

## **Guidelines for Constituents' Subsidiary General Ledger (CSGL) Account**

### **Reserve Bank of India**

To all SGL Accountholders

Dear Sir,

### **Guidelines for Constituents' Subsidiary General Ledger (CSGL) Account**

With a view to facilitating entities having Subsidiary General Ledger (SGL) accounts with RBI acting as custodians on behalf of their constituents for holding Government securities in scripless form, Reserve Bank has been allowing SGL Accountholders to have a second (SGL) Account in the books of Public Debt Office called "**Constituents' Subsidiary General Ledger (CSGL) Account**". The beneficial ownership of the securities held in such CSGL Accounts vests with the constituent investors (hereinafter referred to as "**Gilt Accountholders**")(**GAH**). Such accounts [hereinafter called **Gilt Accounts** ] enable the investors to realise all the benefits of a dematerialised holding through their bankers without the hassles and risks associated with physical form. In order, however, to ensure that entities providing custodial services for their constituents employ appropriate accounting practices and safe keeping procedures in regard to constituents' securities, it is felt necessary to issue a set of guidelines to CSGL Accountholders, as detailed in the Annexure.

2. It may accordingly be noted that the facility to maintain **CSGL** accounts by any SGL Accountholder will be conditional upon strict adherence to the guidelines enclosed. The existing SGL Accountholders who are having **CSGL accounts** may, therefore, ensure that the guidelines contained herein including the agreement with GAH are complied with by them and they should furnish us a certificate from their auditors to this effect latest by December 2000. The SGL Accountholders not interested in continuing to maintain CSGL accounts may inform the RBI so that these accounts could be closed immediately. Where the compliance is not received by 30<sup>th</sup> December 2000, RBI would be constrained to close the CSGL accounts.

3. Any SGL Accountholder wishing to open a CSGL account should ensure that the guidelines are complied with and that the agreement entered into with **GAH** contains the required provisions as indicated in the guidelines. A certificate from a

firm of Chartered Accountants to the effect that the form of the agreement is in conformity with the guidelines may be sent to RBI along with the request for opening a CSGL account.

4. Please acknowledge receipt of this circular.

Yours faithfully,

General Manager / Deputy General Manager  
PDO

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**ANNEXURE**  
**Guidelines for Constituents' Subsidiary General Ledger (CSGL) Account**

**I. General Requirements**

1. The Constituents' Subsidiary General ledger (CSGL) Accountholders shall ensure that the investors for whom **Gilt Accounts** are opened/maintained satisfy the eligibility conditions for holding government securities as specified in the General Notifications F.No. 4(2)-W&M/97 dated 1<sup>st</sup> April 1997 and F.No. 2(12)-W&M/97 dated 31<sup>st</sup> March 1998 and announcement by the RBI relating to investments by Foreign Institutional Investors (FIIs). The eligibility conditions are given in the enclosure. However, for details the CSGL Accountholders are advised to refer to the original notifications.

2. CSGL Accountholder should have necessary infrastructure for accounting and safe keeping of securities in Gilt Accounts opened and maintained by them on behalf of their constituents hereinafter called Gilt Accountholder (GAH) and have the systems capability to effectively discharge its activities as custodian of government securities, maintaining arms length relationship with the other businesses of the SGL Accountholder.

**II. Guidelines to be complied with by CSGL Accountholders.**

1. The CSGL Accountholder shall open a separate custodial account for each Gilt Accountholder and maintain such accounts distinctly.

2. The CSGL accountholder should ensure at all times that transactions in the individual Gilt Accounts are put through according to the instructions of GAH and the securities held in such accounts used only for transactions explicitly authorised by the GAH.
3. CSGL Accountholders should ensure that at all times, the securities held on behalf of GAH are clearly segregated in its books from its own holdings held in SGL account. CSGL Accountholder shall ensure that the sum total of individual holdings of securities as per the books of the CSGL are reconciled and agreed with the security wise aggregate balances in the CSGL Account in the books of the Public Debt Office at the end of the day.
4. The CSGL Accountholder shall ensure that at no point of time the assets of one **GAH** be mixed with those of another **GAH**.
5. The CSGL Accountholder shall send a statement of account to each **GAH** as at the end of each quarter if there are no transactions during the quarter and once in a fortnight for the fortnight in which transactions have been conducted and also at the specific request of the GAH. Provident Funds and Trusts may desire to have an audited statement and CSGL Accountholders may arrange for the same.
6. CSGL Accountholder shall refrain from setting off securities in the CSGL Account or otherwise deal with them to extinguish partly or fully any amounts due to it from the Gilt Accountholder without the latter's express consent in writing.
7. CSGL Accountholder shall be prompt in distributing interest or redemption value in respect of the securities received or collected by him on behalf of the Gilt Accountholders.
8. The CSGL Accountholder shall be continuously accountable for the movement of securities in and out of custody account and shall provide complete audit trail, whenever called for by the Gilt Accountholder or Reserve Bank of India.

