

Gist of RBI Circulars issued during the quarter April – June 2007

UBD Circulars

Rounding off Cheques to the Nearest Rupee

Banks are advised to ensure that cheques/ drafts issued by clients containing fractions of a rupee are not rejected or dishonoured by them. Banks may also review the practice being followed by them in this regard and take necessary steps, including through issue of internal circulars, etc. to ensure that the concerned staff are well versed with these instructions so that the general public does not suffer. Banks may also ensure that appropriate action is taken against members of their staff who are found to have refused to accept cheques/ drafts containing fractions of a rupee.

(UBD. CO. BPD. No. 34 /12.05.001/ 2006-07 dated April 17, 2007); (RPCD.CO.RF. BC. No. 67 /07.02.01/2006-07 dated April 9, 2007); (RPCD.CO.No.RRB.BC. 69/03.05.33 / 2006 -07 dated April 11, 2007)

Credit Flow to Micro, Small and Medium Enterprises Sector

Consistent with the notification of the Micro, Small and Medium Enterprises Development (MSMED) Act 2006, the definition of micro, small and medium enterprises engaged in manufacturing or production and in providing or rendering of services is being modified and is required to be implemented by the banks along with other policy measures with immediate effect. (For details on the definitions, please refer to the original circular). The Boards of the banks may review the existing guidelines/instructions and formulate a comprehensive and liberal policy in respect of loans to micro, small and medium (MSME) sector and adopt the same at the earliest. The existing provisions of the Interest on Delayed Payment Act, 1998 to Small Scale and Ancillary Industrial Undertakings, have been strengthened under the MSMED Act (for details, refer to the original circular).

(UBD. PCB.Cir.No 35 /09.09.001/06-07 dated April 18, 2007); (RPCD.PLNFS. BC.No.63/ 06.02.31/ 2006-07 dated April 4, 2007)

Nomination Facility in Single Deposit Accounts

Banks are advised to generally insist that the person opening a deposit account makes a nomination. In case the person opening an account declines to fill in nomination, the bank should explain the advantages of nomination facility. If the person opening the account still does not want to nominate, the bank should ask him to give a specific letter to the effect that he does not want to make a nomination. In case the person opening the account declines to give such a letter, the bank should record the fact on the account opening form and proceed with opening of the account if otherwise found eligible. Under no circumstances, a bank should refuse to open an account solely on the ground that the person opening the account refused to nominate. Further, banks are advised to follow the procedure outlined above in respect of deposit accounts in the name of Sole Proprietary Concern also.

(UBD.CO.BPD.Cir No: 36 /13.01.000/2006-07 dated April 19, 2007); (RPCD.CO.RF. BC.No.70 /07.38.01/2006-07 dated April 12, 2007); (RPCD.CO. RRB. BC. No.71 /03.05. 33 //2006-07 dated April 13, 2007); (DBOD.No.Leg BC. 75 /09.07.005/2006-07 dated April 5, 2007 in respect of Scheduled commercial banks)

Maintenance of Cash Reserve Ratio (CRR) on Exempted Categories

Every Scheduled Primary (Urban) Co-operative Bank/ Scheduled State Cooperative Bank shall be exempted from maintaining average CRR with effect from April 01, 2007 on the following liabilities as computed under section 42 (1) of the Reserve Bank of India Act, 1934 (i) liabilities to the banking system in India as computed under Clause (d) of the explanation to Section 42 (1) of the RBI Act, 1934, and (ii) transactions in Collateralized Borrowing and Lending Obligation (CBLO) with Clearing Corporation of India Ltd.(CCIL)

(UBD (PCB) Cir.No./6/12.03.000/2006-07 dated April 25, 2007); (RPCD.CO.RF. BC.No.77/07.02.01/2006-07 dated April 24, 2007)

Section 42(1) of Reserve Bank of India Act, 1934- Maintenance of Cash Reserve Ratio (CRR)

Scheduled Primary (Urban) Co-operative Banks/ Scheduled State Co-operative Banks/ Regional Rural Banks/ Scheduled Commercial Banks shall continue to maintain CRR on their total demand and time liabilities, subject to the exemptions as indicated in our circulars April 25, 2007 from the fortnights as detailed below.

