

RBI/2006-07/178

IDMD.No/2130 /11.01.01 (D)/2006-07

November 16, 2006

**All NDS-OM members**

Dear Sirs,

**'When Issued (WI)' transactions in Central Government Securities**

'When Issued' transactions in Central Government dated securities were permitted vide circular IDMD.No/3426 /11.01.01 (D)/2005-06 dated May 3, 2006, as a part of the process of strengthening of the debt issuance framework in the light of the Fiscal Responsibility and Budget Management (FRBM) Act, 2003. As per the phased approach suggested by the Internal Technical Group on Central Government Securities Market, 'WI' trading was permitted only in the case of reissued securities in the initial phase.

2. In terms of the announcement made vide para 87 of the Mid-Term Review of Annual Policy Statement 2006-07, it is now decided to extend 'When Issued' trading to new issues of Central Government dated securities also, on a selective basis. Eligibility of an issue for 'WI' trades would be indicated in the respective specific auction notification. The modified detailed guidelines on 'When Issued' transactions are given in the Annex.

3. The stipulation that any 'WI' transaction must have a Primary Dealer (PD) as counterparty has been dispensed with, subject to compliance with the stipulation as at para 'f' of the guidelines. The net short and long positions limits for PDs and non-PDs are also revised as indicated at para 'g' of the guidelines.

4. 'WI' trading in newly issued securities, as well as the changes referred to at para 3 above, would, however, come into effect after the necessary software modifications are carried out in the NDS-OM trading system.

5. The terms and conditions contained in annexed guidelines are being laid down in accordance with the Notification No. S.O. 551(E) dated 17<sup>th</sup> April 2006( copy enclosed).

6. The present guidelines override the guidelines issued vide our circular IDMD.No/3426 /11.01.01 (D)/2005-06 dated May 3, 2006. The guidelines will be reviewed periodically to consider modifications and continuance, as appropriate.

Yours faithfully,

(G. Mahalingam)  
Chief General Manager

## When Issued Market - Guidelines

### Definition

'When, as and if issued' (commonly known as 'when-issued' (WI)) security refers to a security that has been authorized for issuance but not yet actually issued. 'WI' trading takes place between the time a new issue is announced and the time it is actually issued. All 'when issued' transactions are on an 'if' basis, to be settled if and when the actual security is issued.

### Mechanics of Operation

Transactions in a security on a 'When Issued' basis shall be undertaken in the following manner.

- a. 'WI' transactions can be undertaken in the case of securities that are being reissued as well as newly issued, on a selective basis.
- b. 'WI' transactions would commence on the issue notification date and it would cease on the working day immediately preceding the date of issue.
- c. All 'WI' transactions for all trade dates will be contracted for settlement on the date of issue.
- d. At the time of settlement on the date of issue, trades in the 'WI' security will be netted off with trades in the existing security, in the case of reissued securities.
- e. 'WI' transactions may be undertaken only on NDS-OM.
- f. Only PDs can take a short position in the 'WI' market. In other words, non-PD entities can sell the 'WI' security to any counterparty only if they have a preceding purchase contract for equivalent or higher amount.
- g. Open Positions in the 'WI' market are subject to the following limits:

Category	Reissued security	Newly issued security
Non-PDs	Long Position, not exceeding 5 per cent of the notified amount.	Long Position, not exceeding 5 per cent of the notified amount.
PDs	Long or Short Position, not exceeding 10 per cent of the notified amount	Short Position not exceeding 6 per cent and Long Position not exceeding 10 per cent of the notified amount.

- h. In case a PD is unable to deliver securities to the buyer after the auction on the settlement (or issue) date, the transaction will be settled as per the default settlement mechanism of CCIL.
- i. In the event of cancellation of the auction for whatever reason, all 'WI' trades will be deemed null and void ab initio on grounds of force majeure.

## **Internal Control**

All NDS-OM members participating in the 'WI' market are required to have in place a written policy on 'WI' trading which should be approved by the Board of Directors. The policy should lay down the internal guidelines which should include, inter alia, risk limits on 'WI' position (including, in the case of reissued securities, overall position in the security, i.e., 'WI' plus the existing security), an aggregate nominal limit (in terms of Face Value) for 'WI' and in the case of reissued securities, 'WI' plus the existing security, the internal control arrangements to ensure adherence to regulatory and internal guidelines, reporting of 'WI' activity to the top management, procedure to deal with violations, etc. A system should be in place to detect violations immediately, certainly within the trading day.

The concurrent auditors should specifically verify compliance with these instructions and report violations on the date of trade itself, within a reasonably short time, to the appropriate internal authority. As part of their monthly reporting, concurrent auditors may verify whether the independent back/mid office has taken cognizance of all such lapses and reported the same within the required time frame. Any violation of regulatory guidelines noticed in this regard should immediately be reported to the Public Debt Office (PDO), Mumbai and IDMD, Reserve Bank of India.

## **Reporting**

Primary Dealers will report on a daily basis all 'When Issued' transactions, undertaken by them in the prescribed format (Annex).

