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July 1, 2011

All Primary Dealers

Dear Sir / Madam

Master Circular – Operational Guidelines to Primary Dealers

The Reserve Bank of India has, from time to time, issued a number of guidelines/instructions to the Primary Dealers (PDs) in regard to their operations in the Government Securities Market and other activities. To enable the PDs to have all the current instructions at one place, a Master Circular incorporating the guidelines/instructions/circulars on the subject issued up to June 30, 2011 is enclosed. A list of circulars finding reference in this master circular is enclosed as Annex-XII. The additional guidelines applicable to banks undertaking PD business departmentally have been incorporated under section II of the Master Circular. The guidelines on Capital Adequacy Standards and Risk Management for the standalone PDs are being issued vide our [Master Circular IDMD.PDRD.02/03.64.00/2011-12 dated July 1, 2011](#). The banks undertaking PD activities departmentally shall follow the extant guidelines applicable to the banks regarding their capital adequacy requirement and risk management. This Master Circular has also been placed on RBI website at www.rbi.org.in.

Yours faithfully

(K.K.Vohra)
Chief General Manager

Encl: As above

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Section I – Regulations governing Primary Dealers

1. Primary Dealer System

1.1 Introduction

In 1995, the Reserve Bank of India (RBI) introduced the system of Primary Dealers (PDs) in the Government Securities (G-Sec) Market, which comprised independent entities undertaking PD activity. In order to broad base the PD system, banks were permitted to undertake PD business departmentally in 2006-07. Further, the standalone PDs were permitted to diversify into business activities, other than the core PD business, subject to certain conditions. As on June 30, 2011, there are eight standalone PDs and thirteen banks authorized to undertake PD business departmentally.

1.2 The objectives of PD System

- i. Strengthen the infrastructure in G-Sec market in order to make it vibrant, liquid and broad based;
- ii. Ensure development of underwriting and market making capabilities for G-Sec outside the RBI;
- iii. Improve secondary market trading system, which would contribute to price discovery, enhance liquidity and turnover and encourage voluntary holding of G-Sec amongst a wider investor base; and
- iv. Make PDs an effective conduit for open market operations (OMO).

1.3 Eligibility conditions

1.3.1 The following institutions are eligible to apply for Primary Dealership:

- i. Subsidiary of scheduled commercial bank/s and all India financial institution/s dedicated predominantly to the securities business and in particular to the G-Sec market.
- ii. Company incorporated under the Companies Act, 1956, and engaged predominantly in the securities business and in particular the G-Sec market.
- iii. Subsidiaries/Joint Ventures set up in India by entities incorporated abroad under the approval of Foreign Investment Promotion Board.
- iv. Banks which do not have a partly or wholly owned subsidiary undertaking PD business and fulfill the following criteria :
 - a. Minimum net owned funds (NOF) of Rs.1,000 crore;
 - b. Minimum Capital to Risk Weighted Assets Ratio (CRAR) of 9 per cent ; and
 - c. Net non-performing assets (NPAs) of less than 3 per cent and a profit making record for the last three years.

1.3.2 Indian banks which are undertaking PD business through a partly or wholly owned subsidiary and wish to undertake PD business departmentally by merging / taking over PD

business from their partly / wholly owned subsidiary may do so subject to fulfilling the criteria stipulated above.

1.3.3 Foreign banks operating in India who wish to undertake PD business departmentally by merging the PD business being undertaken by a group entity may do so subject to fulfillment of the criteria stipulated above.

1.3.4 A non-bank entity applying for permission to undertake PD business shall obtain Certificate of Registration (COR) as an Non-Banking Financial Company (NBFC) under Section 45-IA of the RBI Act, 1934, from the Department of Non-Banking Supervision (DNBS), RBI.

1.3.5 A non-bank applicant shall have minimum NOF of Rs.150 crore. In the case of a PD intending to diversify into permissible activities (para 4.2.2), the minimum NOF shall be Rs.250 crore. In terms of the explanatory note to Section 45-IA of Chapter III-B of the RBI Act, 1934, NOF is calculated as (a) the aggregate of the paid-up equity capital and free reserves as disclosed in the latest balance-sheet of the company after deducting there from– (i) accumulated balance of loss; (ii) deferred revenue expenditure; and (iii) other intangible assets; and (b) further reduced by the amounts representing – (1) investments of such company in shares of – (i) its subsidiaries; (ii) companies in the same group; (iii) all other non-banking financial companies; and (2) the book value of debentures, bonds, outstanding loans and advances (including hire-purchase and lease finance) made to, and deposits with,– (i) subsidiaries of such company; and (ii) companies in the same group, to the extent such amount exceeds ten per cent of (a) above.

1.3.6 PDs are **not** permitted to set up step-down subsidiaries.

1.4 Procedure for Authorisation of PDs

For enlistment as a PD, an eligible institution should submit its application to the Chief General Manager, Internal Debt Management Department (IDMD), RBI, Mumbai. The RBI will consider the application and, if satisfied, would grant 'in principle approval'. The applicant will thereafter submit an undertaking in respect of the terms and conditions agreed to. Based on the application and undertaking, an authorisation letter will be issued by RBI. Continuation as a PD would depend on its compliance with the terms and conditions of authorisation.

Note: The decision to enlist PDs will be taken by RBI based on its perception of market needs, suitability of the applicant and the likely value addition to the system.

1.5 Role and obligations of the PDs

PDs are expected to play an active role in the G-Sec market, both in its primary and secondary market segments. A PD will be required to have a standing arrangement with RBI based on the

execution of an undertaking (**Annex I**) and the authorization letter issued by RBI each year. The major roles and obligations of PDs are as below:

- i. **Support to Primary Market:** PDs are required to support auctions for issue of dated G-Sec, Treasury Bills (T-Bills) and Cash Management Bills (CMBs) as per the norms for underwriting commitment, bidding commitment and success ratio as prescribed by RBI from time to time.
- ii. **Market making in G-Sec:** PDs should offer two-way prices in G-Sec through the Negotiated Dealing System-Order Matching (NDS-OM), over-the-counter (OTC) market and recognized Stock Exchanges in India and take principal positions in the secondary market for G-Sec.
- iii. PDs should maintain adequate physical infrastructure and skilled manpower for efficient participation in primary issues, trading in the secondary market, and to advise and educate investors.
- iv. PDs shall have an efficient internal control system for fair conduct of business, settlement of trades and maintenance of accounts.
- v. A PD shall provide to RBI, access to all records, books, information and documents as and when required.
- vi. A PD's investment in G-Sec, including T-Bills and CMBs, on a daily basis should be at least equal to its net call/notice/repo (including CBLO) borrowing plus net RBI borrowing (through LAF/ Intra-Day Liquidity/ Liquidity Support) plus the minimum prescribed NOF.
- vii. A PD should annually achieve a minimum turnover ratio of 5 times for Government dated securities and 10 times for T-Bills/CMBs of the average month-end stocks. The turnover ratio in respect of outright transactions should not be less than 3 times in Government dated securities and 6 times in T-Bills/CMBs (Turnover ratio is the ratio of total purchase and sales during the year in the secondary market to average month-end stocks).
- viii. PDs should submit periodic returns, as prescribed by RBI, from time to time.
- ix. Operations of the PDs are subject to prudential and regulatory guidelines issued by RBI from time to time.

1.6 Facilities from RBI

The RBI currently extends the following facilities to the PDs to enable them to fulfill their obligations effectively:

- i. access to Current Account facility with RBI;
- ii. access to Subsidiary General Ledger (SGL) Account facility with RBI;
- iii. permission to borrow and lend in the money market including call money market and to trade in all money market instruments;
- iv. memberships of electronic dealing, trading and settlement systems (NDS platforms/INFINET/RTGS/CCIL);

- v. access to the Liquidity Adjustment Facility (LAF) of RBI;
- vi. access to liquidity support from RBI under a scheme separately notified for standalone PDs; and
- vii. access to OMO by RBI.

The facilities are, however, subject to review, depending upon the market conditions and requirements.

1.7 Regulation

- i. PDs are required to meet registration and such other requirements as stipulated by the Securities and Exchange Board of India (SEBI) including operations on the Stock Exchanges, if they undertake any activity regulated by SEBI.
- ii. PDs are expected to join Primary Dealers Association of India (PDAI) and Fixed Income Money Market and Derivatives Association (FIMMDA) and abide by the code of conduct framed by them and such other actions as initiated by them in the interest of the securities markets.
- iii. In respect of transactions in G-Sec, a PD should have a separate desk and maintain separate accounts in respect of its own position and customer transactions and subject them to external audit also.
- iv. Any change in the shareholding pattern / capital structure of a PD needs prior approval of RBI. PDs should report any other material changes such as business profile, organization, etc. affecting the conditions of licensing as PD to RBI immediately.
- v. RBI reserves the right to cancel the Primary Dealership if, in its view, the concerned institution has failed to adhere to the terms of authorization or any other guideline of RBI as applicable.
- vi. A PD should bring to the attention of RBI any major complaint against it or action initiated/taken against it by authorities such as the Stock Exchanges, SEBI, CBI, Enforcement Directorate, Income Tax Department, etc.

1.8 Supervision by RBI

1.8.1 Off-site supervision: PDs are required to submit prescribed periodic returns to RBI promptly. The current list of such returns, their periodicity, etc. is furnished in **Annex II–A & B**.

1.8.2 On-site inspection: RBI will have the right to inspect the books, records, documents and accounts of a PD. PDs are required to make available all such documents, records, etc. to the RBI officers and render all necessary assistance as and when required.

2. Role of PDs in the Primary Market

Concomitant with the objectives of PD system, the PDs are expected to support the primary issues of dated securities of Central Government and State Government, T-Bills and CMBs

through underwriting/bidding commitments and success ratios. The related guidelines are as under:

2.1 Underwriting of Dated Government Securities

2.1.1 Dated securities of Central Government

- i. The underwriting commitment on dated securities of Central Government will be divided into two parts - i) Minimum Underwriting Commitment (MUC), and ii) Additional Competitive Underwriting (ACU).
- ii. The MUC of each PD will be computed to ensure that at least 50 percent of the notified amount of each issue is mandatorily underwritten equally by all the PDs. The share under MUC will be uniform for all PDs, irrespective of their capital or balance sheet size. The remaining portion of the notified amount will be underwritten through an ACU auction.
- iii. RBI will announce the MUC of each PD. In the ACU auction, each PD would be required to bid for an amount at least equal to its share of MUC. A PD cannot bid for more than 30 per cent of the notified amount in the ACU auction.
- iv. The auction could be either uniform price-based or multiple price-based depending upon the market conditions and other relevant factors, which will be announced before the underwriting auction for each issue.
- v. Bids will be tendered by the PDs within the stipulated time, indicating both the amount of the underwriting commitment and underwriting commission rates. A PD can submit multiple bids for underwriting. Depending upon the bids submitted for underwriting, RBI will decide the cut-off rate of commission and inform the PDs.
- vi. **Underwriting commission:** All successful bidders in the ACU auction will be paid underwriting commission on the ACU segment as per the auction rules. Those PDs who succeed in the ACU for 4 per cent and above of the notified amount of the issue, will be paid commission on the MUC at the weighted average of all the accepted bids in the ACU. Others will get commission on the MUC at the weighted average rate of the three lowest bids in the ACU.
- vii. In the GOI securities auction, a PD should bid for an amount not less than its total underwriting obligation. If two or more issues are floated on the same day, the minimum bid amount will be applied to each issue separately.
- viii. Underwriting commission will be paid on the amount accepted for underwriting by the RBI, irrespective of the actual amount of devolvement, by credit to the current account of the respective PDs at the RBI, Fort, Mumbai, on the date of issue of security.
- ix. In case of devolvement, PDs would be allowed to set-off the accepted bids in the auction against their underwriting commitment accepted by the RBI. Devolvement of securities, if any, on PDs will take place on pro-rata basis, depending upon the amount of underwriting obligation of each PD after setting off the successful bids in the auction.

- x. RBI reserves the right to accept any amount of underwriting up to 100 per cent of the notified amount or even reject all the bids tendered by PDs for underwriting, without assigning any reason.
- xi. An illustration on underwriting procedure is given in **Annex III**.

