages from the second sub-system described above are substantial. This would particularly apply to servicing of stock certificates and SGL Accounts, issue of interest warrants, maintenance of accounting ledgers/registers and their reconciliation, brokerage payments, and income-tax deduction certificates, etc. Most of these types of processing are akin to the processing of 7% Capital Investment Bonds and computer skills and procedures already developed in this regard can be profitably utilised.

7.16 Processing of Government promissory notes, however, is much more diversified and has a large element of qualitative service and, therefore, not easily amenable to computerisation. The Committee has, in paragraph 2.14, recommended discontinuance of the issue of Government promissory notes except in respect of certain special schemes and to popularise stock certificates SGL Accounts. At present the number of Government promissory notes received annually in Public Debt Offices is more than

10 lakhs for interest payments, and about 2.5 lakhs for renewal or repayment. Though this activity is quite large, the work involved is mainly qualitative. In this context, the Committee recommends that the servicing of Public Debt management through computers may be restricted to certain activities in respect of stock certificates and SGL Accounts only and the system of processing Government promissory notes may continue as at present. For accounting purposes, the data on total interest payments on Government promissory notes under each loan may be incorporated finally in the computerised system to enable generation of statistical statements.

7.17 In regard to stock certificates/SGL Accounts, the Committee recommends computerisation of the following activities :

(1) printing of stock certificates on border forms and recording of subsequent modifications as in the case of 7% Capital Investment Bonds;

(2) opening and maintenance of SGL Accounts for each holder, calculation and credit of periodic interest on the balance in the account;

(3) conversions between stock certificates and SGL Accounts;

(4) maintenance of the Issue Registers for stock certificates, SGL Account ledgers and stock interest registers;

(5) maintenance of Central Ledger under each loan in the Central Debt Division of Department of Government and Bank Accounts of Reserve Bank of India;

(6) preparation of the monthly Rupee Debt statements showing loan-wise transactions in each Public Debt Office;

(7) preparation of loan-wise statement of charges by each Public Debt Office and remuneration claims of the Reserve Bank of India;

(8) listing of applicants for Rs.1 lakh and above for new loans;

(9) statistical tables showing ownership pattern, size-wise holdings, maturity and yield analysis;

(10) printing of interest warrants as in the case of 7% Capital Investment Bonds;

(11) printing of advices covering interest warrants;

(12) maintenance of interest warrant issue register, marking off payments, record of lost interest warrants and issue of duplicate warrants;

(13) issue of income tax deduction certificates;

(14) recording of stoppage and standard instructions. issue of notices of repayments;

(15) issue of pay orders on maturity;

(16) balancing of various ledgers and reconciliation of inter-office transactions, annual balancing;

(17) verification of balances, loan-wise, type of scrip-wise; and

(18) generating vouchers for payment in the form of interest warrants, with appropriate check registers.

7.18 The management of public debt involves periodical reconciliation of figures at different stages. For instance, for preparation of monthly Rupee Debt statements by Public Debt Offices,reconciliation with the General Ledger and the records maintained by the New Note Writing Section will have to be done. After the new loan is floated, the new loan subscription will have to be balanced with the new loan register. Besides half-yearly reconciliation of balances for payment of half-yearly interest, annual balancing of each loan with the General Ledger, etc. have also to be done to work out reconciliation. This exercise can be done by computer.

7.19 Considerable amount of spadework will have to be done before the above computerised system can be implemented. In the first place, code numbering systems will have to be evolved for the designated application receiving offices and offices which issue stock certificates/Government promissory notes and/or maintain SGL Accounts. Code numbers will also have to be given to brokers and public offices who can hold the stocks/Government promissory notes. Various types of vouchers will have to be designed with pre-printed codes. The logical flow in transactions processing with generation of intermediate and final books of account, ledgers/registers will have to be designed with a view to minimising the physical movement of documents and avoiding duplication of work in different sections of the Public Debt Offices.

7.20 Considering the configuration of the computer system, the Committee recommends that to start with, four major Public Debt Offices may be equipped with a suitable microprocessor system, consisting of about one megabyte of real memory, 80 megabytes of disk storage, 600 l.p.m. printer and eight on-line terminals to be located in major sections of the Public Debt Office. Additionally, the system may have dot matrix printers attached to terminals. The large size of real memory and the disc storage would enable on-line servicing of a stock certificate/SGL Account through terminals located in different sections of the Public Debt Office. As regards smaller Public Debt Offices, it was felt that considering the volume of work handled by these offices, the investment in computer may not be commensurate with tne benefits accruing therefrom. The Committee, therefore, is of the view that the question of linking them with the major Public Debt Offices for purposes of computerisation may be considered, in due course. This configuration, now available indigenously, would cost approximately Rs.10-12 lakhs per system.

7.21 The computer systems will have to be designed providing for elaborate security procedures. Apart from the system of passwords for operating through the terminals, data file security, back-ups and fail-safe procedures would be built into the computerised system. Work procedures will have to be standardised, documented and audit procedures under computerised environment will have to be evolved. As all these items of work would require about one year for preparation before the computer hardware is installed, the Committee recommends that early action should be undertaken by Reserve Bank of India in this regard.

7.22 Switchover from the present manual system to a computerised system will necessitate a careful planning for servicing the loans already floated. In case of the SGL

Accounts, this should pose no major problem and the old SGL Accounts should be first transferred from a manual system to the proposed computerised system. In the case of stock certificates already in circulation, the issue of interest warrants including generation of the relative registers should be the second stage in computerisation. These scrips can be reprinted on computerised system as and when they come for further modification.

CHAPTER 8

Management Information System

8.1 Since the Bank acts as the agent of Central and State Governments in regard to the issue and management of their internal public debt, it is the duty of the Bank to keep Governments informed about the position of their outstanding debt from time to time. Besides Governments there are other users of information on economic matters including public debt. The Central Debt Division in the Department of Government and Bank Accounts of the Bank acts as the nodal agency for collecting and collating statistical data on public debt from Public Debt Offices and supplying it to the Central and State Governments as also the Bank's own departments like the Department of Economic Analysis and Policy (DEAP) and the Department of Statistical Analysis and Computer Services (DESACS). The Central Debt Division maintains Central Ledgers wherein the accounts of all loans of Central Government, State Governments, Industrial Finance Corporation of India and National Bank for Agriculture and Rural Development, whether current or uncurrent, are maintained till they are written off. For this purpose the Central Debt Division obtains periodical statements from Public Debt Offices.

8.2 The statements obtained by the Central Debt Division from Public Debt Offices at present relate broadly to the following aspects:

i) data necessary for maintaining Central Ledgers in respect of loans floated by Central/State Governments, Industrial Finance Corporation of India and National Bank for Agriculture and Rural Development;

ii) data necessary for claiming remuneration from Governments, Industrial Finance Corporation of India and National Bank for Agriculture and Rural Development for managing their debt;

iii) data for monitoring floatations of new loans.

iv) data in respect of small savings schemes; and

v) miscellaneous and ad-hoc statements for supplying data to various departments of the Government and the Bank for audit/statistical purposes.

8.3 The Central Debt Division obtains at monthly intervals statements from Public Debt Offices (known as 'Rupee Debt Statements') showing the summary of transactions during the month and the closing balance as on the last working day of the month, loanwise. The Rupee Debt statement gives a detailed account of transaction in each loan and contains opening balance, additions or deductions representing new issues, inter-PDO transfers, repayments, writing off and closing balance under each loan. As on 30th June 1985, there were 143 loans of the Government of India and 470 loans of the State Governments outstanding in the books of the Bank. The data thus obtained are utilised in the Central Debt Division for maintenance of the Central Ledgers as also preparation of a consolidated statement for submission to the Principal Accounts Officer, Department of Economic Affairs, Government of India in respect of Central loans and to the Accountants General of the respective States in respect of State loans as also Department of Economic Analysis and Policy and Secretary's Department of the Bank. According to the time schedule prescribed, Public Debt Offices are required to compile and send the statements to Central Debt Division by 10th of the succeeding month; the latter, in turn, has to send a consolidated statement to the Government by the first week of the second month to which the Rupee Debt statement relates. This time schedule necessitates observance of a 'shut period' (from 25th to the last working day of each month) for balancing purposes and during this period Public Debt Offices keep their books closed for inter-PDO transfers. In other words, the Public Debt Offices will not put through any transaction involving transfer of security from one Public Debt Office to another during this shut period. The Committee examined the utility of these statements, vis-a-vis the workload on Public Debt Offices/Central Debt Division. The statement was prescribed for submission when the number of loans was small and inter-PDO transactions were negligible, there being only 3 Public Debt Offices in the early stage. The number of active current loans has, during the past few years, increased considerably. The number of Public Debt Offices has also increased to 15. As a result, the volume of inter-PDO transactions being put through in a month has increased. In the circumstances, the compilation of the Rupee Debt statements has become time-consuming, resulting in delayed submission of the statements to Central Debt Division and consequently to user-departments.

8.4 Viewing the matter from the point of view of the Government, it is seen that the data supplied by the Bank every month is utilised by the Government for reconciling the Rupee Debt accounts maintained by them with the figures reported by the Bank and for confirming the loan balances as per their records. This exercise of reconciling the figures need not necessarily be done at monthly intervals, but can be done at a longer interval, say, quarterly. We feel that while the format may remain unchanged, the periodicity may be changed to a quarter instead of month as at present. In our view it may not cause any inconvenience to the Government. It would be open to the Bank and user Departments to approach Public Debt Offices for the relevant information any time they require it. On the other hand, the contemplated change in periodicity would afford relief to Public Debt Offices and rid them of the complaints following shut period.

8.5 The remuneration claimed by the Bank for the administration of the public debt falls under two categories:

(a) remuneration based on amount of new loans issued, and

(b) remuneration for the management of outstanding public debt

The services in connection with the floatation of new loans and management of public debt are remunerated at a fixed rate. The rates are related to the amount of loan subscribed and outstanding respectively. For claiming the fee for management, the Central Debt Division relies on the records maintained by it and no statement is called for from Public Debt Offices. However for claiming the fee for floatation of new loans, Public Debt Offices submit statements which are consolidated and submitted to the Government. These statements may have to continue. In addition to the above fees, the Bank is entitled to claim reimbursement from Governments of the actual expenses on account of brokerage, telegram and trunk call charges, printing, advertisement in case of new loans and postage and telegram charges incurred in connection with the day-to-day management of the public debt. For claiming reimbursement of these expenses, Public Debt Offices are required to maintain detailed records of various items of expenditure incurred. Loan-wise statements have to be prepared and submitted by Public Debt Offices to the Central Debt Division in respect of these items of expenditure. The cost of manpower engaged in maintaining accounts of expenditure/compilation of statements in various Public Debt Offices is not commensurate with the overall amount of recovery generally made. The Committee is, therefore, of the view that initially reimbursement of expenses may be claimed from Governments at a fixed rate related to the loan subscribed or loans outstanding as the case may be which may be decided on the basis of the past two or three years actual expenses subject to review at periodical intervals. In that case, the practice of Public Debt Offices submitting statements of charges in respect of each loan could be dispensed with and the Central Debt Division itself can claim from Governments the fees and charges at the agreed rates. Further, when the next upward revision of the remuneration for the management of overall public debt is taken up, an opportunity may be taken to dispense with the existing practice of claiming reimbursement for actual expenses in connection with floatation of loans/day-to-day management of public debt, by making a suitable built-in provision in the overall rate of remuneration for management of public debt, to cover the sundry expenses of the type mentioned above. This will have the merit of eliminating the maintenance of a number of records/submission of periodical statements in respect of the said expenditure at the level of individual Public Debt Offices and submission of consolidated claim at the level of Central Debt Division. This will also obviate the need for scrutiny and settlement of such claims at the level of Government from time to time. The Committee recommends accordingly.

8.6 The particulars of new loan applications remaining undisposed of on account of non-receipt of documents, etc. even after six months following floatation of new loans, are reported by the Public Debt Offices on a quarterly basis to the Central Debt Division for instructions about their disposal. It is observed that several new loan applications remain pending for unduly long period due to failure of the applicants to submit the documents/ comply with the requirements of Public Debt Offices for some reason or the other and even after protracted correspondence with the applicants. In view of this, it is recommended that a reasonable dead-line may be fixed for compliance with the various requirements, on the expiry of which the subscription may be refunded to the applicants in consultation with the concerned Governments.

8.7 As soon as the loan is closed, each Public Debt Office is required to submit a statement showing the names of individual applicants for Rs.1 lakh and above. The statement gives an idea of the major subscribers to new loans and the information is used in the Bank by the Secretary's Department and the Department of Economic Analysis and Policy. As stated in paragraph 2.3, the major subscribers to new loans are institutional investors like banks, insurance companies and Funds/Trusts. The applications tendered by them are generally for large amounts. The present limit of Rs.1 lakh for reporting the subscription was fixed long time back and in the present context of large subscriptions being received from banks and financial institutions, the limit of Rs.1 lakh can be conveniently raised to Rs.10 lakhs so that the elaborate work which the compilation of statement in question entails, may be minimised while retaining the statistical value of the statements to the user Departments. The Committee recommends accordingly.

8.8. The following small savings schemes were introduced in the 'fifties and 'sixties for special purposes:

Name of the Scheme	Date of Introduction	Currency
i) 3½% Ten-Year Treasury Savings Deposit Certificates	1-12-1951	10 years
ii) 15 Year Annuity Certificates - I Series	1-7-1954	15 years
iii) 4% Ten-Year Treasury Savings Deposit Certificates	1-6-1957	10 years
iv) 15 Year Annuity Certificates - II Series	2-1-1958	15 years
v) 4½% Ten-Year Defence Deposit Certificates	10-11-1962	10 years
vi) Ten-Year Annuity Deposit Certificates, 1964	1-10-1964	10 years
vii) Ten-Year Annuity Deposit Certificates, 1967	1-2-1967	10 years

The schemes have ceased to be operative long back. However, some residual work such as payment of interest on annuities, repayment, etc. continues to be attended to by the Public Debt Offices. A number of statements have been prescribed for submission by Public Debt Offices at monthly/half-yearly intervals covering aspects such as repayment and outstanding balances, reimbursement of expenditure, etc. The user Departments are the Department of Statistical Analysis and Computer Services and the Department of Economic Analysis and Policy in the Bank and Government of India. In this context, the balances under these schemes are available in the monthly Rupee Debt statements submitted by the Public Debt Offices to Central Debt Division, as discussed in paragraph 8.3. A consolidated Rupee Debt statement is made available by the Central Debt Division to the Government of India. Central Debt Division is thus in a position to supply the relevant figures to user departments on the basis of the Rupee Debt statements. Besides transactions in these lapsed schemes are minimal and the balances are negligible as compared to the total amount of public debt outstanding. In view of this, it is suggested that a thorough review of the various statements called for under these schemes may be undertaken either to dispense with the statements or change their periodicity.

8.9 Several miscellaneous statements are being compiled by Public Debt Offices and submitted to various Departments in and outside the Bank for various purposes. One such statement is the statement showing discharged securities returned to Treasuries by Public Debt Office for rectification of irregularities but not received back even after the report to Accountant General/Pay and Accounts Officer. The Government securities paid at treasuries/sub-treasuries are subjected to examination in Public Debt Office. Irregularities of a serious nature are brought to the notice of the Treasury Officers/Sub-Treasury Officers concerned with instructions to return the securities in question after rectification. In case the securities are not received back from the Treasury within three months, the matter is reported to Accountant General concerned, under advice to the Pay and Accounts Officer if the securities pertain to Government of India loans. A list of the securities returned under objection to Treasury Officers but not received back even after report to the Accountant General is prepared as on 31st March and 30th September every year and submitted by Public Debt Offices directly to the Director of Accounts and Treasuries in the respective States, under advice to the concerned Accountant General and the Government in respect of State loans and Pay and Accounts Officer in respect of Central loans for necessary action. Copies of the lists are also endorsed to Central Debt Division for information. It is reported that the paid securities sent to Treasury/Sub-treasury Officers for rectification are not returned promptly; often Treasuries/Sub-treasuries are not in a position to rectify the irregularities because the holders may not be traceable or may not co-operate; there may also be change in the incumbency of Treasury/Sub-Treasury Officer. In all these cases, reminders do not elicit the desired response. Besides, there is also a risk of loss in transit. As such, it is desirable that the Public Debt Offices discontinue the practice of sending the securities themselves to the Treasuries/Sub-treasuries for rectification. In our opinion, an advice pointing out the irregularities for rectification would suffice and only in cases of specific requests, securities may be sent to the Treasury/ Sub-treasury Officer concerned. In that case the half-yearly statement in question can be dispensed with.

8.10 Under the procedure in vogue, Public Debt Offices sometime effect certain changes in the distinguishing numbers and other particulars of Government securities recorded in the income-tax exemption/abatement certificates, whenever the old holdings are converted into new ones or renewed in favour of the existing holders. Whenever Public Debt Offices make any such changes in the certificates, on their own, an intimation in this regard is simultaneously sent to the Income-tax Officer concerned to enable him to carry out the corrections in the counter-foil. In addition, an annual statement is also sent to them for further verification. Accordingly as and when any changes are made in the exemption/abatement certificates, a statement is prepared in triplicate; one copy of the statement is sent to Income-tax Officer concerned and two copies thereof retained in the Public Debt Office. Separate series of numbers are given to the statements sent to each Income-tax Officer. In April, every year, the duplicate copies of the above statements are forwarded to the respective Income-tax Officers with a covering letter for further verification by them. For this purpose, duplicate copies of the statements have to be collected, matched with the distinctive numbers, sorted Income-tax Officer-wise and despatched. This involves additional work from the point of view of Public Debt Office, which has to meticulously preserve duplicate copies of the statements for one year.

8.11 The original statement serves the purpose of an intimation to the Income-tax Officer of the changes effected in exemption/abatement certificates by the Public Debt Office and the annual statement being a duplicate copy thereof is intended for further verification by the Income-tax Officer concerned. It is felt that the original statements sent to the Income-tax Officer concerned would be sufficient and further verification after a time gap by Income-tax Officer on the basis of the duplicate copies thereof is redundant. As such the annual statement may be dispensed with, in consultation with the Central Board of Direct Taxes. However, this problem will cease to exist if the Committee's recommendation for dispensing with the deduction of tax at source (cf.paragraph 3.9) is accepted.

