

NPCI/2022-23/ACCT/001

Date: July 01, 2022

To,

All Members Banks of NPCI

Respected Madam / Sir,

**Subject: Acceptance of Government Securities as part of collateral contribution towards Settlement Guarantee Fund (SGF)**

Refer to our earlier circular bearing reference NPCI/2021-2022/RMD/001, it may be noted that member banks can now contribute collateral by way of Government Securities (G-Sec) up-to maximum 50% of total collateral requirement.

**G-Sec Contribution to SGF / Collateral:**

The following terms and conditions will apply with respect to the G-Sec contributions under Standardized Settlement Guarantee Mechanism (SSGM) Policy:

- i. Only those member banks will be made eligible for contributing collateral by way of G-Sec whose total collateral requirement (including cash collateral) is more than INR 10 crore per product
- ii. The benchmark 10-year paper will only be acceptable as a collateral contribution towards SGF
- iii. When the benchmark security changes, NPCI will specify a new security that will be defined as benchmark to be acceptable as a collateral contribution and the member bank needs to replace the existing security with the new benchmark security as specified by NPCI.
- iv. The said security will be accepted from member banks with minimum market value of INR 5 crore (minimum market lot size) and in multiples of market value of INR 1 crore rounded off to the next crore.

For better understanding, the same is illustrated with an example. Refer Annexure I.

The other operational activities will be as per the Guidelines for acceptance of G-Sec (Annexure II). Any changes in the guidelines from time to time will be communicated by NPCI to member banks.

**Agreement and other arrangements for acceptance of G-Sec SGF as collateral from the eligible member banks:**

The Member banks are required to submit the following documents (Annexure III) in original to NPCI in the prescribed format duly completed as provided in the annexure, for processing their request for G-Sec contribution:

- i. Covering letter
- ii. Authorisation to Competent Authority to open G-Sec SGF collateral account with NPCI (Specimen attached)
- iii. G-Sec SGF collateral Account Opening form
- iv. Checklist of documents required for opening G-Sec SGF collateral account with NPCI
- v. G-Sec as SGF collateral agreement (**Agreement template will be shared to member by email on request by the member to NPCI**)

The address to send the above documents is as follows:

Chief Financial Officer / Head Financial Controller  
National Payments Corporation of India  
Unit No. 201, 202, 2<sup>nd</sup> floor,  
Raheja Titanium, off Western Express Highway,  
Jogeshwari (East), Mumbai - 400063

The collateral security will be accepted by NPCI only after the G-Sec SGF collateral agreement is executed by the member bank with NPCI in the format prescribed by NPCI.

The arrangement shall be governed by guidelines issued by NPCI and RBI from time to time, in relation to CSGI and the banks to ensure compliance with such guidelines.

In case of any query you may get in touch with us or post your query to [DL\\_gsecsgf@npci.org.in](mailto:DL_gsecsgf@npci.org.in).

Yours faithfully

Sd/-  
Rupesh Acharya  
**Chief Financial Officer**

**Enclosure:** as above

### Annexure I

#### Illustration of G-Sec Contribution as Collateral for SGF

- i. Minimum market value of security accepted as collateral for SGF is INR 5 crore
- ii. Additional value of security accepted as collateral for SGF shall be in multiples of INR 1 crore

(INR Crore)

Bank Name	Total Collateral Requirement per product	G-Sec Contribution Maximum 50% of (A) or Minimum INR 5 crore and in multiples of INR 1 crore rounded off to next crore as per Guidelines	Hair Cut at 10% of (B)	G-Sec Contribution with market value (rounded off to next crore)	Balance Cash Contribution Minimum 50% of (A) or 100% if value of (B) is less than INR 5 crore
	A	B	C	D = B + C	E
Bank 1	75.00	37.50	3.75	42.00	37.50
Bank 2	10.50	5.25	0.53	6.00	5.25
Bank 3	8.20	4.10	0.35	*	8.20

\*Not Applicable due to computation being less than INR 5 crore minimum lot size to accept as a collateral

Annexure II



**Guidelines for Acceptance of  
Government Securities as part  
of Settlement Guarantee Fund  
Contribution**

Ver. 1.0

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## 1. Introduction

National Payments Corporation of India Ltd (NPCI) carries out clearing & settlement function for retail payment systems operated by it in India. NPCI is cognizant of the settlement related risks to the payment systems operated by it viz. NFS, IMPS, UPI, AePS, NETC, RuPay & NACH. In this regard, NPCI has constituted Settlement Guarantee Fund (SGF) comprising of cash collaterals and funds to be arranged by way of committed Lines of Credit for payment systems, to address any adverse impact of such liquidity/credit risks. The participating members are expected to always maintain required contribution towards the SGF requirement. This member contribution is required to be maintained by every direct member entity.