2.1.2 Dated securities of State Governments

- i. On announcement of an auction of State Development Loans (SDLs), which are dated securities of the State Governments, RBI may invite PDs to collectively bid to underwrite up to 100 per cent of the notified amount.
- ii. A PD can bid to underwrite up to 30 per cent of the notified amount of the issue. If two or more issues are floated on the same day, the limit of 30% is applied by taking the notified amounts separately.
- iii. Bids will be tendered by PDs within the stipulated time, indicating both the amount of the underwriting commitments and underwriting commission rates. A PD can submit multiple bids for underwriting.
- iv. Depending upon the bids submitted for underwriting, the RBI will decide the cut-off rate of commission and the underwriting amount up to which bids would be accepted and inform the PDs.
- v. RBI reserves the right to accept any amount of underwriting up to 100 per cent of the notified amount or even reject all the bids tendered by PDs for underwriting, without assigning any reason.
- vi. In case of devolvement, PDs would be allowed to set-off the accepted bids in the auction against their underwriting commitment accepted by the RBI. Devolvement of securities, if any, on PDs will take place on pro-rata basis, depending upon the amount of underwriting obligation of each PD after setting off the successful bids in the auction.
- vii. Underwriting commission will be paid on the amount accepted for underwriting by the RBI, irrespective of the actual amount of devolvement, by credit to the current account of the respective PDs at the RBI, Fort, Mumbai, on the date of issue of security.

2.2 Bidding in Primary auctions of T-Bills/CMBs

- i. Each PD will individually commit, at the beginning of the year (April – March), to submit bids for a fixed percentage of the notified amount of T-Bills/CMBs in each auction.
- ii. The minimum bidding commitment amount / percentage for each PD will be determined by the RBI, in consultation with the PD. While finalizing the bidding commitments, the RBI will take into account the NOF, the offer made by the PD, its track record and its past adherence to the prescribed success ratio. The amount/percentage of minimum bidding commitment so determined by the RBI will remain unchanged for the entire year or till execution of the undertaking for the next year.

- iii. In any auction of T-Bills/CMBs, if a PD fails to submit the required minimum bid or submits a bid lower than its commitment, the RBI may take appropriate penal action against the PD.
- iv. A PD would be required to achieve a minimum success ratio of 40 percent of bidding commitment in T-Bills/CMBs auctions which will be monitored on a half yearly basis, i.e. April to September and October to March, separately (For illustrations please refer to **Annex IV**).
- v. The CMB transactions may be reported in PDR returns along with the T-Bill transactions.

2.3 'When-Issued' transactions in Central G-Sec

PDs shall adhere to the guidelines issued by the RBI vide circular IDMD.No. 2130/11.01.01 (D) /2006-07 dated November 16, 2006, as amended from time to time, for undertaking "When Issued" transactions.

2.4 Submission of non-competitive bids

PDs shall adhere to the guidelines issued vide circular RBI/2008-09/479 - IDMD.No.5877/08.02.33/2008-09 dated May 22, 2009, as amended from time to time, in respect of submission of non-competitive bids in the auctions of the G-Sec.

2.5 Sale of securities allotted in primary issues on the same day

PDs shall adhere to the guidelines issued vide circulars IDMC.PDRS.No.PDS.1/03.64.00/2000-01 dated October 6, 2000 and RBI/2005/461–IDMD.PDRS.4777/10.02.01/2004-05 dated May 11, 2005, for undertaking sale of securities allotted in primary issues on the same day.

2.6 Settlement of primary auctions

The primary auction settlement is independent from the secondary market settlements and therefore has to be funded separately. Successful PDs shall provide sufficient funds in their current account with the RBI on the auction settlement days before 3:00 pm to meet their obligations against the subscriptions in the primary auctions failing which the shortage will be treated as an instance of 'SGL bouncing' and will be subjected to the applicable penal provisions.

2.7 Secondary Market Transactions - Short-selling

PDs shall adhere to the guidelines issued by the RBI vide circular RBI/2006-07/243-IDMD.No./11.01.01(B)/2006-07 dated January 31, 2007, on "Short Sale in Central Government dated Securities", as amended from time to time.

2.8 Separate Trading of Registered Interest and Principal of Securities (STRIPS) in G-Sec

PDs shall adhere to the guidelines issued by the RBI vide circular RBI/2009-10/360-IDMD.DOD.No.7 /11.01.09 /2009-10 dated March 25, 2010, on STRIPS in G-Sec, as amended from time to time.

3. PDs operations - Sources and Application of funds

3.1 PDs are permitted to borrow funds from call/notice/term money market and repo (including CBLO) market. They are also eligible for liquidity support from RBI.

3.2 PDs are allowed to borrow from call/notice market, on an average in a 'reporting fortnight', up to 225 percent of their NOF as at the end March of the preceding financial year. They may lend up to 25 percent of their NOF in call/notice money market, on an average in a 'reporting fortnight'.

3.3 These limits on borrowing and lending are subject to periodic review by RBI.

3.4 Liquidity Support from RBI

In addition to access to the RBI's LAF, standalone PDs are also provided with liquidity support by the RBI against eligible G-Sec including SDLs. The parameters based on which liquidity support will be allocated are given below:

- i. Of the total liquidity support, half of the amount will be divided equally among all the standalone PDs. The remaining half (i.e. 50%) will be divided in the ratio of 1:1 based on market performance in primary market and secondary market. Performance in primary market will be computed on the basis of bids accepted in the T-Bill/CMB auctions and G-Sec auctions in the proportionate weights of 1 and 3. Similarly, the secondary market performance will be judged on the basis of outright turnover in T-Bills/CMBs and G-Sec in the proportionate weights of 1 and 3.
- ii. The PD-wise limit of liquidity support will be revised every half-year (April-September and October-March) based on the market performance of the PDs in the preceding six months.
- iii. The liquidity support will be made available at the 'Repo Rate' announced by the RBI.
- iv. The liquidity support availed by a PD will be repayable within a period of 90 days. If it is repaid after 90 days, the penal rate of interest payable by PDs is Bank rate plus 5 percentage points for the period beyond 90 days.

3.5 Inter-Corporate Deposits (ICDs)

3.5.1 ICDs may be raised by PDs as per their funding needs. After proper and due consideration of the risks involved, the Board of Directors of the PD should lay down the policy in this regard, which among others, should include the following general principles:

- i. The ICD borrowings should in no case exceed 75 per cent of the NOF as at the end of March of the preceding financial year.
- ii. ICDs accepted by PD should be for a minimum period of one week.
- iii. ICDs accepted from parent/promoter/group companies or any other related party should be on 'arms length basis' and disclosed in financial statements as "related party transactions".
- iv. Funds raised through ICDs are subject to ALM discipline.

3.5.2 PDs are prohibited from placing funds in ICD market.

3.6 FCNR (B) loans / External Commercial Borrowings

3.6.1 PDs may avail of FCNR(B) loans up to a maximum of 25% of the NOF as at the end of March of the preceding financial year and subject to the foreign exchange risk of such loans being hedged at all times at least to the extent of 50 per cent of the exposure.

3.6.2 PDs are **not** permitted to raise funds through External Commercial Borrowings.

3.7 Issuance of Non-Convertible Debentures (NCDs)

PDs are allowed to issue NCDs of maturity up to one year, without the requirement of having a working capital limit with a bank. They are governed by the directions, "Issuance of Non-Convertible Debentures (Reserve Bank) Directions, 2010", issued vide circular RBI/2009-10/505-IDMD.DOD.10/11.01.01(A)/2009-10 dated June 23, 2010 and amended from time to time.

3.8 Reporting Requirements

3.8.1 PDs are required to report, the sources and application of funds maintained on daily basis, to RBI on fortnightly intervals. The format of return (**PDR-I**) is enclosed in **Annex V**.

3.8.2 PDs are required to report the securities market turnover on monthly basis. The format of return (**PDR-II**) is enclosed in **Annex VI**.

3.8.3 PDs should submit a quarterly statement on capital adequacy in the prescribed format (**PDR-III**) enclosed as Annex D of the Master circular No. IDMD.PDRD. 2/03.64.00/2011-12 dated July 1, 2011 on Capital Adequacy Standards and Risk Management Guidelines for standalone PDs.

3.8.4 PDs are also required to report select financial and balance sheet indicators on quarterly basis, in **PDR-IV** return as enclosed in **Annex VII**.

4. Diversification of activities by standalone PDs

4.1 Standalone PDs are permitted to diversify their activities, as considered appropriate, in addition to their existing business of transacting in G-Sec, subject to limits.

4.2 PDs may bifurcate their operations into core and non-core activities.

4.2.1 The following are permitted under core activities:

- i. Dealing and underwriting in G-Sec,
- ii. Dealing in Interest Rate Derivatives,
- iii. Providing broking services in G-Sec,
- iv. Dealing and underwriting in Corporate / PSU / FI bonds/ debentures,
- v. Lending in Call/ Notice/ Term/ Repo/ CBLO market,
- vi. Investment in Commercial Papers (CPs),
- vii. Investment in Certificates of Deposit (CDs),
- viii. Investment in Security Receipts issued by Securitization Companies/ Reconstruction Companies, Asset Backed Securities (ABS), Mortgage Backed Securities (MBS),
- ix. Investment in debt mutual funds where entire corpus is invested in debt securities and
- x. Investments in NCDs.

4.2.2 PDs are permitted to undertake the following non-core activities:

4.2.2.1 Activities which are expected to consume capital such as:

- i. Investment / trading in equity and equity derivatives market,
- ii. Investment in units of equity oriented mutual funds, and
- iii. Underwriting public issues of equity.

4.2.2.2 Services which do not consume capital or require insignificant capital outlay such as:

- i. Professional Clearing Services,
- ii. Portfolio Management Services,
- iii. Issue Management Services,
- iv. Merger & Acquisition Advisory Services,
- v. Private Equity Management Services,
- vi. Project Appraisal Services,
- vii. Loan Syndication Services,
- viii. Debt restructuring services ,
- ix. Consultancy Services,
- x. Distribution of mutual fund units, and
- xi. Distribution of insurance products.

4.2.3 For distribution of insurance products, the PDs may comply with the guidelines contained in the circular DNBS(PD)CC.No.35/10.24/2003-04 dated February 10, 2004 issued by the Department of Non-Banking Supervision, RBI as amended from time to time.

4.2.4 Specific approvals of other regulators, if needed, should be obtained for undertaking the activities detailed above.

4.2.5 PDs are **not** allowed to undertake broking in equity, trading / broking in commodities, gold and foreign exchange.

4.3 The investment in G-Sec should have predominance over the non-core activities in terms of investment pattern. Standalone PDs are required to ensure predominance by maintaining at least 50 per cent of their total financial investments (both long term and short term) in G-Sec at any point of time. Investment in G-Sec will include the PD's Own Stock, Stock with RBI under Liquidity Support / Intra-day Liquidity (IDL)/ LAF, Stock with market for repo borrowings and G-Sec pledged with the Clearing Corporation of India Ltd (CCIL).

4.4 The exposure to non-core activities shall be subject to the guidelines on regulatory and prudential norms for diversification of activities by standalone PDs, which are as under:

4.4.1 The exposure to non-core activities, as defined in paragraph 4.2.2 above, shall be subject to risk capital allocation as prescribed below.

4.4.1.1 PDs may calculate the capital charge for market risk on the stock positions / underlying stock positions/ units of equity oriented mutual funds using Internal Models (VaR based) based on the guidelines prescribed vide RBI Master circular No. IDMD.PDRD.No.2/03.64.00/2011-12 dated July 1, 2011 on Capital Adequacy and Risk Management, as updated from time to time. PDs may continue to provide for credit risk arising out of equity, equity derivatives and equity oriented mutual funds as prescribed in the circular mentioned above.

4.4.1.2 The guidelines for both credit risk and market risk in respect of CPs, Corporate / PSU / FI bonds / Underwriting are contained in the RBI Master circular IDMD.PDRD.No.2 /03.64.00/2011-12 dated July 1, 2011, as updated from time to time.

4.4.1.3 The capital charge for market risk (VaR calculated at 99 per cent confidence level, 15-day holding period, with multiplier of 3.3) for the activities defined in para 4.2.2.1 above should not be more than 20 per cent of the NOF as per the last audited balance sheet.