8.12 The Central Debt Division at present does not obtain any control return from Public Debt Offices on the actual position of work except on the progress of voucher audit and loan balancing. In the absence of a control return showing the position of work in the various sections of Public Debt Office and the deployment of staff therein, the Central Debt Division is not in a position to have any idea or assess the working of individual Public Debt Office and initiate remedial measures wherever necessary. In terms of the Public Debt Office Manual, the Officer-in-charge of the Public Debt Office is required to make a detailed report to the Manager of the office, who is the administrative head, giving the actual position of work and the question of taking corrective action, if any, rests solely with him. But the Central Debt Division which monitors the working of Public Debt Offices should also have a fair idea of their working, position of work arrears, deployment of staff, etc. At present for any such information, Central Debt Division has to wade through voluminous inspection reports on Public Debt Offices which are conducted at infrequent intervals. It is desirable that Central Debt Division should be kept apprised of the progress of work in regard to core activities of Public Debt Office as also the arrears position in respect thereof. This will help them to have an idea of pressure points in Public Debt Offices and the data available can be used for judging the performance and deployment of staff. The Committee accordingly recommends that a suitable return showing the quantum of work received, attended and outstanding at each Public Debt Office as at the end of each quarter, may be introduced.

CHAPTER 9

Government Securities Manual

9.1 The Government Securities Manual lays down the procedure to be followed by Government offices dealing with Government securities pertaining to rupee loans issued by the Central and State Governments. This Manual was first compiled in 1918 in order to bring together all orders existing at that time in the Civil Account Code and elsewhere, regarding Government securities. A revised edition was issued in 1921. It was again revised in 1939 incorporating changes which became necessary as a result of the passing of the Government of India Act, 1935, the amendment to the Indian Securities Act, the establishment of Reserve Bank of India and the transfer to it of the statutory duties in relation to the public debt which were previously performed by the Controller of the Currency/Imperial Bank of India and the decentralisation of the administration of the public debt. The Fourth Edition of the Manual, which is currently operative, was brought out in 1966 in the context of the provisions of the Public Debt Act, 1944 (as amended to date) and the Rules framed thereunder as applicable to Government securities, within the meaning of that Act, issued by the Central Government or a State Government.

9.2 The procedure laid down in the Government Securities Manual is based on the provisions of the aforesaid Act, the

Rules framed thereunder and supplementary (administrative) instructions issued by the Central Government from time to time for the guidance of the Treasury Officers and other Government officers who are required to handle Government securities in the course of their duties.

9.3 In terms of the provisions of the Public Debt Act, 1944 the administration of public debt of the Central and State Governments devolves on the Reserve Bank of India. The actual management of the internal public debt (called 'Rupee Debt') and the maintenance of Central Accounts relating thereto have been entrusted to Public Debt Offices and the Central Office (Department of Government and Bank Accounts) of the Bank which oversees them. A part of the work relating to the servicing of Government securities falls on district treasuries and sub-treasuries which attend to receipts and disbursements on Government account. In particular, treasuries are expected to perform certain specific functions. With the increase in the number of of branches of State Bank of India and its associate banks, treasuries no longer function as the receiving points of new loan subscriptions. However, they are required by virtue of their position in the district, to guide potential investors in regard to floatation of new loans and their terms and conditions. For this purpose, Public Debt Offices keep the treasuries and sub-treasuries informed whenever a new loan is floated. Secondly, a holder of Government security in the form of a Government promissory note is permitted to draw interest thereon from a district treasury or a sub-treasury. For this purpose, such Government promissory notes are 'enfaced' at a treasury (i.e., the name of the treasury at which interest is payable is indicated on the face of the promissory note). The concerned treasury is advised of such enfacement by the concerned Public Debt Office by a letter called 'enfacement advice' on receipt of which the treasury maintains a record of such notes and arranges for payment of the periodical interest when the notes are presented by the holders for interest payment. Thirdly, a Government promissory note may also be presented to a treasury where it stands enfaced, for re-payment of the discharge value of the note on maturity. Besides, the treasuries act as an important link between the Public Debt Office and the holders residing in the mofussil areas since Government promissory notes which are to be submitted to the Public Debt Offices for change of enfacement, renewal, etc. are usually sent through treasuries. Government have, therefore to rely greatly upon the care and attention with which the Treasury Officers discharge their duties in dealing with Government securities and it is mainly for the guidance of these officers that this Manual has been issued under the authority of the Central Government. The Treasury Officers should, therefore, make themselves thoroughly conversant with the instructions contained therein, more particularly with chapters relating to payment of interest, endorsements on Government securities and issue and repayment of loans, as these deal with matters of direct concern to the regular work at treasuries. The explanations and clarifications about the purport of various provisions of the Public Debt Act and the Rules given in the Government Securities Manual are useful also to Public Debt Offices and the agency banks as a practical guide in dealing with Government securities received for various purposes. Accordingly, provisions of the Government Securities Manual serve as codified administrative instructions issued by the Government to be followed by all persons dealing with Government securities covered by the Public Debt Act and Rules.

9.4 Since the present edition of the Government Securities Manual was published in 1966, a number of changes have taken place and hence the Manual requires to be updated. Besides, the recommendations of this Committee, if accepted, will necessitate substantial changes in the Public Debt Act/ Rules as well as the work procedures. Consequential changes will have to be carried out in the Government Securities Manual. The Committee recommends that the opportunity may be availed of to bring out a new edition of the Manual incorporating the changes required in the light of the recommendations of the Committee. A statement setting out the amendments to the Government Securities Manual (Fourth edition) is given in Annexure 8. The statement is not exhaustive and has been prepared keeping in view the fact that Government Securities already issued in various forms will have to be dealt with in accordance with the present edition of the Government Securities Manual.

CHAPTER 10

Summary of Observations and Recommendations

1. The administration of the internal debt of the Government of India and all State Governments (except Sikkim) devolves on Reserve Bank of India. (Paragraph 1.1)

2. The market loans constituted 65.7% of the total internal debt of Rs.63,554 crores as on 31st March 1985. (Paragraph 1.2)

3. The legal framework for dealing with Government securities issued by the Bank is provided by the Public Debt Act, 1944 and the Rules framed thereunder. The legal provisions have not undergone any substantial change inspite of the tremendous increase in the volume of the public debt and other changes in the external environment. Consequently some of these provisions are proving onerous and need to be simplified if the customer service is to be improved. (Paragraph 1.4)

4. The magnitude of the increase in the volume of internal debt can be appreciated from the fact that while the internal debt of the Government of India was only around Rs.200 crores when the Bank took over the management of public debt in 1935, it has touched the level of Rs.58,500 crores in 1985. Greater reliance is being placed by the Government on market borrowing for mobilising resources to finance the projects under the Five-Year Plans. This phenomenal increase in public debt has,

in its wake, raised a host of operational problems. These mainly relate to the rendering of an efficient service to the holders of Government securities. There exists considerable scope for improvement in the administration of public debt. (Paragraph 1.6)

5. The Government securities are issued mainly in the form of promissory notes payable to order, stock (in physical or account form) and bearer bonds. (Paragraph 1.9)

6. The form of security plays a crucial role in the administration of public debt in the sense that the maximum problems relate to the securities issued in the form of promissory notes, and arise by reason of their distinguishing character of free negotiability without reference to the Public Debt Office. (Paragraph 1.11)

7. The quantum of new loans to be raised is determined by the annual budget; the frequency and their timing are dependent upon the state of liquidity as well as market floatations. While the present frequency of floatation of Central loans was considered adequate, in the case of State loans, it was felt that there should be at least two floatations in a year. The State Governments may consider offering the market loans in two tranches, as far as possible, in consultation with Reserve Bank of India. (Paragraph 2.1)

8. At present, there are 516 receiving points other than Public Debt Offices for Central loans and 4503 receiving points for State loans. The bulk of the subscriptions to new loans

is presently being received from institutional investors, mostly located in major cities/metropolitan centres where Public Debt Offices are functioning. In view of this, a large number of points for receiving subscription in the case of State loans may not be necessary. All the district headquarters have, by and large, a well-developed infrastructure and communication network. The receiving points for State loans may; therefore, be restricted to one branch at the district headquarters as in the case of Central loans. (Paragraph 2.3)

9. The services of the network of the nationalised banks may be profitably used to receive subscription to new loans when a variety of innovative schemes with appeal to individual investors are introduced by the Government. (Paragraph 2.4)

10. Government securities should be issued for a minimum amount of Rs.1,000 (nominal) and thereafter in multiples of Rs.1,000. The arrangement recently introduced may continue. The Central and State Governments may, in consultation with Reserve Bank of India, have a periodical review, say, once in five years and decide about a higher/lower minimum amount of loan subscription, if necessary, depending on market conditions. (Paragraph 2.5)

11. An analysis of the pattern of holding of market loans as on 31st December 1984 shows that in terms of the nominal amount of loans issued, the bulk of the rupee debt is held in the form of stock and that the proportion of the nominal amount of Government promissory notes to the total amount of loan balance

is very small viz., 4.9%. As against this, the actual number of Government promissory notes received by Public Debt Offices for payment of interest, renewal, conversion, change of enfacement and repayment in a year is very large. (Paragraphs 2.8 and 2.9)

12. It would be in the overall interest of the investing community and the Bank as well as the Government if the existing securities in the form of Government promissory notes are progressively converted into stock certificates and SGL Accounts and if, in future, Government securities are issued in the form of stock only. (Paragraph 2.12)

13. SGL Account is by far the best form of security both from the point of view of investors and the Public Debt Office. The SGL Account facility may be extended to other investors like Provident Funds, Trusts, Stock Exchange Brokers, etc. and encouraged progressively. If the recommendation of the Committee about payment of interest without deduction of income-tax at source is accepted, it may be possible to extend SGL Account facility to individual investors also on a decentralised basis through their bankers. (Paragraph 2.13)

14. The issue of Government securities in the form of Government promissory notes may be dispensed with, except in respect of certain special schemes where this form is considered necessary. Switch-over to the stock will enable the Bank to administer public debt more efficiently and at

the minimum cost to the Government and the Bank. In course of time, it will be possible to completely adopt the book-entry form of holding and thereby dispense with the physical instrument. (Paragraph 2.14)

15. Although bearer securities may be preferable to Government promissory notes, the issue of bearer bonds would not be in consonance with a system aimed at the eventual shift to a book-entry system. (Paragraph 2.16)

16. The Committee considered the suggestion for issue of Government promissory notes with interest coupons attached. If the Committee's recommendation for discontinuance of Government promissory notes for regular market loans is accepted, the question of issue of Government promissory notes with coupons, would not arise. (Paragraph 2.17(i))

17. Issue of stock certificates with provision for recording multiple transfers may be considered. (Paragraph 2.17(ii))

18. The Committee considered the suggestion for issue of Government securities at a discount along with some other innovative schemes for tapping the savings of the different target groups. Of the various schemes the Central Government may, in the first instance, consider experimenting with issue of short-dated bonds at a discount and stocks on tap. (Paragraph 2.18)

19. There is no well-developed secondary market for Government securities in India, as a result of which normally the investors have to wait till the date of maturity for receiving back the

amount of investment without any capital loss. The Government may like to consider whether new issues of medium-term loans (i.e., loans having 8 years to 15 years maturity) could contain an element in the nature of 'buy-back' facility to the individual investors in some form. No reliance in this regard should, however, be placed on Reserve Bank of India and the buy-back support should come from the financial institutions like Life Insurance Corporation of India, Unit Trust of India and General Insurance Corporation of India, etc. as in the case of non-convertible debentures. (Paragraph 2.19)

20. The administration of public debt is done on a decentralised basis through Public Debt Offices at various centres. A major part of the servicing activity relates to the payment of interest on securities. The dates of half-yearly interest payments on Government loans are not very evenly spread throughout the year and there is a concentration of interest payment in a few months and the quality of service tends to suffer during rush periods. It is necessary to even out the due dates of interest payment in such a way that interest payments get well-dispersed throughout the year. (Paragraph 3.5)

21. The Committee examined the suggestion that interest on Government promissory notes should be made payable annually instead of half-yearly as at present but did not find it acceptable in view of some of the disadvantages to the

investors resulting from such annual payments. The Committee is of the view that it is advantageous to continue the present system of half-yearly interest payments. (Paragraph 3.6)

22. It will make for all round convenience if the amount of interest is rounded off to the nearest whole rupee. Since the Committee has recommended earlier continuation of the recent practice of issuing Government securities in multiples of Rs.1000/-, the rounding off of interest will be automatically achieved if, in the future loans, the coupon rate is slightly adjusted and expressed in either whole rupees (e.g. 10%, 11%) or decimal fractions representing multiples of 20 paise (e.g., 11.40% or 11.60% instead of 11.50%). (Paragraph 3.8)

23. The interest paid on Government securities should be exempt from the statutory requirement of tax deduction at source. This would facilitate not only mechanisation of interest payments by Public Debt Offices but also enable them to enlarge the scope for extending SGL Account facility to all categories of investors. (Paragraphs 3.10 and 3.11)

24. In the case of securities held and tendered by the banks on behalf of constituents, collecting bank's declaration about the ownership of the securities should be accepted and the tax should be deducted at the (lower) rates applicable to such beneficial owners or not deducted at all as the case may be. The need for this will not arise if the Committee's recommendation about dispensing with the system of deducting tax at source from

interest payments on Government securities is accepted. (Paragraph 3.12)

25. The period of currency of interest warrants may be fixed uniformly at 3 months. (Paragraph 3.13)

26. The warrants issued on Reserve Bank of India offices are transferable by endorsement and delivery lending scope to a possibility of payment being obtained by more than one person against such warrants. This could be substantially overcome if payment of interest on Government security is made only by warrants crossed account payee.(Paragraph 3.15)

27. The duplicate warrant may be issued after the expiry of the period of its currency without insisting on any guarantee, irrespective of the amount involved. (Paragraph 3.15)

28. Since Public Debt Offices are maintaining an Interest Warrant Register where date of payment of all warrants is marked off on the basis of paid warrants, Public Debt Office itself could verify its records and decide about issue of duplicate warrant without insisting on a non-payment certificate from Public Accounts Department (i.e. drawee office). For this purpose the marking off of dates of payment in the Interest Warrant Register should be authenticated by an officer so that Public Debt Office may, for the purpose of issuing duplicate warrant take the entry as a conclusive proof of payment/non-payment of the relative warrants. Public Accounts Department may furnish a copy of the daily

interest payment scroll duly authenticated to Public Debt Office for marking off the date of payment. (Paragraph 3.16)

29. The variety of forms in which the Government securities are offered for subscription has a bearing on management of public debt. The work can be considerably simplified if Government securities are offered in a standardised single form, namely, stock transferable by registration in the books of the Public Debt Office. This will minimise a large amount of current workload arising out of avoidable as well as unavoidable renewals and conversions. However, suitable simplification of the procedures will have to be thought of for dealing with Government securities in different forms already issued under the existing framework. (Paragraph 4.1)

30. At present the work of processing Government securities received in the Public Debt Offices for various purposes is organised in different sections. In the process, bottlenecks tend to develop leading to delays in putting through the transactions. The Bank is contemplating suitable reorganisation of Public Debt Offices so that the securities can be dealt with in self-contained sections with reference to the type of transactions for which they are tendered. (Paragraph 4.2)

31. Apart from procedural matters there are certain specific aspects relating to the servicing of securities held by certain categories of the investors where difficulties are experienced under the existing legal framework. (Paragraph 4.3)

32. Either of the parents of a minor may be empowered to apply for, hold or deal with Government securities on behalf of the minor as under the Government Savings Certificates Act, 1959. (Paragraph 4.4)

33. At present, a Trust cannot hold a promissory note in its name but it can hold a stock certificate. The promissory note endorsed in the name of a Trustee is treated as his personal property. Section 6 of the Public Debt Act, 1944 and Rule 8, Public Debt Rules, 1946, may be amended to permit a trust to hold and deal with Government securities in any form. (Paragraph 4.5)

34. The Committee examined the various provisions of the Act and the Rules and has recommended several amendments. If these are accepted, the existing Public Debt Act may be replaced by a new Act incorporating the recommendations. (Paragraph 5.2)

35. The statutory procedure for issue of duplicate in lieu of lost/destroyed, etc. Government promissory notes is very cumbersome, time-consuming and expensive. The relevant Rules may, therefore, be amended to provide for :

i) notification of loss, etc. by the applicant in Government Gazette or insertion of an advertisement in a leading newspaper at his option;

ii) loss may be notified/advertised only once (and not three times);

iii) issue of duplicate note in lieu of the lost note to the holder three months after the date of publication of the particulars of the lost security by the Bank in the list referred to in Rule 18;

iv) deletion of the clause regarding payment of interest after six months against indemnity bond;

v) deletion of the words, "and all documentary evidence necessary to trace back the title to the original holder" and substitution in their place of words to the following effect; "such other form of evidence as the Bank may call for" in Rule 12(1)(e).

(Paragraphs 5.3 and 5.7)

36. In the course of their day-to-day work; Public Debt Offices receive a number of documents along with Government securities. Since some of these arise out of statutory requirements, the Public Debt Offices have no discretion to waive production of these documents even in genuine cases. Obtaining these documents is time-consuming and involves disproportionate expenditure to the applicant.(Paragraph 5.8)

37. In regard to acceptance of heirship certificate as a form of legal representation in cases where the holdings of the deceased are small, the present monetary ceiling in Section 9 of the Public Debt Act may be raised to Rs.25,000/- and the words 'face value' replaced by the words 'principal outstanding'. Provision may also be made authorising the Government to raise this monetary limit further by issue of a notification in the Gazette, if and when necessary.