Effective date (i.e., the fortnight beginning from)	CRR on net demand and time liabilities (per cent)
April 14, 2007	6.25
April 28, 2007	6.50

It has been decided that with effect from the fortnight beginning March 31, 2007, the Reserve Bank of India will not be paying any interest on the CRR balances maintained by Scheduled Primary (Urban) Co-operative Banks/ Scheduled State Co-operative Banks/ Regional Rural Banks/Scheduled Commercial Banks.

(UBD (PCB).No./7/12.03.000/2006-07 dated April 25, 2007); (RPCD.CO.RF. BC.No.75/07.02.01/2006-07 dated April 24, 2007 in respect of StCBs); (RPCD.RRB.CO.BC. No.73/03.05.28 (B)/2006-07 dated April 24, 2007 in respect of RRBs); (DBOD.No. Ret.BC.82 /12.01.001/2006-07 dated April 20, 2007 in respect of Scheduled Commercial banks)

Interest Rates on Non-Resident (External) Rupee (NRE) Deposits

The interest rates on fresh Non-Resident (External) Rupee (NRE) term deposits for one to three years maturity should not exceed the LIBOR / SWAP rates, as on the last working day of the previous month, for US dollar of corresponding maturities. (as against LIBOR / SWAP rates plus 50 basis points effective from close of business on January 31, 2007). The interest rates as determined above for three year deposits will also be applicable in case the maturity period exceeds three years. The changes in interest rates will also apply to NRE deposits renewed after their present maturity period.

(UBD (PCB) CO BPD Cir No: 37/13.01.000/2006-07 dated April 26, 2007); (RPCD.CO. RF.BC.No.79/07.38.01/2006-07 dated April 26, 2007); (RPCD.No.RRB. BC. 82/03. 05. 33 (C) /2006-07 dated April 26, 2007)

Income Recognition, Asset Classification and Provisioning Norms

It has been decided that, for Tier-I banks, (i) the 180 day loan delinquency norm for NPAs is extended by one more year i.e. up to March 31, 2008, (ii) the 12-month period for classification of a substandard asset to doubtful category will be effective from April 1, 2008, (iii) these banks would be required to provide 100% on the secured portion of D-III advances classified as doubtful for more than three years on or after April 1, 2010, and (iv) for the outstanding stock of D-III advances as on March 31, 2010, banks will be required to provide (a) 50% as on March 31, 2010, (b) 60% as on March 31, 2011, (c) 75% as on March 31, 2012, and (d) 100% as on March 31, 2013. For Tier-II banks

(i) 100% provisioning for advances classified as D-III (doubtful for more than three years) will apply to those classified as such on or after April 1, 2007 instead of those so classified on or after April 1, 2006, and (ii) consequently, for the outstanding stock of D-III assets as on March 31, 2007, banks would be required to provide (a) 50% upto March 31, 2007, (b) 60% as on March 31, 2008 (c) 75% as on March 31, 2009, and (d) 100% as on March 31, 2010.

(UBD. PCB. Cir No. 38/09.14.000/2006-07 dated April 30, 2007)

Loans Extended Against Gold and Silver Ornaments- Reduction of Risk Weight

It has been decided to reduce, with immediate effect, the risk weight on loans up to Rs.1 lakh against gold and silver ornaments to 50 per cent from the existing level of 125 per cent.

(UBD (PCB).Cir.No.39 /13.05.000/06-07 dated April 30, 2007)

Residential Housing Loans: Reduction of Risk Weight

It has now been decided to reduce the risk weight on the residential housing loans to individuals from the existing 75 per cent to 50 per cent as a temporary measure. This dispensation will be applicable for loans up to Rs.20 lakh and will be reviewed after one year keeping in view the default experience and other relevant factors.

