



भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA
www.rbi.org.in

RBI/2011-12/324

IDMD.PCD. 14 /14.03.07/2011-12

December 28, 2011

All market participants

Dear Sir/Madam

Secondary market transactions in Government Securities - Short Selling

This has reference to circulars [IDMD.03/11.01.01\(B\)/2005-06 dated February 28, 2006](#), [RBI/2006-07/243 dated January 31, 2007](#) and [IDMD.DOD.3165/ 11.01.01\(B\)/2007-08 dated January 01, 2008](#) on the captioned subject.

2. As you are aware, the period of maintenance of short position in G-Sec was extended beyond intraday to five trading days vide circular RBI/2006-07/243 dated January 31, 2007. In continuation, as announced in the [Monetary Policy Statement 2011-12](#), it has been decided to extend the period of Short Sale from the existing five days to a maximum period of three months (including the day of trade), effective from February 1, 2012.

3. Participants undertaking short sale transactions and the related cover transactions shall indicate the same in NDS-OM appropriately. Similarly, the cover transaction, when undertaken in the OTC market, shall be tagged during reporting of the trade in the NDS. In this regard, it is clarified that the 'short sale' tag in NDS-OM shall not be used to put through 'sell' trades of securities that are not in immediate possession of the participant/dealer (i.e., securities lying in IDL a/c, with CCIL as margin, not available with a particular dealer, etc.).

4. It was indicated vide circular RBI/2006-07/243 dated January 31, 2007 (para 3) that short positions shall be covered only by outright purchase of an equivalent amount of the same security. In this regard, participants, in addition to covering their short positions through outright purchase, may also cover the same through a long position in the When Issued (WI) market or allotment in the primary auction. However, participants may note that the closure of the long position in WI market (by sale of the

WI securities) would lead to a reestablishment of short position to the extent of the sale in the WI market.

5. Participants undertaking 'notional' short sales shall cover the short position through any of the means indicated at para 4 above and not use securities from their AFS/HTM portfolio for delivery against the short sale.

6. Participants shall ensure that the statement of stock balance in NDS-OM is verified and reconciled with the statements of the various securities account, i.e., SGL A/c, CSGL A/c, IDL A/c, etc. by the concurrent auditors on a daily basis. In this regard, the concurrent auditors shall examine and ensure that any manual updation of stock balances in NDS-OM (due to transactions outside NDS-OM) is reflected in the SGL/CSGL account of the participant.

7. Participants undertaking short selling should ensure that these transactions are in conformity with fair market practices and are conducted in a transparent manner. In this connection, participants may review their systems and controls to ensure that the same are appropriate to prevent market abuse (*like use of insider information, spreading of false or misleading information, distortion of the price-discovery mechanism, etc. for personal gains*) and is complied with by their employees. Further, participants shall also report to RBI any suspected cases of market abuse regardless of whether it was by their own employee, client or other market participant.

8. Participants undertaking short selling shall submit a monthly report on their short selling activity, duly certified by the concurrent/internal auditors that there were no violations of extant regulatory guidelines on short sale in G-Sec, to the Chief General Manager, Reserve Bank of India, Financial Markets Department, 24th Floor, Fort, Mumbai - 400001 as per the enclosed format (**Annex**). The monthly statement (in excel format) shall also be [emailed](#).

9. All other terms and conditions contained in the aforementioned circulars remain unchanged.

Yours faithfully

Sd/-
(Sanjay Hansda)
Director & Officer-in-Charge

Monthly reporting of Short Sale transactions in Govt Securities

Report for the month of _____

Name of the bank/PD: _____

Security: _____

Regulatory limit#: _____

Sl. No.	Trade Date	Short position at the beginning of the day	Securities Short Sold during the Day	Short position covered through				Short position at the end of the day	Maximum short position during the day
				NDS-OM	WI	NDS	Primary auction		

0.25% and 0.50% of the outstanding stock for illiquid and liquid securities respectively. The categorization of liquid/illiquid securities shall be as determined by FIMMDA.
 Note: Each security to be tabulated separately; Amounts in Rs. Crore

Certified that there were no violations of extant regulatory guidelines on short sale in G-Sec

[Concurrent / Internal Auditor]