Currently as per the SGM framework, the member contribution is received in the form of a cash deposit. Based on approval received, it is proposed to alter the current SGM framework to accept portion of the collateral (Maximum up-to 50% as is allowed by RBI guidelines presently) in the form of Government Securities (G-Sec) along with Cash Deposits. Currently, the member participant entities using NPCI products and services have to contribute Cash collateral towards SGF. SGF contributions from all members thus received are maintained in NPCI's bank account/s.

The members who would be eligible and who will like to provide portion of their collateral contribution by way of G-Sec will have to provide necessary documents as specified by NPCI.

## 2. Guidelines

### 2.1 Enablement for acceptance of G-Sec:

NPCI has a Constituents Subsidiary General Ledger (CSGL) account (Account No. 5181900003) with Reserve Bank of India (RBI). NPCI is operationalizing CSGL facility only to accept the G-Sec from eligible member entities.

Eligible security/ies will be identified in line with NPCI guidelines as detailed in **Annexure A**, in this regard. The list of eligible securities will be made available by NPCI from time to time.

### 2.2 Member entities onboarding for CSGL :

Eligible member entities desirous to contribute portion of their collateral contribution by way of G-Sec will have to provide below documents for onboarding:

1. Duly executed G-Sec Collateral Agreement
2. Documents such as Power of Attorney etc. to be executed in favour of NPCI
3. Certified True Copy of the Board Resolution in prescribed format
4. Duly filled G-Sec Collateral Account Opening form
5. Certified True Copy of Address Proof / PAN Card
6. List of Authorised Signatory/ies and photo identity proof of signatory/ies
7. List of present Directors
8. Certified True Copy of Authorisation & Registration granted by relevant Regulatory Authority as applicable
9. All photocopies should be self-attested by the Authorised Signatories

### 2.3 G-sec contribution limits and mechanism:

NPCI's present Settlement Guarantee Mechanism envisages that the member contribution should be 10% of the total SGF requirement. This has to be collected from member entities in the ratio of their transaction throughput. It is now proposed that, this contribution can be in the form of either Cash Deposit or G-sec, where in the G-sec option is being envisaged to be at a maximum of 50% of total Member contribution.

The members who wish to provide portion of their collateral contribution by way of G-Sec need to intimate NPCI about the same, by way of a written letter/mail. G-Sec contributions will be received and maintained in a separate CSGL account with RBI. G-Sec contributions are made from among the list of specified securities which are made eligible by NPCI for SGF / collateral contributions. Security/ies Value Free Transfer (VFT) request will be created and approved by the member entity on the e-Kuber platform of RBI, while effecting the VFT's pertaining to transfer of G-Sec by member banks to NPCI's CSGL account for the purpose of contribution to SGF / Collateral, the member bank should select transfer type code "TNPCI" with description "Transfer to/from NPCI" as the case may be in all such VFT cases. The same will be confirmed by NPCI and then it will be recognized as collateral. Member SGF balances will then be updated upon receipt of relevant securities into NPCI CSGL account with RBI, maintained by NPCI.

The contributions made by the members to SGF in the form of G-sec shall be held in a single dedicated CSGL account of NPCI. The RBI rules and regulations governing CSGL accounts and such other instructions as issued by RBI in this regard shall be applicable to this account and all contributions by Members to SGF in the form of G-Sec shall accordingly be governed by the said RBI rules, regulations and instructions.

NPCI shall have the right to liquidate any of the G-Sec contributed towards SGF by any Member and held in the CSGL account to meet shortfalls and/ or deficiencies in the Clearing and Settlement process. NPCI will be authorized by member entities to pledge, hypothecate, create any charge and/ or encumbrance over G-Sec deposited towards SGF for the purpose of shortfall in settlement obligations

Periodic interest receivable by the Members on their G-Sec contribution towards SGF shall be received by NPCI for and on behalf of the Members and will be transferred to respective members in the manner and mode prescribed by RBI in respect of CSGL Accounts.



