



RESERVE BANK OF INDIA

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**Department of Government and Bank Accounts
Central Debt Division**

Constituent Subsidiary General Ledger (CSGL) Account - Eligibility Criteria for opening CSGL Account with the Bank and Operational Guidelines^{*1}

The following are the criteria for a new entrant ' to become eligible for opening and extending Constituent Subsidiary Ledger Account (CSGL) facility to the constituents. Facility to maintain CSGL account by an eligible entity will be conditional upon strict adherence to the operational guidelines framed in this regard.

The existing CSGL Account holder shall be required to comply with the basic as well as additional eligibility criteria as stipulated herein. Continuance of CSGL Account by the existing entities will be subject to review and at the discretion of RBI. With the operationalisation of the revised CSGL Guidelines, the existing CSGL Account holders will be required to furnish a certificate of compliance in this regard to RBI from an external auditor at the earliest.

Eligibility Criteria (Basic) :

1. Banks shall be required to obtain good composite credit rating # ('A' or 'B') at entry level based on CAMELS/CALCS Model from the Supervisory Authority(RBI), combining Financial Management, Systems and Controls etc. Co-operative Banks i.e. State Co-operative Banks(SCBs), Urban Co-operative Banks (UCBs) etc. shall be required to obtain 'A' rating from the Supervisory Authority concerned.

[# *The Supervisory/Regulatory Authorities shall determine the composite credit rating for the respective regulated entities based on CAMELS / CALCS Model or any other systems and the same will be considered for deciding the eligibility of the entities for CSGL account facility. For Non-RBI regulated entities, the Supervisory/Regulatory Authority concerned shall determine the credit rating or creditworthiness and competency based on benchmark/*

model/methodology as they deem fit, which shall be considered for determining their eligibility for CSGL account facility]

*1 The CSGL guidelines are subject to review by the bank and accordingly , as and when necessary , the Guidelines may be modified.

2. The entity must have adequate Information Technology (IT) infrastructure to support the Information Processing Facility with high degree of reliability as well as integrity. Availability of qualified and experienced resource personnel to support and manage the entire IT system (Hardware/Software and Communication System) must be ensured. System employed must be robust, reliable, secure and efficient and must have scalable capacity.

3. A comprehensive and efficient Contingency Plan including back up and restoration facilities must be in place to cope with serious breakdown/malfunctioning of the system immediately. Besides, an effective and efficient Business Continuity Plan should also be in place to take over and restart the entire Business Process within a least time period in case of any eventuality.

4. An adequate and effective Internal Control System suited to the nature and scale of business and well knit housekeeping arrangement must be put in place facilitating efficient and smooth service to its constituents. Establishment of appropriate accounting norms with safekeeping facility for securities of GAHs should be ensured.

5. The entities regulated by the RBI shall comply with the **additional eligibility criteria** for opening and maintaining of CSGL Account which are as under:

Additional Eligibility Criteria :

A. Banks

- i) The bank has been complying with the prescribed CRAR (Capital to Risk Weighted Assets Ratio) consistently for last three years.

- ii) Net Non Performing Assets (NPA) shall not exceed 5% of net advances.
- iii) The bank has not defaulted in the maintenance of CRR/SLR requirement for the last three years.
- iv) The bank has been making profits (Net Profit) consistently for three consecutive years.
- v) The bank has been complying with the prudential norms on Income Recognition , Asset Classification , Provisioning and Exposure ceiling etc.
- vi) The bank must have NDS/CCIL membership.

B. State Co-operative Banks (SCBs)

- i) The SCB should be a scheduled Bank.
- ii) The SCB must have positive net worth and has been complying with the provisions of section 11(1) and section 22(3) (a) and (b) of the Banking Regulation Act ,1949(AACS).
- iii) The SCB has not defaulted in the maintenance of CRR/SLR requirement for the last two years.
- iv) The SCB has been making profits (Net Profit) for the last three consecutive years.
- v) The SCB has been attaining “A” rating from the Supervisory authority for the last three consecutive years.
- vi) The SCB has been complying with prudential norms on Income Recognition, Asset Classification, Provisioning and Exposure Ceilings etc.
- vii) Net NPAs of the bank is less than 7%.
- viii) The SCB must have NDS/CCIL membership.

