

June 20, 2005

The Chief Executive Officers of All  
Primary (Urban) Co-operative Banks

Dear Sir/Madam,

**Ready Forward Contracts - UCBs**

Please refer to paragraph 10 of our master circular UBD. BPD(PCB) MC No: 16/16.20.00/2004-05 dated February 18, 20025 in terms of which primary (urban) co-operative banks maintaining a Subsidiary General Ledger (SGL) account with Reserve Bank of India, Mumbai and any scheduled bank who do not maintain SGL accounts with the Reserve Bank of India but maintain gilt account (i.e. gilt account holder) with a bank or any other entity (i.e. the custodian) permitted by the Reserve Bank of India to maintain Constituent Subsidiary General Ledger (CSGL) account with its Public Debt Office, Mumbai are permitted are permitted to enter into ready forward contracts (including reverse ready forward contract) in Government Securities and Treasury Bills subject to the conditions specified in the master circular under reference.

2. In order to further widen the repo market in Government Securities and as proposed in the Annual Policy Statement for the year 2005-06 announced on April 28, 2005 (extract of para 72 enclosed), it has been decided to permit participation in repo market, both repos and reverse repos, to all non-scheduled Urban Co-operative Banks having gilt account with an SGL Account holder subject to the conditions stipulated in paragraph 10 of our Master Circular UBD. BPD(PCB) MC No: 16/16.20.00/2004-05 dated February 18, 2005.

3. Further, a reference is invited to provisions indicated at paragraph 10.3.3 of the master circular under reference in terms of which co-operative banks may not enter into ready forward contracts with the non-banking financial companies. It is

clarified that this restriction would not apply to repo transactions between Urban Co-operative Banks and authorized Primary Dealers in Government Securities.

4. Please acknowledge the receipt to the concerned Regional Office of the Reserve Bank of India.

Yours faithfully,

(N.S.Viswanathan)  
Chief General Manager

## **Extracts of Annual Policy Statement for the year 2005-06**

(enclosure to UBD(PCB)/Cir. /09.80.00/2004-05 dated June , 2005)

72. Money market provides a focal point for the central bank's operations in influencing system liquidity and thereby transmitting the monetary policy impulses. The broad policy objectives that are being pursued for the development of money market include ensuring stability in short-term interest rates, minimising default risk and achieving a balanced development of various segments of the money market. In order to review the recent developments and current status of money market in the context of evolving monetary policy framework, fiscal scenario, regulatory regime and extent of financial integration, both domestic and external, a Technical Group on Money Market was constituted. The Report of the Group was discussed in the Technical Advisory Committee on Money, Foreign Exchange and Government Securities Markets (TAC) and certain recommendations have been accepted for implementation. Accordingly, the following measures are proposed:

### **(i) Call/Notice/Term Money Market**

- With effect from the fortnight beginning June 11, 2005, non-bank participants, except PDs, would be allowed to lend, on average in a reporting fortnight, up to 10 per cent of their average daily lending in call/notice money market during 2000-01.
- With effect from August 6, 2005, non-bank participants, except PDs, would be completely phased out from the call/notice money market.
- With effect from the fortnight beginning April 30, 2005, the benchmark for fixing prudential limits on exposures to call/notice money market in the case of scheduled commercial banks would be linked to their capital funds (sum of Tier I and Tier II capital).
- From April 30, 2005, all NDS members are required to report their term money deals on NDS platform.
- A screen-based negotiated quote-driven system for all dealings in call/notice and term money market transactions is proposed.

**(ii) Market Repo**

- An electronic trading platform for conduct of market repo operations in government securities, in addition to the existing voice based system, to be facilitated.
- Participation in market repo facility in government securities for non-scheduled urban co-operative banks (UCBs) and listed companies having gilt accounts with scheduled commercial banks will be allowed subject to eligibility criteria and safeguards.

**(iii) Certificates of Deposit**

- The minimum maturity period of certificates of deposit (CDs) reduced from 15 days to 7 days with immediate effect.