(Paragraph 5.9)

38. The facility of nomination is available only in respect of securities issued under small savings or special schemes introduced by the Government of India and it is not available in the case of securities of State Government loans and other market loans of Government of India. Appropriate provision may be made in the Public Debt Act and Rules enabling an individual sole/joint holder(s) holding Government stock in personal capacity to nominate a person or persons who will be authorised to receive the amount of securities in the event of his/their death. (Paragraph 5.10)

39. The monetary ceiling prescribed in Section 10 of the Public Debt Act authorising the Bank to pass a vesting order in case of a security of the face value of Rs.5,000/- belonging to a minor or an insane person may be raised to Rs.25,000/- and the words 'face value' replaced by the words 'principal outstanding'. Provision may also be made authorising the Government to raise this monetary limit by issue of notification in the Gazette, if and when necessary. (Paragraph 5.11)

40. Where the Bank is required to pass a vesting order under the Act or Rules and where any possible risk is involved, the Public Debt Act and Rules provide for obtaining a bond of indemnity from the concerned persons indemnifying the Bank against any possible loss. Section 16 of the Public Debt Act and Rules 12, 13, 14 and 15 of the Public Debt Rules may be amended to provide for obtaining a bank guarantee as an

alternative to bond of indemnity with sureties.(Paragraph 5.12)

41. The Public Debt Rules provide for issue of Heirship/ Mitakshara Certificates only by a District Magistrate. Insistence on obtaining such certificates only from a District Magistrate sometimes creates difficulties to the claimants. The definition of the term 'District Magistrate' in Rule 2(3) may be enlarged to include sub-divisional Magistrates. (Paragraph 5.13)

42. The scale of fees for various transactions has been prescribed in Public Debt Rules. These were fixed long back and are inadequate to reasonably compensate Public Debt Offices for the spiralling cost of labour, security paper, printing etc. involved in the process. The Committee is of the view that instead of laying down a scale of fees in the Rules, it would be better to vest discretion in the Bank to determine the scale of fees for the various services rendered and revise them from time to time by notice to the public. This could be done by promoting suitable amendment to Rules 30 and 31.(Paragraph 5.14)

43. The payment of brokerage may be made to recognised banks and brokers on eligible new loan applications lodged by them on an automatic basis, without insisting on a formal claim from them, as in the case of 7% Capital Investment Bonds. (Paragraph 6.3)

44. In regard to the mode of payment of interest, the option available to the investors in Government securities to get the interest payment by money order may be withdrawn and

interest payment effected only by issue of warrants/bank drafts crossed account payee. (Paragraph 6.4)

45. The procedure for registration of documents may be simplified. Public Debt Offices where Kardveyer Retrieval System has not been implemented, may introduce the system of loose-leaf cards as in the case of Kardveyer Retrieval System (without the Kardveyer unit). The cards with standard clauses may be printed in suitable sizes and stored in convenient places with a locking system. This will obviate the need to copy the extracts from the documents in the registers and save space in keeping the large number of registers in Public Debt Offices. (Paragraph 6.6)

46. The certificate of identity granted by a bank official may be accepted without insisting on the registration of his authority in the books of Public Debt Office provided the certificate is on the letter-head and bears the seal/stamp of the bank and the name and designation of the signatory. The present monetary ceiling for the issue of such a certificate by Reserve Bank of India Officers in Grade 'B' may also be removed. (Paragraph 6.8)

47. The certificate of marriage granted by bankers, the Heads of Gram Panchayats, Reserve Bank of India Officers and the Head Masters of Schools may also be accepted. (Paragraph 6.9)

48. The birth certificate granted by the Head of a Gram Panchayat or the Head Master of a School may also be accepted. (Paragraph 6.10)

49. The certified copies of the documents issued by the Registrar of Companies under the Companies Act, 1956 may be accepted. Likewise, in respect of Co-operative Societies, copies certified by the office of the Registrar of Co-operative Societies under its seal may be accepted. (Paragraph 6.11)

50. The system of payment of discharge value of Government securities by a separate instrument (instead of affixing the pay order on the notes themselves) may be introduced. In cases where the investor has tendered more than one security for the purpose, the Public Debt Office may issue one consolidated payment order covering all the securities tendered by the same investors. (Paragraph 6.12)

51. The servicing of public debt management through computers may be restricted to certain activities relating to stock certificates and SGL accounts only and the system of processing Government promissory notes may continue as at present. For accounting purposes, the data on total interest payments on Government promissory notes under each loan may be incorporated finally in the computerised system to enable generation of statistical statements. The periodical reconciliation of figures at different stages may also be done on computer.
(Paragraphs 7.16 and 7.18)

52. To start with, four major Public Debt Offices may be equipped with a suitable microprocessor system, consisting of about one megabyte of real memory, 80 megabytes of disk storage, 600 l.p.m. printer and eight on-line terminals to be located in major sections of the Public Debt Office. Additionally, the system may have dot matrix printers attached to terminals. As regards the small Public Debt Offices, considering the volume of work handled by these offices, the investment in computer may not be commensurate with the benefits accruing therefrom. The Committee is of the view that the question of linking them with the major Public Debt Offices for purposes of computerisation may be considered in due course. (Paragraph 7.20)

53. The periodicity for submission of rupee debt statements to Government may be changed to a quarter instead of month as at present. (Paragraph 8.4)

54. Reimbursement of actual expenses incurred by the Bank on account of brokerage,telegram and trunk call charges, printing, advertisement in case of new loans and postage and telegram charges in connection with the day-to-day management of public debt may be claimed from Governments at a fixed rate related to the loan subscribed or loans outstanding as the case may be which may be decided on the basis of the past two or three years actual expenses subject to review at periodical intervals. Subject to this, the practice of Public

Debt Offices submitting detailed statements of charges separately in respect of each loan could be dispensed with. Further when the next upward revision of the remuneration for management of overall public debt is taken up, an opportunity may be taken to dispense with the existing practice of claiming reimbursement for actual expenses by making a suitable built-in provision in the overall rate of remuneration for management of public debt to cover sundry expenses of the type mentioned above. (Paragraph 8.5)

55. In regard to new loan applications remaining undisposed of for a long period for non-receipt of documents, etc., a reasonable dead-line may be fixed for compliance by the applicants with the various requirements, on the expiry of which the subscription may be refunded to them in consultation with the Governments concerned. (Paragraph 8.6)

56. As soon as the issue of the new loan is closed, each Public Debt Office is required to submit a statement showing the names of individual applicants for Rs.1 lakh and above. In the context of large subscriptions being received from banks and financial institutions, the limit of Rs.1 lakh can be conveniently raised to Rs.10 lakhs for purposes of compilation and submission of statement by Public Debt Offices. (Paragraph 8.7)

57. A thorough review of the various statements called for under schemes which have ceased to be operative may be

undertaken to either dispense with the statements or change their periodicity. (Paragraph 8.8)

58. The Public Debt Offices may discontinue the practice of sending the discharged securities to treasury/sub-treasury for rectification of irregularities observed during audit thereof. An advice pointing out the irregularities would suffice and only in cases of specific requests, securities may be sent to treasury/sub-treasury officer concerned. In that case sending of half-yearly statements to the Director of Accounts, Treasuries and the Accountant General can be dispensed with. (Paragraph 8.9)

59. The statements sent to Income-Tax Officer whenever any changes are made by Public Debt Offices in Income-Tax exemption/abatement certificates are sufficient and as such the annual statement presently being sent to Income-Tax officer in this regard may be discontinued in consultation with the Central Board of Direct Taxes. (Paragraph 8.10)

60. A suitable control return showing the quantum of work received, attended and outstanding may be submitted by Public Debt Offices as at the end of each quarter to Central Debt Division (Paragraph 8.12)

61. The Government Securities Manual lays down the procedure to be followed by Government offices dealing with securities pertaining to rupee loans issued by the Central

and State Governments. Since the present edition of the Manual was published in 1966, a number of changes have taken place. The recommendations of the Committee, if accepted, will necessitate substantial changes therein. The opportunity may be availed of to bring out a new edition of the Manual incorporating the required changes. (Paragraph 9.4)

62. The amendments to the Public Debt Act and the Rules proposed in respect of the undernoted matters, included in Annexure 7 to the report, may be carried out in addition to other amendments for removing the present irritants/bottlenecks :

i) transferability of securities - The Bank may be empowered to recognise the title of the last holder of a Government promissory note and adequate protection should be afforded to the Bank (Item 2);

ii) holding of securities by holders of public offices - The holders of public offices may be authorised to delegate their powers to hold securities in case of casual absence to such other person who would be in charge of his office during the period (Item 3);

iii) legal representation to the estate of the deceased sole holder - The scope of Section 7 may be enlarged so as to cover claims under Court orders, etc. (Item 5);

iv) issue of duplicate in lieu of security lost/destroyed/stolen, etc. - The Bank may be vested with powers to impound security in respect of which duplicate has been issued, in the event of its presentation in Public Debt Office (Item 10);

v) summary determination by the Bank of title to Government securities in case of dispute - The error which has crept in Section 12 may be removed (Item 11);

vi) direction to the Bank by decrees of Court - The person in whose name the Government security is held or stands last endorsed should also be made a party to the legal proceedings whenever the Bank is impleaded (Item 13); and

vii) receipt of renewal - The Bank may be vested with discretion in the matter of obtaining an indemnity with or without sureties (Item 18).

(T.N. Anantharam Iyer)
Chairman

(K.G. Patkar) Member	(B. Ray) Member	(S.P. Gothoskar) Member
(N.V. Deshpande) Member	(V. Balasubramanian) Member	(Jagdishwar Narain) Member
* * * (R.K. Gupta) Member	(M.F. Farooqui) Member	(S.N. Ghosh) Member
(R.G. Dashputre) Member	(O.P. Agarwal) Member	(D.M. Khanorkar) Member

(P.Y. Padhye)
Member-Secretary

Annexure 1
Paragraph 1.2

Statement showing outstanding liability of Government of India/State Governments on account of internal public debt

(in crores of rupees)

	As at the end of March				
	1981	1982	1983	1984	1985
A. CENTRAL LOANS					
1. Current market loans	15,549	18,461	22,232	26,230	30,368
2. Others(comprising balances of matured loans,prize bonds, compensation bonds, etc.)	251	309	429	551	602
3. Special Bearer Bonds	88	964	964	964	964
4. Treasury Bills	12,851	10,273	17,431	15,549	19,257
5. Special Floating and other Loans	1,540	1,536	1,673	2,181	2,554
6. Special Securities issued to R.B.I.	585	4,110	4,210	4,570	4,750
TOTAL:	30,864	35,653	46,939	50,045	58,495
B. STATE LOANS					
i) Market loans	2,973	3,313	3,706	4,269	5,005
ii) Compensation and other bonds	60	56	52	49	54
TOTAL:	3,003	3,369	3,758	4,318	5,059
GRAND TOTAL (A+B)	33,897	39,022	50,697	54,363	63,554

Source: Report on Currency and Finance 1984-85

Annexure 2
Paragraph 1.6

Statement showing the location of Public Debt Offices and their respective jurisdictions.

Location of Public Debt Offices		Jurisdiction of Public Debt Offices
	1.	2.
1.	Ahmedabad :	Treasuries and Sub-treasuries under the jurisdiction of the Accountant General, Gujarat.
2.	Bangalore :	Treasuries and Sub-treasuries under the jurisdiction of the Accountant General, Karnataka.
3.	Bhubaneswar :	Treasuries and Sub-treasuries under the jurisdiction of the Accountant General, Orissa.
4.	Bombay (Fort) :	Treasuries and Sub-treasuries under the jurisdiction of the Accountant General, Maharashtra, other than those under the audit control of the Senior Deputy Accountant General, Maharashtra, Nagpur; Treasuries and Sub-treasuries in the Union Territory of Goa, Daman and Diu and treasuries and Sub-treasuries in the former Sind Province of Pakistan.
5.	Byculla(Bombay) :	At present, this office attends to the issue and servicing of Ten-Year Annuity Deposit Certificates, 5 3/4% Bonds, 1985, National Rural Development Bonds and 7% Capital Investment Bonds and its jurisdiction is confined to areas specified by Central Debt Division from time to time.

1.		2.
6. Calcutta	:	Treasuries and Sub-treasuries under the jurisdiction of the Accountant General, West Bengal, Meghalaya, Manipur, Tripura, Nagaland and Sikkim, including Treasuries and Sub-treasuries in the Union Territories of Mizoram and Arunachal Pradesh, Central Government treasury at Port Blair and treasuries and Sub-treasuries in Bangladesh.
7. Gauhati	:	Treasuries and Sub-treasuries under the jurisdiction of the Accountant General, Assam.
8. Hyderabad	:	Treasuries and Sub-treasuries under the jurisdiction of the Accountant General, Andhra Pradesh.
9. Jaipur	:	Treasuries and Sub-treasuries under the jurisdiction of the Accountant General, Rajasthan.
10. Kanpur	:	Treasuries and Sub-treasuries under the jurisdiction of the Accountant General, Uttar Pradesh.
11. Madras	:	Treasuries and Sub-treasuries under the jurisdiction of the Accountant General, Tamil Nadu and Treasuries and Sub-treasuries in the Union Territories of Pondicherry, Lakshadweep, Minicoy and Amindivi Islands.
12. Nagpur	:	Treasuries and Sub-treasuries under the audit jurisdiction of the Senior Deputy Accountant General, Maharashtra, Nagpur and the treasuries and Sub-treasuries under the jurisdiction of the Accountant General, Madhya Pradesh.

1.			2.
13.	New Delhi	:	Treasuries and Sub-treasuries under the jurisdiction of the Accountant General, Punjab, Himachal Pradesh, Haryana and Jammu & Kashmir, the treasuries and Sub-treasuries in the Union Territories of Chandigarh and Delhi and the Treasuries and Sub-treasuries in the former North West Frontier Province and the Punjab Province of Pakistan and Quetta.
14.	Patna	:	Treasuries and Sub-treasuries under the jurisdiction of the Accountant General, Bihar.
15.	Trivandrum	:	Treasuries and Sub-treasuries under the jurisdiction of Accountant General, Kerala.

Annexure 3.1
Paragraph 1.18

QUESTIONNAIRE ISSUED TO CENTRAL/STATE GOVERNMENTS

SECTION - A : FLOATATION OF NEW LOANS

Question:1 Whether it is necessary to continue to have the present large number of points at which Government loans are available for investment. In particular, please state whether in your view, it will be sufficient to restrict the receiving points to major cities and metropolitan centres.

Question:2 Whether net amount of interest on Government securities may be rounded off to the nearest rupee instead of 5 paise as at present.

SECTION - B : FORMS OF GOVERNMENT SECURITIES

Question:1 Whether all the existing forms of Government securities, viz. Government promissory notes, Stock and Bearer Bonds are absolutely necessary?

Question:2 Will the Government favour abolition of the form of Government promissory note altogether, retaining only two forms, viz., Stock and Bearer Bonds?

Question:3 Whether Bearer Bonds with printed coupons could serve the purpose of free negotiability better than Government promissory notes? If so, whether bearer bonds with printed coupons could be issued in lieu of Government promissory notes (Please take into consideration the security and other aspects relevant to the conditions in India before replying to this question).

SECTION - C: DENOMINATION OF GOVERNMENT SECURITIES:

Question: Will Government favour discontinuance of Government promissory notes in small denominations, viz. 100/- Rs.200/- and Rs.500/- and agree to the issue of Government securities in multiples of Rs.1,000/- with a minimum of Rs.5,000/-?

SECTION - D: PERIODICITY IN PAYMENT OF INTEREST ON GOVERNMENT SECURITIES

Question:1 Will the Government prefer to pay interest yearly instead of half-yearly as at present? (The fact that the periodicity of interest is linked to the problem of cash generation should be kept in view before answering the question)

Question:2 Will the Government prefer issue of securities at a discount, face value being payable on maturity, so that there is no need for presenting the securities for payment of interest every half year during the currency of loan?
(In this case the discount amount will have to be approximately equal to the present value of interest payments otherwise payable on the securities at periodical intervals during its lifetime calculated at an appropriate rate of interest)

SECTION - E: ROLE OF GOVERNMENT AGENCIES

Question:1 Whether Government has received many public complaints that the powers conferred on the above authorities are too restrictive; or that procedural requirements in ensuring compliance are onerous and not commensurate with the value of securities involved; if so, the nature of such complaints may be indicated along with Government's comments/suggestions for improvement in this area.

Question:2 Can the scope of the various provisions of the Act/Rules in this regard be widened to extend atleast some of the powers to nationalised banks?

SECTION - F: CUSTOMER SERVICE AND OTHER MATTERS

A) PUBLIC COMPLAINTS

Question: What are the types of complaints received by Government from public in regard to the administration of the market loans?

B) LITIGATION IN RESPECT OF GOVERNMENT SECURITIES

Question: Whether Government is agreeable to introduce a provision in the Public Debt Act, legally debarring the parties from impleading Reserve Bank of India/Government/s in law suits in respect of Government securities arising out of disputes between parties inter se, in which the Bank and Government/s concerned have no independent interest.

C) LOST NOTE PROCEDURE

Question:1 Whether the requisite notification of the loss, destruction, etc. of Government security by the applicant could be done in the leading newspapers of the area instead of Government Gazette/s, as at present.

Question:2 Whether the statutory waiting period can be curtailed from the present 3 years to 1 year. Could we have a still lesser waiting period or do away with it by providing suitable safeguards to protect the interests of the Government/Bank, etc?

Question:3 Whether the documentary evidence tracing back the title to the original holder, such as bill of sale, presently called for in cases where the applicant is not the original holder could be relaxed and the claim considered on the basis of a sworn affidavit and other satisfactory form of evidence.

Note: In answering the above questions, considerations of security aspects, possibilities of counter-claims, etc. may be kept in view.

D - NOMINATION IN RESPECT OF GOVERNMENT SECURITIES

Question: Whether, in your view, facility to make nominations could be extended to all Government securities; if so, specific suggestions may be given.

E - POWERS FOR SUMMARY DETERMINATION OF TITLE FOR GOVERNMENT SECURITIES BY THE BANK

Question: Whether the Government would like the Bank to broad-base the Bank's power for summary determination of the title to Government securities-whether requirements such as publication of notices in Government Gazettes may be simplified and waiting period reduced.

F - SECURITIES IN THE NAME OF MINOR

Question: Whether provision may be made to facilitate either of the parents to have right to apply for and deal in Government securities on behalf of minors on the lines of the provisions of Government Savings Certificates Act, 1959.

G - GENERAL

Question: Please indicate any other provision of Public Debt Act, 1944 and Rules framed thereunder, which the Government would recommend for amendment/deletion with a view to -

i) improving customer service;

ii) avoiding scope for litigation; and

iii) reducing cost of administration of public debt.

SECTION - G: PAYMENT OF INTEREST WITHOUT DEDUCTION OF TAX AT SOURCE

Question: Would Government like to consider extension of this facility to holders of Government securities?

Annexure 3.2
Paragraph 1.18

QUESTIONNAIRE ISSUED TO BANKS/BROKERS

SECTION A - FLOATATION OF NEW LOANS

Question:1 Whether the present frequency of New Loan floatations by Central/State Governments adequately meets the expectation of banks/brokers in regard to the timely availability of opportunities for investment of their own funds and/or investment on behalf of their customers in gilt-edged securities.

Question:2 Whether in their view, the floatation of loans by Central Government only once a year or once a quarter would be preferable from the investors' point of view?

