

July 20, 2005

All RBI Regulated Entities

Dear Sir

Transactions in Government Securities

In terms of extant guidelines on securities transactions, no sale transaction should be put through without actually holding the security in the investment account at the time of sale. However, the guidelines were relaxed to the extent that sale of Government securities, allotted in the primary auction, were allowed subject to certain terms and conditions. One of the conditions is that the contract for sale can be entered into only once by the allottee on the basis of an authenticated allotment advice issued by Reserve Bank of India and the buying entity should not enter into a contract to further re-sell the securities until it actually holds the securities in its investment account. These instructions were issued in the background of the settlement system in vogue at that time i.e., DVP I, (where settlement for securities and funds were on gross basis).

2. With a view to further deepening the Government securities market, it was decided vide our circular IDMD.PDRS.05/10.02.01/2003-04 dated March 29, 2004:

- i) to permit sale of a Government security already contracted for purchase in the secondary market, subject to compliance with certain terms and conditions; and
- ii) to modify the settlement of Government securities transactions carried out through CCIL to the DVP III mode, (where settlement of securities and funds are on net basis).

3. Thus, while the restriction on resale of securities purchased from an allottee in primary auction is consistent with the DVP I mode of settlement,

this can be relaxed in a DVP III environment to obtain consistency with the provision in paragraph 2 above.

4. It has, therefore, been decided to permit a buyer from an allottee in a primary auction to re-sell the security subject to compliance with the terms and conditions stipulated in our circular dated March 29, 2004 referred to above.

Yours faithfully

(B. Mahapatra)
Chief General Manager-in-Charge