(UBD. PCB.Cir No. 40/ 13.05.000/ 2006-07 dated May 4, 2007); (DBOD.BP.BC. 92 /21.01.002/ 2006-07 dated May 3, 2007 in respect of commercial banks)

In the High Court of Judicature at Patna – CWJC No. 13422 of 2006 – Council for the Protection of Public Rights and Welfare vs. Union of India and Others

Banks are advised that the Hon'ble Patna High Court vide its order dated 10 April 2007 in the captioned matter has directed the Reserve Bank of India to direct all the banks that the companies listed in the enclosed list (numbering 918), which have been declared as 'defaulted companies' be not allowed to deal with the money transaction in their accounts. The banks are advised to ensure that no money transaction of the company/ies, declared as 'defaulted companies' by the Hon'ble Patna High Court be allowed in their banks. (for the Court order and the list of defaulted companies, please refer to the original circular)

(UBD.CO.BPD. (PCB).No.41/12.05.001 /2006-07 dated May 4, 2007); (RPCD.CO.RRB. BC. No. 91 / 03.05.33/2006-07 dated May 14, 2007)

Undertaking Insurance Business.

It has now been decided to permit UCBs registered in States that have entered into MoUs with the Reserve Bank or registered under the Multi State Co-operative Societies Act, 2002 to undertake insurance agency business as corporate agents without risk participation, subject to compliance with the following eligibility norms: (a) UCB should have a minimum net worth of Rs 10 crore, and (b) It should not have been classified as Grade III or IV bank. In case of UCBs registered in States which have not signed MoUs with the Reserve Bank existing norms shall continue.

(UBD.PCB.Cir.No. 42 /09.11.200/06-07 dated May 7, 2007)

Branch Banking Statistics-Submission of Quarterly Returns-

It has been decided to consolidate database on Not Administratively Independent Offices (NAIOs) by DESACS, RBI. For this purpose, a consolidated list of NAIOs, existing as on March 31, 2007 shall be submitted by the banks in the format given in Annex B, preferably in MS Excel sheet. Later on, from the quarter ended June 30, 2007 these details would be collected as a part of Proformae I, II and the banks would not be required to submit separately. It is also proposed to allot 9-digit Part I code to NAIOs (first 7-digits from the left will be that of the base branch to which the NAIOs will be linked, last two digits will be allotted as per date of opening). As Part I code of the base branch forms an important part of the code of NAIOs, to facilitate appropriate coding and further processing, banks should furnish, along with other particulars, the Part I code of base branch in their application submitted to the regional office concerned of Urban Banks Department (UBD) for licence/permission for opening/closing/ shifting NAIOs.

As the Uniform Codes-Parts I and II are assigned to bank offices/ branches/ NAIOs by DESACS, RBI, CO, Mumbai on the basis of the data received in the proformae, banks are requested to strictly follow the instructions appended thereto while filling and submitting the proformae. It may also be ensured that all mandatory items of Proformae-I and II, a list of which is enclosed (Annex-A) are filled up properly and correctly.

The quarterly Proformae I and II should be submitted from one office only i.e. head office/central office/ corporate office/principal office etc. of the bank to DESACS and the regional offices of the UBD. In case there is nothing to report a NIL statement should be submitted. First such returns in the revised Proformae I & Proformae II should relate to the quarter ending June 30, 2007 and should be submitted preferably, in soft copy by July 31, 2007. Banks may ensure that the subsequent quarterly returns are submitted within 14 days of the month succeeding the quarter to which they relate.