### 3. Liquidation in case of Settlement Default

In the event of settlement default by any member entity/ies, NPCI will have to invoke SGF as defined under NPCI Settlement Guarantee Mechanism.

NPCI will hold such documents like Agreement / Power of Attorney etc. from Member entities giving power to NPCI for liquidating G-Sec on behalf of Member entity. In case, G-sec needs to be liquidated, NPCI will be required to intimate the concerned entity/ies and RBI about the need to do so. Accordingly, NPCI would liquidate the G-Sec in NPCI CSGL account after obtaining relevant internal approvals (MD & CEO to approve based on recommendation from Chief of Finance and Chief Risk Officer)

The mechanism in case of any member entity/ies defaulting is provided as waterfall in **Annexure D** for ready reference.

## 4. Other Conditions

### 4.1 Norms

**Total Quantity Limit of G-Sec:** NPCI will define the total quantity limit which can be acceptable from all the member entities of same type of G-sec in its custody for easy liquidity.

**Bank Level Limit for type of G-Sec:** NPCI will define the total quantity limit which can be acceptable from a member entity in its custody for ease of liquidity.

G-Sec contribution will be allowed to member entity subject to a minimum market value of securities above INR 5 crore and in multiples of 1 crore rounded off to next crore. Only those member entities shall be eligible to pay collateral through G-Sec who are also maintaining required cash component of collateral simultaneously.

Members entities will have to bear administrative charges/fees which may be levied time to time towards G- Sec acceptance for this purpose as and when decided by NPCI Management.

NPCI shall have an appropriate lien on contributions made by any of its Members to SGF, towards any amount due from such Members towards recovery of losses, charges, penalties or any other amount due to NPCI and NPCI shall be entitled to utilize the contributions or the proceeds arising out of the contribution, if in the form of securities, to appropriate towards recovery of losses, charges, penalties or any other amount due to NPCI and any default obligations/ shortfalls/ deficiencies and/ or any other dues of such Member arising out of normal settlement operations undertaken by NPCI as part of its normal day to day operations

Interest received by NPCI shall be subsequently transmitted to the Members at the earliest. NPCI shall not be responsible for any delay in receipt of interest by Members and no claim shall rest with NPCI on this account;

NPCI shall not be responsible for servicing corporate actions on securities held by Members, towards SGF, which have been declared as ineligible for SGF contribution;

Statement of Securities held shall be provided by NPCI to Members on a periodic basis.

### 4.2 Mark to Market and Hair Cut

NPCI will have to mark to market the securities deposited as collateral towards SGF. Such valuation can be made through the prices disseminated by Clearing Corporation of India Limited (CCIL) or Fixed Income & Money Market Dealers Association(FIMMDA). The securities shall be valued every month and monitored. NPCI will perform month end valuation to check member's collateral requirement(s) towards SGF. NPCI based on valuation, can issue collateral demand notice, if required.

Hair cut for such securities shall be in the range of 10% / 20% or as determined by NPCI from time to time. The hair cut has been arrived at by keeping in mind the volatility in the G-sec consequent to the increase or decrease in the bank rate.

NPCI to calculate the member entity's collateral requirement on monthly basis and the collateral account will get adjusted on quarterly basis or at such intervals as may be determined by NPCI.

### 4.3 RBI Compliances

The member entity will have to comply with RBI Guidelines any default in / misuse of the CSGL facility by the entity concerned, will make the entity liable to be debarred from the G-Sec SGF facility, in addition to invite any other penal provision as prescribed by the RBI / NPCI in this regards.

### 4.4 Others

NPCI may come from time to time with additional subsequent guidelines / clarifications / communication as the need may be. NPCI reserves the rights to accept / reject the G-Sec of member entities and to amend the guidelines as the need may be. Based on the need, it may alter any of the clauses as may be required to comply with its own policies/regulatory requirements etc.

## 5. Annexures

### A - Eligible Approved Securities (List of Securities):

NPCI will provide the list of eligible G-Sec which will be accepted as non-cash collateral towards SGF. The criteria for accepting G- Sec will be defined by NPCI based on the parameters such as:

- Maturity: G-sec with 10-year maturity may only be prescribed as eligible security.
- Valuation and Liquidity: G-sec having at least average trading volume of INR 200 cr. in the immediately preceding quarter in which those are offered to be placed.

