CDSL/OPS/DP/POLCY/2671 **October 05, 2011**

CONSTITUENTS' SUBSIDIARY GENERAL LEDGER ACCOUNT: ELIGIBILITY CRITERIA AND OPERATIONAL GUIDELINES

Reserve Bank of India has issued Notification **No. 183 dated September 05, 2011** [see **Annexure-A**], regarding conditions applicable for opening and maintenance of a Constituents' Subsidiary General Ledger (CSGL) account, as also the records to be maintained and procedures to be adopted by the CSGL account holders for safeguarding the interests of their constituents.

DPs are advised to note the above and ensure compliance, as directed.

Queries regarding this communiqué may be addressed to:
CDSL – Helpdesk on (022) 2272-8642, 2272-8427, 2272-8624, 2272-8693, 2272-8639, 2272-1261 or 2272-2075. Emails may be sent to: helpdesk@cdslindia.com.

sd/-
Ramkumar K.
Vice President – Operations

Reserve Bank of India
(Department of Government and Bank Accounts)
(Central Office)

Notification No.183 dated September 05, 2011
(Published in The Gazette of India – Extraordinary – Part III – Section 4)

Constituents' Subsidiary General Ledger Account: Eligibility Criteria and Operational Guidelines

In exercise of the powers conferred by Section 4 of the Government Securities Act, 2006 (38 of 2006), the Reserve Bank of India (the Bank) hereby specifies the conditions applicable henceforth for opening and maintenance of a Constituents' Subsidiary General Ledger (CSGL) account, as also the records to be maintained and procedures to be adopted by the CSGL account holders for safeguarding the interests of their constituents.

I. Eligibility Criteria:

A. The entities mentioned below are eligible to open and maintain a CSGL account with the Bank on behalf of their constituents, i.e., Gilt Account Holders (GAHs):

1) (a) A licensed bank. In case of State Co-operative Banks (StCBs), the additional requirement of being a scheduled bank with net worth of ₹100.00 crore or more will also be applicable.

(b) A Primary Dealer

Provided that the above entities obtain a no-objection certificate from the concerned regulatory department of the Bank, to the effect that they meet the eligibility criteria (as applicable) and that the Bank has no regulatory/supervisory discomfort.

B. In addition, the entities mentioned below can open and maintain a CSGL account with the Bank.

(a) National Securities Depository Limited (NSDL).
(b) Central Depository Services (India) Limited (CDSL).
(c) Clearing Corporation of India Limited (CCIL) or other Clearing Corporations as may be approved by the Bank.
(d) Stock Holding Corporation of India Limited (SHCIL).
(e) National Bank for Agriculture and Rural Development (NABARD).
(f) Such other entities as may be approved by the Bank from time to time.

II. Operational Guidelines to be complied with by the CSGL Account holders:

1. An eligible entity shall open and maintain only one CSGL account, unless specifically allowed by the Bank to open an additional CSGL account.

2. The CSGL account holders shall ensure that the constituents for whom the gilt accounts are opened/maintained satisfy the eligibility conditions for holding Government securities in terms of the General Loan Notifications as also the specific Loan Notifications issued by the Government.
3. The CSGL account holders, who are regulated by the Bank, shall follow guidelines on 'Know Your Customer' (KYC) issued by the Department of Banking Operations and Development/Urban Banks Department/Rural Planning and Credit Department of the Bank, as applicable from time to time, in respect of their GAHs. Other CSGL account holders shall follow the relevant guidelines on KYC issued by their respective regulators.
4. A constituent is entitled to open only one gilt account having a unique account number with any one of the CSGL account holders. Accordingly, CSGL account holders may obtain a declaration towards the same before opening an account on behalf of the constituent. A constituent may, however, additionally open and maintain a demat account with the Depositories through Depository Participants (DPs) for purposes as may be approved by the Bank.
5. The CSGL account holders must have appropriate Information Technology (IT) infrastructure to maintain accounts and put deals on behalf of their constituents with adequate contingency/back-up plan to ensure business continuity. The IT infrastructure shall be subject to Information System (IS) audit by certified professionals every year and any observations made by them shall be immediately complied with.
6. The CSGL account holder shall execute with their constituents an agreement, which shall categorically mention the circumstances under which they will accept/release securities and accept/release funds on behalf of the constituents, as also the rights and obligations of the constituents, and the grievance redressal mechanism available to the constituents.
7. The CSGL account holders shall ensure that deals/transactions pertaining to constituents are put through according to the instructions of the concerned constituents and maintain appropriate record of such instructions received from their constituents. Accordingly, the CSGL account holder shall refrain from setting off Government securities in the CSGL account or otherwise deal with them to extinguish partly or fully any amounts due to it from the constituents without written consent from the constituents.
8. The CSGL account holder shall be accountable/responsible for the movement of Government securities from/to the CSGL account and shall provide system generated audit trail, whenever called for by the constituent or the Bank.
9. The CSGL account holders shall issue/post a deal slip for each buy/sell transaction put through on behalf of the concerned constituents on the transaction date itself mentioning therein the details of the deal, such as, ISIN, instrument nomenclature, buy/sell quantity, buy/sell price, service charges, etc. Further, the CSGL account holder shall send statements