4.4.1.4 PDs choosing to diversify into non-core business segments should define internally the scope of diversification, organization structure and reporting levels for those segments.

They should clearly lay down exposure and risk limits for those segments in their Board approved investment policy.

5. Investment Guidelines

5.1 Investment policy - PDs should frame and implement, a Board approved, investment policy and operational guidelines on securities transactions. The policy should contain the broad objectives to be followed while undertaking transactions in securities on their own account and on behalf of clients, clearly define the authority to put through deals, and lay down procedure to be followed while putting through deals, various prudential exposure limits, policy regarding dealings through brokers, systems for management of various risks, guidelines for valuation of the portfolio and the reporting systems etc. Operational procedures and controls in relation to the day-to-day business operations should also be worked out and put in place to ensure that operations in securities are conducted in accordance with sound and acceptable business practices. While laying down these guidelines, the PDs should strictly adhere to RBI's instructions, issued from time to time. The effectiveness of the policy and operational guidelines should be periodically evaluated.

5.2 PDs should necessarily hold their investments in G-Sec portfolio in SGL with RBI. They may also have a dematerialised (Demat) account with depositories – National Securities Depository Limited / Central Depository Services (India) Limited. All purchase/sale transactions in G-Sec by PDs should be through SGL / Constituent SGL (CSGL) / Demat accounts.

5.3 PDs should hold all other investments such as CPs, bonds and debentures (privately placed or otherwise) and equity instruments, only in demat form.

5.4 All problem exposures, which are not backed by any security or backed by security of doubtful value, should be fully provided for. Where a PD has filed suit against another party for recovery, such exposures should be evaluated and provisions made to the satisfaction of auditors. Any claim against the PD should also be taken note of and provisions made to the satisfaction of auditors.

5.5 The profit and loss account should reflect the problem exposures if any, and also the effect of valuation of portfolio, as per the instructions issued by the RBI, from time to time. The report of the statutory auditors should contain a certification to this effect.

5.6 PDs should formulate, within the above parameters, their own internal guidelines on security transactions in both primary and secondary markets, with the approval of their Board of Directors.

5.7 HTM Portfolio

5.7.1 Standalone PDs are allowed to categorize a portion of their G-Sec portfolio in the HTM category, subject to the following conditions:

- i. The transfer of securities (both Central Government and State Government) to/from HTM portfolio shall be done as per the policy formulated by the Board. Such transfers shall be permitted only once in a quarter.
- ii. Transfer of securities to/from HTM portfolio should be done with the approval of the Board at the acquisition cost/ book value/ market value on the date of transfer, whichever is the least, and the depreciation, if any, on such transfer shall be fully provided for. PDs are allowed to shift investments to/from HTM portfolio with the approval of the MD of the PD/Head of ALCO, only in case of exigencies. However, it should be ratified by the Board.
- iii. Only securities acquired by the PD under primary auction will be eligible for classification under HTM category.
- iv. The quantum of securities that can be classified as HTM shall be restricted to 100% of the audited NOF of the PD as at the end March of the preceding financial year.
- v. The profit on sale of securities, if any, from the HTM category shall first be taken to the P & L Account and thereafter be appropriated to the "Reserve Account"; loss on sale shall be recognized in the P & L Account.
- vi. Investments classified under HTM will be carried at acquisition cost, unless it is more than the face value, in which case the premium should be amortized over the remaining period to maturity. The book value of the security should continue to be reduced to the extent of the amount amortized during the relevant accounting period.
- vii. The concurrent auditors should specifically verify compliance with these instructions.
- viii. The facility shall be available until further advice.

5.7.2 Banks undertaking PD activities departmentally may continue to follow the extant guidelines applicable to the banks with regard to the classification and valuation of the investment portfolio issued by Department of Banking Operations and Development (DBOD), RBI.

5.8 Guidelines on investments in non-G-Sec

5.8.1 These guidelines cover PD's investments in non-G-Sec (including capital gain bonds, bonds eligible for priority sector status, bonds issued by Central or State public sector undertakings with or without Government guarantees and bonds issued by banks and financial companies) generally issued by corporate, banks, FIs and State and Central Government sponsored institutions, Special Purpose Vehicles (SPVs), etc. These guidelines will, however, not be applicable to (i) units of equity oriented mutual fund schemes where any part of the

corpus can be invested in equity, (ii) venture capital funds, (iii) CPs, (iv) CDs, and (v) investments in equity shares. The guidelines will apply to investments both in the primary and secondary market.

5.8.2 PDs should not invest in non-G-Sec of original maturity of less than one year, other than NCDs, CPs and CDs, which are covered under RBI guidelines. PDs are permitted to invest in NCDs with original or initial maturity up to one year issued by the corporates (including NBFCs). However, their investments in such unlisted NCDs should not exceed 10 per cent of the size of their non-G-Sec portfolio on an on-going basis. While investing in such instruments, PDs should be guided by the extant prudential guidelines in force and instructions given in the circulars IDMD.DOD.10/11.01.01(A)/2009-10 dated June 23, 2010 and IDMD.PCD.No.24/14.03.03/2010-11 dated December 6, 2010.

5.8.3 PDs should undertake usual due diligence in respect of investments in non-G-Sec.

5.8.4 PDs must not invest in unrated non-G-Sec.

5.8.5 PDs will abide by the requirements stipulated by the SEBI in respect of corporate debt securities. Accordingly, while making fresh investments in non-Government debt securities, PDs should ensure that such investments are made only in listed debt securities, except to the extent indicated in paragraph 5.8.6 below.

5.8.6 PD's investment in unlisted non-G-Sec should not exceed 10% of the size of their non-G-Sec portfolio on an on-going basis. The ceiling of 10% will be inclusive of investment in Security Receipts issued by Securitization Companies/Reconstruction Companies and also the investment in ABS and MBS. The unlisted non-Government debt securities in which PDs may invest up to the limits specified above, should comply with the disclosure requirements as prescribed by the SEBI for listed companies.

5.8.7 PDs are required to report their secondary market transactions in corporate bonds done in the OTC market on FIMMDA's reporting platform as indicated vide circular IDMD.530/03.64.00/2007-08 dated July 31, 2007. Further, PDs shall adhere to the guidelines prescribed vide circular IDMD No.1764 /11.08.38/2009-10 dated October 16, 2009 as regards clearing and settlement of OTC trades in corporate bonds.

5.8.8 PDs should ensure that their investment policies are formulated after taking into account all the relevant issues specified in these guidelines on investment in non-G-Sec. They should put in place proper risk management systems for capturing and analysing the risk in respect of non-G-Sec before making investments and taking remedial measures in time. PDs should also put in place appropriate systems to ensure that investment in privately placed instruments is made in accordance with the systems and procedures prescribed under respective PD's investment policy.

5.8.9 Boards of the PDs should review the following aspects of investment in non-G-Sec at least at quarterly intervals:

- i. Total business (investment and divestment) during the reporting period.
- ii. Compliance with the prudential limits as well as prudential guidelines prescribed by the Board for investment in non-G-Sec.
- iii. Rating migration of the issuers/ issues held in the PD's books.

5.8.10 In order to help creation of a central database on private placement of debt, a copy of all offer documents should be filed with the Credit Information Bureau (India) Ltd. (CIBIL) by the PDs. Further, any default relating to interest/ installment in respect of any privately placed debt should also be reported to CIBIL by the investing PDs along with a copy of the offer document.

5.8.11 As per SEBI guidelines, all trades with the exception of the spot transactions, in a listed debt security, shall be executed only on the trading platform of a stock exchange. In addition to complying with these SEBI guidelines, (as and when applicable) PDs should ensure that all spot transactions in listed and unlisted debt securities are reported on the NDS and settled through the CCIL.

5.9 Exposure Norms

5.9.1 In terms of paragraph 18 of the Notification DNBS.193 DG(VL)-2007 dated February 22, 2007 updated till June 30, 2010, all the non-deposit taking non-banking financial companies shall adhere to the specific regulations limiting concentration in credit / investment to a single borrower or group of borrowers in a company. Further, as per Note 2 to the paragraph 18 of the Notification, the investments in debentures for the purposes specified in this paragraph shall be treated as credit and not investment. These provisions have been made applicable to all the standalone PDs with effect from July 27, 2010.

5.9.2 With effect from November 11, 2010, the exposure limits of the standalone PDs have been enhanced from 15 per cent to 25 per cent of their NOF to single borrower and from 25 per cent to 40 per cent of their NOF to group borrowers.

6. Prudential Systems/Controls

6.1 Internal Control System in respect of securities transactions

- i. PDs should have an Audit Committee of the Board (ACB) which should meet at least at quarterly intervals. The ACB should peruse the findings of the various audits and should ensure efficacy and adequacy of the audit function.
- ii. All security transactions (including transactions on account of clients) should be subjected to concurrent audit by internal/external auditors to the extent of 100% and the results of the audit should be placed before the CEO/MD of the PD once every month. The

compliance should be monitored on ongoing basis and reported directly to the top management. The concurrent audit should also cover the business done through brokers and include the findings in their report.

- iii. The scope of concurrent audit should include monitoring of broker wise limits, prudential limits laid down by RBI, accuracy and timely submission of all regulatory returns, reconciliation of SGL/CSGL balances with PDO statements, reconciliation of current account balance with DAD statements, settlements through CCIL, stipulations with respect to short sale deals, when-issued transactions, constituent deals, money market deals, adherence to accounting standards, verification of deal slips, reasons for cancellation of deals, if any, transactions with related parties on 'arms length basis' etc.
- iv. PDs should have a system of internal audit focused on monitoring the efficacy and adequacy of internal control systems.
- v. All the transactions put through by the PD either on outright basis or ready forward basis should be reflected on the same day in its books and records i.e. preparation of deal slip, contract note, confirmation of the counter party, recording of the transaction in the purchase/sale registers, etc.
- vi. With the approval of their Board, PDs should put in place appropriate exposure limits / dealing limits, for each of their counterparties which cover all dealings with such counter parties including money market, repos and outright securities transactions. These limits should be reviewed periodically on the basis of financial statements, market reports, ratings, etc. and exposures taken only on a fully collateralized basis where there is slippage in the rating/assessment of any counterparty.
- vii. With the approval of their Boards, PDs should put in place reasonable leverage ratio for their operations, which should take into account all outside borrowings as a multiplier of their NOF.
- viii. There should be a clear functional separation of (i) trading (front office); (ii) risk management (mid office); and (iii) settlement, accounting and reconciliation (back office). Similarly, there should be a separation of transactions relating to own account and constituents' accounts.
- ix. For every transaction entered into, the trading desk should generate a deal slip which should contain data relating to nature of the deal, name of the counterparty, whether it is a direct deal or through a broker, and if through a broker, name of the broker, details of security, amount, price, contract date and time and settlement date. The deal slips should be serially numbered and controlled separately to ensure that each deal slip has been properly accounted for. Once the deal is concluded, the deal slip should be immediately passed on to the back office for recording and processing. For each deal, there must be a system of issue of confirmation to the counter-party. In view of the reporting and confirmation of OTC trades on Negotiated Dealing System (NDS) and

guaranteed settlement through CCIL, the requirement to exchange written confirmation for OTC trades in G-Sec has been dispensed with. With respect to transactions matched on the NDS-OM module, separate counterparty confirmation of deals is not required.

- x. Once a deal has been concluded, there should not be any substitution of the counterparty by the broker. Similarly, the security sold/purchased in a deal should not be substituted by another security under any circumstances.
- xi. On the basis of vouchers passed by the back office (which should be done after verification of actual contract notes received from the broker/counter-party and confirmation of the deal by the counter party), the books of account should be independently prepared.
- xii. PDs should periodically review securities transactions and report to the top management, the details of transactions in securities, details of funds/securities delivery failures, even in cases where shortages have been met by CCIL.