**Annex**

**Statement of When Issued Operations**

**Date of Transaction:**

**A. Transactions in 'WI' securities**

<b>Time of Transaction</b>	<b>Purchase</b>	<b>Sales</b>	<b>Net Position</b>
Opening position			
Closing Position			

**B. Position**

	<b>Opening Position</b>	<b>Purchases</b>	<b>Sales</b>	<b>Closing Position</b>
'WI' Security				
Existing Security ( if reissue)				
Total				

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**RESERVE BANK OF INDIA**

**NOTIFICATION**

Mumbai, the 17<sup>th</sup> April 2006

S.O.551(E): - In exercise of the powers conferred on the Reserve Bank of India under section 16 of the Securities Contracts (Regulation) Act, 1956 (42 of 1956) vide Government of India Notification No. 183(E) dated 1<sup>st</sup> March, 2000, issued under Section 29A of the Act ibid, the Reserve Bank of India – being of the opinion that it is necessary to prevent undesirable speculation in securities in the whole of India, hereby declares that no person in the territory to which the Act extends, shall, enter into any

1. contract for the sale or purchase of Government securities, gold related securities and money market securities other than spot delivery contracts or such other contracts traded on a recognised stock exchange, as is permissible under the said Act, rules and bye-laws of such stock exchange.

Provided that contracts may be entered into on 'when issued basis' in such Government securities and in accordance with such terms and conditions, including the basis on which such contracts may be settled, as may be specified in this regard by the Reserve Bank of India by the following persons or entities

- a. a scheduled commercial bank
- b. a Primary Dealer registered with the Reserve Bank of India
- c. any other person or entity specifically permitted in this regard by Reserve Bank of India,

2. ready forward contracts in bonds, debentures, debenture stock, securitised debt, and other debt securities issued by any person or any body corporate established by or under a Central or State Act.

Provided that ready forward contracts may be entered into in all Government securities, in accordance with the terms and conditions as may be specified by the Reserve Bank of India, by the following persons/entities

- a. any person or entity holding a Subsidiary General Ledger account with the Public Debt Office of the Reserve Bank of India
- b. a scheduled bank or a non-banking financial company registered with Reserve Bank of India (other than Government Companies as defined in Section 617 of the Companies Act, 1956) or a housing finance company registered with National Housing Bank, or a mutual fund registered with Securities and Exchange Board of India, or an insurance company registered with Insurance Regulatory and Development Authority, holding a Gilt account with any person or entity permitted by Reserve Bank of India to maintain Constituent Subsidiary General Ledger account with Public Debt Office of the Reserve Bank of India or
- c. any other person specifically permitted by Reserve Bank of India, holding a Gilt account with any person or entity permitted by Reserve Bank of India to maintain Constituent Subsidiary General Ledger account with Public Debt Office of the Reserve Bank of India:

Provided further that no ready forward contracts may be entered into between two persons or entities both maintaining Gilt accounts with same person or entity maintaining Constituent Subsidiary General Ledger account with the Public Debt Office of the Reserve Bank of India.

Provided further that no ready forward contracts may be entered into between a person or entity maintaining Subsidiary General Ledger account with Public Debt Office of the Reserve Bank of India with another person or entity maintaining a Gilt account with itself.

Provided further that all ready forward contracts shall be settled through Subsidiary General Ledger account or a Constituent Subsidiary General Ledger account maintained with the Public Debt Office of Reserve Bank of India, in accordance with the terms and conditions as may be specified by the Reserve Bank of India

Provided further that the outstanding ready forward contracts shall continue till termination of the contracts as per the contractual terms:

Provided further that such contracts entered into on the recognized stock exchanges shall be entered in accordance with-

i. the rules or regulations or the bye-laws made under the Securities Contracts (Regulation) Act 1956, (42 of 1956) or the Securities and Exchange Board of India Act 1992 (15 of 1992) or the directions issued by the Securities and Exchange Board of India under the said Acts;

ii. the rules made or guidelines or directions issued under the Reserve Bank of India Act, 1934 (2 of 1934) or the Banking Regulation Act, 1949 (10 of 1949) or the Foreign Exchange Management Act, 1999 by the Reserve Bank of India.

iii. The provisions contained in the notifications issued by the Reserve Bank of India under the Securities Contracts ( Regulation) Act 1956 (42 of 1956)

#### Explanation

For the purpose of this notification

I. "scheduled bank" means a bank included in the second schedule of Reserve Bank of India Act, 1934.

II. "non-banking financial company" means a company as defined in clause (1) of Section 45-I of the Reserve Bank of India Act, 1934.

III. "mutual fund" means a fund as defined in clause (q) of the Regulation 2 of the Securities and Exchange Board of India (Mutual Funds) Regulations, 1996.

IV. "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 any other person permitted by the Reserve Bank of India, for the purpose of holding Government securities on behalf of its constituents.

V. "Gilt account" means a securities account opened and maintained by any person with a bank or any other person 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.

VI. Entering into contracts on 'when issued' basis means entering into contracts after the notification of issue of any Government security but before the actual issue thereof.

This notification is issued by Reserve Bank of India, in supersession of the notification no. S.O.131 (E) dated 22<sup>nd</sup> January 2003 issued by it.

**(V. K. Sharma)**  
Executive Director  
Reserve Bank of India