mentioning the outstanding/transaction details of Government securities to each constituent as per the agreement as also at the specific request of the constituents, and obtain a balance confirmation certificate from the constituents.

10. The CSGL account holder shall credit the constituents' fund account with the due amount of interest/redemption proceeds on due date itself and maintain appropriate record of the same for verification.
11. The CSGL account holder shall be responsible for settlement of each deal put through on behalf of the constituents and any shortfall in securities/funds will be treated as a case of SGL deal bouncing against the CSGL account holder. Further, the CSGL account holder, before submitting any deals on behalf of the constituents, shall ensure that the particular constituent is eligible, as per the latest guidelines issued by the Bank, for entering into such transactions/deals.
12. The CSGL account holders shall have a well documented operational manual, duly approved by their Board, highlighting the roles/responsibilities of the dealers/mid-office/back-office and the resultant checks and balances to ensure proper dealings on behalf of the constituents so as to mitigate any risk arising out of such custodial business to the CSGL account holder as also to the constituents.
13. The CSGL account holders shall ensure daily reconciliation of outstanding balances in their CSGL account as per the PDO-NDS data vis-à-vis the constituent-wise holding details maintained by them. Any mismatch in the outstanding balances shall be immediately brought to the notice of PDO-NDS Helpdesk, Department of Information Technology (DIT) and Public Debt Office (PDO), Mumbai to ensure reconciliation of balances before next day-end.
14. The CSGL account holders must put the operations of their CSGL account, as also the transactions in the gilt accounts of their constituents, under the purview of their Concurrent Auditors, who shall verify and comment, inter alia, upon the following aspects of CSGL account transactions:

    i) Completion of documents for opening the constituent account;

    ii) Authorisation of each transaction in the CSGL account by the concerned constituent and that the securities bought/sold have been credited/debited to the constituents' gilt account on due date;

    iii) Issuance of debit/credit advices in time to the constituents for each transaction put through on their behalf;

    iv) Reconciliation of the outstanding balances in the CSGL account vis-à-vis the constituent-wise holding details on a daily basis;

v) Receipt of balance confirmation certificates from the constituents on half-yearly basis;

vi) Crediting of interest/Redemption proceeds to the constituents' fund account on due date; and

vii) Ensuring the eligibility of the constituent, as per latest guidelines issued by the Bank, to put through the deal/transaction and that the deal price is in line with the prevailing market rates.

15. The CSGL account holders shall put up the information system audit report as also the concurrent auditor's report in respect of CSGL account to the Audit Committee of the Board on a quarterly basis or at more frequent intervals. The CSGL account holder may submit a quarterly certificate, confirming that the compliance of the audit observations, as also daily reconciliation exercise carried out by them, has been placed before the Audit Committee of the Board, to the concerned regulatory department of the Bank and make available such records to the inspection team of the Bank for their perusal. However, in case of entities not regulated by the Bank, such as NSDL, CDSL, SHCIL and others, the compliance certificate may be submitted to PDO, Mumbai.

16. The CSGL account holders shall submit an electronic statement, as per Annex-I, mentioning details of transactions effected between its constituents, as also between the CSGL account holders and the constituent, to the Chief General Manager, Reserve Bank of India, Financial Markets Department, Central Office Building, 23rd Floor, Fort, Mumbai - 400001 (email id: cgmfmd@rbi.org.in) on a weekly basis. In addition, the CSGL account holder shall also submit an 'exception report' incorporating all transactions involving constituent accounts carried out at off market rates, i.e., rates beyond three standard deviations either way, to them. System capability to generate such information may be developed, if not already done. The Bank may call for any transaction level information at a frequency and through a mode as may be decided from time to time.

