

Government Securities

Policy Measures

4.29 The Union Budget for the current financial year has underlined the need to develop and deepen the debt market in the country and announced seven elements of improvement to the market design of debt market. These are summarised in Box 4.5. The present status of the proposals on the development of the debt market is set out below.

- The Clearing Corporation of India Limited (CCIL) was registered on April 30, 2001 under the Companies Act, 1956 with the State Bank of India as the chief promoter. Initially, the CCIL will clear all transactions in Government securities and repos reported on the Negotiated Dealing System (NDS) of RBI and also rupee/US \$ forex spot and forward deals. The operationalisation of CCIL is expected to commence shortly. All trades in Government Securities below Rs.20 crore would be mandatorily settled through CCIL while those above Rs. 20 crore would have the option for settlement through the RBI or the CCIL. As regards forex transactions, work on the formalities involved has been completed, and the clearance from the Federal Reserve in the USA is expected shortly.
- A Negotiated Dealing System (NDS) is being introduced with a view to facilitating electronic bidding in auctions and secondary market transactions in Government securities and dissemination of information on trades on a real time basis (Box 4.6). Test runs on the NDS started in November 2001.
- The uniform price auction format for auctions, hitherto confined to the auction of 91-day Treasury Bills, was extended to the auction of dated securities. The Central Government issued two floating rate bonds (FRB) on the basis of uniform price auction.
- RBI has also prepared a road map for developing Separate Trading of Registered Interest and Principal of Securities (STRIPS), which has been put on RBI website for

BOX 4.5

Budget Announcements on the Debt Market

On February 28, 2001, seven announcements were made about improving the institutional framework for the debt market:

1. A clearing corporation will be set up under the active encouragement of the RBI, with State Bank of India as the chief promoter, and is expected to be in place by June 2001. It will also enable settlement of forex transactions.
2. Trading of Government securities, through order driven screen-based system will be implemented.
3. An electronic Negotiated Dealing System (NDS) will be set up by the RBI by June 2001, to facilitate transparent electronic bidding in auctions and dealings in government securities on a real time basis.
4. In order to ensure smooth and quick movement of funds, the Electronic Funds Transfer (EFT) and Real-time Gross Settlement Systems (RTGS) are being put in place by the Reserve Bank of India within the next year.
5. Clarifications will be issued by CDBT to promote the issuance of strips, zero coupon bonds, deep discount bonds and the like.
6. The old Public Debt Act will be replaced by the Government Securities Act.
7. Comprehensive legislation will be introduced on securitisation.

BOX 4.6

Negotiated Dealing System

- Banks, primary dealers and financial institutions having SGL accounts and current accounts with RBI would be eligible to participate in NDS. It will provide an “electronic dealing platform” for these participants in Government securities. It will also facilitate reporting of trades executed through exchanges.
- It will support transactions in Government bonds, repos, call money, commercial paper, certificates of deposit, and interest rate derivatives.
- NDS will be integrated with the Securities Settlement System (SSS) of the PDO at RBI, to facilitate settlement of transactions in Government securities and treasury bills.
- NDS will be used for the daily operating of the Liquidity Adjustment Facility (LAF).
- NDS will facilitate submission of bids for auctions of Government securities. It will facilitate dissemination of information relating to primary issuance through auction/sale on tap and underwriting apart from secondary market trade details to participants.

comments from market participants.

- To encourage retail participation in the primary market for Government securities, an allocation of up to 5 per cent has been provided to retail investors, on a non-competitive basis.
- The auction of 14-day and 182-day Treasury Bills has been discontinued from May 14,

2001. The notified amount in the 91-day Treasury Bills has been increased to Rs. 250 crore since May 16, 2001. The dates of payment for both 91-day and 364-day Treasury Bills have been synchronised so that they can provide adequate fungible stock of Treasury Bills of varying maturity in the secondary market.