C. Urban Co-operative Banks(UCBs)

- i) The UCB should be a scheduled bank .
- ii) The bank has been complying with the prescribed level of CRAR for last three consecutive years.
- iii) Net NPA of the bank is less than 7%.
- iv) The bank has not defaulted in the maintenance of CRR/SLR requirements for the last two years.
- v) The bank has been making profits(Net profit) for the last three consecutive years.
- vi) The bank has been attaining “A” rating from the Supervisory Authority for the last three consecutive years.
- vii) The bank has been complying with prudential norms on Income Recognition, Asset Classification, Provisioning and Exposure Ceilings and loans and advances to directors.
- viii) Scheduled UCB shall not open Gilt account of other scheduled UCBs.
- ix) The UCB must have NDS/CCIL membership.

D. Primary Dealers(PDs)

- i) Minimum net worth of Rs. 100 crore.
- ii) Minimum Capital to Risk weighted Assets ratio (CRAR) of 15%
- iii) Posting of net profit for the last three consecutive years.
- iv) No major irregularities observed in the inspections.
- v) Compliance with the PD's obligations in Primary and Secondary Market operations.
- vi) PDs must have NDS/CCIL membership.
- vii) Concurrent Audit system shall be in place.

6. The entities regulated by Authorities other than the RBI, shall comply with the **additional eligibility criteria** for opening and maintaining of CSGL Account which are as under:

A. Non - RBI Regulated entities

- i) They must have NDS/CCIL membership.
- ii) Concurrent Audit system to cover the CSGL account operations shall be in place.
- iii) No major irregularities observed in their Inspections /Audits etc.
- iv) Certificate of Competency for operating CSGL Account facility from the Regulatory or Supervisory Authority.

Part- II

Operational Guidelines:

I. Definitions

- a) A "Constituent Subsidiary General Ledger Account" means a Subsidiary General Ledger Account opened and maintained with the Public Debt Office of the Reserve Bank of India, by a bank or an entity permitted by the Reserve Bank of India, for the purpose of holding and /or dealing in Government Securities on behalf of its constituents.
- b) A "Custodian" means entity maintaining the "Constituent Subsidiary General Ledger Account" with the Public Debt Office of the Reserve Bank of India.
- c) A "Gilt Account" means an account opened and maintained for holding Government securities, by an entity or a person including 'a person resident outside India' with a "Custodian" permitted by the Reserve Bank of India to open and maintain Constituent Subsidiary General Ledger Account with the Public Debt Office of the Reserve Bank of India. However, in case of a 'Person resident outside India, the activities in the operations/maintenance of Gilt Account shall be governed by the Foreign Exchange Management Act, 2000 and the regulations framed thereunder.
- d) A "Constituent" or a 'Gilt Account Holder (GAH) means an entity or a person including 'a person resident outside India' maintaining a "Gilt Account" with a "Custodian".
- e) The "Bank" means the Reserve Bank of India, constituted by the Reserve Bank of India Act, 1934.

II) Eligibility for Holding Government Securities:

- a. The Custodian shall ensure that the constituents for whom Gilt Accounts are opened/maintained satisfy the eligibility conditions for holding Government securities as specified in the General Notifications F.No. 4(9)-W&M/ 2000 dated 6th May 2002 and announcements by the RBI relating to investments by Foreign Institutional Investors (FIIs).
- b. A Custodian having not less than five constituents shall only be allowed to maintain CSGL account facility and those having Constituents / GAHs less than five shall be asked to close of their existing CSGL account facility within such time limit as may be prescribed by the Bank.

III) Opening of Gilt Accounts:

1. The Custodian shall open and maintain the accounts of its' Constituents in accordance with the eligibility conditions given above. Before opening the Gilt

accounts, the Custodian shall enter into an agreement with the Constituent, which shall, besides setting out the circumstances under which Custodian shall accept/release securities, accept/release monies (wherever applicable), receive rights/entitlements in the securities, etc., also incorporate the obligations of the Custodian as indicated above. The Custodian shall submit a certificate obtained from its auditor, certifying that the agreement entered by it with its constituents contains all obligations and the same is required to be submitted to the Bank (Public Debt Office, Mumbai) Any changes in the format of the agreement should also be certified by the auditor, as and when made, and a copy thereof, may be furnished to the Bank (Public Debt Office, Mumbai).