Question:3 What in your view, should be the optimum periodicity of interval at which investors would like the Governments to enter market.

Question:4 Whether it is necessary to continue to have the present large number of points at which Government loans are available for investment. In particular, please state whether, in your view, it will be sufficient to restrict the receiving points to major cities and metropolitan centres.

Question:5 Whether net amount of interest on Government securities may be rounded off to the nearest rupee instead of 5 paise as at present.

SECTION B - FORM/S IN WHICH GOVERNMENT SECURITIES ARE ISSUED AND DENOMINATIONS THEREOF

Question 1: Is it essential to have all the three forms of Government securities, viz. Government promissory notes, stock certificates/SGL Accounts and bearer bonds as at present from the point of view of investors, banks/brokers?

Question 2: Supposing it is decided to abolish the form of Government promissory note altogether, will it cause inconvenience to the investing public and/or bank/brokers?

Question 3: What is your reaction to the proposition that Bearer bonds, with printed coupons for interest may be issued in lieu of Government promissory notes?

Question 4: In case Government promissory notes are to continue, will the discontinuance of Government promissory notes in smaller denominations, viz. Rs.100/- Rs.200/- and Rs.500/- cause any inconvenience to the investors especially the small investors or banks/brokers?
(In answering this question, kindly keep in view the fact that there is considerable erosion in the real value of the rupee and also that, at all levels, the smaller denomination securities are likely to add to the cost of collection/servicing)

Question 5: If your answer to the previous question is in favour of discontinuance of issue of smaller denomination Government securities, what would be your reaction to the proposition that Government securities may be issued in multiples of Rs.1,000/- with a minimum of Rs.5,000/- (for initial issue)?

SECTION - C: ARRANGEMENT FOR PAYMENT OF INTEREST

Question 1: Would you, as investor in Government securities/banker/broker, prefer payment of interest on securities on annual basis instead of half-yearly as at present?

Question 2: Would you, as investor/banker/broker, prefer issue of Government securities at a discount, par value being repaid on maturity so that there is no need for payment of interest periodically as at present?

SECTION- D: ADMINISTRATION OF PUBLIC DEBT

A. CUSTOMER SERVICE

Question 1: What are your grievances/complaints in regard to the administration of public debt against

i) the Governments

ii) the paying authorities i.e. Public Debt Offices/T.O.(Treasury Officer)/ S.T.O. (Sub-Treasury Officer) and

iii) Other Government agencies?

(Please indicate separately the details of any grievances/complaints in respect of the above, if any, formally or informally voiced to you by your constituents)

Question 2: Which of the documents presently required by Public Debt Office/Treasury Officers in connection with processing of securities, you/your constituents find it difficult to produce? Do you have any alternative suggestion on simplification of documentation?

B. LOST NOTE PROCEDURE

Question 1: Whether the requisite notification of the lost, destruction, etc. of Government security by the applicant could be done in the leading newspapers of the area instead of Government Gazette/s, as at present.

Question 2: Whether the statutory waiting period can be curtailed from the present 3 years to 1 year. Could we have a still lesser waiting period or do away with it by providing suitable safeguards to protect the interests of the Government/Bank, etc?

Question 3: Whether the documentary evidence tracing back the title to the original holder, such as bill of sale, presently called for in cases where the applicant is not the original holder could be relaxed and the claim considered on the basis of a sworn affidavit and other satisfactory form of evidence.

Note: In answering the above question, considerations of security aspects, possibilities of counter-claims, etc. may be kept in view.

C. NOMINATION IN RESPECT OF GOVERNMENT SECURITIES

Question: Whether in your view, facility to make nominations could be extended to all Government securities; if so, specific suggestions may be given.

D. APPLICATION FORMS

Question: From the point of view of extending mechanisation/computerisation for the servicing of public debt, whether any changes in the present loan application form could be suggested.

E. PRESERVATION OF RECORDS OF AGENCY BANKS

Question: Whether any difficulty is being experienced by banks on account of long period of preservation of records relating to Government loans. If so, what is the alternative suggestion in regard to period of preservation of various records?

(This question needs to be answered only by State Bank of India/Associate banks).

SECTION - E: TRANSFERABILITY OF SECURITIES

Question: Are the present Rules regarding transferability of securities in different forms adequate or do they involve any difficulty/hardship? If so, would you like to suggest any change(s)? Please indicate in detail.

SECTION - F: AVAILABILITY OF SCRIPS IN THE MARKET

Question: Whether the present availability of gilt-edged scrip in the market matches the investment needs/preferences of the investors in regard to:

a) maturity pattern;

b) Yield;

c) Marketability

SECTION- G: HOLDING OF SECURITIES IN SGL ACCOUNT

Question:1 Is not the holding of securities in SGL Account distinctly advantageous for the banks? If so, why is it that the banks etc. hold a good portion of government securities in the form of Government promissory notes/Stock Certificates?

Question:2 Are the present facilities for holding government loans in the form of SGL Account, sufficient? If not, please indicate the area where there is scope for their extension.

Question:3 What other improvements, if any would you suggest for motivating investors in government securities to avail of the SGL Account facility to the maximum extent?

Annexure 4
Paragraph 1.18

Report of the Study Team's visit to foreign central banks

Introduction:

With the approval of the Governor of the Bank and the Finance Minister, a small study team of the Committee members consisting of Sarvashri K.G.Patkar, Chief Accountant, Reserve Bank of India, P.Y. Padhye, Joint Chief Accountant, Reserve Bank of India, and V. Balasubramanian, Additional Budget Officer, Government of India, Ministry of Finance visited the central banking institutions in West Germany, U.K. and U.S.A. to undertake a quick on-the-spot study of the administration of the internal debt of the respective governments and the various procedures and practices followed by the central banks in these countries in the matter of issue, servicing and redemption of the marketable gilt-edged securities. The Study tour was undertaken from 29th August to 13th September 1985 (involving 11 working days) and discussions on the various aspects of internal debt administration were held with the concerned officers of the Deutsche Bundesbank (West Germany), Bank of England (U.K.) and the Federal Reserve Bank of New York, New York (U.S.A.). The study team also held brief discussions with the Federal Government officers in the Ministry of Finance (West Germany) and the Department of Treasury (USA) in Bonn and Washington respectively. In Washington, the Federal Reserve Bank of New York had arranged for a brief visit of the team to

"Fannie Mae" (i.e., the Federal National Mortgage Association), a uniquely structured and federally chartered corporation operating in the secondary mortgage market, whose obligations have been traditionally treated as "U.S.Agency debt" and whose debentures are actively traded in the government securities market. The list indicating the names and designations of the principal officers with whom the study-team had a dialogue is given in Annexure 4A to this report.

2. The various important aspects relating to the administration of the internal public debt in the countries visisted by the team, which have come out in the course of the study tour and the discussions, are dealt with in the following paragraphs.

General observations:

3. Certain common features in regard to debt administration were observed by the team in the three countries visited, which are totally different from the situation existing in India.

(a) The first and foremost feature is that internal debt does not constitute a significant source of revenue in the Federal Government budgets. In West Germany, for instance, issue of government bonds constituted only about 10% of the total resources in the budget. It transpired during the discussions the team had with the Federal Government officials that, of the total resources amounting to 258 billion DMs (approx.) provided in the last budget net borrowings (i.e.credits) accounted for only abqut 24 billion DMs, whereas taxes and other revenues accounted for as much as 208 billion DMs. In the case of U.K., the forecast of the government receipts and expenditure for the year 1985-86 indicated that the general government borrowing requirements have been estimated at only £ 9.4 billion which constituted an insignificant portion of the total estimated general government receipts (including borrowing) of £ 159.5 billion. The revised Budget

Estimates for the year 1984-85 indicated that general government borrowing (£ 9.6 billions) constituted only 6.42% of the total estimated receipts of £ 149.5 billion. In the U.S.A., there is a statutory debt limit, which by Act of October 13, 1984, was established at $ 1,823,800 million. There is a proposal by President to increase it by $ 200 billion.

(b) Secondly, the coupon rates on government securities in these countries are competitive, i.e., in tune with interest on securities/bonds issued by non-governmental bodies and that there is a well-developed secondary market in gilt-edged securities. Consequently, government securities are actively traded on the stock exchanges. There is no captive market for government securities as in India.

(c) There is a very close linkage between the central banking institutions and stock exchanges and in certain cases, major policy decisions regarding gilt-edged securities are taken jointly or in mutual consultation. In the U.S.A., it transpired that the Department of Treasury invites not only the Federal Reserve Banks but also some of the leading brokers for consultation before they finalise the terms and quantum of the offerings of treasury bills or treasury notes and bonds.

(d) A substantial portion of the federal debt is subscribed by private investors and a variety of instruments are issued by the government to cater to the needs of the investing public.

(e) The government comes to the market with new issues much more frequently - almost every month.

(f) In none of the countries visited, government security is issued in the form of 'Promissory Note' (transferable by endorsement and delivery). Securities are issued either in the form of registered certificates (evidencing ownership of government stock) or book-entry form (where no physical scrip is issued). Even the issue of securities in the form of bearer bonds has been discontinued in these countries.

(g) The work relating to the issue, redemption of government securities and their servicing is substantially computerised.

Special Features of each country

4. The distinguishing features relating to debt management, as observed in the respective countries, are discussed below.

West Germany

5. In West Germany, the responsibility for the administration of the federal debt is shared by the Government (Finance Ministry), Federal Debt Administration, Deutsche Bundesbank and a specialised 'trustee-organisation' known as Kassenverein. As in the case of our country, decisions relating to the amount of public borrowings, the terms of issue, etc. are finalised by the Government. The Bundesbank acts only as a co-ordinator and is concerned mainly with the initial processing of the federal bonds, etc. by issue of advertisements and inviting tenders etc. The responsibility for the accountal of the outstanding debt and the servicing thereof during the tenure as also repayment on maturity, are matters dealt with by the Federal Debt Administration. The adjustments in the Government and banks accounts are, however, effected through the books of the Bundesbank. As discussed later on in detail, the entire issue of the federal bonds, etc. is held 'en block' by the Kassenvereins on behalf of the investing banks whose holdings consist of their own investments as well as

the investments of their constituents. In Germany, the entire public debt is held in the form of security accounts and no physical securities are issued.

6. The Federal Government issues a variety of credit market instruments. The long-term Federal bonds have normally a maturity of 10 years, which may extend upto 12 years. The Federal Government holds discussions with "Federal Bond Consortium" (which is a group of major commercial banks in West Germany). The Deutsche Bundesbank actsas a co-ordinator and leader of the Consortium. The various aspects such as the amount of issue, coupon rate, maturity, yield, etc. are discussed by the Federal Government with the Consortium and mutually settled before the loan floatation. Each issue is taken up by the members of the Consortium in agreed quotas, and thereafter offered for sale to private investors. A small part is retained by the Bundesbank to regulate the market through stock exchanges. The bonds are issued almost every month resulting in about 10 to 12 issues a year. The Government also issues other types of bonds/notes and treasury bills to cater to the requirements of private investors, charitable organisations. Savings Bonds and Special Federal Bonds issued are examples of this type. Besides, medium-term notes are issued for banks and larger institutions, etc. The terms and conditions of issue vary for different categories of securities in tune with the class of investors and the market conditions.

7. An interesting feature of the relationship between the Federal Government and the Bundesbank in this behalf is

that the Bundesbank Law does not permit it to take over government paper directly (i.e., initially). The Bank can, however, buy government bonds in the secondary market for the purpose of carrying out open market operations. The Federal Government can get money directly from the Bundesbank only by way of overdraft credit which is limited to 6 billion DMs which is roughly 2.3% of the 1984 budget.

8. Interest rate on Federal bonds is higher than the interest rate on term deposits with commercial banks for the corresponding period. However, it is lower than the interest rate on bonds issued by private companies. Also no tax is deducted at source from interest payment on any bonds since August 1984.

9. The most outstanding and innovative feature of the German system of public debt administration is the total elimination of security certificates thereby leading to a "paperless system". The bonds, known in the country as bearer bonds, are issued in the form of "Registered claims" or "Debt Book Entries". These issues are paperless and are treated like bonds represented by certificates with respect to trading, transfer and other legal consequences. Since 1972, the Federal Government has been floating bond issues exclusively in the form of Debt Book Entries, which are only registered in the Federal Debt Book which is kept by the Federal Debt Administration, a statutory body, responsible for keeping accounts of the various bond issues, interest payments and redemptions. In the scheme of arrangements, the banks play a key role. They are the only professional depositories of securities and in addition give a coupon service, redeem bonds at maturity and perform

other necessary service for the private investors. Unlike other countries, banks in West Germany are the only professional traders (i.e. brokers) on the stock exchanges. They trade in their own names, whether the securities are owned by themselves or by their customers. The settlement of securities is thus exclusively carried out by the banks and settlement of securities transactions by other parties is not permitted. Consequently, more than 90% of all the West German securities are held in depository accounts with the banks.

<u>Kassenvereins</u>:

10. In order to rationalise the administration of securities entrusted to them, the German banks have created a special type of sub-bank called the "Kassenverein", which is an independent company with limited liability. In all there are 8 such Kassenvereins corresponding to the 8 stock exchanges. Their activity is, by law, restricted to safe-keeping, administration and processing of securities transactions. They do not carry on regular banking business. Basically, they relieve banks of day-to-day administration and arrange for the collection and distribution of interest periodically and repayment on maturity of bonds, etc. The Kassenvereins operate on a no-profit, no-lo basis and charge fees - custodian and transaction fees in the main - which just cover their own costs and expenses.

11. While the banks are obliged by law to hold securities of each constituent separately and must not mix their holdings, the Kassenvereins can hold categories or series of securities 'en bloc'. Account-holders are not entitled to request delivery of securities with particular numbers and the Kassenvereins may deliver securities with any numbers from their collective holdings. This makes sales and exchanges relatively simple.

The transfer of securities between banks is effected by simple book entries at the Kassenvereins, which act as security clearing houses. The Kassenverein, on receipt of a transfer order debits the account of one bank and credits tne account of the other, without any physical movement of the securities. If the selling bank does not have an adequate balance of the relevant category on its account, this is remedied by a corresponding delivery of particular securities to the Kassenverein. It is the rule of the stock exchanges that the purchasing parties are required to accept credits by the Kassenverein as appropriate settlement. For processing the numerous transactions of sales and purchases of securities, most of which result from dealings on stock exchanges, the Kessenvereins use computers.

Technique of Bond Issue:

12. The technique of the floatation of a bond issue in the form of book-entries is broadly as follows. When such a bond issue is floated, a Central Depository Bank for securities (i.e., Kassenverein) is registered as 'Trustee Creditor' in the Federal Debt Book maintained by the Federal Debt Administration. This collective Debt Book Entry serves as the basis for the clearing system of securities and the settlement of stock exchange dealings in such bond issue. This necessarily implies that the investor has to hold his investments in such bond issues through a 'Securities depository account' with his bank. Of course, it is open to the investor to request the Federal Debt Administration to register what may be called an 'Individual Debt Book Entry'

in his name. Presently, about 1,50,000 investors (about 5% of all investors) have individual book-entry accounts directly with the Federal Debt Administration. However, this is disadvantageous for selling through stock exchange and that is why very few investors make use of the facility.

13. The transfer of ownership of bonds in the case of sale/purchase transactions is effected by mere book-entries. Suppose that A wishes to sell 100 Federal Bonds and B wants to buy them through stock exchange, A's bank will debit his Security Depository account and in turn the Kassenverein will debit the A's bank's Account and credit the account of B's banker with 100 bonds. B's bank in turn will credit his security depository account with it. The monetary settlement in respect of the transaction is effected through the 'money accounts', i.e., current or savings bank accounts of the seller who gets credit for the net sales proceeds and the buyer whose account is debited with the cost and expenses. Thus, the transaction is effected through the Kassenverein <u>without reference to and intervention of the Federal Debt Administration</u> which is the counterpart of our Public Debt Offices. It may be seen that every individual investor maintains two accounts with the branch of his bank, one the regular bank account and the other the Security Depository Account. A statement of his both

these accounts, is issued to the investor which serves as the counterpart of our passbook. The purchase of securities will result in debit to his bank account and credit to his Security Depository Account. Thus, he does not possess any physical securities. His Security Depository Account with the branch of the bank and the entries therein are equivalent of his holding physical securities and their purchase and sale in term of law.

Interest payment:

14. As for payment of interest, three weeks before the due date, the Federal Debt Administration works out the aggregate amount of interest it has to pay on the outstanding bonds and arranges to pay the amount to the Kassenverein one day in advance of the due date. The Kassenverein's account is credited by contra debit to the Federal Government Account in the books of the Bundesbank. The latter distributes the proportionate amounts to the various depository banks, which, in turn, further distribute the amount to the individual investors' accounts on the due date. Our discussion with the officials revealed that this exercise is done in 26 hours by aid of computers.

15. In West Germany, interest on government securities is paid annually and since no tax is required to be deducted at source, the above arrangement does

not pose any difficulty. The entire paper work including the issue of interest warrants is, in the process, totally eliminated.

16. Redemption of the principal amount of the government bonds is also arranged by the Federal Debt Administration through the Kassenvereins on similar lines.

17. It will be seen from the foregoing that the administration of public debt has been considerably simplified in West Germany by resort to the mechanism of a paperless system and the instrumentality of a Central Depository Bank (viz., Kassenvereins) and is managed at the least operational and other costs, since both material costs (use of security paper, printing of bonds, their safecustody and issue, postage, etc.) as also time costs (delays in payment) are eliminated. The system works very smoothly as all transactions relating to government securities are effected through banking channels and no cash is involved. The system is facilitated because no tax is required to be deducted at source while making payment of interest.

United Kingdom

18. In U.K., the Government expenditure is about 45% of the Gross Domestic Product (GDP) whereas the revenue is around 40% of the G.D.P. The share of investment expenditure is only about 10-15% of total expenditure. Public sector borrowing is low at 2 - 2.5% of the G.D.P. and the main source of revenue is taxes,viz. the personal

income-tax and the tax on expenditure, i.e., value added tax or VAT.

19. The pattern of debt administration in the U.K. is similar to that followed in our country, except that there is a greater variety of issues and frequency of loan floatation is also much higher. Unlike West Germany, there is no separate agency for maintaing the debt ledgers containing accounts of loans issued from time to time. Once the decision in regard to floatation of loans is taken by the Government, the rest of the activities are handled by the Bank of England. Like our Public Debt Offices, Bank of England has its Registrar's Department which deals with the issue, servicing and redemption of the public debt as also the maintenance of accounts of outstanding loans. Most of the public debt is issued in the form of stock certificates or held in account form and no Government promissory notes are issued. The work is computerised.