(UBD.CO.LS. Cir. No. / 43 /07.01.000/2006-07 dated May 9, 2007)

Complaints About Excessive Interest Charged by Banks

Boards of banks are advised to lay out appropriate internal principles and procedures so that usurious interest, including processing and other charges, are not levied by them on loans and advances. In laying down such principles and procedures in respect of small value loans, particularly, personal loans and such other loans of similar nature, banks may take into account, *inter-alia*, the following broad guidelines: (i) an appropriate prior-approval process should be prescribed for sanctioning such loans, which should take into account, among others, the cash flows of the prospective borrower, (ii) interest rates charged by banks, *inter-alia*, should incorporate risk premium as considered reasonable and justified having regard to the internal rating of the

borrower. Further, in considering the question of risk, the presence or absence of security and the value thereof should be taken into account, (iii) the total cost to the borrower, including interest and all other charges levied on a loan, should be justifiable having regard to the total cost incurred by the bank in extending the loan, which is sought to be defrayed and the extent of return that could be reasonably expected from the transaction, (iv) in the case of loans to borrowers under priority sector, no penal interest should be charged for loans up to Rs.25,000. Penal interest may be levied for reasons such as default in repayment, non-submission of financial statements, etc. However, the policy on penal interest should be governed by well-accepted principles of transparency, fairness, incentive to service the debt and due regard to genuine difficulties of customers, (v) banks should ensure that the total interest debited to an account should not exceed the principal amount in respect of short term advances granted to small and marginal farmers. The small and marginal farmers for the purpose shall include those with land holding of 5 acres and less and (iv) an appropriate ceiling may be fixed on the interest, including processing and other charges that could be levied on such loans, which may be suitably publicised.

Banks should put in place suitable principles and procedures in this regard within a period of three months from the date of this circular.

(UBD.PCB.Cir.No.44/13.04.000/06-07 dated May 18, 2007); (RPCD.CO. RRB. BC. No. 92/03.05.28-B /2006-07 dated May 15, 2007, in respect of RRBs); (RPCD.CO. RF.BC.No.93/07.38.01/2006-07 dated May 16, 2007 in respect of StCBs, DCCBs); (DBOD No. Dir.BC.93/ 13.03.00/2006-07 dated May 7, 2007 in respect of scheduled commercial banks)

Know Your Customer (KYC) Norms / Anti-Money Laundering (AML) Standards / Combating of Financing of Terrorism (CFT) – Wire Transfers

Wire transfer is an instantaneous and most preferred route for transfer of funds across the globe and hence, there is a need for preventing terrorists and other criminals from having unfettered access to wire transfers for moving their funds and for detecting any misuse when it occurs. Banks must ensure that the guidelines prescribed in this circular shall be followed in respect of all cross border and domestic wire transfers. (For details of the guidelines, please refer to the original circular).

(UBD. CO. BPD (PCB) No. 45 / 12.05.001/2006-07 dated May 25, 2007); (RPCD.CO. RF.AML.BC. No.96/07.40.00/2006-07 dated May 18, 2007); (RPCD.CO.RRB.AML.BC. No.98 /03.05.28-A/2006-07 dated May 21, 2007 in respect of RRBs); (DBOD.AML.BC. No. 77 / 14.01.001 / 2006-07 dated April 13, 2007 in respect of scheduled commercial banks)

Norms for Maintaining NRE/NRO Accounts

It has been decided that banks registered in States that have entered into a Memorandum of Understanding (MOU) with Reserve Bank for supervisory and regulatory co-ordination and those registered under the Multi State Co-operative Societies Act, 2002 may be permitted to open NRE accounts subject to compliance with the following eligibility norms: (i) Minimum net worth of Rs. 25 crore, ii) CRAR of not less than 9%, (iii) Net NPAs to be less than 10%, (iv) Compliance with CRR/SLR requirements, (v) Net profit for preceding three years without any accumulated losses, (vi) Sound internal control systems, (vii) Satisfactory compliance with KYC/AML guidelines, and (viii) Presence of at least two professional directors on the Board.

It has now been decided that banks may maintain NRO accounts, arising from their redesignation as such,

upon the account holders becoming non-resident. Opening of fresh NRO accounts will not be permitted. Further, no fresh credits barring periodical credit of interest will be allowed in these accounts. However, these restrictions will not be applicable to UCBs having Authorized Dealer Category I licence. UCBs may apply to the regional offices of the Reserve Bank of India for fresh authorization, to maintain NRE accounts/renewal of the existing authorization, wherever applicable.