6.2 Purchase/Sale of securities through SGL transfer forms

All PDs should report / conclude their transactions on NDS / NDS-OM and clear/settle them through CCIL as central counter-party. In such cases where exceptions have been permitted to tender physical SGL transfer forms, the following guidelines should be followed:

- i. Records of all SGL transfer forms issued/received should be maintained and a system for verification of the authenticity of the SGL transfer forms received from the counter-party and confirmation of authorized signatories should be put in place.
- ii. Under no circumstances, a SGL transfer form issued by a PD in favour of counterparty should bounce for want of sufficient balance in the SGL/Current Account. Any instance of return of SGL form from the Public Debt Office (PDO) of the RBI for want of sufficient balance in the account should be immediately brought to the notice of the PD's top management and reported to RBI with the details of transactions.
- iii. SGL Transfer forms received by purchasing PDs should be deposited in their SGL Accounts immediately. No sale should be effected by way of return of SGL form held by the PD.
- iv. SGL transfer form should be in a standard format, prescribed by the RBI, and printed on semi-security paper of uniform size. They should be serially numbered and there should be a control system in place to account for each SGL form.

6.3 Bank Receipt or similar receipt should not be issued or accepted by the PDs under any circumstances in respect of transactions in G-Sec.

6.4 Accounting Standards for securities transactions

- i. All securities in trading portfolio should be marked to market, at appropriate intervals.

- ii. Costs such as brokerage fees, commission or taxes incurred at the time of acquisition of securities, are of revenue/deferred nature. The broken period interest received/paid also gets adjusted at the time of coupon payment. PDs can adopt either the IAS or GAAP accounting standards, but have to ensure that the method should be true and fair and should not result in overstating the profits or assets value. It should be followed consistently and be generally acceptable especially to the tax authorities.
- iii. Broken period interest paid to seller as part of cost on acquisition of Government and other securities should not be capitalized but treated as an item of expenditure under Profit and Loss Account. The PDs may maintain separate adjustment accounts for the broken period interest.
- iv. The valuation of the securities portfolio should be independent of the dealing and operations functions and should be done by obtaining the prices declared by FIMMDA periodically.
- v. PDs should publish their audited annual results in leading financial dailies and on their website in the format prescribed (**Annex VIII**). The following minimum information should also be included by way of notes on accounts to the Balance Sheet:
 - a. Net borrowings in call (average and peak during the period),
 - b. Basis of valuation,
 - c. Leverage Ratio (average and peak),
 - d. CRAR (quarterly figures), and
 - e. Details of the issuer composition of non-G-Sec investments.PDs may also furnish more information by way of additional disclosures.

6.5 Reconciliation of holdings of G-Sec

Balances as per books of PDs should be reconciled at least at monthly intervals with the balances in the books of PDOs. If the number of transactions so warrant, the reconciliation should be undertaken at more frequent intervals. This reconciliation should be periodically verified during concurrent/internal audit of the PDs.

6.6 Transactions on behalf of Constituents

- i. The PDs should undertake all due diligence while acting as agent of their clients for carrying out transactions in securities.
- ii. PDs should not use the constituents' funds or assets for proprietary trading or for financing of another intermediary's operations.
- iii. All transaction records should give a clear indication that the transaction belongs to constituent and does not belong to PD's own account.
- iv. The transactions on behalf of constituents and the operations in the CSGL accounts should be conducted in accordance with the guidelines issued by RBI on the CSGL accounts.

- v. PDs who act as custodians (i.e. CSGL account holders) and offer the facility of maintaining gilt accounts to their constituents, should not permit settlement of any sale transaction by their constituents unless the security sold is actually held in the gilt account of the constituent.
- vi. Indirect access to NDS-OM has been permitted to certain segments of investors through banks and PDs vide circular IDMD.DOD.No.5893/10.25.66/2007-08 dated May 27, 2008. PDs should adhere to the guidelines on maintenance of gilt accounts and investments on behalf of gilt account holders while undertaking 'constituent deals' on NDS-OM.

6.7 Failure to complete delivery of security/funds in an SGL transaction

Any default in delivery of security/funds in an SGL sale /purchase transaction undertaken by a PD will be viewed seriously. A report on such transaction, even if completed through the securities/funds shortage handling procedure of CCIL, must be submitted to the IDMD, RBI immediately. In terms of circular RBI/2010-11/115-IDMD.DOD.17/11.01.01(B)/2010-11 dated July 14, 2010, for any default in delivery of security / funds in a SGL sale / purchase transaction undertaken by a PD (event of bouncing of SGL transfer forms) and the failure of the PD to offer satisfactory explanation for such bouncing of SGL, the PD shall be liable to pay penalties as per the circular *ibid*.

7. Trading of G-Sec on Stock Exchanges

7.1 With a view to encouraging wider participation of all classes of investors, including retail, in G-Sec, trading in G-Sec through a nationwide, anonymous, order driven screen based trading system on stock exchanges, in the same manner in which trading takes place in equities, has been permitted. Accordingly, trading of dated G-Sec in demat form is allowed on automated order driven system of the National Stock Exchange (NSE) of India, the Bombay Stock Exchange Ltd., Mumbai (BSE) and the Over the Counter Exchange of India (OTCEI). This trading facility is in addition to the reporting/trading facility in the NDS. Being a parallel system, the trades concluded on the exchanges will be cleared by their respective clearing corporations/clearing houses.

7.2 PDs are expected to play an active role in providing liquidity to the G-Sec market and promote retailing. They may, therefore, make full use of the facility to distribute G-Sec to all categories of investors through the process of placing and picking-up orders on the exchanges. PDs may open demat accounts with a Depository Participant (DP) of NSDL/CDSL in addition to their accounts with RBI. Value free transfer of securities between SGL/CSGL and own demat account is enabled by PDO-Mumbai subject to guidelines issued by Department of Government and Bank Accounts (DGBA), RBI.

7.3 Guidelines

- i. PDs should take specific approval from their Board to enable them to trade in the Stock Exchanges.
- ii. PDs may undertake transactions only on the basis of giving and taking delivery of securities.
- iii. Brokers/trading members shall not be involved in the settlement process. All trades have to be settled either directly with clearing corporation/clearing house (in case they are clearing members) or else through clearing member custodians.
- iv. The trades done through any single broker will also be subject to the current regulations on transactions done through brokers.
- v. A standardized settlement on T+1 basis of all outright secondary market transactions in G-Sec has been adopted to provide the participants more processing time for transactions and to help in better funds as well as risk management.
- vi. In the case of repo transactions in G-Sec, however, market participants will have the choice of settling the first leg on either T+0 basis or T+1 basis, as per their requirements.
- vii. Any settlement failure on account of non-delivery of securities/ non-availability of clear funds will be treated as SGL bouncing and the current penalties in respect of SGL transactions will be applicable. Stock Exchanges will report such failures to the respective PDOs.
- viii. PDs who are trading members of the Stock Exchanges may have to put up margins on behalf of their non-institutional client trades. Such margins are required to be collected from the respective clients. PDs are not permitted to pay up margins on behalf of their client trades and incur overnight credit exposure to their clients. In so far as the intra day exposures on clients for margins are concerned, the PDs should be conscious of the underlying risks in such exposures.
- ix. PDs who intend to offer clearing /custodial services should take specific approval from SEBI in this regard. Similarly, PDs who intend to take trading membership of the Stock Exchanges should satisfy the criteria laid down by SEBI and the Stock Exchanges.

8. Business through brokers

8.1 Business through brokers and limits for approved brokers

PDs may undertake securities transactions among themselves or with clients through the members of the BSE, NSE and OTCEI. However, if the PDs undertake OTC interest rate derivative transactions through brokers, they should ensure that these brokers are accredited by FIMMDA. PDs should fix aggregate contract limits for each of the approved brokers. A limit of 5% of total transactions (both purchase and sales) entered into by a PD during a year should be treated as the aggregate upper limit for each of the approved brokers. However, if for any

reason it becomes necessary to exceed the aggregate limit for any broker, the specific reasons thereof should be recorded and the Board should be informed of this, post facto.

8.2 With the approval of their top management, PDs should prepare a panel of approved brokers, which should be reviewed annually or more often if so warranted. Clear-cut criteria should be laid down for empanelment of brokers, including verification of their creditworthiness, market reputation, etc. A record of broker-wise details of deals put through and brokerage paid, should be maintained.

8.3 Brokerage payable to the broker, if any (if the deal was put through with the help of a broker), should be clearly indicated on the notes/memorandum put up seeking approval for putting through the transaction, and a separate account of brokerage paid, broker-wise, should be maintained.

8.4 The role of the broker should be restricted to that of bringing the two parties to the deal together. Settlement of deals between PDs and counter-parties should be directly between the counter-parties and the broker will have no role in the settlement process.

8.5 While negotiating the deal, the broker is not obliged to disclose the identity of the counter-party to the deal. On conclusion of the deal, he should disclose the counter-party and his contract note should clearly indicate the name of the counter-party.

9. Norms for Ready Forward transactions

PDs are permitted to participate in ready forward (Repo) market both as lenders and borrowers. The terms and conditions subject to which repo contracts (including reverse repo contracts) may be entered into by PDs will be as under:

- i. Repos may be undertaken only in a) dated securities, T-Bills and CMBs issued by the Government of India (GoI); and b) dated securities issued by the State Governments.
- ii. Repos may be entered into only with scheduled commercial banks, Urban Cooperative banks, other PDs, NBFCs, mutual funds, housing finance companies, insurance companies and any listed company, provided they hold either an SGL account with RBI or a Gilt account with a custodian.
- iii. Listed companies can enter into repo transactions subject to the following conditions:
 - a) The minimum period for Reverse Repo (lending of funds) by listed companies is seven days. However, listed companies can borrow funds through repo for shorter periods including overnight;
 - b) Where the listed company is a 'buyer' of securities in the first leg of the repo contract (i.e. lender of funds), the custodian through which the repo transaction is settled should block these securities in the gilt account and ensure that these securities are

- not further sold or re-repoed during the repo period but are held for delivery under the second leg; and
- c) The counterparty to the listed companies for repo/reverse repo transactions should be either a bank or a PD maintaining SGL Account with the RBI.
- iv. A PD may not enter into a repo with its own constituent or facilitate a repo between two of its constituents.
- v. PDs should report all repos transacted by them (both on own account and on the constituent's account) on the NDS. All repos shall be settled through the SGL Account/CSGL Account maintained with the RBI, Mumbai, with the CCIL acting as the central counter party (CCP).
- vi. The purchase/sale price of the securities in the first leg of a repo should be in alignment with the market rates prevalent on the date of transaction.
- vii. Repo transactions, which are settled under the guaranteed settlement mechanism of CCIL, may be rolled over, provided the security prices and repo interest rate are renegotiated on roll over.
- viii. The Master Repo Agreement (MRA), as finalised by FIMMDA, is not mandatory for repo transactions in G-Sec settling through a CCP. However, MRA is mandatory for repo transactions in corporate debt securities, which is settled bilaterally without involving a CCP.
- ix. PDs shall adhere to the guidelines for accounting of Repo / Reverse Repo transactions issued vide circular RBI/2009-10/356 IDMD.No.4135/11.08.43/2009-10 dated March 23, 2010, as amended from time to time.
- x. PDs are permitted to undertake repo in corporate bonds as given in the circulars RBI/2009-10/284-IDMD.DOD.No.05/11.08.38/2009-10 dated January 8, 2010 and RBI/2010-11/268-IDMD.PCD.22/11.08.38/2010-11 dated November 9, 2010. PDs shall adhere to the directions 'Repo in Corporate Debt Securities (Reserve Bank) Directions, 2010', as amended from time to time.

10. Portfolio Management Services by PDs

10.1 PDs may offer Portfolio Management Services (PMS) to their clients under the SEBI scheme of PMS, subject to the following conditions:

- i. Before undertaking PMS, the PD must have obtained the Certificate of Registration as Portfolio Manager from the SEBI and also a specific approval from the RBI.
- ii. PMS cannot be offered to any RBI regulated entity. However, advisory services can be provided to them with suitable disclaimers.
- iii. Where applicable, the clients regulated by any other authority should obtain clearance from the regulatory or any other authority before entering into any PMS arrangement with the PD.

- iv. PDs are required to comply with the SEBI (Portfolio Managers) Regulations, 1993 and any amendments issued thereto or instructions issued there under.

