

This section covers some Frequently Asked Questions about NDS. These are, however, not exhaustive.

### **2.1. What is 'Negotiated Dealing System'?**

Negotiated Dealing System (NDS) is an electronic platform for facilitating dealing in Government Securities and Money Market Instruments.

NDS will facilitate electronic submission of bids/application by members for primary issuance of Government Securities by RBI through auction and floatation. The system of submission of physical SGL transfer form for deals done **between members** will, on implementation of NDS, be discontinued. NDS will also provide interface to Securities Settlement System (SSS) of Public Debt Office, RBI, thereby facilitating settlement of transactions in Government Securities including treasury bills, both outright and repos.

### **2.2. Who can be members of NDS?**

NDS will use **INFINET**, a closed user group network as communication backbone. Hence, membership to the NDS is restricted to members of INFINET. Membership of INFINET entails holding **SGL and/or Current Account** with RBI or as may be prescribed from time to time.

### **2.3. Will physical SGL forms continue to be used in the context of NDS being operational?**

Yes, the physical SGL forms will continue to be used exclusively for settlement of trades between a **member and non-member to the NDS**. Once the NDS is fully operational, RBI may consider discontinuing physical SGL transfer form for settlement purposes in SGL accounts.

### **2.4. Can a deal once entered in the system be revoked?**

Once the settlers' approvals have been accorded to the deal, the deal can not be revoked from the system. However, prior to the settlers' approval, either the dealer or the settler of the dealing member can reject the deal entered into the system.

### **2.5. What options will be available to the members for revoking fully the accepted deals?**

In this phase, once the settlers' approve the deal, it can not be cancelled. In next phase when NDS is integrated with Securities settlement subsystem, provision for cancellation of a deal, if agreed to by both parties (seller/buyer) of the deal, has been made before the date of settlement. However, this would have to be done **within a specified time frame i.e. prior to settlement date**. On the date of settlement, it is not possible to cancel a deal.

**2.6. Currently, SGL forms are being rejected on technical grounds such as clerical mistakes. In the above context what are the scenarios which can result in rejection of a deal over the NDS?**

Consistency checks have already been built into the system. Hence there is no reason for rejection of the deals on the above grounds. Deals can however be rejected on grounds of **insufficient funds/securities** in the trading parties' accounts with RBI. CCIL, however, will provide **settlement guarantee** for trades done/reported on NDS in respect of government securities including treasury bills (both repo and outright).

**2.7. Can a member interface its back office system to the NDS to view/validate online its SGL account position in RBI's' books?**

There can be no direct input from the member's back office application system to the NDS, for security reasons. The system however provides for **Oracle View Option** or the **Flat File download facility (for deal data) at discrete time intervals at the choice of members**, which could be used by the members to build APIs to their own back office systems. SGL account position information is not available in the NDS system in the first phase.

**2.8. What types of trades will settle through NDS?**

NDS will provide an interface to the Securities Settlement System. All **Outright** and **Repo** transactions in **Treasury Bills and Government dated securities** (Central and State governments) will settle through NDS.

**2.9. Will NDS support settlement of trades in Call Money/Notice Money, CPs and CDs?**

NDS provides for settlement interface to Securities Settlement System at PDO, RBI for transactions relating to **Government Securities** and **Treasury Bills** (outright and repos). The settlement of other Money Market Instruments will be as per existing procedures.

**2.10. Can corporate bonds be traded on NDS ?**

Presently instruments which are under the **regulatory jurisdiction of RBI** are envisaged for trading over the NDS platform. These include Government Securities and Money Market Instruments - Call, Notice/Term Money, CPs, CDs and Repo in Government Securities. Hence, corporate bond can not be traded on NDS.

**2.11. Can deals done through member brokers of exchanges be reported for settlement on NDS ?**

There is no restriction on deals concluded between member brokers of the National Stock Exchange/Bombay Stock Exchange from being entered into the NDS. However such

deals have to be reported only by NDS members for settlement through NDS in PDO-RBI.

### **2.12. Can brokers become members of NDS ?**

The basic requirement for NDS is **membership to INFINET**. Since INFINET membership is restricted to those entities having SGL and/or Current account with RBI or as may be prescribed from time to time, brokers are not eligible to become members of NDS.