(UBD. PCB. Cir.No. 46/16.12.000/06-07 dated June 4, 2007)

Extension of Safe Deposit Locker / Safe Custody Article Facility and Access to Safe Deposit Lockers / Return of Safe Custody Articles by Banks.

The Committee on Procedures and Performance Audit on Public Services (CPPAPS) had made some recommendations for easy operation of lockers. The existing instructions have been reviewed and banks are advised to follow the revised guidelines on the captioned subject. (For the revised guidelines, please refer to the original circular)

(UBD. CO. BPD. No. 47/12.05.001/ 2006-07 dated June 21, 2007); (RPCD.CO.RF.BC No. 95/07.38.01/2006-07 dated May 18, 2007); (DBOD.No.Leg.BC.78 /09.07.005/2006-07 dated April 17, 2007 in respect of scheduled commercial banks)

RPCD Circulars

103 Minority Concentrated Districts Having at least 25% Minority Population

Government of India, Ministry of Welfare had notified the following as minority communities: i) Sikhs, ii) Muslims, iii) Christians, iv) Zoroastrians, and v) Buddhists. Government of India has now advised that credit flow should be monitored in 103 minority concentration districts which have at least 25% minority population, excluding those States/UTs where minorities are in majority (J & K, Punjab, Meghalaya, Mizoram, Nagaland & Lakshdweep). List containing names of 103 districts is enclosed. The data may be furnished at half yearly intervals w.e.f April 1,2007. (For the list of districts, please refer to the original circular)

(RPCD.SP.BC.No. 83/09.10.01/2006-07 dated April 27, 2007)

Revised Guidelines on Lending to Priority Sector

The recommendations of the Internal Working Group set up in Reserve Bank have been examined in the light of the comments/suggestions received and the guidelines on priority sector lending have been revised. The detailed revised guidelines are enclosed. These guidelines take into account the revised definition of small and micro enterprises as per the Micro, Small and Medium Enterprises Development Act, 2006. The revised guidelines will be effective with immediate effect. (For the details of revised guidelines, please refer to the original circular).

(RPCD. No. Plan. BC. 84 /04.09.01/ 2006-07 dated April 30, 2007)

Simplification of the Procedures and Processes for Obtaining Agricultural Loans

Banks may immediately dispense with the requirement of production of 'no due' certificate from various

banks/co-operatives operating in the area for small loans up to Rs.50,000 to small and marginal farmers, share-croppers and the like and, instead, obtain self-declaration from the borrower. One of the problems faced by banks in lending to landless labourers, share-croppers and oral lessees is the absence of documents verifying their identity and status. In order to overcome this problem, banks may accept certificates provided by local administration/*panchayati raj* institutions regarding the cultivation of crops in case of loans to landless labourers, share-croppers and oral lessees.

(RPCD.PLFS. BC. No.85 /05.04.02/ 2006-07 dated April 30, 2007)

Entry of Regional Rural Banks (RRBs) into Insurance Agency Business

It has been decided that RRBs may take up corporate agency business, without risk participation, for distribution of all types of insurance products, including health and animal insurance, subject to the following conditions: (i) The bank should comply with the Insurance Regulatory and Development Authority (IRDA) regulations for acting as 'composite corporate agent', (ii) The bank should not adopt any restrictive practice of forcing its customers to go in only for a particular insurance company in respect of assets financed by the bank. The customers should be allowed to exercise their own choice, (iii) The risks, if any, involved in insurance agency should not get transferred to the business of the bank, and (iv) As the participation by a bank's customer in insurance products is purely on a voluntary basis, it should be stated in all publicity material distributed by them in a prominent way. There should be no 'linkage' either direct or indirect between the provision of banking services offered by the bank to its customers and use of the insurance products. The bank need not obtain prior approval of the Reserve Bank for taking up corporate agency business for distribution of insurance products without risk participation. However, a report may be sent to the concerned regional office of Reserve Bank (RPCD) within 15 days of commencing the insurance agency business.