2. A Constituent is entitled to open only one Gilt Account having a unique account number with any of the Custodians. A declaration to that effect must be submitted by a Constituent to the Custodian and a copy thereof may be submitted to the Bank (Public Debt office, Mumbai). A Constituent may also maintain a demat account with the Depositories through Depository Participant (DP) for facilitating retail trading in Government Securities through Stock Exchanges.

3. The Gilt Account Holder (GAH) may maintain a fund account with its Custodians or designate a fund account with a bank other than the Custodian specifically for settlement of Government Securities transactions, by making available all the details of the designated fund account to the Custodian.

4. Entities maintaining Subsidiary General Ledger account with the Bank should not maintain a Gilt account with any Custodian and shall submit a declaration to this effect to the Bank. However the SGL Account holder may open and maintain a demat account with Depositories.

5. The Custodian must provide complete information on the rights and obligations, rules and procedures framed for this purpose to the Gilt Account Holders.

IV) Operations in Gilt accounts and Internal Control Systems:

1. The Custodian shall ensure at all times that transactions in the individual Gilt Accounts are put through according to the instructions of the GAH and the securities held in such accounts are used only for transactions explicitly authorised by the GAH.

2. The Custodian shall ensure in respect of the transactions guaranteed by CCIL that the GAH has sufficient securities in its Gilt account and sufficient funds in its designated funds account on the date of settlement.

3. The Custodian shall put in place an effective Risk Management System to address to the credit risk and the custodial risk associated with the G-sec

transactions undertaken on behalf of the GAHs. The mechanism for risk identification, risk appraisal, monitoring and controlling exercise under the Risk Management System should be in use for addressing the risk perceptions in respect of the Government securities transactions undertaken on behalf of the GAHs.

4. The Custodian shall advise the Constituent promptly the details of debit or credit transactions put into their Gilt accounts. Further the Custodian shall send a statement of Gilt account to each GAH once in a fortnight giving details of transactions in the security ledger and the balance as at the end of each fortnight and also at the specific request of the GAH. Provident Funds and Trusts may, in case of need, desire to have an audited statement and Custodians should arrange to provide the same.

5. The Custodian shall refrain from setting off securities in the CSGL Account or otherwise deal with them to extinguish partly or fully any amounts due to it from the GAH in respect of transactions other than the dues of Gilt accounts without the express consent in writing from the GAH.

6. The Custodian shall be prompt in disbursing interest or redemption value received or collected by him, on due dates in respect of the securities held in the CSGL account maintained by him on behalf of the Constituents.

7. The Custodian shall be continuously accountable for the movement of securities in and out of custody account and shall provide complete computer audit trail, whenever called for by the GAH or the Bank.

8. The Custodian shall ensure that the operating procedures and systems are well documented and backed by Manual of operations.

9. The Custodian shall maintain confidentiality in respect of the transactions in the individual Gilt Account.

10. The Custodian shall take precautions necessary to ensure that continuity in record keeping is not lost or destroyed and that sufficient back up of records are available. The system should have the Audit Trail feature to keep the record of all transactions and should have exception reporting facility.

11. The Custodian shall create and maintain the records of securities held in custody in such manner that the tracing of securities or obtaining duplicate title documents is facilitated in the event of loss of original records for any reason.

12. The Custodian shall extend to other custodial entities, depositories and clearing organizations, all such co-operation that is necessary for the smooth conduct of business in the areas of inter-custodial settlements, transfer of securities and transfer of funds.

13. The Custodian shall have adequate internal controls and systems to prevent any manipulation of records and documents and ensure proper discharge of obligations as given above.

14. The Custodian shall allow and provide, as and when required, all information to the Bank in the inspection of the gilt accounts and records maintained relating to Government securities transactions.

