

July 14, 2010

To,

All SGL/CSGL Account holders

Dear Sir,

Government Securities Act, 2006, Sections 27 & 30 - Imposition of penalty for bouncing of SGL forms

In terms of the existing regulatory framework, if the SGL transfer form bounces three times in a half year, for want of either funds or the securities, the account holder is liable to be debarred from using the SGL account facility for a period of six months. After restoration of the facility, if the SGL transfer form of the account holder bounces again, such account holder is liable to be permanently debarred from using its SGL account.

2. The existing guidelines have since been reviewed in the light of the provisions of section 27 and sub-section (3) of section 30 of Government Securities Act, 2006 (Act). Accordingly, in the event of bouncing of SGL transfer forms and the failure of the account holder concerned to offer satisfactory explanation for such bouncing, the account holder shall be liable to pay penalties as under:

- i. Graded monetary penalties subject to a *maximum penalty of Rs.5 lakhs* per instance;

Sl. No	Applicable to	Monetary penalty	Illustration [Penal amount on Rs.5 crore default]
1	First three defaults in a financial year (April to March)	0.10% (10 paise per Rs.100 FV)	Rs.50,000/-
2	Next three defaults in the same financial year	0.25% (25 paise per Rs.100 FV.)	Rs.1,25,000/-
3	Next three defaults in the same financial year	0.50% (50 paise per Rs.100 FV)	Rs.2,50,000/-

- ii. On the tenth default in a financial year, the eligible entities will be debarred from using the SGL A/c for undertaking short sales in Government securities even to the extent permissible under circular IDMD.No /11.01.01(B) / 2006-07 dated January 31, 2007 as amended from time to time, during the remaining portion of the financial year. In the next financial year, upon being satisfied that the a/c holder in question

has effected improvements in its internal control systems, RBI may grant specific approval for undertaking short sales by using the SGL A/c facility.

- iii. The monetary penalty may be paid by the account holder concerned by way of a cheque or through electronic mode for the amount favouring the Reserve Bank of India, within five working days of receipt of intimation of order imposing penalty from RBI.

3. For the purpose of these instructions, 'SGL bouncing' shall mean failure of settlement of a Government securities transaction on account of insufficiency of funds in the current account of the buyer or insufficiency of securities in the SGL / CSGL account of the seller, maintained with the Reserve Bank of India.

4. The defaulting member shall make appropriate disclosure, on the number of instances of default as well as the quantum of penalty paid to the Reserve Bank during the financial year, under the "Notes to Account" in its balance sheet.

5. Notwithstanding anything contained in this circular, the Reserve Bank reserves the right to take any action including temporary or permanent debarment of the SGL account holder, in accordance with the powers conferred under the Act as it may deem fit, for violation of the terms and conditions of the opening and maintenance of SGL/ CSGL accounts or breach of the operational guidelines issued from time to time.

6. In addition to the above, as NDS Members they should strictly abide by all other provisions of the NDS (Membership) Regulations, 2002 as amended from time to time.

7. This circular shall come into force with immediate effect.

Yours faithfully,

(K K Vohra)
Chief General Manager