(RPCD.CO RRB.BC.No.86/03.05.33 (G)/2006-07 dated May 3, 2007)

Valuation of Investment in SLR/Approved Securities by Regional Rural Banks (RRBs)

It has been decided that the exemption granted to RRBs up to the financial year 2006-07 from 'mark to market' norms in respect of their investments in SLR securities be extended by one more year i.e. for the financial year 2007-08. Accordingly, RRBs will have the freedom to classify their entire investment portfolio of SLR securities under 'Held to Maturity' for the financial year 2007-08 with valuation on book value basis and amortisation of premium, if any, over the remaining life of securities. To enable the RBI to analyse the impact of moving towards 'mark to market', banks should inform the RBI, latest by May 31, 2007, the book value and market value of their SLR investments as on March 31, 2007.

(RPCD.RRB.BC.No.87/03.05.34/2006-07 dated May 8, 2007)

Proposal for Continuation of 2 percent Interest Subvention Scheme for Short-term Crop Loans in 2007-08

Government will provide interest subvention of 2% p.a. to Public Sector Banks in respect of short-term production credit up to Rs.3 lakh provided to farmers. This amount of subvention will be calculated on the amount of the crop loan disbursed from the date of disbursement/drawal up to the date of payment or up to the date beyond which the outstanding loan becomes overdue i.e. March 31, 2008 for Kharif and June 30, 2008 for Rabi, respectively, whichever is earlier. This subvention will be available to Public Sector Banks on the condition that they make available short-term credit at ground level at 7% p.a.

Banks are also advised that (i) in order to enable Government to provide subvention, banks are required to submit their claims on a half-yearly basis as at September 30, 2007 and March 31, 2008, within one month from the end of the respective half years. (ii) the claim for the half-year ending March 31, 2008 should also accompany a statutory auditor's certificate certifying that the claims for subvention of Rs. ___ (amounts claimed for each of the half-years to be specified) for the entire year ended March 31, 2008 as true and correct. Final settlement of the claims will be done only on receipt of this certificate, and (iii) claims may be submitted to the Chief General Manager-in-Charge, Rural Planning and Credit Department, Reserve Bank of India, Central Office, Shahid Bhagat Singh Road, Fort, Mumbai – 400 001.

(RPCD.No.PLFS.BC. 90/05.04.02/2006-07 dated May 10, 2007)

IT- Enabled Financial Inclusion

Financial inclusion objectives would not be fully met if the banks do not increase the banking outreach to the remote corners of the country. This has to be done with affordable infrastructure and low operational costs with the use of appropriate technology. This would enable banks to lower the transaction costs to make small ticket transactions viable. A few banks have already initiated certain pilot projects in certain remote parts of the country, utilizing smart cards/mobile technology to extend banking services similar to those dispensed from branches. Banks are, therefore, urged to scale up their financial inclusion efforts by utilizing appropriate technology. Care may be taken to ensure that the solutions developed are (i) highly secure, (ii) amenable to audit; and (iii) follow widely accepted open standards to allow inter-operability among the different systems adopted by different banks.

(RPCD.CO.RF.BC.No.94/07.38.01/2006-07 dated May 18, 2007); (RPCD. CO. RRB. BC. No.97 /03.05.33 (F)/2006-07 dated May 21, 2007 in respect of RRBs); (DBOD.No.Leg.BC./94 /09.07.005/2006-07 dated May 07, 2007 in respect of commercial banks)

Revised Guidelines on Lending To Priority Sector – Weaker Sections

In partial modification to circular RPCD. No. Plan. BC. 84 /04.09.01/2006-07 dated April 30, 2007, the following clause may be added under paragraph 8, of Section I of the said circular: (j) loans granted under (a) to (i) above to persons from minority communities as may be notified by Government of India from time to time. In States, where one of the minority communities notified is, in fact, in majority, item (j) will cover only the other notified minorities. These States/Union Territories are Jammu and Kashmir, Punjab, Sikkim, Mizoram, Nagaland and Lakshadweep.