NPCI shall prescribe the eligibility criteria for G-Sec every month and shall provide the list of eligible securities. It may result in the following –

- Exclusion from the current list of eligible securities
- Inclusion in the current list of eligible securities
- Revision in the overall acceptance limit
  - Member wide limit
  - Security wide limit

### B - Acceptance of G-Sec as collateral - Mechanism

NPCI members can provide G-Sec (non-cash) as collateral, depending upon the eligible securities list published from time to time. The securities can be accepted through e-Kuber.

- Members desirous of providing G-sec as collateral shall enter into an arrangement with NPCI.
- Members desirous of providing securities as collateral shall be required to enter the transaction on e-Kuber under Margin Transfer Module at/of NPCI specified time.

### C- Release of collateral

In case any member entity in future like to release the G-sec deposited with NPCI as contribution to SGF, member entity will have to replace it either with required amount of cash or alternative eligible G-Sec. This option can also be exercised in an extreme scenario of a G-sec losing its intrinsic value.

- Members seeking securities withdrawal from their SGF contributions will be required to intimate NPCI about the same by way of notice/letter of withdrawal. NPCI will process the request in 7 days and release the securities after taking into account concerned members' collateral requirement(s).
- G-sec nearing maturity should be replaced by member entities in aforementioned manner or replenished with equal amount in the form of Cash Deposit.

## D – Proposed waterfall in case of settlement default

### Steps:

1. Invocation of Line of Credit on the Default day (T0 day)
2. Liquidation of Fixed Deposits on Default day (T0 day)
3.
  - a. Liquidation of G-Sec as collateral (Selling of G-Sec in the market through NDS OM Web by on T+1)
  - b. Usage of NPCI reserves (FDs to the extent of INR 250 Crore) to fill up the gap to the extent of value of G-Sec and completing the settlement cycle.
4. Receipt of funds on account of sale of G-Sec on T+1 and replenishment of NPCI reserves.

**Annexure III**

Date:

National Payments Corporation of India  
1001A, B Wing, The Capital,  
Bandra Kurla Complex,  
Bandra East, Mumbai 400051.

**Subject: Acceptance of Government Securities (G-Sec) as a collateral for Settlement Guarantee Fund (SGF)**

Dear Sir/Madam,

Kindly find enclosed the following documents for the purpose of submitting G-Sec as a collateral for SGF.

- i. Authorisation to Competent Authority to open G-Sec SGF collateral account with NPCI (Specimen attached)
- ii. G-Sec as SGF collateral agreement
- iii. G-Sec SGF collateral account opening form

We shall transfer the G-Sec to NPCI CSGL account no. 52181900003 maintained with Reserve Bank of India within 10 days from the date of receipt of written communication from NPCI that our request for submitting G-Sec as a collateral has been processed.

Please acknowledge the receipt of this letter.

**Yours sincerely,**

**For.....**

**Authorised Signatory**

**Specimen to be obtained on Company's letter head**  
**Board Resolution for Opening a G-Sec SGF Collateral Account**

Certified copy of Board Resolution passed by the Board of Directors of (Name of the Company),

Place of Meeting :

Date of Meeting :

Convened by :

**“RESOLVED THAT** a G-Sec SGF Collateral Account be opened in the name of (Name of the Company) with National Payments Corporation of India (NPCI) for transferring Government Security (G-Sec) to NPCI CSGL account maintained by NPCI for acceptance of G-Sec as collateral contribution to settlement guarantee fund (SGF) and the following Officials / Directors Jointly / Severally, be and are hereby authorised to operate said account

Sr. No.	Name of the Official / Director	Mode of Operation	Specimen Signature

**RESOLVED FURTHER THAT** the above mentioned officials be and are hereby severally / jointly (as the case may be) authorised to operate the said G-Sec SGF Collateral Account, sign, execute and give deal instructions, give instructions for value free transfer (VFT) of G-Sec, deliver all the documents, as may be necessary for the proper operation and /or closure of the said G-Sec SGF Collateral Account as may be required by NPCI and further to furnish, sign, execute and deliver such agreements and/or indemnities and/or declarations and /or affidavits on behalf of (Name of the Company) in favour of the NPCI as may be required by NPCI in any matter related to G-Sec SGF Collateral Account and to act as Dealers and Authorized Signatories for and on behalf of the (Name of the Company) in relation to G-Sec SGF collateral account and shall sign for all transactions irrespective of the amount involved in the transactions and buy, sell, endorse, transfer, negotiate or otherwise deal in Government Securities and any other securities issued by Government of India and to receive coupon interest, redemption proceeds thereof, generally to do all such acts and deeds as may be necessary with respect to the transfer, sale, purchase of any securities in the said G-Sec SGF Collateral Account and for all matters connected therewith and/or incidental thereto;