20. The Bank of England plays an advisory role in formulation of the policy regarding public debt. Generally, as to the types of stock, the Treasury goes by the Bank's advice. As regards the quantum of borrowing, however, the Government has the final say. The internal debt of the Government consists of marketable debt (mainly bonds) and non-marketable debt (national savings). The Bank of England is responsible as an issue house in respect of marketable loans. The non-marketable portion of the

internal debt is not handled by the Bank.

Types of Securities:

21. Bonds (i.e., Government Stock) of varying maturities ranging from less than 5 years to about 20 years are issued by the Bank. Bonds of maturity exceeding 20 years are also issued, the longest maturity being an issue made in 1984, which is due for redemption in 2020 (i.e., 36 years). Broadly, the following three types of bonds are issued:

(i) Coupon Bonds: These are issued on Fridays at a discount, by inviting tenders in prescribed amounts, the minimum amount of tender being for £ 100(nominal) stock. The Government fixes the minimum tender price (£ 79.00 per cent) below which the tender is not acceptable. The coupon rate is 3% p.a. Normally, the bonds mature in 3 years and thus render a yield of around 10% p.a.

(ii) Convertibles: Under the terms of issue, the investor has an option to convert bonds into bonds of longer maturity, the terms of which are decided in advance and spelt out in the prospectus relating to the original issue. These bonds are very popular with some investors who would like to make profits if the yields come down.

(iii) Index-Linked Stocks: These were introduced in

1981. The special feature of these bonds is that both interest payment and the principal amount of stock payable on maturity are related to the U.K. General Index of Retail Prices, thus ensuring yield in real terms rather than money terms. These bonds generally tend to be long-dated and are very much in demand.

It may be mentioned that management of the external debt (aggregating currently to around 13 billion US $) of the nationalised public sector corporations like the National Coal Board, Regional Water Authorities, British Nuclear Fields, etc., is also one of the important functions performed by the Bank of England.

Registrar's Department:

22. The frequency of loan floatation in the U.K. is irregular; but generally the issues are made 15 to 20 times a year.

23. The work of issue of (new)stocks, maintenance of records of stock-holders, registration of transfers, payment of half-yearly interest and redemption of the principal amount or its conversion into another stock on maturity, etc. are attended to by a separate department called the Registrar's Department, in the Bank of England. The statutory framework is provided in the Stock Transfer Act, 1963.

Issue of government stock:

24. The issue of government stock is made by inviting tenders for a total notified amount of issue. The terms and conditions of issue are contained in the Prospectus. Copies of the prospectus (which is similar to the loan notifications issued by the Government in India) and tender forms are supplied by the Bank of England. The tender must be for a minimum amount of £ 100 stock and in the prescribed multiples for amounts over the minimum tender amount. The prospectus lays down the minimum price per cent, below which the tenders are not accepted. Tenders are ranked in descending order of price and allotments are made to tenderers whose tenders are at or above the minimum tender price. All allotments are made at the allotment price: tenders which are accepted and which are made at prices above the allotment price will receive full allotment; tenders at the allotment price may be allotted in full or in part only. Any balance of stock not allotted to tenderers will be allotted to the Bank of England at the allotment price. In this respect, the position in the U.K. is similar to that in India and different from that in West Germany or U.S.A. where the central banking institution is prohibited from giving direct credit to the Government.

Allotment Letters:

25. The most interesting and distinguishing features of the issue of government stock in the U.K. is that the tenderers are required to make a partial payment i.e., deposit @ £50 for every £100 nominal stock tendered for along with the tender form. Successful tenderers are issued letters of allotment in respect of stock allotted, which are transferable as bearer documents prior to registration of stock (on receipt of the balance of purchase money), and are actively traded in the gilt-edged market. All letters of allotment are to be surrendered with the balance of money due by a specified date, duly accompanied by a completed registration form, for registration and issue of stock certificates.

26. In U.K. stock certificates evidencing the title of the person holding government stock are issued by the Registrar's Department of the Bank of England. Presently, the Registrar's Department maintains about 2.5 million stock accounts in respect of about 220 marketable securities issued by the British government, local authorities, etc. and the non-British authorities. However, in respect of the Jobbers, who are wholesale dealers in government stock, stock is held in book-entry form at the Jobbers' Counter. This is similar to S.G.L. Account Section in the Public Debt Offices in India.

Transfer of Stock:

27. Normally, transfers of stock certifi

effected through the stock exchange brokers and bankers. In terms of Stock Transfer Act, 1963, the registered securities are transferable by means of an instrument in writing in the prescribed form executed by the transferor only and specifying the full name and address of the transferee. The transfer instrument along with the stock certificate is lodged with the Registrar's Department for registration of transferee's name and issue of a certificate in his name. In this respect, the procedure is similar to that followed in Public Debt Offices in India. The Bank takes about 3 days for registering the transfer from the time it is lodged with it. In respect of sales by a jobber, the Jobber's Counter certifies the transfer in token of availability of balance in the Jobber's account. No overdraft in the account is permitted and if a jobber does not have adequate balance of stock of the loan offered for sale by him, he gets in touch with a money-broker and borrows the stock temporarily from him.

Interest payment:

28. Interest payment on government stock is made half-yearly by issue of warrants which are crossed account payee and sent by first class mail. An interesting feature of such payments is that warrants are issued even in favour of third parties in accordance with the

stock-owner's mandate. Also tax is deducted at source at a standard rate of 30% where the payments are for more than £ 5 per annum. Nearly 50% of interest payment are made through banks. It may be of interest to note that requests for payment through banks are required to be routed through the concerned banks. About 5 weeks before the due date of interest payment, balancing of stock is done. Thus, the procedure for payment of interest on stock followed in Bank of England is broadly similar to the one followed by the Public Debt Offices in India.

Computerisation:

29. Except the initial scrutiny of tender forms received at the time of new issues and the scrutiny of transfer forms, which is done manually, the work of debt management is computerised. Extensive use is made of computers, the current on-line system being based on two ICL 2900 series configurations. The registers are held on random access storage discs; the staff view accounts on Video Terminals and effect alternations in account particulars by means of keyboards attached to the Terminals. Amendment data is collected on suspense files and the registers are updated overnight. The system also provides an On-Line Index of all holders, legal representatives and individuals nominated to receive interest payments.

30. The main computers, together with two micro-

computers, are also used for new issues, conversion and redemption operations, preparation of and accounting for interest payments and repayment of the principal, etc.

31. It may be worth mentioning that although the Bank of England issues government stock in physical form, no security in the form of promissory notes is issued. The issue of bearer bonds is also very insignificant and is mainly resorted to for attracting non-residents' investments. Of the total government securities worth £ 115600 million issued by the Bank, bearer bonds account for only £ 60 million (i.e.0.05%).

'CGO' Service

32. Although at present government stock in the account form is held only in respect of the jobbers, the Bank is contemplating introduction of what is termed as the Central Gilt Office Service (CGO Service)' which is aimed at reducing the amount of paperwork by enlarging the book-entry system so as to cover other participants in the stock market like money brokers, discount houses, etc. The CGO project is being developed by the Bank in conjunction with the stock exchange. Stock Transfer Act, 1982 has been enacted to permit transfers in respect of specified securities through the CGO system without the need for any written instrument. The first phase of the CGO system is slated

for 2nd January 1986 and with the operationalisation of the system transfers of stock between CGO members will be effected merely by book-entry, through a computer system, and the physical stock transfer forms as well as stock certificates will be dispensed with. When fully opertaionalised, the CGO system will reduce considerable amount of paper work both for the Bank and the market as well as cut down on the cost of debt management and ensure prompt completion of dealings in government stock.

33. It will be seen from the foregoing that the Bank is able to render efficient service to a large number of private investors in government securities because the securities are held in the form of stock certificate/account-form and the work is substantially computerised. It will also be seen that the Bank is moving in the direction of paperless system by having greater resort to book-entry system of transfers. There is no elaborate legislation of the type of Public Debt Act and except for the transfer of stock which is goverened by the Stock Transfer Act, 1963, other matters seem to be goverened by the terms of contract embodied in the relative prospectus and the other related laws of the land and/or administrative instructions of the Bank.

United States of America

34. In the USA there is some sort of a dichotomy in

regard to the issue and management of Government debt. The Federal Reserve Bank of New York acts as the fiscal agent of the US Government and deals with the following matters relating to the public debt, viz., (i) receipt of tender applications and subscriptions towards new issues and issue of securities; (ii) servicing of the securities i.e., transfers, interest payments, etc. and (iii) redemption of securities at maturity. The Bank also keeps stocks of unissued treasury securities (i.e., blank border forms). The responsibility for accounting for the public debt, however, rests with the Bureau of the Public Debt in the Department of Treasury itself. For this purpose, the Bureau maintains integrated systems of accounts for all financial and securities accounting activity. Securities accounting data are reconciled with financial accounting data to ensure proper control over the issue and redemption of public debt securities. In addition, the Bureau performs the final audit of retired securities and interest coupons. It also maintains individual accounts of owners of book-entry and registered securities. Thus the administration of public debt in the USA is divided between the Department of Treasury and the Federal Reserve Bank, which is a unique feature of the USA. As in the case of West Germany, the Federal Reserve Bank does not buy Government issues directly but deals with treasury securities mainly for the conduct of open market operations in accordance with the monetary policy formulated by the Federal Open Market Committee (FOMC). In practice, the Federal Reserve Bank, New York buys more often than it sells the securities. There is no problem in the USA of finding buyers for Government debt. It was observed from a statement of Maturing Coupon Issues for August-December 1985 that of the issues totalling $ 78,254 million maturing during the above period, $70,085 million (i.e., about 90%) are held by Private investors.

<u>Type of Securities</u>:

35. The treasury securities are of the following types:

(a) Bearer securities;

(b) Registered securities; and

(c) Book-Entry securities.

The issuance of bearer bonds has been discontinued in 1982 and since January 1983 the treasury securities are issued in the form of either registered securities represented by physical certificates or in the book-entry form where no certificate of title is issued.

36. A bulk of the outstanding public debt consists of marketable securities such as Treasury bills, notes and bonds. These are transferable by sale in the open market and are actively traded during their currency. Of the non-marketable securities, savings bonds, which are issued in registered and non-transferable form, are relatively important. They are mainly meant to encourage individual savings and are issued at a

discount in smaller denominations. Of the public debt of $1,662,966 million outstanding as at the end of 1984, marketable debt accounted for 75% Savings Bonds and Notes: 5% and other debt comprising State and Local Government Series, Depository Bonds, etc. accounted for the balance of 20%. It is of interest to note that as much as 96% of the marketable debt is held in book-entry form and only 2% each is held in the form of registered securities and bearer bonds.

37. <u>Treasury bills</u> of the maturities of 3,6 and 12 months are sold by weekly or monthly auctions in minimum amounts of $10,000 and multiples of $5000 thereafter. Treasury bills are sold at a discount and the prices are determined by competitive bidding at Treasury auctions. Most competitive bids are made by institutional investors like banks and brokers and must specify the percentage of yield upto 2 decimal places they are willing to accept. Treasury reserves the right to accept or reject any tender. Maximum limit for competitive bids per bidder is 35% of the amount offered. The individuals submit 'non-competitive' tenders, which are generally accepted in full. However, there is a limit of $1,000,000 for a single non-competitive bid. Treasury bills are issued in book-entry form only. An interesting feature of the issue of Treasury bills is that tenders are received not only by the Federal Reserve Banks but also by the Bureau of the Public Debt (in the Department

of Treasury). The individual investors are permitted to maintain their book-entry accounts directly at the Treasury. The Federal Reserve Bank maintains book-entry accounts of only private banks and institutions (major dealers and investors). The Bureau maintains about 1,000,000 accounts. This service is rendered by the Bureau free of charge, while purchase of a Treasury security through a commercial institution involves a charge to the investor and an account in the name of the institution in the Federal Reserve Bank.

38. Treasury Notes and Bonds: These are government securities issued with a specified rate of interest payable half-yearly. They are issued in denominations of $1,000, $5000, $10,000, $100,000 and $1,000,000. The difference between a note and a bond lies in the tenure. Treasury notes have a tenure of 1 to 10 years whereas Treasury bonds have a tenure exceeding 10 years. Treasury notes and bonds are usually sold by auction; the results of the auction determine the interest rate and the purchase price of the security. The auction may be on a yield (i.e., interest) basis or a price basis. A yield basis means that the competitive bidding is on the yield the investor is willing to accept on the security. The investor has to specify to two decimal places (e.g., 7.10 percent), the percentage yield he is willing to accept. If the yield

is higher than the yield acceptable to the Treasury, the bid may be turned down. After the auction, the coupon rate for the issue i- set at the nearest 1/8th of one per cent of the average yield of all accepted competitive tenders. Thus, under the yield basis, the investor will not know the exact interest rate until after the results of the competitive bidding are announced. On the other hand, a price basis means that the bidding is based on the price the investor is willing to pay for the security. For example, an investor may be willing to pay @ 96.45 per cent. This method is used when interest rate on the security has already been determined.

39. Currently, Treasury notes and bonds are issued in registered and book-entry form only. (Till 1982, these were issued also in the form of bearer securities). In the case of a registered note/bond, the owner's name is registered in the books of the Treasury, i.e., the Bureau of the Public Debt and not the Federal Reserve Bank.

Borrowing Schedule

40. The Treasury generally observes a regular schedule of borrowings on the following pattern.

Type of security	Borrowing Schedule
1. 3- and 6- month Treasury Bills	Weekly - Auctions on every Monday
2. 12- Month Treasury Bills	Every four weeks - on Thursday

Type of security	Borrowing schedule
3. 2- Year Treasury Notes	Issued at the end of each month
4. 4- Year Treasury Notes	Issued every three months: March, June, September and December
5. 5- Year Treasury Notes and 15-20 Year Treasury Bonds	Issued every three months in January, April, July and October.
6. Several other securities (7 to 10- Year notes or long-term (30 years) bonds, etc.)	Issued during "Quarterly Financing", i.e., in mid-February, May, August and November

Thus, there are 117 issues of Treasury bills and about 40 issues of notes and bonds per year.

'STRIPS' or zero-coupon Instruments:

41. A major development in the government securities market in the USA has been the popularity of 'stripped' Treasury securities. The word 'STRIPS' is a short-form coined for 'Separate Trading of Registered Interest and Principal of Securities'. The STRIPS programme covers selected Treasury securities with 10 or more years of original maturity. The arrangement requires the securities to be maintained in the book-entry system operated by the Federal Reserve Bank and in such a manner as would permit separate trading and ownership of the interest and principal payments. This makes it possible for the market to trade separately in principal and interest components,

each component being traded as a 'zero-coupon' instrument, in book-entry form, in the secondary market.

42. Since mid-1982, about $45 billion (nominal value) of Treasury securities have been stripped. Although in the past, the Treasury Department disapproved of stripping Treasury securities, since 1982 the Treasury has been viewing the creativity of the investment community in producing zero-coupon instruments based on Treasury securities as beneficial to the Treasury debt management and, to take advantage of the new market for zero-coupon securities, the Treasury is providing new programmes to facilitate STRIPS.

43. Zero-coupon securities have become very popular with those who wish to avoid reinvestment risk or seek greater certainty in matching the maturities of their assets and liabilities. They have been particularly attractive investments for Individual Retirement Accounts and Pension Funds. The creation of zero-coupon securities has benefitted the Treasury by broadening the market for Treasury securities.

44. The Treasury will not of itself issue zero-coupon securities under the programme. It will continue to auction its securities in the same manner. However, for selected issues, the depositing financial institutions maintaining book-entry accounts at the Federal Reserve Bank can request the Bank to separate the securities into two components viz. principal and interest. Each component, being tradable separately, may be separately owned. Financial institutions will have the option to

obtain the securities as STRIPS and thus the market, and not the Treasury, will decide how much of the securities will be held as STRIPS, based on market demand.

45. For a book-entry security to be separated into its component parts, the nominal amount of the security must be an amount which, based on the stated interest rate of the security, will produce a half-yearly interest payment of $ 1000 or a multiple thereof. For example, a security carrying interest @ 12% p.a. requires a minimum nominal amount of $ 50,000 in order to generate interest components in even $ 1000 amounts.

46. The facility of STRIPS is a unique and novel feature of the long-term Treasury securities issued by the U.S.Government. However, the arrangement does not permit stripping of the securities directly held by individuals. Individuals (and other investors) can hold stripped interest or principal components only through a broker or financial institution which is linked to the book-entry accounts maintained at the Federal Reserve Bank.

47. It has been stated earlier that while the Treasury bills are issued exclusively in book-entry form, Treasury notes and bonds continue to be issued in the registered form. The Treasury contemplates a complete switch-over to book entry form even in respect of bonds and notes with effect from July 1986.

Concluding Observations:

48. From the detailed discussion, as above, of the

public debt administration in the developed countries visited by the study team, it will be observed that there is a much greater degree of flexibility and variety in the instruments offered for sale by the governments of these countries to the investing public. There is a very active secondary market for government securities which are sought after by the investors and that the banks and stock exchanges play a vital role in the administration of public debt. Not only the traditional form of government security in the form of promissory notes is non-existent, there is an active move to abolish even the registered securities and establish a book-entry system, which obviates the issue of security in physical form and facilitates efficient servicing of the investors in government stock. The greatest advantage of the book-entry system is that it protects the investor against loss, theft, or forgery and at the same time reduces substantially the Treasury's costs of processing the public debt.

49. A statement showing the comparative position (a bird's eye view) of some important aspects of public debt management in India vis-a-vis West Germany, U.K. and U.S.A. may please be seen at Annexure 4B.

50. Based on the detailed discussions the study team had with the various officials in the countries visited and a quick look at the mechanics of the debt management in these countries, the study team would strongly recommend that administration of debt through the Public Debt Offices could be streamlined and managed most

efficiently if we gradually move in the direction of a complete switch-over to the book-entry (SGL A/c.) system. As a first step in that direction, we may discontinue issue of government securities in the form of promissory notes. Simultaneously, we should dispense with the requirement regarding deduction of tax at source from interest payable on government securities. This will enable a smooth transition to holding of government stock in book-entry form.