### **2.13. Can NDS application software be used if the Front and Back Offices of a member to NDS, are at two different locations in the same city, or in different cities ?**

The first version of the NDS software has been developed taking into account the member and its users (clients) in a **LAN** environment i.e. in same domain. The securities features - electronic digital signature which provides for non repudiation, encryption, decryption, and confidentiality, are at the member server. Hence the NDS, in this version, will not support the locations of the Front and Back offices at two different places. However, this issue will be addressed in the next version when members will be able to use the NDS in a **WAN** environment.

### **2.14. Can two members simultaneously access a firm quote ?**

It is almost impossible that two members can access a firm quote exactly at the same time. The Central Host Server will decide the access to a firm quote depending **on the order of messages received from them**. Besides, after a member responds to the firm quote, the system will complete certain operations like reduction in available amount at firm quote, before giving access to the second member, who may be in queue.

### **2.15. Can a member modify his/her quote if another member has already accessed it ?**

This is not possible as the Central Server will place a lock on his/her quote as long as another member is responding to it. Similarly, if a member has withdrawn his/her own quote for modification, access to that quote will not be available to other members.

### **2.16. Does the NDS platform provide for dealing on behalf of constituent SGL account holders?**

Yes, a member can deal on NDS on behalf of its own constituent account holder in government securities, based on the price given by the client but **only for outright transactions**. Presently repo transaction can not be entered by the member on behalf of its constituent.

### **2.17. Is it mandatory to report trades concluded over phone etc through the NDS ?**

One of the basic objectives of NDS is **dissemination of on-line price information** of transactions in government securities and money market instruments. In order to achieve this objective, transactions not concluded over NDS will have to be necessarily reported through the NDS.

**2.18. Will the names of the concluding parties (buyer and seller) be disclosed to the market.**

No, identity of the parties will not be disclosed to the market. Only the vital information of a transaction viz., ISIN of the security, nomenclature, amount (face value), price/rate and/ or indicative yield, in case applicable, will be disseminated to the market, through Market and Trade Watch.

**2.19. What is the relationship of NDS to Clearing Corporation of India Limited (CCIL) ?**

NDS is an electronic trading platform which will also provide interface to Securities Settlement System. CCIL is an agency which will extend **guaranteed settlement** for trades done/reported on NDS in government securities including Treasury Bills, both outright and Repos through the process of **Novation**.

**2.20. What is the process of Novation and what are the advantages of settling trades through the CCIL ?**

**Novation** is the process by which government securities transactions are settled through CCIL. This means that CCIL will act as a buyer to the seller of security and simultaneously will act as a seller to the buyer of the security. This will in effect remove the **credit risk** faced by members vis-à-vis their counterparties. Besides, CCIL provides the additional comfort of **improved risk management practices** through **daily marking to market of collateral, maintenance of daily margins** by members and through a **Guarantee Fund**.

**2.21. How will trades be settled through CCIL ?**

Once a trade is done/reported over NDS it can be settled either through CCIL or directly through RBI – SGL. Settlement through CCIL will be on **Delivery Versus Payment II (DVP II)** mechanism. DVP II refers to settlement of securities on gross basis (trade by trade basis) while funds will settle on net basis. Settlement through RBI-SGL will follow **DVP-I** mechanism i.e. settlement of both securities and funds on gross basis.

**2.22 Is there a compulsion for routing settlement of trades through the CCIL? Which types of trades will be settled through the CCIL ?**

It is being envisaged that in order to **widen the repo market** and provide **improved risk management practices**, all repo transactions in government securities done/reported on NDS should settle through CCIL. Further it is also envisaged that outright transactions in

government securities for cut-off amount **Rs.20 crore and below** (face Value) should settle through CCIL. Option will be made available to members to settle outright transactions in government securities for face value above Rs. 20 crore either directly through RBI-SGL or through CCIL. Only NDS members can route their deals done among themselves for settlement through the CCIL.

**2.23 What kind of help would be available to the members during the parallel run in WAN environment?**

Hands-on and details of NDS functionalities (2 days) are explained to users of NDS member at the time of porting application software at their premises so that they can participant in parallel run more effectively in WAN environment. Online Help in the form of User Manuals have been loaded in their systems. Further, the team at RBI site would also provide telephonic/email/fax support. For any urgent queries the IBM RTGS Room at Mumbai Regional Office can be contacted over the phone at 022-2634271.