10.2 In addition, PDs should adhere to the under noted conditions:

- i. A clear mandate from the PMS clients should be obtained and the same may be strictly followed. In particular, there should be full understanding on risk disclosures, loss potential and the costs (fees and commissions) involved.
- ii. PMS should be entirely at the customer's risk without guaranteeing, either directly or indirectly, any return.
- iii. Funds/securities, each time they are placed with the PD for portfolio management, should not be accepted for a period less than one year.
- iv. Portfolio funds should not be deployed for lending in call/notice/term money/Bills rediscounting markets, badla financing or lending to/placement with corporate/non-corporate bodies.
- v. Client-wise accounts/records of funds accepted for management and investments made there against should be maintained and the clients should be entitled to get statements of account at frequent intervals.
- vi. Investments and funds belonging to PMS clients should be kept segregated and distinct from each other and from those of the PD. As far as possible, all client transactions should be executed in the market and not off-set internally, either with the PD or any other client. All transactions between the PD and any PMS client or between two PMS clients should be strictly at market rates.

11. Guidelines on interest rate derivatives

11.1 PDs shall adhere to the guidelines laid down in circular DBOD.No.BP.BC.86 /21.04.157 /2006-07 dated April 20, 2007 as applicable to interest rate derivatives and Interest Rate Futures (Reserve Bank) Directions, 2009 dated August 28, 2009 issued by the RBI. Standalone PDs are allowed to deal in Interest Rate Futures (IRFs) for both hedging and trading on own account and not on client's account, as given in the circular IDMD.PDRD.No.1056/03.64.00/2009-10 dated September 1, 2009 and as amended from time to time.

11.2 PDs are required to report all their IRS/FRA trades on the CCIL reporting platform within 30 minutes from the deal time.

11.3 PDs should report to IDMD, RBI as per the pro forma indicated in **Annex IX**, their FRA/IRS operations on a monthly basis.

12. Guidelines on declaration of dividend

PDs should follow the following guidelines while declaring dividend distribution:

- i. The PD should have complied with the regulations on transfer of profits to statutory reserves and the regulatory guidelines relating to provisioning and valuation of securities, etc.
- ii. PDs having CRAR below the regulatory minimum of 15 per cent in any of the previous four quarters cannot declare any dividend. For PDs having CRAR at or above the regulatory minimum of 15 per cent during all the four quarters of the previous year, but lower than 20 per cent in any of the four quarters, the dividend payout ratio (DPR) should not exceed 33.3 per cent. For PDs having CRAR at 20 per cent or above during all the four quarters of the previous year, the DPR should not exceed 50 per cent. DPR should be calculated as a percentage of dividend payable in a year (excluding dividend tax) to net profit during the year.
- iii. The proposed dividend should be payable out of the current year's profits. In case the profit for the relevant period includes any extraordinary income, the payout ratio should be computed after excluding such extraordinary items for reckoning compliance with the prudential payout ratio ceiling.
- iv. The financial statements pertaining to the financial year for which the PD is declaring dividend should be free of any qualifications by the statutory auditors, which have an adverse bearing on the profit during that year. In case of any qualification to that effect, the net profit should be suitably adjusted downward while computing the DPR.
- v. In case there are special reasons or difficulties for any PD in strictly adhering to the guidelines, it may approach RBI in advance for an appropriate *ad hoc* dispensation in this regard.
- vi. All the PDs declaring dividend should report details of dividend declared during the accounting year as per the prescribed pro forma (**Annex X**). The report should be furnished within a fortnight of payment of dividend.

13. Guidelines on Corporate Governance

PDs may adhere to circular DNBS.PD/CC 94/03.10.042/2006-07 dated May 8, 2007 on guidelines on corporate governance, as amended from time to time.

14. Prevention of Money Laundering Act, 2002 - Obligations of NBFCs

PDs shall adhere to the guidelines contained in circular DNBS(PD).CC.68 /03.10.042/2005-06 dated April 5, 2006, as amended from time to time, on the prevention of money laundering.

15. Violation/Circumvention of Instructions

Any violation/circumvention of the above guidelines or the terms and conditions of the undertaking executed by a PD with RBI (**Annex I**) would be viewed seriously and such violation would attract penal action including the withdrawal of liquidity support, denial of

access to the money market, withdrawal of authorization for carrying on the business as a PD, and/or imposition of monetary penalty or liquidated damages, as the RBI may deem fit.

16. Disclosure of Penal Actions

16.1 In order to maintain transparency with regard to imposition of penalties and in conformity with the best practices on disclosure of penalties imposed by the regulator, the details of the penalty levied on a PD shall be placed in the public domain.

16.2 The mode of disclosures of penalties, imposed by RBI will be as follows:

- i) A Press Release will be issued by the RBI, giving details of the circumstances under which the penalty is imposed on the PD along with the communication on the imposition of penalty in public domain.
- ii) The penalty shall also be disclosed in the 'Notes on Accounts' to the Balance Sheet of the PD in its next Annual Report.

Section II: Additional Guidelines applicable to banks undertaking PD business departmentally

1. Introduction

Scheduled commercial banks (except Regional Rural Banks) have been permitted to undertake PD business departmentally from 2006-07.

2. Procedure for Authorization of bank-PDs

2.1 Banks eligible to apply for undertaking PD business, [please see eligibility conditions at paragraph 1.3.1 (iv) of Section I above] may approach the Chief General Manager, DBOD, RBI, Central Office. On obtaining an in-principle approval from DBOD, banks may apply to the Chief General Manager, IDMD, RBI, 23rd Floor, Central Office Building, Fort, Mumbai - 400 001 for an authorization for undertaking PD business departmentally.

2.2 The banks, proposing to undertake the PD business by merging / taking over PD business from their partly / wholly owned subsidiary, or foreign banks, operating in India, proposing to undertake PD business departmentally by merging the PD business being undertaken by a group company, will be subject to the terms and conditions, as applicable, of the undertaking given by such subsidiary/ group company till such time a fresh undertaking is executed by the bank.

2.3 The banks authorized to undertake PD business will be required to have a standing arrangement with RBI based on the execution of an undertaking (**Annex I**) and the authorization letter issued by RBI each year (July-June).

3. Applicability of guidelines issued for PDs

3.1 The bank-PDs would be governed by the operational guidelines as given in Section – I above, to the extent applicable, unless otherwise stated. Furthermore, the bank-PDs' role and obligations in terms of supporting the primary market auctions for issue of dated G-Sec and T-Bills/CMBs, underwriting of dated G-Sec, market-making in G-Sec and secondary market turnover in G-Sec will also be at par with those applicable to standalone PDs as enumerated in Section - I of this Master Circular.

3.2 Bank-PDs are expected to join PDAI and FIMMDA and abide by the code of conduct framed by them and such other actions initiated by them in the interest of the securities market.

3.3 The requirement of ensuring minimum investment in G-Sec and T-Bills on a daily basis, based on net call / RBI borrowing and NOF will not be applicable to bank-PDs who shall be guided by the extant guidelines applicable to banks.

3.4 As banks have access to the call money market, refinance facility and the LAF of RBI, bank-PDs will not have separate access to these facilities and liquidity support as applicable to the standalone PDs.

3.5 The guidelines issued vide circular IDMD.No/2130/11.01.01 (D)/2006-07 dated November 16, 2006 on 'When-issued' trades will be applicable to bank-PDs also.

3.6 Bank-PDs shall be guided by the extant guidelines applicable to banks as regards borrowing in call/notice/term money market, ICDs, FCNR (B) loans /External Commercial Borrowings and other sources of funds.

3.7 The investment policy of the bank may be suitably amended to include PD activities also. Within the overall framework of the investment policy, the PD business undertaken by the bank will be limited to dealing, underwriting and market-making in G-Sec. Investments in Corporate / PSU / FIs bonds, CPs, CDs, debt mutual funds and other fixed income securities will not be deemed to be a part of PD business.

3.8 The classification, valuation and operation of investment portfolio guidelines as applicable to banks in regard to "Held for Trading" portfolio will also apply to the portfolio of G-Sec including T-Bills/CMBs earmarked for PD business.

3.9 The G-Sec including T-Bills/CMBs under PD business will count for SLR purpose.

3.10 Bank-PDs shall be guided by the extant guidelines applicable to banks as regards business through brokers, repo transactions, interest rate derivatives (OTC & exchange traded), investment in non-G-Sec, Issue of Subordinated Debt Instruments and declaration of dividend.

4. Maintenance of books and accounts

4.1 The transactions related to PD business, undertaken by a bank departmentally, should be executed through the existing SGL account of the bank. However, such banks will have to maintain separate books of accounts for transactions relating to PD business (as distinct from normal banking business) with necessary audit trails. It should be ensured that, at any point of time, there is a minimum balance of Rs.100 crore of G-Sec earmarked for PD business.

4.2 Bank-PDs should subject 100 per cent of the transactions and regulatory returns submitted by PD department to concurrent audit. An auditor's certificate for having maintained the minimum stipulated balance of Rs.100 crore of G-Sec in the PD-book on an ongoing basis and having adhered to the guidelines/instructions issued by RBI, should be forwarded to IDMD, RBI on a quarterly basis.

5. Capital Adequacy and Risk Management

5.1 The capital adequacy and risk management guidelines applicable to a bank undertaking PD activity departmentally, will be as per the extant guidelines applicable to banks. In other words, for the purpose of assessing the bank's capital adequacy requirement and coverage under risk management framework, the PD activity should also be taken into account.

5.2 The bank undertaking PD activity may put in place adequate risk management systems to measure and provide for the risks emanating from the PD activity.

6. Supervision by RBI

6.1 The banks authorized to undertake PD business departmentally are required to submit prescribed periodic returns to RBI promptly. The current list of such returns and their periodicity, etc. is furnished in **Annex II- C**.

6.2 RBI reserves its right to amend or modify the above guidelines from time to time, as may be considered necessary.

Annex I
(Para 1.5 of Section I)

Format of Undertaking

To

The Chief General Manager,
Internal Debt Management Department,
Reserve Bank of India,
Central Office Building,
Mumbai - 400 001.

By

.....
Registered Office

WHEREAS the Reserve Bank of India (RBI) has offered in principle to permit us to undertake Primary Dealer (PD) activity in Government securities in accordance with the Guidelines issued thereon from time to time.

AND WHEREAS as a precondition to our being authorized to undertake PD activity we are required to furnish an undertaking covering the relative terms and conditions.

AND WHEREAS at the duly convened Board of Directors meeting of _____ on _____, the Board has authorised Shri/Smt./Kum. _____ and Shri/Smt./Kum. _____ to execute and furnish an UNDERTAKING to the RBI jointly and severally as set out below:

NOW, THEREFORE, in consideration of the RBI agreeing to permit us to undertake PD activity, we hereby undertake and agree:

1. To commit to aggregatively bid in the auction of Treasury Bills (TBs), including Cash Management Bills (CMBs), and Gol Dated Securities, to the extent ofper cent of each issue of auction Treasury Bills/Cash Management Bills and for a minimum amount equal to the underwriting commitment (allotted under Minimum Underwriting Commitment and Additional Competitive Underwriting) for Gol Dated Securities and to maintain the success ratio in aggregate winning bids at not less than 40 per cent for TBs and CMBs.
2. To offer to underwrite primary issues of Gol dated securities, TBs, CMBs, and State Government securities, for which auction is held, and accept devolvement, if any, of any amount as may be determined by RBI in terms of prevalent scheme for Bidding/Underwriting.
3. a) To determine prudential ceilings, with the prior approval of the Board of Directors (Board) of the company, for reliance on borrowings from the money market including repos, as a multiple of net owned funds, subject to the guidelines, if any, issued by the RBI in this regard (applicable to standalone PDs only).

b) To adhere to prudential ceilings, with the prior approval of the Board of the bank, subject to the guidelines, if any, issued by the RBI in this regard (applicable to bank-PDs only).
4. To offer firm two-way quotes through the Negotiated Dealing System (NDS) / NDS-OM, over the counter telephone market / recognised Stock Exchanges in India and deal in the secondary market in Government dated securities and TBs of varying maturity from time to time and take principal positions.

