

March 30, 2007

**All Scheduled Commercial Banks (excluding RRBs)  
and Primary Dealers**

Dear Sir,

**Liquidity Adjustment Facility – Acceptance of State Development Loans under Repos**

In accordance with the paragraph 133 of the Annual Statement on Monetary Policy for the year 2006-07 dated April 18, 2006, the State Development Loans (SDLs) will qualify as eligible securities under the Liquidity Adjustment Facility (LAF) - Repos with effect from April 3, 2007. The following modifications in the LAF sub-module of the PDO-NDS shall come into effect on April 3, 2007.

1.1. The PDO-NDS will now enable Scheduled Commercial Banks (excluding RRBs) and Primary Dealers to offer SDLs as eligible securities to the Reserve Bank under the LAF-Repos. A margin of 10 per cent will be applied in respect of SDLs i.e. a Repo bid for Rs.100 will have to be backed by Rs.110 (face value) of SDLs. In case a member offers a combination of Central Government Securities/ Treasury Bills and SDLs, the availability of Central Government Securities and Treasury Bills in the RC SGL Account will be reckoned first ( with margin of 5%) and thereafter the residual amount met with the SDLs available in the RC SGL Account (with margin of 10%).

1.2. The transfer of securities from the SGL Account to the RC SGL account and vice-versa can now be made by the member through RC Transfer or RC Withdrawal (under Transfer Order Booking functionality) in the LAF module without obtaining the approval of PAD (Securities Section). In view of this, members are not required to fax the physical SGL Form to PAD (Securities Section) for effecting RC Transfer or RC Withdrawal. However, the balance available in the RC SGL account cannot be utilized for any transaction other than LAF, as hitherto.

1.3. Members having insufficient securities in the RC SGL account for the ready leg of a repo transaction will now receive a message on PDO-NDS alerting them about the shortfall. The shortfall shall have to be replenished within 15 minutes of the bid close time, failing which the bids will be liable for rejection.

2. The other terms and conditions for LAF remain as notified by our earlier circulars. IDMD.OMO No.7/03.75.00/2004-05 dated October 27, 2004, FMD.MOAG.No.4/01.01.01/2005-06 dated February 10, 2006 and FMD.MOAG.No12/ 01.01.01/ 2006-07 dated March 2, 2007.

Yours faithfully

(Chandan Sinha)  
Chief General Manager