51. The Study Team would like to place on record its sincere thanks to the various officials of central banking institutions, Government departments and other bodies visited by the Team, and the staff concerned, who rendered very valuable assistance, provided necessary clarifications and guidance, without which it would not have been possible for the Study Team to have proper appreciation of the systems and procedures followed in the countries, within such a short time.

Sd/-	Sd/-	Sd/-
(K.G. Patkar) Member	(V.Balasubramanian) Member	(P.Y. Padhye) Member-Secretary

Bombay,
12th October 1985.

ANNEXURE-4A

List of various officials interviewed by the Study Team during the visit to West Germany, U.K. and U.S.A.

WEST GERMANY

Institution	Name of official	Designation
Deutsche Bundesbank Frankfurt	Dr.Karl Thomas	In-Charge, Kredit Dept.
	Mr.Erwin Schmidtgall	Bundesbankdirector
	Mr.Wolfgang Wittkopf	-do-
Frankfurter Kassenverein Ag Frankfurt	Dr. Jorg Ronald Kessler	In-charge.
Federal Debt Administration	Dr. Muncks	Vice President
Bundes Ministerium Der Finanzen Bonn	Mr.Gerd Von Scheven	Dipl-Volkswirt
	Mr.Warner Michael Waldeck	

UNITED KINGDOM

Institution	Name of official	Designation
Bank of England, London	Mr.I.Plenderleith	Head of Gilt-edged Division
	Mr.Willim A.Allen	Manager, Gilt-edged Division
	Mr.Michael E. Wilkinson	Asst.Adviser,International Division
	Mr.C.J. Bailey	Manager, External Debt Management. Gilt-edged Division
	Mr.D. Hopton	Asst.Manager, Home Finance Gilt-edged Division
	Mr.C.D.Elston	Adviser, Far East, Austrialasia and Indian Sub-continent.
	Mr.J.G. Drake	Chief Registrar
	Mr.R.I. Dancy	Asst.to the Chief Registrar
	Mr.M.A. Clarke	Officer(Training) Registrar's office
	Mr.H.L.M.Walker	Deputy Principal,New Issues and Redemption Office.
	Mr.D.S.Prentice	Asst.Principal, New Issues and Redemption Office.
	Ms.Janet Hall	Officer,C.G.O. and Jobbers' counters.

UNITED STATES OF AMERICA

Institution	Name of official	Designation
Federal Reserve Bank of New York, New York.	Mr.Frank C.Eiseman	Asst.Vice President, Fiscal Services Function.
	Ms.Joan E.Lovett	Asst.Vice President,Open Market Operations Function
	Mr.Andrew Heikaus	Manager, Funds Transfer Deptt.
	Mr.Frederick P. Shields	Manager, Securities Transfer Deptt.
	Mr.Stuart Zorfas	Chief, Securities.
	Mr.H.John Costalos	Asst.Product Manager, Electronic Payments Function.
Bureau of the Public Debt Washington.	Mr.William Saunders	Staff Director,Office of Financing.
	Mr.Robert Gayer	Project Manager,Division of Public Debt Accounting.
Dept.of the Treasury Washington	Ms.Jill K.Quseley	Associate Director,Office of Government Finance and Market Analysis.
Federal Reserve System-Board of Governors Washington	Mr.Donald Kohn	Deputy Staff Director, Monetary & Financial Policy.
	Mr.Gerald Manypenny	Manager, Fiscal Agency Section,Division of Federal Reserve Bank Operations.
Fannie Mae Washington	Mr.Roland Cook	Director for Agent Services
	Mr.Gary L.Perlin	Vice President for Risk Management.
M/s.Donaldson, Lufkin & Jenrette Securities Corporation, New York.	Mr.Elliot Platt	Senior Vice President and Manager

ANNEXURE 4B

Statement showing the comparative position of certain important aspects of public debt administration in India, West Germany, U.K. and U.S.A.

Subject matter	India	West Germany	U.K.	U.S.A.
Floatation of Loans:				
a) Frequency	a) About 4 to 6 times a year for Union Government (and once a year for State Governments)	a) Irregular; about 10 to 12 issues per year.	a) Irregular; about 15 to 20 times a year	a) As per schedule of borrowings - nearly 40 issues of Treasury notes/bonds and 117 issues of Treasury Bills by auction.
b) Terms of issue, amount offered, etc.	b) Decided by Government in consultation with RBI.	b) Settled in consultation with Bundesbank as also the Consortium (major commercial banks).	b) Settled in consultation with the Bank of England.	b) Settled in consultation with Federal Reserve Banks as also major financial institutions, stock brokers.
c) Coupon rate	c) Less than interest on private sector securities, term deposits.	c) Coupon rate- competitive.	c) Coupon rate - competitive	c) Coupon rate - competitive.

Subject matter	India	West Germany	U.K.	U.S.A.
d)Maturity pattern	d)Short-term medium-term and long-term maturity.	d)Bonds mature in 10 to 12 years or lesser periods.	d)Mostly short and medium-term. Index-linked bonds are long-dated.	d)short-term, medium-term and long-term.
e)Demand pattern	e)Captive demand-banks are statutorily required to buy Government securities- Practically, no secondary market.	e)In demand; actively traded in the secondary market.	e)In demand; actively traded in the secondary market.	e)In demand; actively traded in the secondary market.
f)Minimum amount	f)Rs.25000/- (for Treasury bills)Rs.100/- other securities.	f)Fed.Bonds DM 100 Svgs.Bonds DM 100/DM 50 M.T.Notes DM5,000 Try.Bills DM100,00	f)£ 100 (nominal)	f)$ 1,000 Treasury notes/ Bonds $10,000 for Treasury bills.
g)Issue Price	g)Generally at par	g)Determined on the basis of competitive bids.	g)Determined on the basis of competitive bids.	g)Based on auction results.
Forms of securities:	i)G.P.Notes (including Try.bills) ii)Stock certificates. iii)Stock(book-entry). iv)Bearer Bonds.	In book-entry form only.	Registered stock Bearer Securities Book-entry Securities.	Registered Securities Book-entry Securities.

Subject matter	India	West Germany	U.K.	U.S.A.
Processing of public debt: (Issue, Redemption, Accounting, etc.)	Done manually (exception: 7% Capital Investment Bonds). Unissued security forms are printed, stored and verified periodically.	Computerised. Question of security forms does not arise.	Computerised. Unissued security forms printed, stored and verified.	Computerised. Unissued forms printed, stored and verified.
Interest payment:	Made half-yearly Tax deduced at source (subject to some exceptions) at prescribed rates. Physical presentation of G.P. notes is necessary. Warrants issued on Bank or Treasury or payment by bank draft or money order allowed.	Annual payments No tax with-holding Paid by book-entry (No warrants necessary)	Half-yearly Tax deducted at standard rate where interest exceeds £ 5 per year. Paid by Account Payee warrants only.	Half-yearly Tax at source deducted at 10% in respect of non-exempted holders. Paid by Account Payee cheque.

ANNEXURE 5.1
Paragraph 2.3

Statewise break-up of receiving points for new loans (other than Public Debt Offices)

	Name of the State	No.of receiving Offices: Central	No.of receiving Offices: State	No.of offices which actually received applications for Central loans floated on 23.12.1985	No.of offices which actually received applications for State loans floated on 4.9.1984.
1.	Andhra Pradesh	34	525	2	22
2.	Assam	24	70	-	1
3.	Bihar	46	471	-	-
4.	Gujarat	19	254	-	4
5.	Haryana	17	82	-	1
6.	Himachal Pradesh	12	46	-	1
7.	Jammu & Kashmir	12	131	-	-
8.	Karnataka	18	238	-	5
9.	Kerala	10	139	2	8
10.	Madhya Pradesh	62	389	3	8
11.	Maharashtra	36	400	1	6
12.	Manipur	2	9	1	1
13.	Meghalaya	5	40	-	1
14.	Nagaland	7	32	-	-
15.	Orissa	15	80	-	1
16.	Punjab	21	144	1	2
17.	Rajasthan	26	214	1	4
18.	Tamil Nadu	27	254	5	10
19.	Tripura	3	18	-	-
20.	Uttar Pradesh	91	709	2	84
21.	West Bengal	29	258	-	1
		516	4503	18	160

ANNEXURE-5.2

Categorywise subscription to new Central Government loans for the last five financial years

(Rs.crores)

	Notified amount	Subscription from		
		Financial Institutions etc.	Funds/ Trusts	Individuals & Business concerns
1980-81	2,870.81	2,795.29 (97.4%)	73.92 (2.6%)	1.60 (-)
1981-82	3,191.32	3,133.61 (98.2%)	56.30 (1.8%)	1.41 (-)
1982-83	4,166.93	4,115.65 (98.8%)	50.01 (1.2%)	1.27 (-)
1983-84	4,344.59	4,269.05 (98.3%)	74.28 (1.7%)	1.26 (-)
1984-85	4,590.58	4,519.45 (98.6%)	67.74 (1.4%)	3.39 (-)

ANNEXURE-6
Paragraph 3.5

Statement showing, monthwise, the number of loans due for payment of interest

Month	No.of loans due for payment of interest	
	Central Loans	State Loans
January	25	21
February	3	62
March	4	103
April	16	-
May	22	-
June	10	21
July	25	21
August	3	62
September	4	103
October	16	-
November	22	-
December	10	21

ANNEXURE-7
Paragraph 5.2

Statement setting out the amendments proposed in respect of Public Debt Act, 1944 and Public Debt Rules, 1946

Sr. No.	Section/Rule of Public Debt Act/ Rules and the subject matter	Nature and purpose of the amendment	Text of the proposed amendment/Legal Department opinion
1.	2.	3.	4.
1.	Section 2 and Rules 5(2), 7(3)(b),9(2) and 25 - Extension of SGL Account facility (Ref.Paragraph 2.13)	SGL Account facility is at present restricted to institutional investors having a corporate status. In view of the advantages the system offers both from the point of view of better customer service and amenability to computerisation, the Committee has taken the view that the facility may be extended to other investors like Provident Funds, Trusts, Stock Exchange Brokers, etc. The Committee has also examined the feasibility of extending the facility	**Legal Department(RBI)'s views:** The following section and Rules require amendment to give effect to the Committee's recommendation: i) Section 2(2)(a)(i) provides that Government security in the form of stock is transferable by registration in the books of Public Debt Office. Provision may be made for holding of securities in the form of individual SGL Accounts with the banks. ii) Rule 5(2) provides for the stock to be held, subject to such conditions, and restrictions as the Bank

1.	2.	3.	4.
		to individual holders through banking system and has recommended that banks may be permitted to maintain two separate SGL Accounts in the books of Public Debt Office- one for their own investment and the other for the aggregate amount of Government securities held by them on behalf of their constituents. The individual security accounts of the constituents will, in turn, be maintained by the respective banks.	may prescribe, at credit of the holder in the SGL Account maintained by the Public Debt Office. Suitable provision enabling the banks to maintain SGL Accounts in their books on behalf of their constituents may be made. iii) Rule 7(3)(b) relates to transfer of stock held in SGL Account. Provision may be made to the effect that the transferor shall be deemed to be the holder of the stock to which the transfer relates until the name of the transferee is registered as a holder of stock by the concerned branch of the bank holding SGL Account. iv) Rule 9(2) relates to payment of interest. Provision to the effect that interest warrants may be issued by such banks which maintain the individual SGL Accounts and such warrants may be made payable subject to compliance by the holder with such formalities as the concerned banks may

1.	2.	3.	4.
			require. v) Rule 25 relates to discharge of securities. Suitable provision enabling the concerned banks to issue pay order towards discharge value may be made.
2.	Section 4 - Transferability of securities	A Government promissory note is payable to order and transferable by endorsement and delivery. An endorsement must be completed by the holder or his duly constituted attorney or representative by affixing his signature thereto. In the case of individuals, such signature must agree letter for letter with holder's name appearing in the previous endorsement or on the face of the note as the case may be.	Asuitable provision may be made in the Act to enable the Bank to recognise the title of the last holder and to afford protection to the Bank.

1.	2.	3.	4.
		The regularity of endorsements is scrutinised to ensure that there is an unbroken chain. In respect of firms, Corporate bodies,etc. the relevant documents and/or specimen signatures of authorised officials are registered in the books of Public Debt Office. In case of any defect therein, the note is referred to the last holder for rectification. Several representations have been received against the present system of scrutiny and the practice of insisting on sale power of previous endorsers. It is felt that the onus for ensuring that he has a good title to the Government promissory note should rest with the last holder and the Bank should be absolved of any responsibility in this regard.	

1.	2.	3.	4.
3.	Section 5 - Holding of securities by holders of Public offices.	The purpose is to take care of casual absence of the incumbent of public offices for the time being.	Text of the Amendment to Section 5 Insertion of a new Sub-Section "(2) When a Government security is so held, the holder may in anticipation of vacancy of his office for a period of six months or more delegate his powers to hold the securities to such other person, who would be in charge of his office during the period of anticipated vacancy".
4.	Section 6 and Rule 8 - Notice of Trust (Ref.Paragraph 4.5)	The proposal is to enable the Trusts/Trustee/s to hold Government securities in the name of the Trusts or Trustees, without any liability to the Bank/Government.	Text of the amendment to Section 6 Insertion of a new sub-section: "(2) Without prejudice to the provisions of sub-section(1), the Bank may, at the request of the applicant and without liability to the Bank or to the Government and subject further to its satisfaction requiring provision of evidence to that effect, issue a Government Security in the form of a promissory note in the name of a specified trust or trustee(s)

1.	2.	3.	4.
			of that trust or as the case may be, in the personal name of the applicant, describing him as a trustee, whether as a trustee of the trust specified in his application or as a trustee without such specification". Notes: i) Existing sub-section (2) would be renumbered as sub-section (3). ii) Rule 8 may also require suitable amendment so as to enable a Trust to hold and deal with Government securities in any form.
5.	Section 7 - Legal representation to the estate of the deceased sole holder.	It is proposed to enlarge the scope of the Section bringing within its purview certificates issued by the Administrator General, rights of Receivers appointed by a Court to the estate of the deceased holders, decrees/declarations of rights by a Court, etc.	<u>Text of the amendment to Section 7</u> <u>"7. Persons whose title to a Government security of a deceased sole holder may be recognised by the Bank.</u> Subject to the provisions of Section 9 and in the absence of any valid nomination made under this Act, any person, who, on

1.	2.	3.	4.
			production of probate or letters of administration evidencing the grant to him of the administration to the estate of the deceased sole holder of a Government Security or a succession certificate issued under part X of the Indian Succession Act, 1925 (39 of 1925), shall be recognised by the Bank as having any title to the Government security. Provided that nothing in this section shall bar the recognition by the Bank of the persons having been declared by any Court of competent jurisdiction or by an authority under a statute empowered to confer on any person title to the security, to have any title to the Government security". Notes: i) The members of the Committee representing legal side opined that in respect of testamentary succession, it would be more appropriate to state that probate shall be accepted in support of the executor's title under a Will. There are cases where claims to the Government securities standing in the name of

1.	2.	3.	4.
			deceased persons are preferred on the basis of Court Orders. It is necessary that the Bank should get discharge for transfer of securities under the Court Order. Having regard to this, it has been suggested that instead of the Court declaration, the expression that may be used in the proposed proviso to Section 7 be "decree, order or direction of the Court" so as to include every type of Court Order which may give discharge to the Bank. ii) Further the existing proviso relating to Mitakshara Certificate should be retained.
6.	Section 9 - Heirship Certificate (Ref:Paragraph 5.9)	The purpose is to raise the monetary ceiling and to link the ceiling to the outstanding principal instead of the face value as at present.	Section 9 - Existing Section to be amended to read as under: "9 Summary procedure on death of holder of Government securities not exceeding <u>twenty five thousand rupees.</u> Notwithstanding anything contained in Section 7, if within six months of the death of a person who was the holder

1.	2.	3.	4.
			of a Government security or securities the out-standing principal value of which does not in the aggregate exceed twenty five thousand rupees or such higher amount as the Government may from time to time determine by notification in the Gazette, legal representation or an order as prescribed in Section 7 is not produced to the Bank, or proof to the satisfaction of the Bank that proceedings have been instituted to obtain one of these is not furnished, the Bank may determine who is the person entitled to the security or securities, or to administer the estate of the deceased and may make an order vesting the security or securities in the person so determined.

1.	2.	3.	4.
7.	Section 9A and Rules 7A, 7B, 7C and 7D - Nomination by holder of Government securities. (Ref.Paragraph 5.10)	Under the present Act, there is no general provision by which a holder of a Government security can nominate a person. In view of the distinct advantages of the nomination facility, it has been recently introduced in respect of bank accounts (vide Banking Companies (Nomination) Rules, 1985). The Committee is of the view that appropriate provision may be made in the Public Debt Act and Rules enabling an individual Sole/Joint Holder(s) holding Government stock in personal capacity to nominate a person or persons who will be authorised to receive the amount of securities in the event of his/their death.	The existing Section 9A would be substituted by a new section to read as under: "9A Nomination by holders of Government Securities 1) Notwithstanding anything contained in any law for time being in force or in any disposition, whether testamentary or otherwise, a sole or joint holders of a Government stock who is not a minor and who holds the security in his individual capacity, may nominate a person or persons, who shall be entitled to the security and to the payment thereon to the exclusion of all other persons, in the event of the death of the holder, unless the nomination is varied or cancelled before the death of the holder".

1.	2.	3.	4.

Rules 7A and 7B to be amended <u>to read as under:</u>

"7A. Nomination in respect of <u>Government Securities:</u>

1) Every nomination made under this rule shall be in form III B.

   Provided that -

a) the person or each of the persons nominated is himself competent to hold a Government security; and

b) the nomination is made before the maturity of the Government security.

2) A nomination made under this rule may on a subsequent date be cancelled in writing in form IIIC.