5. To achieve a sizeable portfolio in Government securities and to actively trade in the Government securities market.
6. To achieve an annual turnover of not less than 5 times in Government dated securities and not less than 10 times in TBs/CMBs of the average of month-end stocks (*in the book separately maintained for the PD business*) subject to the turnover in respect of outright transactions being not less than 3 times in Government dated securities and 6 times in TBs /CMBs.
7. To maintain the capital adequacy standards prescribed by the RBI, and to subject ourselves to all prudential and regulatory guidelines as may be issued by the RBI from time to time.
8. To maintain adequate infrastructure in terms of both physical apparatus and skilled manpower for efficient participation in primary issues, trading in the secondary market, and for providing advice and education to investors.
9. To adhere to “Guidelines on Securities Transaction to be followed by PDs” issued vide circular IDMC.No.PDRS/2049-A/03.64.00/99-2000 dated December 31, 1999 and Master Circulars issued from time to time and put in place necessary internal control systems for fair conduct of business and settlement of trades and maintenance of accounts.
10. To comply with all applicable RBI /Securities and Exchange Board of India (SEBI) requirements under the existing guidelines and which may be laid down from time to time in this behalf, failing which RBI would be at liberty to cancel the authorisation as a PD.
11. To abide by the code of conduct as laid down by RBI/SEBI, the Primary Dealers’ Association of India (PDAI) and the Fixed Income, Money Markets and Derivatives Association of India (FIMMDA).
12. To maintain separate books of account for transactions relating to PD business (distinct from the normal banking business) with necessary audit trails and to ensure that, at any point of time, there is a minimum balance of Rs. 100 crore of Government securities earmarked for PD business (applicable to bank-PDs only).
13. To maintain and preserve such information, records, books and documents pertaining to our working as a PD as may be specified by the RBI from time to time.
14. To permit the RBI to inspect all records, books, information, documents and make available the records to the officers deputed by the RBI for inspection/scrutiny and render all necessary assistance.
15. To maintain at all times a minimum net owned funds of Rs. 150 crore / Rs.250 crore in Government securities and to deploy the liquidity support from the RBI, net borrowings from call money market and net repo borrowings exclusively in Government securities (applicable to standalone PDs only).
16. To maintain an arm’s length relationship in transactions with group and related entities.
17. To obtain prior approval of RBI for any change in the shareholding pattern of the company (applicable to standalone PDs only).
18. To submit in prescribed formats periodic reports including daily transactions and market information, monthly report of details of transactions in securities and risk position and performance with regard to participation in auctions, annual audited accounts and an annual performance review and such statements, certificates and other documents and information as may be specified by RBI from time to time.

Annex II-A
(Para 1.8.1 of Section I)

Statements / Returns required to be submitted by PDs to IDMD

Sr. No.	Return/Report	Periodicity	Last date for submission	Reference under which required
1.	PDR-I*	Fortnightly	Next working day of the reporting fortnight.	PD Guidelines
2.	PDR-II*	Monthly	10th of the following month.	
3.	PDR-III*	Quarterly	15 th of the month following the reporting quarter.	
4.	PDR IV*	Quarterly	15 th of the month following the reporting quarter.	
5.	Return on FRAs / IRS*	Monthly	10th of the following month.	
6.	Annual Report & Annual Audited A/cs	Annual	As soon as annual accounts are audited and finalized.	
7.	Auditor's Certificate on Net Owned Funds	Yearly	30th June.	
8.	Details of dividend declared during the accounting year	Yearly	Within a fortnight from the payment of dividend.	

*Return should be submitted in electronic form as an excel file attachment through [e-mail](#).

Annex II-B
(Para 1.8.1 of Section I)

**Statements / Returns required to be submitted by PDs
to departments other than IDMD of Reserve Bank of India**

Sr. No.	Return/Report	Periodicity	To be filed with Dept.	Reference under which required
1.	Return on FRAs / IRS	Fortnightly	MPD	MPD.BC.187/07.01.279/1999-2000 dated July 7, 1999.
2.	Statement showing balances of Govt. Securities held on behalf of each Gilt A/c holder	Half-Yearly	PDO	
3.	Return on Call Money transactions with Commercial Banks	Fortnightly	DEPR	
4.	Information for Issue of Commercial Paper	On each issue of CP	MPD	IECD.2/08.15.01/2001-02 dated July 23, 2001.

Note: The last date prescribed for submission of these statements by the departments concerned and/or IDMD should be adhered to.

Annex II-C
(Para 6.1 of Section II)

**Statements / Returns required to be submitted by banks
on their Primary Dealership business to IDMD**

Sr. No.	Return/Report	Periodicity	Last date for submission
1.	PDR-II* (format enclosed as Annex VI)	Monthly	10th of the following month.
2.	Concurrent auditor certificate for having maintained the minimum stipulated balance of Rs. 100 crore of G-Sec in the PD-book on an ongoing basis.	Quarterly	15th of the month following the reporting quarter.
3.	Annual Report on PD activity of the bank.	Annual	Within 30 days of the finalization of audited accounts.

*Return should be submitted in electronic form as an excel file attachment through [e-mail](#).

Annex III
(Para 2.1.1 of Section I)

Illustration showing the underwriting amount, cut-off of fee quoted and commission payable to PDs

Instrument Name	XXXXXXXX
Auction Type	Multiple
Notified amount (NA)	4200
Total No. of PDs (n)	21
Minimum Underwriting Commitment (MUC)	2100
Per PD MUC (MUC/n)	100
Total PD commitment under MUC collectively (Adjusted MUC)	2100
Additional Competitive Underwriting (ACU) ACU = (NA - Adjusted MUC)	2100
Minimum bidding by each PD in ACU (equal to per PD MUC)	100
Total underwriting commitment for each PD under MUC and ACU	200
Total Underwriting (212 *19)	4200
Minimum allotment to a PD to be eligible for higher commission on MUC i.e. min 4% of Notified Amount	168

Bids submitted under Additional Competitive Underwriting Auction

Sr. No	PDs participated in U/W auction	Amount of bid in ACU (Rs. Crore)	Cumulative Amount (Rs. Cr)	Underwriting fee (in paise / Rs.100)	Amount of bid * U/w fee	Remarks	Weighted Average underwriting fee (paise / Rs.100)
1	A	150	150	1.52	228.00		1.52
2	B	155	305	2.56	396.80		2.05
3	A	60	365	3.50	210.00	Three lowest bids	2.29
4	C	95	460	3.70	351.50		2.58
5	B	200	660	3.94	788.00		2.99
6	B	25	685	4.00	100.00		3.03
7	D	120	805	4.00	480.00		3.17
8	E	95	900	4.49	426.55		3.31
9	F	70	970	4.50	315.00		3.40
10	G	50	1020	4.75	237.50		3.46
11	E	115	1135	4.90	563.50		3.61
12	C	90	1225	4.94	444.60		3.71
13	F	220	1445	4.95	1089.00		3.90
14	G	200	1645	5.00	1000.00		4.03
15	H	120	1765	5.00	600.00		4.10
16	I	120	1885	5.00	600.00		4.15
17	I	109	1994	5.00	545.00	CUT-OFF	4.20
18	I	25	2019	5.50	137.50		4.22
19	J	120	2139	5.94	712.80		4.31
20	K	120	2259	6.00	720.00		4.40
21	L	120	2379	6.00	720.00		4.48
22	M	55	2434	6.50	357.50		4.53
23	N	120	2554	6.94	832.80		4.64
24	O	120	2674	7.00	840.00		4.75
25	P	120	2794	7.00	840.00		4.84
26	Q	120	2914	7.00	840.00		4.93
27	R	106	3020	8.00	848.00		5.04
28	S	106	3126	8.50	901.00		5.16
29	M	80	3206	9.00	720.00		5.25
30	K	100	3306	9.25	925.00		5.38
Rate of commission payable to PDs on MUC for those who have been allotted an amount >= 4% of ACU amount					4.20 (weighted average of all allotted bids)		
Rate of commission payable to other PDs on MUC					2.29 (weighted average of three lowest bids)		

PD Wise eligible commission on ACU and ACU Allotment			
[a]	[b]	[c]	$[d]=\{[b]*1000000*[c]/100\}/100$
Successful PDs	Successful bids in ACU (Rs. Cr)	Underwriting fee bid (in paise / Rs.100)	Bid wise commission payable on ACU (In Rs.)
A	150	1.52	228,000.00
A	60	3.50	210,000.00
A Total	210		438,000.00
B	155	2.56	396,800.00
B	200	3.94	788,000.00
B	25	4.00	100,000.00
B Total	380		1,284,800.00
C	95	3.70	351,500.00
C	90	4.94	444,600.00
C Total	185		796,100.00
D	120	4.00	480,000.00
D Total	120		480,000.00
E	95	4.49	426,550.00
E	115	4.90	563,500.00
E Total	210		990,050.00
F	70	4.50	315,000.00
F	220	4.95	1,089,000.00
F Total	290		1,404,000.00
G	50	4.75	237,500.00
G	200	5.00	1,000,000.00
G Total	250		1,237,500.00
H	120	5.00	600,000.00
H Total	120		600,000.00
I	120	5.00	600,000.00
I	101	5.00	505,000.00
I Total	221		1,105,000.00

Underwriting Commission Details								
PD	MUC amount accepted	ACU amount accepted	Total amount accepted	Whether ACU accepted is >= 4% NA	Wighted average fee taken for MUC commission calculation	Commn. on MUC	Commissi on on ACU	Total Commission
	(in crore)	(in crore)	(in crore)		(paise per Rs.100)	(Rs.)		
A	106	210	316	YES	4.20	445,200	438,000	883,200
B	106	380	486	YES	4.20	445,200	1,284,800	1,730,000
C	106	185	291	YES	4.20	445,200	796,100	1,241,300
D	106	120	226	NO	2.29	242,740	480,000	722,740
E	106	210	316	YES	4.20	445,200	990,050	1,435,250
F	106	290	396	YES	4.20	445,200	1,404,000	1,849,200
G	106	250	356	YES	4.20	445,200	1,237,500	1,682,700
H	106	120	226	NO	2.29	242,740	600,000	842,740
I	106	221	327	YES	4.20	445,200	1,105,000	1,550,200
J	106	0	106	NO	2.29	242,740	0	242,740
K	106	0	106	NO	2.29	242,740	0	242,740
L	106	0	106	NO	2.29	242,740	0	242,740
M	106	0	106	NO	2.29	242,740	0	242,740
N	106	0	106	NO	2.29	242,740	0	242,740
O	106	0	106	NO	2.29	242,740	0	242,740
P	106	0	106	NO	2.29	242,740	0	242,740
Q	106	0	106	NO	2.29	242,740	0	242,740
R	106	0	106	NO	2.29	242,740	0	242,740
S	106	0	106	NO	2.29	242,740	0	242,740
TOTAL	2014	1986	4000			6,029,280	8,335,450	14,364,730

Annex IV
(Para 2.2 of Section I)

**Illustrations showing PDs' Commitment to
T-Bills / CMBs auctions and Success Ratio**

A PD has committed to bid aggregatively Rs. 500 crore in T-Bills as shown below. The success ratio to be maintained by the PD is 40 per cent in respect of T- Bills/CMBs. Various scenarios in respect of fulfillment of the bidding commitment and the success ratio assuming that the bids tendered and the bids accepted will be as under:

T-Bills/CMBs:	(Rs. crore)		
SCENARIOS	(I)	(II)	(III)
Bidding Commitment (a)	500	500	500
Bids Tendered (b)	600	500	400
Bids Accepted (c)	300	200	100
Success Ratio Achieved (c)/(a)	60%	40%	20%
Fulfillment of Bidding Commitment	Yes	Yes	No
Fulfillment of Success Ratio	Yes	Yes	No
Success Ratio in T-Bills/CMBs is the ratio of bids accepted to the bidding commitment.			

