



भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA
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August 30, 2011

All Market Participants

Dear Sir,

Authorisation Guidelines for Primary Dealers (PDs)

With a view to putting in place equitable and transparent regulatory guidelines for authorisation of PDs and to ensure that the new PDs are adequately equipped to participate meaningfully in all auctions of Government securities (G-Sec), including an underwriting commitment and play an active role in the G-Sec market in the emerging circumstances, it has been decided to review the existing authorisation guidelines for PDs.

2. The revised guidelines for authorisation of PDs shall come into effect immediately. A copy of the revised guidelines is enclosed.

Yours faithfully,

(K.K. Vohra)
Chief General Manager

Revised Authorisation Guidelines for Primary Dealers

The eligibility criteria for an entity to apply to Internal Debt Management Department, Reserve Bank of India for undertaking the activities of a PD are as under:

Eligible Institutions	Eligibility conditions
<p>a. Subsidiary of scheduled commercial bank/s and All India Financial Institutions</p> <p>b. Subsidiaries/ joint ventures set up in India by entities incorporated abroad</p> <p>c. Company incorporated under the Companies Act, 1956 and do not fall under (a) or (b)</p>	<ul style="list-style-type: none"> • Should be registered as an NBFC under Section 45-IA of the RBI Act, 1934 for <u>at least one year</u> prior to the submission of application. • Should have minimum net owned funds (NOF) of Rs. 150 crore / Rs. 250 crore or as prescribed in the Master Circular on operational guidelines to PDs, which is amended from time to time. Before commencing PD business, applicant entity has to submit an external auditor's certificate to this effect. • Should have exposure in the securities business and in particular to the G-Sec market for at least one year prior to the submission of application. Exposure for this purpose would be as under: <ul style="list-style-type: none"> i. Applicant's turnover in the G-Sec business during the year preceding the year of application for PD authorisation should be at least equal to 15 per cent of its total turnover. ii. It's assets in G-Sec during the year preceding the year of application should be at least equal to 15 per cent of its total assets. • Applicant entity should submit an annual target along with plan of action for turnover to be achieved on behalf of mid-segment (Provident Funds, Urban Cooperative banks, Regional Rural banks, Trusts, etc.) and retail (individual) investors at the time of submission of their application for PD authorisation. The annual turnover target on behalf of mid-segment and retail investors should not be less than 75 per cent of minimum NOF for PDs prescribed from time to time. • Previous experience in servicing retail and mid-segment customers in G-Sec will be viewed favourably while processing the application for PD authorisation. • In case of subsidiaries/joint ventures set up by entities incorporated abroad, in addition to conditions given above, following may be adhered to: <ul style="list-style-type: none"> i. The applicant entity should have approval of the Foreign Investment Promotion Board (FIPB). ii. The parent foreign company directly or through its subsidiaries should have been in PD business for three years or more in active markets. iii. Such entity should suitably ring fence its system from its parent and associates so as to ensure sanctity of its data and avoid any undue spill over of risk to its own operations.
<p>Banks which do not have a partly or wholly owned subsidiary undertaking PD business and intend to undertake PD business departmentally</p>	<ul style="list-style-type: none"> • Minimum net owned funds (NOF) of Rs. 1,000 crore. • Minimum Capital to Risk Weighted Assets Ratio (CRAR) of 9 per cent. • Net non-performing assets of less than 3 per cent and a profit making record for last three years. • The applicant bank should have approval of Department of Banking Operations and Development, Central Office, Reserve Bank of India, Mumbai. • Applicant bank should submit an annual target along with plan of

	<p>action for turnover to be achieved on behalf of mid-segment and retail investors at the time of submission of their application for PD authorisation. The annual turnover target to be achieved on behalf of mid-segment and retail investors should not be less than 75 per cent of minimum NOF for bank PDs prescribed from time to time.</p> <ul style="list-style-type: none"> • Previous experience in servicing mid-segment and retail customers in G-Sec will be viewed favourably while processing the application for PD authorisation.
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2. An applicant shall not be considered for authorisation as PD if it has been subject to litigation or regulatory action or investigation that the Reserve Bank determines material or otherwise relevant to the business of PD, within the last one year. In making such determination, the Reserve Bank would consider, among other things, whether and how such litigation/regulatory action/investigation have been resolved and the applicant's history of such matters and will consult with the appropriate regulators for their views.

3. For getting authorisation as a PD, an entity satisfying the criteria stipulated above should submit its application to the Chief General Manager, Internal Debt Management Department (IDMD), RBI, Mumbai. The RBI will consider the application and, if satisfied, would grant 'in principle approval'. The applicant will thereafter submit an undertaking in respect of the terms and conditions agreed to as per the prescribed format given in the Master Circular on Operational Guidelines to PDs and updated from time-to-time. Based on the application and undertaking, an authorisation letter will be issued by the RBI. Continuation as a PD would depend on its compliance with the terms and conditions of authorisation. The decision to authorise PDs will be taken by the RBI based on its perception of market needs, suitability of the applicant and the likely value addition to the system.

4. The applicant entity may also have to adhere to other terms and conditions as may be specified by the RBI from time-to-time.

5. Existing PDs shall have to submit an annual target along with plan of action for turnover to be achieved on behalf of mid-segment and retail investors at the time of renewal of their PD authorisation. The annual target should not be less than 75 per cent of minimum NOF for standalone PDs/bank PDs prescribed from time-to-time. As per current guidelines, the minimum NOF prescribed for standalone PDs in G-Sec business is Rs. 150 crore and Rs. 250 crore for standalone PDs with diversified activities. For bank PDs, minimum NOF prescribed for undertaking PD business is Rs. 1,000 crore. RBI in consultation with PDs would set the annual turnover target for each PD. Existing PDs would be given two years time to comply with the requirement.

Exit/Termination Procedures:

6. RBI may suspend or terminate the PD authorisation issued to an entity, as it may deem fit, in the following circumstances:

- i. Violation/circumvention of the regulatory guidelines or the terms and conditions of the undertaking executed by a PD with the RBI.
- ii. Failure to meet the performance criteria and capital standards on an ongoing basis.

- iii. Repeatedly providing bids and offers in the primary and/or secondary market that are not reasonably competitive.
 - iv. RBI is of the view that the PD has attempted to manipulate the market, involved in market abuse, made an incorrect representation or certification, failed to provide information required under the extant guidelines, or provided information that was incorrect, inaccurate, or incomplete.
 - v. If it appears, in the Reserve Bank's judgment that the PD has an inadequate or weak control environment.
 - vi. If a PD becomes the subject of, or involved with, regulatory or legal proceedings that, in the judgment of the Reserve Bank, unfavorably impact the PD business.
 - vii. PD intends to surrender PD authorisation on its own. In such a case, the PD should discuss the orderly unwinding of any positions held, agree the timing and date of termination of PD operations, and the content of any announcements to be made to the market, by the Reserve Bank. In the interests of discouraging 'fair-weather' trading and ensure that a PD is available in the market even when the market condition is not favourable, the Reserve Bank will not approve an application from the same firm for a fresh PD authorisation for some considerable period of time.
7. RBI will notify the PD of its intention to impose a sanction, and will provide the PD with an opportunity to submit its view, before taking a final decision.
8. RBI will ensure that a PD's exit is carried out in a way that does not cause undue disruptions to other market participants.
9. Such suspension or termination will be made public by RBI through press release. An announcement in this regard shall be made preferably on the last working day of the week, with the sanction effective from the close of business on the same day.