9. The CSGL Accountholder shall ensure that the operating procedures and systems are well documented and backed by operations manuals.
10. The CSGL Accountholder shall maintain confidentiality in respect of the transaction in the individual Gilt Account.
11. Where custodial records are kept electronically, the CSGL Accountholder shall take precautions necessary to ensure that continuity in record keeping is not lost or destroyed and that sufficient back up of records are available.
12. The CSGL Accountholder shall create and maintain the records of securities held in custody in such manner that the tracing of securities or obtaining duplicate title documents is facilitated, in the event of loss of original records for any reason.
13. The CSGL Accountholder shall extend to other custodial entities, depositories and clearing organizations, all such co-operation that is necessary for the conduct of business in the areas of inter-custodial settlements, transfer of securities and transfer of funds.
14. CSGL Accountholder shall have adequate internal controls to prevent any manipulation of records and documents and ensure proper discharge of obligations as given above.
15. CSGL Accountholder shall allow and provide all information to RBI in the inspection of the gilt accounts and records maintained relating to government securities, as and when required.

### **III. Agreement with the Gilt Accountholder**

The CSGL Accountholder shall open and maintain the accounts of GAH in accordance with the above guidelines. The agreement entered into with the GAH shall besides setting out the circumstances under which CSGL Accountholder will accept/release securities, accept/release monies (wherever applicable), receive rights/entitlements in the securities, etc., also incorporate the obligations of the CSGL Accountholder as indicated at II.2 to II.7 above. The CSGL's auditor should certify that the format of the agreement incorporates all the obligations of the CSGL

Accountholder and a copy of the auditor's certificate may be sent to Public Debt Office (PDO) of RBI with which the CSGL accounts are held on or before 30<sup>th</sup> December 2000. Any changes in the format of the agreement should also be certified by the auditors, as and when made and the copy thereof, may be furnished to the PDO.

#### **IV. Maintenance of records and documents and furnishing of information**

CSGL Accountholder shall maintain the following records and documents, namely: -

1. records containing details of securities received and released on behalf of each Gilt Accountholder;
2. records containing details of monies received and released on behalf of each Gilt Accountholder;
3. records containing details of rights or entitlements of each client arising from the securities held on behalf of the Gilt Accountholder;
4. records containing details of registration of securities in respect of each Gilt Accountholder;
5. ledger for each Gilt Accountholder;
6. records of instructions received from and sent to Gilt Accountholder; and
7. records of all reports submitted to the RBI.

Every CSGL Accountholder shall preserve the records and documents maintained under this paragraph for a minimum period of five years.

#### **V. Information to RBI**

1. RBI may, at any time, call for any information from a CSGL Accountholder with respect to any matter relating to its activity as custodian of securities.
2. Where the Bank under item 1 above calls for any information, it shall be the duty of the CSGL Accountholder to furnish such information, within such reasonable period as the Bank may specify.
3. CSGL Accountholder may submit a statement giving details of transactions effected between the Gilt Accountholders to the Chief General Manager, Internal Debt Management Cell, RBI every week.

4. CSGL Accountholder may submit a statement showing the balances of Government securities held on behalf of each of the Gilt Accountholders to PDO on half-yearly basis as on 31<sup>st</sup> March and 30<sup>th</sup> September each year .
5. The banks which are CSGL Accountholders, may continue to furnish copies of half-yearly review reports as on 31<sup>st</sup> March and 30<sup>th</sup> September each year on their own investments as also on behalf of other constituents including brokers to respective Regional Offices of Department of Banking Supervision.
6. The banks which are CSGL Accountholders, may continue to furnish the copies of Concurrent Audit reports to the Regional Offices of Department of Banking Supervision.

#### **ENCLOSURE**

##### Eligibility for investment in Government Stock in terms of Government of India Notification F.No. 4(2) –W&M/97 dated 1<sup>st</sup> April 1997

Investments in the government Stock may be made by any person including firms, companies, corporate bodies, institutions, state governments, provident funds and trusts. Non-Resident Indians (NRIs, viz., Indian Citizen and Individuals of Indian origin). Overseas Corporate bodies predominantly owned by NRIs and Foreign Institutional Investors registered with SEBI and approved by Reserve Bank of India are also eligible to invest in the Government Stock. However, investment by a person resident outside India (whether a citizen of India or not), or a person who is not a citizen of India but is resident in India or a company which is not incorporated under any law in force in India or any branch of such company shall be subject to the provisions of the Exchange Control in addition to the other provisions of laws applicable to Government Stock as per terms as stipulated hereinafter.

##### Eligibility for investment in Government of India Treasury Bills by auction in terms of Government of India Notification F.No. 2(12) –W&M/97 dated 31<sup>st</sup> March 1998

The Bills may be held by any person including firms, companies, corporate bodies, institutions, and trusts in India. State governments, eligible provident funds in India and the Nepal Rastra Bank can participate on ‘non-competitive’ basis in auctions for

specified bills as decided by Banks from time to time. Eligible Provident Funds are those non-government provident funds governed by the Provident Fund Act, 1925 and Employees' Provident Fund and Miscellaneous Provision Act, 1952 whose investment pattern is decided by the Government of India. Non-Resident Indians (NRIs, viz., Indian Citizen and Individuals of Indian origin), Overseas Corporate bodies predominantly owned by NRIs are also eligible to invest in the Bills. However, investment by a person resident outside India (whether a citizen of India or not), or a person who is not a citizen of India but is resident in India or a company which is not incorporated under any law in force in India or any branch of such company shall be subject to the provisions of the Exchange Control in addition to the other provisions of laws applicable to Bills as per terms as stipulated hereinafter.