15. The Form IIIA prescribed under Public Debt Rules shall be used by both the Seller and the Buyer to effect transfer of Government Securities for settlement of a deal in Government securities.

16. The transactions in Government securities shall be undertaken on DvP basis. Where the Fund Account is maintained with a bank other than the custodian, it should be ensured that security transfer is undertaken only after getting confirmation of transfer of funds.

17. The transactions in the Gilt accounts should be normally put through at rates which are in alignment with the prevailing market rates. While the custodian shall put through the transactions as per the directions of Constituent, any off market transactions should be reported to the Reserve Bank of India , Internal Debt Management Department, Central Office, Fort, Mumbai-400001.

18. The responsibility of clearing and settlement of trade done through NDS lies with the Custodian. Therefore, the Custodian should ensure sufficient security holding in the CSGL account for outright/repo transactions effected on behalf of the GAHs. Similarly the Custodian shall ensure sufficient funds in its current account with RBI for a purchase transaction on behalf of the GAHs.

19. The Custodian shall have a Manual of operations covering all aspects, in order to provide for custodial service to the constituents, duly approved by their top management. The Risk Management Procedure in this matter should be duly approved by the Board of the Custodians.

20. The "Repo" transactions in respect of G-Sec /T-Bills have been extended to specific category of GAHs. Participation in market repo facility in Government securities by the GAHs may be permitted subject to fulfillment of eligibility criteria and safeguards as indicated in the extant instructions on 'Ready Forward Contracts' (Repo) issued by the Bank (i.e. Internal Debt Management Department, Central Office, Mumbai). The eligible GAHs can enter into market repo transactions subject to the following conditions:-

- a) The Custodian shall not enter into a Repo transaction with any of the GAHs maintaining account with it.
- b) Any two GAHs maintaining their Gilt accounts with the same Custodian

shall not enter into a Repo transactions with each other.

c) Co-operative Banks shall not enter into "Repo" transaction with a Non Banking Financial Companies (NBFCs) other than PDs.

d) In respect of Repo transactions involving GAHs, the Custodian, with whom the Gilt Accounts are maintained, will be responsible for reporting the deals on the NDS on behalf of the constituents.

V) Arms Length Relationship:

1. The Custodian shall address the custodial risk and an effective segregation procedure must be employed for securities of the GAHs in its books where they should maintain such accounts distinctly for securities holding at all times.

2. The Custodian shall ensure that at all times the securities held on behalf of Constituents are clearly segregated in its books from its own holdings held in a separate SGL account.

3. The authorities authorizing securities transactions must be distinct and separate from those authorizing funds transactions, where both the fund account and securities account of a GAH are maintained with the same custodian.

VI) Reconciliation of Accounts :

1. The Custodian shall have effective systems and procedures, which will ensure co-ordination of work with the Bank and the beneficial owner (constituent) in so far as reconciliation of balances of its constituents in its books with the record being maintained by the Bank, is concerned.

2. The Custodian shall ensure that the sum total of individual holdings of securities in the Gilt Accounts as per its books are reconciled and agreed with the security-wise aggregate balances in the CSGL Account in the books of the Public Debt Office at the end of the day. For this purpose, the Custodian shall make use of the account balance statement provided by Reserve Bank of India in electronic or any other form.

3. The Custodian shall get the balances in Gilt accounts confirmed in writing by the respective Constituent on a quarterly basis.

4. The Custodian shall reconcile their balances in Gilt Accounts with the monthly statement of balances furnished by the PDOs on monthly basis.

5. The work relating to reconciliation should not be handled by the same persons who operate the accounts.

VII) Maintenance of Records :

The Custodian shall maintain the following records and documents:

1. Records containing details of securities received and released on behalf of each GAH;
2. Records containing details of funds received and released on behalf of each GAH;
3. Records containing details of entitlements of each client arising from the securities held on behalf of the GAH;
4. Records containing details of registration of securities in respect of each GAH;
5. Ledger folio for each GAH;
6. Records of instructions received from and sent to GAH Constituent;
7. Records of all reports submitted to the Bank.
8. Records relating to interest/redemption proceeds received from the Bank and remitted to the GAHs.