17. The CSGL account holder shall submit constituent-wise holding details electronically, as per Annex-II & III, to the Chief General Manager, Reserve Bank of India, Internal Debt Management Department, Central Office Building, 23rd Floor, Fort, Mumbai - 400001 (email id: cgmidmd@rbi.org.in) on a quarterly basis as on March 31, June 30, September 30 & December 31, by the 1st week of next quarter.

18. The banks, which are CSGL account holders, shall furnish copies of half-yearly review reports, as on March 31 and September 30 each year, on their own investments, as also, on behalf of other constituents, including brokers, to the respective Central/Regional Offices of the Department of Banking Supervision/Urban Banks Department/Rural Planning & Credit Department of the Bank, as the case may be. Primary Dealers shall furnish their half yearly

review reports as on March 31 and September 30 to the Internal Debt Management Department of the Bank.

19. Value Free Transfer (VFT) of Government securities from one CSGL account to another SGL/CSGL account may be allowed by the Bank, on a case to case basis, towards transfer of securities to own demat account with the depositories or transfer of securities pertaining to margin requirement or the Collateralised Borrowing & Lending Operations (CBLO) of the CCIL or for any other purpose as may be approved by the Bank from time to time. Further, in case a GAH decides to close his gilt account with one CSGL account holder and open a new gilt account with another CSGL account holder, then the GAH may seek approval from the PDO, Mumbai for such value free transfer of its securities from one CSGL account holder to another CSGL account holder by submitting the following documents:
    i) A request letter to the effect that their entire Government securities balance with their existing CSGL account holder may be transferred to the new CSGL account holder on value free basis, together with a copy of the Resolution passed by the Board of Directors of the GAH (in case of a company), approving the transfer of securities from one CSGL account to another CSGL account. The Board Resolution should, inter alia, specifically mention that, after the transfer of the Government securities to the new Gilt account, the existing Gilt account will be closed.
    ii) 'No Objection' letter from the transferor/transferee CSGL account holder towards debit/credit of such securities; and
    iii) SGL transfer form duly signed by the transferor and the transferee along with a declaration stating that the transaction is for transfer of securities from one account to another of the same GAH and it does not involve any financial consideration.
20. Any misuse of the CSGL facility by the entity concerned, will make the entity liable to be debarred from holding of such account as mentioned in Section 27 of the Government Securities Act, 2006 (38 of 2006), in addition to inviting the penalties as provided in Section 30 of the Act *ibid*.
21. These guidelines are issued in supersession of the earlier guidelines issued by the Bank vide Notification No. 237 dated December 04, 2009 (published in The Gazette of India – Extraordinary – Part III – Section 4).

Sd/-

(B. Mahapatra)
Executive Director

Annex - I

Transactions undertaken between the CSGL Account holders and the Constituents and among the Constituents								
Sr. No.	Date of Transaction	ISIN Number	Instrument Nomenclature	Buyer Name	Seller Name	Amount (Face value)	Price	Yield

Annex - II

Statement on Ownership Pattern of Government securities held in the Gilt Accounts as on Quarter ended_____						
Name of CSGL account holder:						
CSGL account number:						
Sr. No [1]	Investor Group [2]	No. of accounts [3]	Amount of Securities held (Face Value in lakhs of ₹) State Government Securities [4]	T-Bills [5]	Central Government Securities [6]	Total Holding (Face Value in lakhs of ₹) [4] + [5] + [6] [7]
1	Commercial Banks					
2	State / Dist. Central Co-op Banks					
3	Urban Co-operative Banks					
4	Mutual Funds					
5	Insurance Companies					
6	Financial Institutions					
7	Corporates					
8	HUF / Individuals					
9	FIIs					
10	Provident Funds					
11	Others					
Total						

Annex - III

Statement on Ownership Pattern of Special Securities Issued by Government of India held in the Gilt Accounts as on Quarter ended _____				
Name of CSGL account holder:				
CSGL account number:				
Sr. No.	Name of Gilt Account Holder	Type of Special Securities (Oil/Fertilizer/FCI etc.)	Instrument Nomenclature (ISIN)	Amount (Face Value in ₹ Lakh)
Total				