Annex V
(Para 3.8.1 of Section I)

Format - PDR I Return

Name of PD:

Net Owned Funds (as per last b/s):

Return for fortnight ending:

Amount in Crore

date wise fortnightly statement

1				
A	Outright purchases (Face Value)			
	(i) Government dated securities and T-Bills			
	(ii) Other securities			
B	Outright sales (Face Value)			
	(i) Government dated securities and T-Bills			
	(ii) Other securities			
C	Repo transactions			
	i) Borrowing (amount)			
	- from BI			
	- from the market			
	ii) Lending (amount)			
	- to RBI			
	- to the market			
D	Call Money transactions			
	- Borrowing			
	- Lending			
2	Outstanding balances (Settled position figures)			
A	Sources of Funds			
	a) Net Owned funds (as per last audited balance sheet)			
	b) Current year's accruals under profit /loss account			
	c) Call Money Borrowings			
	d) Notice/Term Money borrowings			
	e) Borrowing from RBI under Assured Support/LAF			
	f) Repo borrowing from market			
	g) Borrowing under CBLO			
	h) Borrowing under credit lines of banks/FIs			
	i) Borrowings through Inter-Corporate Deposits			
	- maturing up to 14 days			
	- maturing beyond 14 days			
	j) FCNR(B) Loans			
	k) Commercial Paper/ Bond issuances			
	l) Others (Give details for items in excess of Rs 10 cr)			
	Total			
B	Application of Funds			
	a) Government dated securities & -Bills (Book value)@			
	i) Own Stock			

	ii) Stock with RBI under Assured Support/LAF			
	iii) Stock with market for repo borrowing			
	b) Lending in Call money Market			
	c) Lending in Notice/ Term money market			
	d) Repo Lending to market			
	e) Lending under CBLO			
	f) Repo lending to RBI			
	g) Investment in Corporate /PSU/FI Bonds			
	h) Investment in shares			
	i) Investment in Mutual funds schemes			
	- debt oriented			
	- equity oriented			
	j) Investment in Subsidiaries.			
	k) Other financial assets if any (Give details for items in excess of Rs 10 cr)			
	l) Fixed Assets			
	m) Others (Give details for items in excess of Rs 10 cr)			
	Total			
	Own Stock position (SGL Balance) (Face value)			
	i) T-Bills			
	ii) Dated Securities			
	iii) State Development Loans (SDLs)			
3	a) Portfolio duration for Securities#			
	b) VaR for the day (with prescribed holding period of 15 days) as % of portfolio #			
	c) Leverage ratio (the PD as a whole)#			

@ Exclude stock received as pledge for repo lending to RBI/market participants and also the stock reported under a (ii) and a (iii).

Board approved figures may be given in the foot note.

Annex VI
(Para 3.8.2 of Section I)

Format - PDR II Return

PRIMARY DEALER'S MONTHLY REPORT		Form PDR 2		
Name of the Primary Dealer				
Statement as at the end of :				
	(Rs. in crores)	Cumulative figures		
SECTION A - SECURITIES MARKETS TURNOVER				
	Dated GOI securities	State Govt. Securities	T-bills / CMBs	Total
I. PRIMARY MARKET				
NEW SUBSCRIPTIONS				
i) Bidding commitment ^a		N.A.		
ii) Bids Tendered ^{aa}				
iii) Non-competitive bids				
iv) Bids Accepted (A)				
v) Success Ratio	N.A.	N.A.		
REDEMPTIONS (B)				
II. TOTAL = I(A)+II(B)				
III. UNDERWRITING				
i) Amount offered for underwriting			N.A.	
ii) Amount of underwriting accepted by RBI			N.A.	
iii) Amount of devolvement			N.A.	
iv) Underwriting fee received			N.A.	
IV. SECONDARY MARKET TURNOVER - OTC				
OUTRIGHT (including OMO)				
i) Purchases				
ii) Sales				
TOTAL OUTRIGHT TURNOVER (A)				
Of which deals done with non-NDS members:				
i) Purchases				
ii) Sales				
REPURCHASE AGREEMENTS				
i) Repo (both legs)				
ii) Reverse Repo (both legs)				
TOTAL REPOS TURNOVER (B)				
V. Total Turnover - OTC (IV(A)+IV(B))				
VI. SECONDARY MARKET TURNOVER - STOCK EXCHANGES				
i) Purchases		N.A.	N.A.	
ii) Sales		N.A.	N.A.	
Total (VI)		N.A.	N.A.	
VII. TOTAL SECONDARY MARKET TURNOVER (V+VI)				
TOTAL TURNOVER (II+VII)				
^a In case of Dated Government Securities, bidding commitment is total underwriting allotment (MUC+ACU)				
^{aa} Includes applications made under tap issues (normally applicable to State Loans)				
VIII. TURNOVER IN EQUITY SHARES AND EQUITY LINKED MUTUAL FUND UNITS				
A. Equity Shares	Purchases	Sales		
a. Primary Market				
b. Secondary Market				
B. Equity Linked Mutual Funds	Purchases	Sales		
a. Primary Market				
b. Secondary Market				
IX. CALL/NOTICE MONEY/TERM MONEY				
(average on daily product basis)				
i) Borrowings				
ii) Lendings				
iii) Net borrowing				
XI. LIQUIDITY SUPPORT AVAILABLE FROM RBI				
(average on daily product basis)				

Signature

Annex VII
(Para 3.8.4 of Section I)

Format - PDR IV Return

Name of the Primary Dealer :

Quarterly return on select Financial & Balance Sheet indicators for quarter ended
(Rs. in crore)

<u>I. BALANCE SHEET INDICATORS</u>	Quarter ended (cumulative)	Previous Quarter
<p><i>SOURCES OF FUNDS</i></p> <p>Share Capital</p> <p>Reserves & Surplus</p> <p>Deposits, if any</p> <p>Secured loans</p> <p>Unsecured loans</p> <p>TOTAL</p> <p><i>APPLICATION OF FUNDS</i></p> <p>Fixed Assets</p> <p> Gross Block</p> <p> less Depreciation</p> <p> Net block</p> <p> Add Capital work in progress</p> <p>Investments</p> <p> a. Govt. Securities</p> <p> 1. Dated GOI securities</p> <p> 2. State Govt. Securities</p> <p> 3. T-bills</p> <p> b. Others (Specify)</p> <p>Current Assets, Loans and Advances</p> <p> (A) Current Assets</p> <p> Accrued Interest</p> <p> Stock-in-Trade</p> <p> Cash & Bank balance</p> <p> (B) Loans & Advances</p> <p> Less:</p> <p> Current Liabilities</p> <p> Provisions</p> <p>Net Current Assets</p> <p>Deferred Tax</p> <p>Miscellaneous Expenses not written off</p>		

Others (specify)		
TOTAL		
<u>II. P& L INDICATORS</u>	Quarter ended (cumulative)	Previous Quarter
<i>INCOME</i>		
Discount Income		
1. G-sec		
2. Others		
Interest Income		
1. G-sec		
2. Call/Term		
3. Repo		
4. Others		
Trading Profits		
1. G-sec		
2. Others		
Other Income		
1. G-sec		
2. Others (specify)		
TOTAL INCOME		
<i>EXPENDITURE</i>		
Interest Expenses		
1. Call/Term		
2. Repo		
3. Borrowing from RBI		
4. Others		
Operating Expenses		
Establishment & Administrative Expenses		
Provisions against doubtful assets		
Depreciation on Fixed Assets		
Other expenses (specify)		
TOTAL EXPENDITURE		
PROFIT BEFORE TAX		
Less provision for taxation and deferred tax		
PROFIT AFTER TAX		
<u>III. FINANCIAL INDICATORS</u>		
Certain Key Figures		

<p>Dividend paid/proposed</p> <p>Retained earnings</p> <p>Average Earning assets</p> <p>Average Non-earning assets</p> <p>*** Average total assets</p> <p style="padding-left: 40px;">1. Average dated G-sec (Central and State)</p> <p style="padding-left: 40px;">2. Average T-Bills</p> <p style="padding-left: 40px;">3. Other average assets</p> <p>**** Average Interest bearing liabilities</p> <p style="padding-left: 40px;">1. Call borrowing</p> <p style="padding-left: 40px;">2. Repo</p> <p style="padding-left: 40px;">3. Borrowing from RBI</p> <p style="padding-left: 40px;">4. Others</p> <p>Average yield on assets</p> <p style="padding-left: 40px;">(Total interest income/Average Earning Assets)</p> <p>Average cost of funds</p> <p style="padding-left: 40px;">(Total interest expended/Average interest bearing liabilities)</p> <p>Net interest income</p> <p>Non-interest income</p> <p>Non-interest expenditure</p> <p>Net total income</p> <p>Measures of Return</p> <p>Return on Assets</p> <p>Before tax (PBT/Ave.Total Assets)</p> <p>After tax (PAT/Ave.Total Assets)</p> <p>Return on average Equity</p> <p>Before tax (PBT/Ave.Equity)</p> <p>After tax (PAT/Ave.Equity)</p> <p>Return on Capital Employed</p> <p>Before tax (PBT/(Owners' Equity+Total Debt))</p> <p>After Tax (PAT/(Owners' Equity+Total Debt))</p> <p>Net Margin Analysis</p> <p>Net Margin (PAT/Total Income)</p> <p>Interest expenses/Total income</p>		
<p><u>IV. PERFORMANCE INDICATORS</u></p>	<p>Quarter ended (cumulative)</p>	<p>Previous Quarter</p>
<p>NOF (Rs. in crore)</p>		

CRAR (as %)		
Average duration of the Portfolio (in years)		
Average leverage (as ratio)		
Effect of 1% shock in yields on portfolio value (Rs. in crore)		
***** MTM value of all securities (Rs. in crore)		

Notes:

1. The details of share capital, reserves, etc. may be enclosed as Annexes.
2. Where average figures are involved, it may be taken to mean as average of month end balances.

*** Average assets refer to the simple average of month end book balance.

**** Average liabilities refer to the simple average of month end book balance.

***** Before adjusting Repo transactions and MTM depreciation on IRS transactions.

Signature

Annex VIII
(Para 6.4 of Section I)**Publication of Financial Results**

Name of Primary Dealer

Audited Financial Results for the year ended March 31,

Sources of Funds

- Capital
- Reserves and Surplus
- Loans
 - Secured
 - Unsecured
 - (of which call money borrowings)

Application of Funds

- Fixed Assets
- Investments
 - Government Securities (inclusive of T-Bills & CMBs)
 - Commercial Papers
 - Corporate Bonds
- Loans and Advances
 - (of which call money lendings)
- Non Current Assets
- Others

Profits and Loss account

- Income (business segment wise)
 - Interest
 - Discount
 - Trading Profit
- Expenses
 - Interest
 - Administrative Costs
- Profit before tax
- Net Profit

Regulatory Capital required (as per Capital Adequacy Guidelines)

Actual Capital

Return on Net Worth

Notes on Accounts:

Annex IX
(Para 11.3 of Section I)

Monthly Return on Interest Rate Risk of Rupee Derivatives		
As at end-month		
Name of the Bank/Institution:	<i>(Rs. In Cr)</i>	
1. Cash Bonds	<i>Market Value</i>	<i>PV01</i>
<i>(a)</i>	<i>(b)</i>	<i>(c)</i>
(a) HFT		<i>(See Note 1)</i>
(b) AFS		<i>(See Note 1)</i>
(c) HTM		<i>(See Note 1)</i>
Total [(a) to (c) above]		
2. Rupee Interest Rate Derivatives	<i>Notional Amount (Rs. in Crore)</i>	<i>PV01(Rs. in Crore)</i>
(a) Bond Futures		<i>(See Note 1)</i>
(b) MIBOR (OIS)		<i>(See Note 2)</i>
(c) MIFOR		<i>(See Note 2)</i>
(d) G-Sec benchmarks		<i>(See Note 2)</i>
(e) Other benchmarks (Please report separately)		<i>(See Note 2&4)</i>
(f) Forward Rate Agreements		<i>(See Note 3)</i>
Total [(a) to (f) above]		
3. Grand Total of (1) & (2)		
4. Tier I Capital		
<p>Note 1. PV01 may be taken as POSITIVE for long positions and NEGATIVE for short positions. Note 2. PV01 may be taken as POSITIVE if receiving a swap and NEGATIVE if paying a swap. Note 3. For FRAs, use the PVO1 of the underlying deposit/instrument. Note 4. In 2 (e) above, swaps on other benchmarks such as LIBOR may be reported separately for each benchmark</p>		

Annex X
(Para 12 of Section I)

Reporting format for Primary Dealers declaring dividend

Details of dividend declared during the financial year beginning on

Name of the Primary Dealer:

Accounting Period*	Net Profit for the accounting period (cumulative)	Rate of Dividend (cumulative)	Amount of Dividend (excluding dividend tax) (cumulative)	Payout ratio (cumulative)
	Rs. in crore	Per cent	Rs. in crore	Per cent

*- quarter or half year or year ended, as the case may be.

