Business Standard

If the state development loans (SDL) are rated, the margin requirement would be set at 1 per cent lower than other SDLs for the same maturity buckets

Anup Roy | Mumbai Last Updated at June 7, 2018 01:37 IST

In its June monetary policy, the Reserve Bank of India (RBI) reduced the margin requirement for government securities (Gsecs) and state development loans (SDL) mortgaged by banks to access liquidity from the central bank.

The central bank said the margin requirement for government bonds would be in the range of 0.5 per cent to 4 per cent, depending on residual maturity. For SDLs, the margin requirement would be 2.5 per cent to 6 per cent.

The rule was to have a margin requirement of 4 per cent for Gsecs and 6 per cent for SDLs. Furthermore, if the SDL is rated, the margin requirement would be set at 1 per cent lower than other SDLs for the same maturity buckets.

The segmentation would help differentiate the market risk across securities, the RBI said.

The RBI had earlier said it planned to let the SDLs be valued by finances of a state government. But now, the central bank said the relaxations in margin requirement would incentivise the state governments to get a public rating for SDLs.

In a bid to make the SDLs more market-oriented, the RBI said they should be valued at the price at which they have been traded in the market.

In case of non-traded state government securities, the valuation will be based on the state-specific weighted average spread over the yield of the central government securities of equivalent maturity, as observed at primary auctions, the RBI said.

Besides, state governments can now have special drawing facility at repo rate minus 200 basis points, against repo rate minus 100 basis points earlier. The states maintain two funds with the RBI to repay their obligations at the time of maturity of their bonds. The rate cut will incentivise states to use the funds, even more, RBI said.

The central bank also asked banks to spread their first quarter valuation losses in the bond portfolio over four years. It had allowed doing so in the past two quarters too, but most banks had decided to take a hit in the quarter itself. In an important move, the central bank allowed more participants to short-sell Gsecs.

Currently, only banks, primary dealers and certain well-managed Urban Cooperative Banks (UCBs) are permitted to undertake the short sale of transactions. Besides, there are various limits on shorting.

"With an objective to add depth to the Gsecs and repo markets, there is a proposal to liberalise the eligible short sale participants' base as well as relax the entity-wise and security category-wise limits for short selling in Gsecs," the RBI said.

The central bank also allowed primary dealers limited access to foreign exchange related transactions in order to help their foreign portfolio investor clients.

Moreover, the central bank said it will enforce a regulation that will help curtail abusive market practices.

The central bank wants to introduce regulations, "in line with the best global practices to prevent abuse in the markets regulated by the RBI."

Margin Requirement

- The central bank said the margin requirement for government bonds would be in the range of 0.5% to 4%, depending on residual maturity
- For SDLs, the margin requirement would be 2.5-6%
- The rule was to have a margin requirement of 4 % for G-secs and 6% for SDLs
- If the SDL is rated, the margin requirement would be set at 1 per cent lower than other SDLs for the same maturity buckets
- The segmentations would help differentiate the market risk across securities, the RBI said

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