RBI/2019-20/92
IDMD.No.1240/10.18.049/2019-20   November 07, 2019

All Scheduled Commercial Banks
All State Co-operative Banks / All Scheduled Primary
(Urban) Co-operative Banks / All Financial Institutions /
All Primary Dealers/All Stock Exchanges

Dear Madam/ Sir,

Auction of State Development Loans: Non-Competitive Bidding Facility to Retail Investors

Please refer to our circular IDMD.No. 954/08.03.001/2009-10 dated August 24, 2009, whereby the facility of non-competitive bidding in State Development Loans (SDLs) was allowed to retail investors.

2. As part of the overall strategy of diversifying the investor base for SDLs, Reserve Bank of India has been taking various measures to encourage participation of retail investors in SDL market including introduction of non-competitive bidding in primary auctions. In continuation of this endeavour, RBI had announced in the Statement on Developmental and Regulatory Policies released with the Second Bi-monthly Monetary Policy Statement 2019-20, on June 06, 2019, that Specified Stock Exchanges will be permitted to act as Aggregators/ Facilitators to aggregate the bids of their stockbrokers/ other retail participants and submit a single consolidated bid under the non-competitive segment of the primary auctions of State Development Loans (SDLs). In line with this announcement and as per the provisions on non-competitive bidding included in the General Notification of States on 'Issue of State Government Securities', it has been decided that, in addition to scheduled banks and primary dealers,

   a) Specified stock exchanges will be permitted to act as Aggregators/ Facilitators.

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हिंदी आसान है, इसका प्रयोग बढ़ाइए

b) These stock exchanges will submit a single consolidated non-competitive bid in the auction process and will put in place necessary processes to transfer the securities so allotted in the primary auction to their members/ clients.

c) Stock exchanges, desirous of acting as Aggregators/ Facilitators, may approach CGM, IDMD, Reserve Bank of India, with a copy of the No Objection Certificate (NOC) from SEBI, for necessary approvals.

3. The updated Scheme for Non-Competitive Bidding Facility in the Auction of State Development Loans is given in Annex.

Yours sincerely,

(T K Rajan)
Chief General Manager

Scheme for Non-competitive Bidding Facility in the Auction of State Development Loans

I. Objective

With a view to encouraging wider participation and retail holding of Government securities, participation of eligible individuals and institutions is allowed on **"non-competitive"** basis in the auction of State Development Loans (SDLs).

II. Definitions: For the purpose of this Scheme, the terms shall bear the meaning assigned to them as under:

a. 'Retail investor' is any person, including individuals, firms, companies, corporate bodies, institutions, provident funds, trusts, and any other entity as may be prescribed by RBI.

b. Aggregator/ Facilitator' means a Scheduled Bank or Primary Dealer or Specified Stock Exchange permitted to aggregate the bids received from the investors and submit a single consolidated bid in the non-competitive segment of the primary auction.

c. Specified stock exchange' means a SEBI recognised Stock Exchange, which has received No Objection Certificate (NOC) from SEBI to act as an Aggregator/ Facilitator in the primary auction segment.

III. Eligibility

Participation in the auctions on non-competitive basis will be open to retail investors who:

(i) do not maintain Current Account (CA) or Subsidiary General Ledger (SGL) account with the Reserve Bank of India;
(ii) submits the bid indirectly through an Aggregator/ Facilitator permitted under the Scheme; and
(iii) makes a single bid for an amount not more than **1 per cent** of notified amount (face value) per auction.

  Exceptions:

  (i) Regional Rural Banks (RRBs) and Cooperative Banks shall be covered under this Scheme in view of their statutory obligations.
  (ii) RRBs and Cooperative Banks that maintain SGL account and current account with the Reserve Bank of India shall be eligible to submit their non-competitive bids directly.

IV. Quantum

Non-competitive bids **up to 10 percent** of the notified amount will be accepted. The reserved amount will be **within** the notified amount. The minimum amount for bidding will be Rs.10,000 (face value) and thereafter in multiples of Rs.10,000 as hitherto.

V. Operational Guidelines

1. The retail investor desirous of participating in the auction under the Scheme would be required to maintain a depository account with any of the depositories or a gilt account under the constituent subsidiary general ledger (CSGL) account of the Aggregator/ Facilitator.

2. Under the Scheme, an investor can submit only a single bid in an auction. An undertaking to the effect that the investor is making only a single bid will have to be obtained and kept on record by the Aggregator/ Facilitator.

Submission of Bids

3. Each Aggregator/ Facilitator, on the basis of firm orders received from their constituents, will submit a single consolidated non-competitive bid on behalf of all its constituents, in electronic format, on the Reserve Bank of India Core Banking Solution (E-Kuber) system. Except in extraordinary circumstances such as general failure of the E-Kuber system, non-competitive bid in physical form will not be accepted.

Allotment of Bids

4. Allotment under the non-competitive segment to the Aggregator/ Facilitator will be at the **weighted average rate of yield/ price** that will emerge in the auction on the basis of the competitive bidding. The securities will be issued to the Aggregator/ Facilitator against payment on the date of issue, irrespective of whether they have received payment from their clients.

5. In case the aggregate amount of bid is **more than the reserved amount** (i.e., 10 per cent of notified amount), pro rata allotment would be made. In case of partial allotments, it will be the responsibility of the Aggregator/ Facilitator to appropriately allocate securities to their clients in a transparent manner.

6. In case the aggregate amount of bids is **less than the reserved amount**, the shortfall will be taken to competitive portion of the notified amount.

Issue of Security

7. Security would be issued only in SGL form by RBI. Therefore, the Aggregator/ Facilitator would have to indicate clearly at the time of tendering the non-competitive

bids, the amounts (face value) to be credited to their SGL account and the CSGL account. Delivery in physical form from the main SGL account is permissible at the instance of the investor subsequently.

8. It will be the responsibility of the Aggregator/ Facilitator to pass on the securities to their clients. Transfer of securities to the clients shall be completed within five working days from the date of issue.

Commission/ Brokerage

9. The Aggregator/ Facilitator can recover up to **six paise per Rs.100 as brokerage/ commission/ service charges** for rendering this service to their clients. Such costs may be built into the sale price or recovered separately from the clients.

10. In case the transfer of securities is effected subsequent to the issue date of the security, the consideration amount payable by the client to the Aggregator/ Facilitator will also include accrued interest from the date of issue.

11. Modalities for obtaining payment from clients towards cost of the securities, accrued interest wherever applicable and brokerage/ commission/ service charges may be worked out by the Aggregator/ Facilitator as per the agreement with the client.

12. It may be noted that no other cost should be built into the price or recovered from the client.

Reporting Requirements

13. Aggregators/ Facilitators will be required to furnish information relating to operations under the Scheme to the Reserve Bank of India (Bank), as may be called for from time to time, within the time frame prescribed by the Bank.

VI. Review of the Scheme

The aforesaid guidelines are subject to **review by the Bank** and accordingly, if and when considered necessary, the Scheme will be modified in consultation with the State Governments.