The records and documents maintained under this paragraph may be preserved for a minimum period of five years, subject to provisions of any other law in force.

VIII. Audit System:

1. The Custodian must have put in place a system of regular monitoring , supervision and control of the CSGL account operations through an Audit committee of the Board of Directors. Besides, the Custodian shall put in place a concurrent audit system for verifying the operations in the Gilt Accounts maintained with them by an external auditors.
2. The Concurrent Auditor should verify the transactions in Gilt Accounts with reference to these guidelines. In particular the auditor should verify and comment on the following aspects:
 - a) Documentation for the opening of the Gilt account.
 - b) Every transaction undertaken in the Gilt account is authorized by clear instructions issued by GAH, which are/were strictly adhered to.

- c) The Balance Confirmation Certificates have been obtained from the GAHs by the Custodian on a quarterly basis, and the balances shown therein are reconciled and correct as per the books.
 - d) Mailing of debit /credit advices to the GAH for effecting the transactions in the Gilt accounts.
 - e) The reconciliation of the balances in Gilt Accounts with the balances maintained by the Custodian in the CSGL Account with the Bank is being done regularly as stipulated.
 - f) The interest or maturity proceeds wherever due to the GAHs, is remitted/passed on to them on the due date.
 - g) Comments on whether the rates at which the transactions have been put through are in alignment with the prevailing market rates.
3. Major irregularities observed, together with the corrective measures taken, during the course of Concurrent Audit should be reported to the Bank.(i.e. DGBA and the Regulatory Department concerned)
4. The Bank will have the right to carry out Periodic Audit of the Custodians as also Special Investigation Audit as and when necessary.
5. The entire Information Technology (IT) infrastructure supporting the Information Processing Facility should be subjected to Information System Audit at least once in a year by the professionally qualified CISA Auditors or suitably qualified auditors.
6. The Custodian shall put up the reports and position of reconciliation before the Audit Sub-Committee of the Board of Directors on quarterly basis or at more frequent intervals, and submit a Certificate to the Concerned Regulatory Department of RBI confirming that the monthly reconciliation exercise carried out by them has been placed before the Audit Committee of the Board . They should also place such records before the inspection team of the Bank for their perusal .
7. The Custodian shall put up, on a monthly basis, before the Audit Sub-Committee of the Board, whether any exceptional "repo transaction" has/had been undertaken by the Custodian and if so, whether the same has been reported to the Bank and the steps taken to avoid recurrence of the same.

IX) Furnishing of Information to Bank:

1. The Bank may, at any time, call for any information from a Custodian with respect to any matter relating to its activity as custodian of securities and it shall be the duty of the Custodian to furnish such information, within such reasonable period as the Bank may specify.

2. The Custodian shall submit an electronic statement on-line giving details of transactions effected between the GAHs and between the Custodian and GAH to cgmidmd@rbi.org.in and also a hard copy to the Chief General Manager-in-Charge, Internal Debt Management Department, Reserve Bank of India Mumbai-400001 every week, in the format as may be prescribed by the Bank.
3. The reasons for bouncing of securities transactions should be reported to the , Reserve Bank of India, Public Debt Office, Fort, Mumbai-400001 immediately.
4. The Custodian shall reconcile their balances with the Statement of balances furnished by the PDOs on a monthly basis.
5. The Custodian shall submit a statement showing the balances of Government securities held on behalf of each Constituent to PDO on a half-yearly basis as on 31st March and 30th September each year.
6. The banks which are Custodians, shall furnish copies of half-yearly review report as on 31st March and 30th September each year on their own investments as also on behalf of other constituents including brokers to the respective Central/Regional Offices of the Reserve Bank of India, Department of Banking Supervision/Urban Banks Department/ Rural Planning & Credit Department, as the case may be. PDs shall furnish their half yearly review report as on 31st March and 30th September to Internal Debt Management Department.
7. The activities in the operations/ maintenance of GAH accounts should be submitted to the Inspection & Audit Sub-Committee of the Board of the Custodian on a half-yearly basis for the periods 31st March and 30th September each year.