3) As soon as possible after a nomination is made or a nomination already made is cancelled, the person making or cancelling the nomination shall send to the Public Debt Office the form of nomination or cancellation, as the case may be, together with the Government security to which it relates and the fees prescribed in

1.	2.	3.	4.
			sub-rule (5); and thereupon the Public Debt Office shall register the nomination or, as the case may be, the cancellation in its books and return the Government security with an endorsement thereon that a nomination has been made in respect of the Government security or that the nomination already made has been cancelled. 4) The fee for registration of a nomination or any cancellation thereof shall be determined by the Bank from time to time by notice to the public. Provided that no fee shall be charged for the registration of first nomination in respect of any Government security. 5) No nomination or cancellation of a nomination shall take effect unless and until it has been registered in the Public Debt Office in accordance with this rule. <u>7B Effect of nomination on renewal, etc.</u> The rights which a nominee or nominees has or have acquired in relation to a Government security under a nomination

1.	2.	3.	4.
			duly made and registered under Rule 7A shall not be affected by reason only of the renewal or sub-division of the Government security or the issue of a duplicate security on the ground that the original has been lost, stolen, destroyed, mutilated or defaced on its conversion on application by a person by whom it is held as pledge or by way of security for any purpose, and the nominee or nominees shall have the same rights in relation to the renewed Government security or each of the Government security/securities issued on sub-division or the duplicate security or the new security issued by way of conversion, as he or they had in relation to the original security; Provided that where a Government security is sub-divided in pursuance of a transfer (other than transfer by way of pledge or security) of a part of such security, nothing in this sub-rule shall apply to the new Government security or securities issued to the transferee.

1.	2.	3.	4.
			<u>Notes:</u> i) Rules 7C and 7D may be deleted. ii) A saving clause in respect of nominations already made and their effect, in respect of special schemes like Treasury Savings Deposit Certificate or Defence Deposit Certificate should be made and deletion/ amendment of Section/ Rules should not affect the existing schemes.
8.	Section 10 - Guardianship Certificate (Ref.Paragraph 4.4)	Proposed amendment is to enable either of the parents to have a right to apply for, hold or deal with Government securities on behalf of a minor. The proposed amendment is on the lines of the provisions contained in the Government Savings Certificates Act, 1959.	<u>Text of the amendment:</u> <u>Section 10A Insertion of a new Section</u> <u>"10A Government securities held by or on behalf of minor:</u> 1. Notwithstanding any provision in any law for the time being in force - a) a minor may apply for and hold a Government security or securities and any other person may apply for and hold a Government security or securities on behalf of a minor;

1.	2.	3.	4.
			b) where any Government security is held by or on behalf of a minor, the minor shall be bound by the provisions of this Act and of any rules made thereunder applicable to such Government securities and by the terms of any declaration made by the applicant for the Government security in pursuance of the said rules. 2. Payment of the sum for the time being due on a Government security either by way of outstanding principal or interest thereon, held by or on behalf of a minor, may be made a) to him personally, if he himself applied for the Government security, or b) for the use of the minor, if the application for the Government security was made by any person other than the minor -

1.	2.	3.	4.
			i) to any such person, being a parent of the minor or guardian of his property, as may be specified in that behalf in the form of application; ii) if no such person has been specified, to any guardian of the property of the minor appointed by a Competent Court, or where no such guardian has been so appointed, to either parent of the minor, or where neither parent is alive, to any other guardian of the minor".
9.	Section 10 - Government securities belonging to a minor or insane person. (Ref.Paragraph 5.11)	The objective is to raise the ceiling to Rs.25,000 as the existing ceiling of Rs.5,000 is on the lower side.	<u>Text of the amendment to Section 10</u> "10 Government securities not exceeding twenty five thousand rupees belonging to minor or <u>insane persons:</u> When a Government security or securities belong to a minor or a person who is insane and incapable of managing his affairs and the outstanding principal value of the security or securities does not in the aggregate exceed twenty five thousand rupees, or such higher amount as the Government may

1.	2.	3.	4.
			from time to time determine by notification in the Gazette, the Bank may make such order as it thinks fit for the vesting of such security or securities in such person as it considers represents the minor or insane person".
10.	Section 11 - Issue of duplicate securities in lieu of securities lost/destroyed/ stolen, etc.	The proposed provision is to vest powers in the Bank for impounding a security in respect of which a duplicate has been issued, in the event of its presentation in Public Debt Office and for disposal.	Text of the amendment to Section 11 - <u>Insertion of a new Sub-Section</u> "(4) If a Government security, reported to have been lost, stolen, or destroyed or which has been defaced or mutilated, and in lieu of which a duplicate has already been issued under sub-section (1), is presented to the Bank either for repayment or for drawal of interest or for any other purpose, the Bank may impound the same and retain it for a period of one year before disposing it of, unless the Bank is restrained by an order of the competent court".

1.	2.	3.	4.
11.	Section 12 - Summary determination by the Bank of title to Government securities in case of dispute.	To correct a patent printing error.	Text of the amendment to Section 12 In the last line of sub-section (2), substitute the word "title" for the word "Bank" appearing between the words "determination of the " and "will be made".
12.	Section 16 and Rules 12,13,14 and 15 - Power of the Bank to require bonds (Ref.Paragraph 5.12)	Section 16 vests power in the Bank to obtain bond of indemnity from the person in whose favour the contemplated order is to be made, with one or more sureties or to furnish security not exceeding twice the value of the subject-matter of the order. The provisions are not clear in regard to SGL Account. It is felt that in the event of loss in accepting a security for	Text of the amendment to Section 16 i) In sub-section (1) substitute the words "to pay to the Bank or any person to whom the Bank may assign the bond or security or any part of the rights under such bond or security in furtherence of sub-section (2), the amount thereof, or, as the case may be, a part of such amount" for the words "to pay to the Bank or any person to whom the Bank may assign the Bond or security in furtherence of sub-section (2) the amount thereof". In sub-section (1), add words "or without any surety" between the words "more sureties" and "in such form".

1.	2.	3.	4.
		credit to SGL Account, the Bank should be able to assign a part of the bond to the aggrieved party who has established his title. The present Section does not permit assignment in part. The Section makes it obligatory for a bond of indemnity to be executed by the applicant with one or more sureties. In the matter of seeking surety/sureties for a bond, the Bank may be vested with a discretion to ask the holder to give a bank guarantee in lieu of sureties whenever the Bank is required to pass a vesting order in future in favour of a person and there is a risk of loss to the Bank by making such vesting orders. The Committee is of the view that Section 16 and Rules, 12,13,14 and 15 may be amended to provide for obtaining a bank guaratee as an alternative to the sureties; the bond of indemnity in that case could be executed by the applicant alone.	In sub-section (2), insert the words "or any part of the rights under such bond or security" after the words "may order the bond or security". __Note__: Provisions may be made for acceptance of a bank guarantee as an alternative to bond of indemnity in lieu of sureties to a bond of indemnity, in the Section and Rules.

1.	2.	3.	4.
13.	Section 26A - Direction on the Bank by decrees of court.	The Bank and the Government are subjected to considerable expenditure by being unnecessarily impleaded as parties to suits in which neither the Bank nor the Government have any interest. The expenditure incurred is disproportionately high. The costs awarded are nominal. The proposed amendment is to remedy this.	<u>Text of the amendment - Insertion of new Section 26A</u> <u>"26A Direction on the Bank by decrees"</u> i) No decree or order of a Court made in any proceeding to which the Bank is a party shall compel or require the Bank to do or not to do any act in regard to a Government security, unless the person, in whose name the Government security is held or stands last endorsed, has also been made a party to such proceedings. ii) In any proceeding relating to a Government security instituted or taken against the Bank no order shall be made directing the Bank to pay the costs of any party to such proceedings, unless the person in whose name the Government security is held or stands last endorsed, has been made party to such proceedings.
14.	Rule 2(3)- Definition of District Magistrate	At present, legal representation in the form of Mitakshara Certificates and Heirship Certificates issued	<u>Notes</u>: The text of Rule 2(3) may be suitably amended to make it inclusive of Sub-divisional Magistrates.

1.	2.	3.	4.
	(Ref.Paragraph 5.13)	by an executive District Magistrate are acceptable. Since such Certificate is only a piece of evidence, it is proposed to enlarge the definition of District Magistrate to include Sub-divisional Magistrates who are in-charge of sub-divisions.	
15.	Rule 9 - Issue of Government promissory notes with interest coupons attached. (Ref.Paragraph 2.17)	The proposal is to provide for the procedure for interest payment on a new instrument in the form of Government promissory note with coupons attached, in addition to the existing forms of Government promissory notes.	Text of the amendment to Rule 9 - Insertion of new Sub-rule (1A) "1A - Government promissory notes with interest coupons attached: Interest may be paid to any person who presents the coupon entitling him to such interest at any Public Debt Office or any treasury or sub-treasury in India subject to compliance by the holder with such formalities as may be required and against the acquittance of the payee on the interest coupon".

1.	2.	3.	4.
16.	Rule 9 - Payment of interest (Ref. Paragraph 6.4)	At present interest is payable by means of warrants/money order. The Committee is of the view that the option available to the investor to get the interest by money order may be withdrawn and interest should be paid by crossed Account Payee Warrants/Drafts.	<u>Note</u>: The existing provision relating to payment of interest on stock by money order may be deleted. Provision may be made for payment of interest by crossed Account Payee warrants/demand drafts.
17.	Rule 12 - Statutory lost note procedure for Government promissory notes, etc. (Ref.Paragraph 5.7)	The proposal is to eliminate the irritants in the present procedure by reducing the waiting period, publication in the successive issues of Gazette, etc.	Text of the amendment to Rule 12 - <u>Clause (e) to sub-rule (1):</u> "(e) if the applicant is not the holder in whose name the note was originally issued, an affidavit sworn before a Magistrate testifying that the applicant was the last legal holder of the promissory note and such other form/s of evidence as the Bank may call for". <u>Clauses (a) and (b) of sub-rule(3)</u> The rule may be amended to provide for notification of the loss,etc. by the applicant in one issue of the Gazette or insertion of an

1.	2.	3.	4.
			advertisement in a leading newspaper, at his option, in the place of three successive issues of the Gazette. <u>Sub-Clause (I) of Clause (b) of sub-rule (4)</u> To be omitted. <u>Sub-Clause (II)</u> To be renumbered as (I) and the waiting period of three years prescribed therein to be reduced to three months.
18.	Rule 24 - Receipt of renewal, etc.	The proposal is to vest discretion in the Bank in the matter of obtaining bond of indemnity with or without sureties.	<u>Text of the amendment to Rule 24 - sub-rule (3):</u> "(3) The Public Debt Office may, under any of the sub-rules in this rule, require a bond to be executed by the applicant alone or by the applicant and one or more sureties as the Bank may think fit, for an amount not exceeding twice the value of the subject-matter of the order, to be held at the disposal of the Bank, to pay to the Bank, or to any person to whom the Bank may assign the bond or security in furtherence of sub-section (2) of Section 16 of the Act, the amount thereof".

1.	2.	3.	4.
19.	Rules 30 and 31 - Rates of PDO fees, etc. (Ref. Paragraph 5.14)	The fees prescribed are on the lower side and the proposal is to raise the same. No rigid scale of fees be laid down in the Rules. The Committee is of the view that it would be better if discretion is vested in the Bank to determine scale of fees for the various services rendered and revise them from time to time by notice to the public.	Text of the amendment to <u>Rule 30 - Sub-rule (2)</u> "(2) Every applicant shall before any information is supplied to him under Rule 28 or 29, pay a fee as determined by the Bank from time to time by notice to public for each security in respect of which any information is supplied and the fee shall be paid for each certified copy granted under Rule 29". Text of amendment to <u>Rule 31 -</u> "31 <u>Fees</u> - The following fees shall be paid in respect of applications under section 11 of the Act, namely: For each renewed, converted, consolidated, sub-divided or duplicate security, subject to a minimum of 25 paise per Rs.100/- of the face value of such security and a maximum of Rs.25/- which is liable to be revised by the Bank as and when considered necessary. Fees shall be payable in multiples of Rupee one and shall be rounded off to the nearest rupee".

ANNEXURE-8
Paragraph 9.4

Amendments required for up-dating the Government Securities Manual

Sr. No. 1.	Paragraph No. 2.	Amendment required 3.	Reason for the amendment 4.
1.	2	In line 6 add the word "Bhubaneswar" after the word "Bangalore" and in line 7 add "Gauhati" after the word "Calcutta" and in line 8 add "and Trivandrum" after the word "Patna". In line 7 delete the word "and".	Bhubaneswar, Gauhati and Trivandrum, Public Debt Offices have started functioning after the last edition of the Manual was brought out.
2.	5	i) In line 2 add the word "Bhubaneswar" after the word "Bangalore" and "Gauhati" after the word "Calcutta" and in line 3 add "Trivandrum" after the word "Patna" (delete the word "and" and add it after the word "Patna").	- do -
		ii) Add the following as a new sub-paragraph (c),(e) and (1) to Paragraph 5 and renumber the existing sub-paragraph suitably.	The changes are required in the territorial jurisdiction of States due to creation of new Public Debt Offices.

1.	2.	3.	4.
		Add:"(c) Public Debt Office. Bhubaneswar - Treasury and sub-treasury under the jurisdiction of Accountant General, Orissa". In line 3 of sub-paragraph (d)(consolidated list of amendments to Government Securities Manual) delete the word "Orissa" and "Assam.	The changes are required in the territorial jurisdiction of State due to creation of new Public Debt Offices.
		Add-"(e) Public Debt Office, Gauhati - treasury and sub-treasury under the jurisdiction of Accountant General, Assam".	-do-
		Add-"(1)Public Debt Office, Trivandrum - treasury and sub-treasury under the jurisdiction of Accountant General, Kerala".	-do-
		In line 3 of sub-paragraph(1) (consolidated list of amendment) delete the word "Kerala" and add the word "Minicoy and Amindivi Island" after the word "Pondicherry".	
3.	6	In line 3 substitute the word "eleven" by the word "fourteen". In line 14 add the word "Bhubaneswar" before the word "Bombay" and add the word "Gauhati" after the word "Calcutta" and delete the word "and". In line 15 add the words "and" and "Trivandrum"	Creation of new Public Debt Offices.

1.	2.	3.	4.
4.	9, 10 Salient features of different forms of Government securities.	The paragraphs require to be redrafted in the light of the recommendations made by the Committee and the decisions of the Government and Bank thereon.	The Committee has recommended that it would be in the overall interest of the investing community, the Bank as well as the Government, if the securities in the form of Government promissory notes are progressively converted into Stock Certificates and SGL accounts and if in future Government securities are issued in the form of stock only. In course of time, it will be possible like the developed countries in the West, to completely adopt the book-entry form of holding and thereby dispense with the securities in physical form. It would, therefore, be the policy of the Government and Bank to popularise Stock Certificates and SGL accounts. Regarding bearer bonds, the Committee is of the view that the issue of bearer bonds would not be in consonance with a system aimed at the eventual shift to a book-entry system. The Committee has also made some observations regarding issue of Government promissory notes with attached coupons,

1.	2.	3.	4.
			issue of stock certificates with provision for recording multiple transfers, issue of securities at a discount, and buy-back scheme.
5.	9,10 and 20 Subsidiary General Ledger account	This paragraph will have to be redrafted in the light of the proposal to extend SGL facilities to Provident Funds/ Trusts/Stock Exchange Brokers and individuals on decentralised basis through bankers.	Scheduled banks, State Co-operative banks, insurance companies and other corporate bodies as well as officers who have in law, the status of a corporation sole, are at present permitted to open SGL account in the books of Public Debt Office.
6.	9(i) 10(i)	Suitable instructions will have to be provided govering nomination facilities to holder of Government securities in his individual capacity in the event of his death.	The Committee has recommended to provide nomination facility
7.	10(i),70 Renewal of Stock certificates.	The format of the stock certificate requires suitable change. Accordingly the instruction contained in this paragraph will	The Committee has recommended that the form of stock certificate may be provided with multiple transfers as in the case of company shares.

1.	2.	3.	4.
		have to be redrafted as to provide for reissue of the same certificate after renumbering and registering the transferee's name.	
8.	10(i)(b)	In line 13 Money order commission waived in respect of Government securities if it is less than Rs.20/-	Money order commission has been waived in terms of Central Office Circular No.CODt.Admn./ 25/84-85/3946 dated 12th February 1985
9.	10(ii) Payment of interest on Government promissory notes.	Interest may be paid to any person who presents the coupon against the acquittance of the payee.	The Committee has considered issue of Government promissory notes with interest coupons attached as a new instrument so that periodical interest can be drawn by presenting coupons instead of the Government promissory notes.
10.	10(d),14, 62 and 84(5) Stock certificate is the only form of Government security which can be held by trustees of specified trusts or holders of office (other than public office).	This paragraph will have to be deleted.	It is proposed by the Committee to remove the restriction on trusts from holding Government promissory notes.

1.	2.	3.	4.
11.	12(ii)	Delete the words "National Defence" and add "National Development" after the words "National Savings Certificate".	--
12.	28, 68, 76 Rates of PDO fees, etc.	The paragraph may be redrafted keeping the minimum at 25 paise per Rs.100/- and the maximum ceiling to be fixed by RBI from time to time.	The fees prescribed are on the lower side and hence the fees are proposed to be raised.
13.	30 - Deduction of tax on interest at source.	Paragraph has to be recast on the lines recommended by the Committee.	The Committee has recommended that the requirement of deduction of tax at source from interest payment on Government securities may be dispensed with by making necessary amendments in relevant Taxation Law.
14.	36, 40 - Payment of interest by warrants, etc.	Paragraph to be recast in the light of the proposal of the Committee.	The Committee has recommended that interest payment may be done by warrants/Demand Drafts crossed account payee. The option available to investors to get payment by money order is to be withdrawn.

1.	2.	3.	4.
15.	36(a) Note (1)	In line 2 add the words "Bhubaneswar" after the word "Bangalore" and "Gauhati" after the word "Calcutta". In line 3 add "and Trivandrum" after the word "Patna" and delete the word "and".	Bhubaneswar, Gauhati and Trivandrum, Public Debt Offices have started functioning after the last edition of the Manual was brought out.
16.	38(1) and 39 A Stock holder may request the PDO to deliver his interest draft through a branch of an agent bank or through a treasury or sub-treasury.	These provisions may be deleted.	The procedure for delivery of interest draft through an agent bank or treasury is time consuming. As a result there is frequent revalidation of stock interest drafts. As the Committee has recommended to fix a uniform currency period (i.e. for 3 months) for Interest draft, it is suggested to delete this provision. The PDO will therefore send the interest draft directly to the holder.
17.	40(A)	In line 11 add the words "Bhubaneswar" after the word "Bangalore" and "Gauhati" after the word "Calcutta" add "and Trivandrum" after "Patna" and delete the word "and" before "Patna".	Bhubaneswar, Gauhati and Trivandrum, Public Debt Offices have started functioning after the last edition of the Manual was brought out.