**“RESOLVED FURTHER THAT** Company Secretary / Director be and is hereby authorised to furnish a copy of the resolution certified as true to NPCI.”



**NATIONAL PAYMENTS CORPORATION OF INDIA**

Treasury Operations, Unit No. 202, 2nd Floor, Raheja Titanium, off Western Express Highway,  
Jogeshwari East,  
Mumbai - 400063

Phone : 7045958842 / 9833855022

**G-Sec SGF Collateral Account Opening Form**

**Instructions:**

1. Please fill all the applicable details in full
2. Please fill the form in **CAPITAL LETTERS** Only
3. Strike off whichever is not applicable

I/We request you to open a G-Sec SGF Collateral Account in my/our name as per following details Date: \_\_\_\_\_

**Type of Account**

<input type="checkbox"/> Scheduled Commercial Bank	<input type="checkbox"/> Urban Cooperative Bank	<input type="checkbox"/> Small Finance Bank
<input type="checkbox"/> Cooperative Bank	<input type="checkbox"/> State / District Cooperative Bank	<input type="checkbox"/> Payments Bank
<input type="checkbox"/> Others please specify		

**Applicants Details**

Name of the Applicant												
Registered Office Address											Pin Code	
Correspondence Address											Pin Code	
Tel. No. with STD Code												
Fax No. with STD Code												
Email Address												
PAN												
Legal Entity Identifier (Code)												



**Details of Authorised Signatory / ies**

Name															
Fathers / Husband Name															
Address															
Tel. No.															
Mobile No.															
Email Address															
PAN															
															latest photograph along with signature across

**Declaration**

Details of any action taken by any regulatory authority against the clients or its authorised persons in charge of dealing in securities for violation of securities laws / other economics offences.

I/We have opened one designated G-Sec SGF Collateral A/c No.\_\_\_\_\_. This Designated Account will be only used for G-Sec SGF Collateral related transaction of transfer of securities towards Settlement Guarantee Fund / Collateral to NPCI.

I/We hereby declare that the details furnished above are true and correct to the best of my / our knowledge & belief and I/we undertake to inform you of any changes therein immediately. In case any of the above information is found to be false or untrue or misleading or misrepresenting I am/We are aware that I/We may be held liable for it.

Company stamp  
and sign

\_\_\_\_\_  
 Authorised  
Signatory/ies

Date:  
Place  
:

For NPCI office use Only

Application

Number: \_\_\_\_\_

Application

ID: \_\_\_\_\_

Application is reviewed and verified by \_\_\_\_\_ on  
\_\_\_\_\_ (date),

We hereby, declare that this Gilt Account Opening form is complete in all respects and all relevant documents have been obtained. We also confirm that necessary Know Your Customer (KYC) norms as directed by Reserve Bank of India (RBI) and as per NPCI's Guidelines have been complied. The Gilt Account may please be set up.

Date:

\_\_\_\_\_  
Lead / Senior  
Lead

**NATIONAL PAYMENTS CORPORATION OF INDIA**

**Check list for G-Sec SGF Collateral Account Opening**

<b>Sr. No.</b>	<b>Required Documents</b>
1	Certified true copy of Authorisation & Registration granted by relevant Regulatory Authority
2	Duly executed G-Sec SGF Collateral Account Agreement
3	Certified True Copy of the Board Resolution in prescribed format
4	Duly filled G-Sec SGF Collateral Account Opening Form
5	Certified True Copy of the Address Proof of the entity
6	Certificate of Incorporation, MOA & AOA
7	Certified True Copy of the PAN Card of the entity
8	Certified True Copy of the GST Registration Certificate
9	Certified True Copy of the Legal Entity Identifier (LEI) Certificate
10	List of Authorised Signatories
11	Photo identity proof of Authorised Signatories
12	All photo copies should be self-attested by Authorised Signatories