Note: While submitting the statement for the final dividend declared, details of the interim dividends declared, if any, shall also be included in the statement.

I / We confirm that the guidelines issued by the Reserve Bank of India for declaration of dividend have been complied with while declaring the above mentioned dividend.

Authorised Signatory / Authorised Signatories

Name:

Designation:

Date:

Annex XI

List of circulars consolidated

No	Circular no	Date	Subject
1	IDMC.PDRS.1532 /03.64.00/1999-00	November 2, 1999	Primary Dealers – Leverage
2	IDMC.PDRS.2049A /03.64.00/1999-2000	December 31, 1999	Guidelines on Securities transactions to be followed by Primary Dealers
3	IDMC.PDRS.5122 /03.64.00/1999-00	June 14, 2000	Guidelines on Securities Transactions by Primary dealers
4	IDMC.PDRS.4135 /03.64.00/2000-01	April 19, 2001	Scheme for Bidding, Underwriting and Liquidity support to Primary Dealers
5	IDMC.PDRS.87 /03.64.00/2001-02	July 5, 2001	Liquidity support to Primary Dealers
6	IDMC.PDRS.1382 /03.64.00/2000-01	September 18, 2001	Dematerialised holding of bonds and debentures
7	IDMC.PDRS.3369 /03.64.00/2001-02	January 17, 2002	Guidelines on Counter party limits and Inter-corporate deposits
8	IDMC.PDRS.4881 /03.64.00/2001-02	May 8, 2002	Guidelines to Primary Dealers
9	IDMC.PDRS.5018 /03.64.00/2001-02	May 17, 2002	Scheme for Bidding, Underwriting and liquidity support to Primary dealers
10	IDMC.PDRS.5039 /03.64.00/2001-02	May 20, 2002	Transactions in Government securities
11	IDMC.PDRS.5323 /03.64.00/2001-02	June 10, 2002	Transactions in Government securities
12	IDMC.PDRS. 418 /03.64.00/2002-03	July 26, 2002	Publication of Financial results
13	IDMC.PDRS.1724 /03.64.00/2002-03	October 23, 2002	Underwriting of Government dated securities by Primary Dealers
14	IDMC.PDRS.2269 /03.64.00/2002-03	November 28, 2002	Publication of Financial results
15	IDMC.PDRS.2896 /03.64.00/2002-03	January 14, 2003	Trading in Government securities on Stock Exchanges
16	IDMC.PDRS.3432 /03.64.00/2002-03	February 21, 2003	Ready Forward Contracts
17	IDMC.PDRS.3820 /03.64.00/2002-03	March 24, 2003	Availment of FCNR(B) loans by Primary Dealers
18	IDMC.PDRS.1 /03.64.00/2002-03	April 10, 2003	Portfolio Management Services by Primary Dealers – Guidelines
19	IDMC.PDRS.4802 /03.64.00/2002-03	June 3, 2003	Guidelines on Exchange Traded Interest Rate Derivatives
20	IDMC.PDRS.122 /03.64.00/2002-03	September 22, 2003	Rationalisation of returns submitted by Primary Dealers
21	IDMD.PDRS.No.3 /03.64.00/2003-04	March 08, 2004	Prudential guidelines on investment in non-Government securities
22	IDMD.PDRS.05 /10.02.01/2003-04	March 29, 2004	Transactions in Government Securities
23	IDMD.PDRS.06 /03.64.00/2003-04	June 03, 2004	Declaration of dividend by Primary Dealers
24	IDMD.PDRS.01 /10.02.01/2004-05	July 23, 2004	Transactions in Government securities
25	IDMD.PDRS.02 /03.64.00/2004-05	July 23, 2004	Success Ratio in Treasury Bill auctions for Primary Dealers
26	RBI/2004-05/136 – IDMD.PDRS.No.03	August 24, 2004	Dematerialization of Primary Dealer's investment in equity

	/10.02.16/2004-05		
27	RBI/2005/459 IDMD.PDRS.4783 /10.02.01/2004-05	May 11, 2005	Government Securities Transactions – T+1 settlement
28	RBI/2005/460 IDMD.PDRS.4779 /10.02.01/2004-05	May 11, 2005	Ready Forward Contracts
29	RBI/2005/474/IDMD. PDRS/4907/03.64.00 /2004-05	May 19, 2005	Conduct of Dated Government Securities Auction under Primary Market Operations (PMO) module of PDO-NDS – Payment of Underwriting Commission
30	RBI/2005-06/ 73 IDMD.PDRS. 337 /10.02.01/2005-06	July 20, 2005	Transactions in Government Securities
31	RBI/2005-06/132 IDMD.No.766/10.26. 65A/2005-06	August 22, 2005	NDS-OM – Counterparty Confirmation
32	RBI/2005-06/308 DBOD.FSD.BC.No.6 4/24.92.01/2005-06	February 27, 2006	Guidelines for banks' undertaking PD business
33	RBI/2006-07/49 IDMD.PDRS/26/03.6 4.00/2006-07	July 4, 2006	Diversification of activities by standalone Primary Dealers-Operational Guidelines
34	RBI/2006-2007/298 FMD.MOAG No.13 /01.01.01/2006-07	March 30, 2007	Liquidity Adjustment Facility – Acceptance of State Development Loans under Repos
35	RBI/2007-08/104 IDMD.530/03.64.00/2 007-08	July 31, 2007	FIMMDA Reporting Platform for Corporate Bond Transactions
36	DBOD.FSD.BC.No. 25/24.92.001 /2006-07	August 9, 2006	Guidelines for banks undertaking PD business
37	RBI/2006-07/140 IDMD.PDRS.1431 /03.64.00/2006-07	October 5, 2006	Operational guidelines for banks undertaking/proposing to undertake PD business
38	IDMD/11.08.15/809 /2007-08	August 23, 2007	Reporting platform for OTC Interest Rate Derivatives
39	RBI/2007-2008/186 IDMD.PDRS.No.238 2/03.64.00/2007-08	November 14, 2007	Revised Scheme of Underwriting Commitment and Liquidity Support
40	RBI/2008-09/187 IDMD.PDRD.1393 / 03.64.00/ 2008-09	September 19, 2008	Settlement of Primary Auctions – Shortage of Funds
41	RBI/2009-10/136 IDMD.PDRD.1050/ 03.64.00/2009-10	August 31, 2009	Investment Portfolio of Primary Dealers-Relaxation in the existing norms
42	RBI/2009-10/144 IDMD.PDRD.1097 /03.64.00/2009-10	September 2, 2009	Enhancement of Minimum Net Owned Funds
43	RBI/2009-10/143 IDMD.PDRD.1096 /03.64.00/2009-10	September 2, 2009	Increase in Call/Notice Money Borrowing Limit

44	RBI/2009-10/242 IDMD.PDRD.2424 /03.64.00/2009-10	December 1, 2009	Waiver of trade confirmation in Government Securities transactions in OTC market
45	RBI/2009-10/343 IDMD.PDRD.3843 /03.64.00/2009-10	March 9, 2010	Extension of HTM Category for PDs
46	RBI/2009-10/394 IDMD.PDRD.4537 /03.64.00/2009-10	April 12, 2010	Quantum of Government securities to be held in the HTM category by PDs
47	RBI /2009-10 / 496 IDMD.PDRD.5533 /03.64.00/2009-10	June 15, 2010	Primary Dealers – Imposition of Penalties – Disclosure
48	RBI/2009-10 / 497 IDMD.PDRD.5573 /03.64.00/2009-10	June 17, 2010	Cash Management Bills – Bidding Commitment and Success Ratio
49	RBI / 2010 -11/142 IDMD.PDRD.No.19 /03.64.00/2010-11	July 27, 2010	Applicability of Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007 to Primary Dealers
50	RBI/2010-11/224 IDMD.PCD.No. 20 /14.03.05/2010-11	October 1, 2010	Raising resources through Inter Corporate Deposits (ICDs)
51	RBI/2010-11/270 IDMD. PCD.No.1652 /14.03.05/2010-11	November 11, 2010	Exposure Norms: Applicability of Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007 to standalone Primary Dealers
52	RBI/2010-11/401 IDMD. PCD.No. 26 /14.03.05/2010-11	February 10, 2011	Investment in non-Government Securities-Non-Convertible Debentures (NCDs) of maturity up to one year by standalone Primary Dealers (PDs).
53	RBI/2010-11/438 IDMD.PDRD.No. 3961/03.64.00/ 2010-11	March 18, 2011	FIMMDA accredited brokers for transactions in OTC Interest Rate Derivatives Market.

Annex XII

List of circulars referred in Master Circular

Sr. No.	Circular no.	Date	Subject
1	RBI/2006-07/178 IDMD.No.2130/11.01.01(D)/2006-07	November 16, 2006	When Issued (WI)' transactions in Central Government Securities.
2	RBI/2008-09/479 IDMD.No.5877/08.02.33/2008-09	May 22, 2009	Auction Process of Government of India Securities
3	RBI/2005/461 IDMD.PDRS.4777/10.02.01/2004-05	May 11, 2005	Sale of securities allotted in Primary issues
4	RBI/2006-07/243 IDMD.No./11.01.01(B)/2006-07	January 31, 2007	Secondary Market Transactions in Government Securities - Short-selling
5	RBI/2009-10/360 IDMD.DOD.no.7/11.01.09/2009-10	March 25, 2010	Guidelines on Stripping/Reconstitution of Government Securities
6	RBI/2009-10/505 IDMD.DOD.10/11.01.01(A)/2009-10	June 23, 2010	Issuance of Non-Convertible Debentures (NCDs)
7	RBI/2004/51 DNBS(PD)C.C.No.35 / 10.24 / 2003-04	February 10, 2004	Entry of NBFCs into Insurance Business
8	RBI/2010-11/299 IDMD.PCD.No.24/14.03.03/2010-11	December 06, 2010	Issuance of Non-Convertible Debentures (NCDs)
9	RBI/2007-2008/104 IDMD. 530 /03.64.00/2007-08	July 31, 2007	FIMMDA Reporting Platform for Corporate Bond Transactions
10	RBI/2009-10/184 IDMD No.1764/11.08.38/2009-10	October 16, 2009	Settlement of OTC transactions in corporate bonds on DvP-I basis
11	RBI/2007-08/335 IDMD.DOD.No. 5893/10.25.66/ 2007-08	May 27, 2008	NDS – Order Matching (OM) System – Access through the CSGL Route
12	RBI/2010-2011/115 IDMD.DOD.17/11.01.01(B)/2010-11	July 14, 2010	Government Securities Act, 2006, Sections 27 & 30 - Imposition of penalty for bouncing of SGL forms
13	RBI/2009-10/356 IDMD/4135/11.08.43/2009-10	March 23, 2010	Guidelines for Accounting of Repo / Reverse Repo Transactions

14	RBI/2009-10/284 IDMD.DOD.No.05/11 .08.38/2009-10	January 8, 2010	Ready Forward Contracts in Corporate Debt Securities
15	RBI/2010-11/268 IDMD.PCD.22/11.08. 38/2010-11	November 9, 2010	Ready Forward Contracts in Corporate Debt Securities
16	RBI/2006-2007/333 DBOD.No.BP.BC. 86/21.04.157/2006- 07	April 20, 2007	Comprehensive Guidelines on Derivatives
17	RBI/2009-10/141 IDMD.PDRD.No. 1056/03.64.00/2009- 10	September 1, 2009	Guidelines on Exchange Traded Interest Rate Derivatives
18	RBI/2006-2007/385 DNBS.PD/CC 94/03.10.042/2006- 07	May 8, 2007	Guidelines on Corporate Governance
19	RBI-2005-06/352 DNBS(PD). CC 68 /03.10.042/2005-06	April 5, 2006	Prevention of Money Laundering Act, 2002 - Obligations of NBFCs in terms of Rules notified thereunder
20	IDMC No.PDRS./2049A/03. 64.00/ 99-2000	December 31, 1999	Guidelines on Securities Transactions to be followed by Primary Dealers