1.	2.	3.	4.
18.	40(B)	In line 4 add "Bhubaneswar" after the word "Bangalore" and "Gauhati" after the word "Calcutta". In line 5 add "and Trivandrum" after the word "Patna" and delete the word "and".	Bhubaneswar, Gauhati and Trivandrum, Public Debt Offices have started functioning after the last edition of the Manual was brought out.
19.	45(10) Note (vi) (3) The father of a Mohammedan minor and the father, of if the father, be dead, the mother of a Hindu minor can deal with Government securities standing in the name of the minor without obtaining a certificate of guardianship under the Guardians and Wards Act. In respect of other sects, a guardianship certificate granted by a competent court is necessary.	The paragraph may be amended to provide for a uniform procedure on the lines of Sections 4 and 5 of Government Savings Certificates Act, 1959 enabling either of the parents to have a right to apply for, hold or deal in Government securities on behalf of the minor.	A uniform procedure governing all sects has been recommended by the Committee.

1.	2.	3.	4.
20.	45(10) Note(vi)(4) Where the value of the notes exceeds Rs.5000/- and the applicant for interest is neither the father nor the mother, no relaxation of the ordinary rule is permissible.	The amount may be amended as Rs.25,000/-related to principal outstanding.	The monetary ceiling is very small and fixed long back and hence it is recommended to be raised to Rs.25,000/- related to outstanding principal. Government will have power to raise the ceiling from time to time.
21.	46(a)	In respect of loans floated after June 1984, the net amount of interest on Government securities may be paid after rounding off to the nearest five paise. In respect of loans to be floated hereafter, the amount may be rounded off to the nearest one rupee. 50 paise being taken as Re.1.	At present, the Manual does not have any provision regarding rounding off the interest amount. Following the recommendation of the Committee it is proposed to make a specific provision in the Manual for the guidance of treasuries.
22.	52(a)	In line 6 add the words "Bhubaneswar" after the word "Bangalore" and "Gauhati" after "Calcutta". In line 7 add "and Trivandrum" after the word "Patna" and delete the word "and".	Bhubaneswar, Gauhati and Trivandrum Public Debt Offices have started functioning after the last edition of the Manual was brought out.

1.	2.	3.	4.
23.	61 Documents to be called for in case of companies and Co-operative Societies.	The paragraph require to be redrafted.	The certified copies of the documents issued by the Registrar of Companies may be accepted. Likewise in respect of co-operative societies, copies attested by the office of the Registrar of Co-operative Societies under its seal may also be accepted.
24.	61A, 64 - Certificate of identity.	The paragraph requires to be amended.	The Committee has recommended that Certificate of identity granted by a bank official may be accepted without insisting on the registration of his authority provided the certificate bears the seal/stamp of the bank and the name and designation of the signatory. The present monetary ceiling for RBI Officers in Grade 'B' is to be removed.
25.	61(B)(ii) and 61(D)(3) An endorsement on a Government promisssy note made in favour of a holder of a public office in his official capacity is valid only if the	The holder of a public office may, in antici-pation of vacancy of his office, delegate his powers to hold the securities to such other persons who would be in charge of his office during the period of the anticipated vacancy.	The provisions of Public Debt Act as they stand, do not permit delegation of authority to deal in Government promissory notes. It is proposed to amend this provision.

1.	2.	3.	4.
	official has been notified by the concerned Government under Section 5 of the Public Debt Act. A list of office so notified by the Central Government is contained in Appendix III.		
26.	62, 63 and 64(1)	Certificate granted by Head Master of the School or head of Gram Panchayat may also be indicated as acceptable.	Sometime difficulty is felt in obtaining Certificate from Municipal authorities of the place where the person was born particularly when the holder has migrated to another town/city or if the record of the Municipality is not available. Hence it is proposed to broaden the authorities whose certificates may be acceptable.
27.	63(I)(2)(b) Where the face value of the securities held by the deceased does not in the aggregate exceed Rs.5,000/-in such cases the legal heirs may produce a certificate signed by a District Magistrate under the seal of his Court.	The amount may be amended to read as Rs.25,000/- and the word "face value" may be replaced by 'outstanding principal'.	The Committee has recommended to raise the ceiling to Rs.25,000/- and to relate it to outstanding amount instead of face value. Government is vested with authority to raise the monetary limit by issue of a notification in the Gazette, if and when necessary.

1.	2.	3.	4.
28.	63 - There is no provision in the Act to recognise the right of Receivers appointed by Court and the rights of persons under a decree, order or direction of the Court, to deal with Government securities standing in the name of deceased person. Hence the Manual also is silent on this.	Suitable provision may be made in the Manual for acceptance of such Court Orders and decrees issued by the Courts declaring legal heirs.	The Committee has recommended to amend the Act on these lines. Hence consequential changes in the Manual are necessary.
29.	63(I)(2) Note (a) The certificate is granted by District Magistrate under his court seal to the managing or sole surviving male member of a Hindu Undivided Family governed by the Mitakshara Law.	Certificate granted by sub-divisional Magistrates may also be accepted.	At present only the certificates granted by the District Magistrates are accepted. Since certificate is only a piece of evidence, it is proposed to enlarge the definition of District Magistrate to include sub-divisional Magistrates who are in charge of sub-divisions.

1.	2.	3.	4.
30.	64 - Certificate of Marriage.	The paragraph to be amended as recommended by the Committee.	The Committee has recommended that certificate of marriage granted by bankers, head of Gram Panchayat, RBI Officers and Head Master of Schools may also be accepted.
31.	80 - Receiving offices- Loan applications are received at RBI,branches of agent banks, treasuries/ sub-treasuries.	Loan applications may be received at RBI offices and branches of SBI or Associate banks at district headquarters as notified from time to time.	It is proposed to restrict the receiving points to district headquarters for State loans as in the case of Central loans.
32.	81, 82 - Whenever the issue of a New Loan is announced a few copies of the notification with necessary instructions are forwarded to Treasury Officers.	Only copies of Government notification will be sent to the Treasury Officers by the concerned Public Debt Offices under whose jurisdiction they fall.	Treasuries are no longer accepting new loan subscriptions. Hence, dispensing with the issue of loan circulars addressed to Treasury Officers will save lot of labour, time and cost.
33.	84(a)	In last line substitute the words "Promissory Notes" by the word "Stock Certificates".	Already implemented in terms of notification.

1.	2.	3.	4.
34.	84(b)(2), 150 unless otherwise specified in a notification, securities, of a new loan are issuable in the denomination of Rs.100/- or a multiple of that sum.	The minimum investment in new loan may be amended as Rs.1000/- and multiple of Rs.1,000/- only.	This proposal has already been approved by Central/ State Governments.
35.	98 to 105 - Repayment of loans.	To be provided for in Chapter VIII of the Manual if it is decided to extend the procedure to treasuries also.	The system of payment of discharge value of Government securities by a separate instrument instead of affixing the pay order on the notes themselves may be introduced.
36.	131 (Note 2)	In last line add the word "Ahmedabad" before "Bangalore", "Hyderabad" and "Kanpur" before "Madras" and "and Patna" after "New Delhi". Delete the word "and".	Ahmedabad, Hyderabad, Kanpur and Patna Offices started functioning after the last edition of the Manual was brought out.
37.	.140(e)	In first line add the word "Ahmedabad" before "Bangalore", "Hyderabad" and "Kanpur" before "Madras" and "and Patna" after "New Delhi". Delete the word "and".	-do-

1.	2.	3.	4.
38.	141(a)(i)	In line 11 add the word "Ahmedabad" before "Bangalore" ,"Hyderabad" and "Kanpur" before "Madras" and "and Patna" after "New Delhi". Delete the word "and". In line 20 delete "Audit and" and "Post and Telegraph". Add "Postal after the word "Accounts".	Ahmedabad, Hyderabad, Kanpur and Patna Offices started functioning after the last edition of the Manual was brought out Please see consolidated list of amendments
39.	153(b)	In line 3 delete the words "Bangalore...or Nagpur" and substitute by "Ahmedabad, Bangalore,Bhubaneswar, Bombay,Byculla-Bombay, Calcutta,Gauhati,Hyderabad Jaipur,Kanpur,Madras, Nagpur,New Delhi,Patna and Trivandrum".	Opening of new Public Accounts Departments after the Manual 4th Edition is brought out.
40.	Form GSM 1A and 17	Both the forms can be merged.	These are identical forms.
41.	Forms GSM 36 and 37.	-do-	-do-

1.	2.	3.	4.
42.	Form GSM 3	Maintenance of Register of Interest Drafts in form GSM - 3 may be dispensed with.	The procedure for delivery of interest draft through an agent bank or treasury is time-consuming. As a result there is frequent revalidation of stock interest drafts. As the Committee has recommended to fix a uniform currency period (i.e. for 3 months) for Interest draft, it it suggested to delete this provision. The PDO will therefore send the interest draft directly to the holder.

- oooOooo -

ANNEXURE 9
Paragraph 2.18

Innovation in the floatation of Government securities

Introduction:

The Committee visualises that for the successful borrowing programmes of the Government on the magnitude envisaged in the seventh Five Year Plan, it will be necessary for the Government to offer various innovative schemes aimed at mopping up of the private savings. Committee explored the possibilities of some such schemes which are enumerated below:

i) Issue of bonds at a discount

ii) Tap Stocks

iii) Indexed Bonds

iv) Variable Interest Rate Stocks

v) Partially Paid Bonds

vi) Strips or Zero-Coupon Instruments

vii) Convertibles

2. The salient features of these schemes are discussed below.

(i) Issue of bonds at a discount

At present, when Government loans are floated, subscriptions thereof are received at par. That is, if the nominal value of a Government bond is Rs.100, subscription is received in cash or cheque for Rs.100

and periodical interest is paid at the notified rate. But if a bond is issued at a discount, subscription is received for the discounted value of the bond which will be less than Rs.100/- depending upon period of the bond and on maturity, the nominal value of the bond is repaid. The difference between the discounted value and the nominal value is the income earned by the investor and represents the cost to the Government. There are many advantages in issuing Government securities at a discount. Firstly, it will do away with all the procedural and clerical work involved in calculating interest on securities every six month and deducting income-tax thereon. Secondly, it will dispense with the cumbersome practice of calculating interest and tax for preparing a sale or purchase note while selling or purchasing Government securities in the market. Thirdly, it will meet the requirements of that section of investors who want their savings to grow into an asset.

The Scheme has also its disadvantages. As far as the Governments are concerned, there will be heavy outflow of funds at the time of maturity of the bonds as the interest payment is not spread out. This will be a heavy burden to the Government concerned unless they provide for accrued interest every year and invest the same outside as in the case of sinking fund by land development banks. This problem can be overcome by two ways. The concerned Government may make provision equivalent to the accrued interest on such securities each year and invest the same with Reserve Bank in the form of a special deposit. Or the concerned Government may be prepared to meet the entire liability of the maturity bonds in a particular year by adjusting the due dates of its other loans. From the investors point of view, that segment of the investors who want their savings to grow into assets may welcome this scheme but those segment of investors like institutions who want their investment to earn periodical return and recycle their funds may not necessarily be attracted to this scheme. In the meeting of bankers and brokers convened by the Committee, the bankers and other institutions like L.I.C. were not very enthusiastic about the scheme for this very reason. The State Governments also expressed difficulty in planning the floatation of such loans in their budget, as the funds accruing to the Government will be less than the nominal value of the floatation. This difficulty, however, can be overcome by providing in the budget for actual receipt equivalent to the discounted value of the loan. Another problem that will be encountered by the banks and other institutions will be relating to valuation of such securities. The Committee to review the monetary system is of the view that the institutions may be statutorily required to value such securities at the prevailing market value. Individuals and trusts who prefer their savings to grow may go for this investment. To make it a success, the bond should be short-dated and the discount rate should be competitive. The Central Government may consider introducing this scheme as an experimental measure.

(ii) <u>Tap Stocks</u>

The distinguishing feature of tap stocks is that they are available over the counter on tap and offer a regular inlet/avenue for the investible funds. These are particularly suitable for meeting the requirements of Provident Funds and Trusts. At present, Funds and Trusts obtain their requirements through banks and brokers initially in the form of Government promissory notes and tender them for conversion into stock subsequently. This becomes necessary as Government promissory notes cannot be held by Trusts/Funds and legally it is not permissible to issue stock in favour of a third party, though authorised by the SGL account holder. The problem is aggravated because Government promissory notes are held in individual names of trustees and for all practical purposes, the holding is treated as the personal property of the individual though purchased out of Trust funds, thus exposing the Funds/Trusts to the avoidable risk, particularly in the event of the demise of the Trustee. Besides, the entire cycle entails wastage of border forms from the point of view of PDO and additional workload. In this context, floatation of tap stocks would overcome all these deficiencies insofar as a ready avenue would be available for Funds/Trusts to invest their funds as and when they accrue without the intervention of intermediaries. The terms and conditions of such issues can also be kept distinct from other issues to attract a particular target group. The tap period can be kept flexible depending upon the response from investors, the collection made, the budget provision etc. The workload on PDOs will be continuous and uniform throughout the year and therefore servicing of such issue may not pose any operational problem.

As on today, three such loans of the Government of India are on tap. They are Capital Investment Bonds, National Rural Development Bonds (II issue) and National Deposit Scheme. But these schemes are essentially meant for tapping the investible surplus available with individuals by offering certain tax incentives.

(iii) Indexed Bonds

It may be observed from the report of the study team that visited foreign central banks that Index-linked stock is one of the types of securities offered to the investors in U.K. The special feature of these bonds is that both interest payment and the principal amount of stock payable on maturity are linked to the U.K. General Index of Retail prices. The interest due on the bonds is payable half-yearly. The coupon element is fixed while the adjustment on account of index varies from payment to payment. Thus in order to calculate each half-yearly adjustment, two index figures are required: that applicable when the stock was originally issued (the "base

Index figures") and that relating to the interest payment concerned. Similarly, the value of principal on repayment will be related to the movement during the life of the stock, of the relevant Index. Thus the amount due on repayment per Rs.1,000 will be Rs.1,000 multiplied by the Index ratio applicable to the month in which payment takes place. For purposes of the scheme, the index figures applicable are those which were announced seven months in advance of the relevant dates and which relate to the month before the month in which it is announced. These bonds are stated to be long-dated and command a very good market. The reasons for the popularity of such bonds are not far to seek. Inflation is taken care of and the real value of savings is protected from inflation.

In India, in the absence of bonds linked to Index, investors particularly middle class tend to invest their savings in real estate and gold, which they feel will ensure realisation of the investments many times the original investment. The savers particularly retired people are also attracted by dubious financial companies etc. which offer higher rates of interest. The popularity of non-convertible debentures/equity shares lies in the yield which they ensure to their holders in the face of spiralling inflation. The awareness of Rupee erosion has become wide-spread in India and that is why all gilt-edged securities are not favoured generally for investment. Providng hedge against inflation would be a welcome and far-reaching development from the investor's point of view. Various indices such as Wholesale Price Index, Consumer Price Index, Index for Industrial workers, etc. are available to measure the level of prices over the accepted base level. The most widely used Index in reltion to the level of prices is the Wholesale Price Index (base 1970-71).

(iv) Variable interest rate stocks

These are akin to Indexed bonds. But the interest rate here is not linked to inflation rate but linked to some other basic interest rate like bank rate. Under this scheme the base interest rate is fixed which may be variable and the effective interest rate on the bond floated under this scheme is fixed as 2 per cent or 3 per cent above the pre-determined basic interest rate. If the bank rate is taken as the basic interest rate, the interest rate on the stock will go up or come down depending upon the variation in the bank rate. The advantage for the investor is that he gets the advantage of upward movement of interest rate structure and the Government is benefitted if the general interest rate structure comes down.

(v) Partially Paid Bonds

Under a scheme for this type the nominal value of the bond will be paid by the subscriber in more than one instalment. For instance, if the nominal value of the bond is Rs.1,000, the subscriber will be required to pay, say, Rs.500 along with the application and the balance amount of Rs.500/- may be required to be paid, say, in two instalments of Rs.250/- each after a gap of 3 months or so. This enables the Government to float their loans according to their budget estimates and according to their requirements and at the same time it gives enough flexibility for the investors to plan the investment of their resources. The resources accruing to the investors particularly institutions like banks, LIC, GIC, etc. are not available on a particular day. If the Governments float the loans on a particular day and declare that loans will be closed on that particular day, the investors may invest their available resources on that day. In the process if there is any shortage in the subscription, Reserve Bank is forced to make good the balance. If the facility of partially paid bond is made available, the investors can invest their immediately available resources and then plan their further liability according to due dates of subsequent calls.

(vi) Strips or Zero-coupon instruments

The facility of STRIPS is a unique and novel feature of the long-term treasury securities issued by the U.S.Government. STRIPS cannote separate trading of registered interest and principal of securities. The Strips programme covers selected treasury securities with 10 or more years of original maturity. The arrangement requires the securities to be maintained in the book entry system operated by the Federal Reserve. Under this system, the principal and interest components are separated and each component in the form of 'Zero Coupon' instrument is traded separately in the secondary market. Each component can be separately owned. The stripping is done in respect of selected issues by Federal Reserve at the instance of depositing financial institutions maintaining book-entry accounts with it.

Zero-coupon securities have become very popular particularly with the segment of investors who wish to avoid reinvestment risk or seek greater certainty in matching the maturities of their assets and liabilities. The creation of Zero-coupon securities has benefitted the Treasury by broadening the market for Treasury securities.

This would, however, presuppose issue of loans at attractive rate of interest and shorter maturities. The success of the strips programme in U.S.A. is due to the fact that Treasury securities in U.S.A. are competitive with other financial instruments and as such appeal to investors (individuals, Retirement Accounts and Pension Funds). Unless this is done, prospects of success are not bright.

(vii) Convertibles

These are issued in U.K. Under the terms of issue, the investor has an option to convert the short-term bonds into bonds of longer maturity, the terms of which are decided in advance and spelt out in the prospectus. These bonds afford an opportunity to investors to improve the yield. The scheme can be tried in India and is welcome from the point view of Trusts/Funds who are now compelled to carry the securities till maturity in the face of heavy depreciation.

For Public Debt Offices, it would involve additional work.

These innovative schemes can work successfully in a free market economy where the Government bond rate is decided by competitive market forces. But in India where the interest rate structure is mostly administered by the State, it is doubtful whether these innovative schemes will be successful. However, with such vast experience in debt management, India can undertake some experimental measures in this regard and unless experiments are undertaken the success or failure will not be known. These innovative schemes may be viewed from this angle and Government of India may consider introducing a few schemes as an experimental measure.