(RPCD. No. Plan. BC. 10856 /04.09.01/ 2006-07 dated May 18, 2007)

Target Under the Prime Minister Rozgar Yojana (PMRY) for 2007-2008

Banks are advised that Government of India have allocated a target of 3, 75,690 to States/UTs as per 'Annexure A', under PMRY for the year 2007 – 2008. The targets have been worked out on the basis of the final performance report for the year 2005-06 of states/UTs. The list of States/UTs where the recovery of loans is less than 35 percent as for the half year ending March, 2006 is given at 'Annexure B'. It is requested that appropriate action plans for improving recovery of loans may be formulated by each of the implementing banks in these states. The terms and conditions of the Yojana will be governed by the revised guidelines for PMRY, as furnished in the 'Annexure – D'. (For details of the revised guidelines on PMRY, please refer to the original circular)

(RPCD.PLNFS.BC.No.100/ 09.04.01/2006–2007 dated May 29, 2007)

Revision of Differential Rate of Interest Scheme

In his Budget Speech (Para 87) for 2007-08, the Hon'ble Finance Minister has proposed to raise the limit of the loan under the Differential Rate of Interest scheme from Rs 6500/ to Rs 15000/ and the limit of the housing loan from Rs 5000/ to Rs 20000/ per beneficiary. The target for lending under DRI scheme will continue to be 1% of the previous years' total advances as hitherto.

(RPCD. SP. BC. No 101 / 09. 07. 01/ 2006-07 dated June13, 2007)

Master Circular on Branch Licensing - Regional Rural Banks (RRBs)

It has been decided that the compliance with conditions prescribed at Sr.Nos. (iii) to (v) under paragraph 1.2 of the master circular on the subject may be left to the discretion of the concerned Empowered Committee for RRBs. The other instructions contained in the captioned Master Circular will, however, remain unchanged.

(RPCD.CO.RRB.No.BC.102/03.05.90-A/2006-07 dated June 15, 2007)

RRBs - Participation in Consortium Lending

It has been decided to permit the RRBs to participate in consortium lending, within the extant exposure limits, with their sponsor banks as also with other public sector banks and developmental financial institutions (DFIs), subject to the condition that the project to be financed is in the area of operation of the RRB concerned and guidance and appraisal of the project is provided by their sponsor bank.

(RPCD.CO.No.RRB.BC.104/03.05.34/2006-07 dated June 19, 2007)

Microfinance - Submission of Progress Reports

It has been decided to revise the format for reporting the progress under microfinance. Banks may report the progress to NABARD Micro Credit Innovations Department on a half-yearly basis, as on 30 September and 31 March each year, so as to reach them within 30 days of the half-year to which the report relates.

(RPCD.CO.MFFI.BC.No. 103 /12.01.01/2006-07 dated June 20, 2007)

Master Circular on Branch Licensing - RRBs

It has been decided that RRBs may be allowed to set up Service Branches / Central Processing Centres (CPCs) / Back Offices exclusively to attend to back office functions such as data processing, verification and processing of documents, issuance of cheque books, demand drafts, etc. and other functions incidental to their banking business. These offices should have no interface with customers and would not be allowed to be converted into general banking branches. These offices would be treated on par with a branch and the RRBs shall be required to obtain necessary licence from the concerned regional office of RBI (RPCD).

(RPCD.CO. RRB. No. BC. 105 /03.05.90-A /2006-07 dated June 22, 2007)

Authorisation to Open/Maintain NRO/NRE Accounts in Rupees and to Accept FCNR Deposits

In supersession of the instructions contained in our earlier circulars, the following criteria shall be applicable for opening/maintaining Non-Residents (Ordinary / External) accounts in rupees and for acceptance of FCNR (B) deposits by RRBs: (i) The bank should have a positive net-worth, (ii) The bank should not have defaulted in maintenance of CRR/SLR requirements on more than three occasions during the preceding two years,

(iii) The bank should have earned net profit during the preceding year, (iv) Net NPA level of the bank should not exceed five per cent of the outstanding advances as on March 31 of the preceding year, (v) The bank should adhere to the 'Know Your Customer (KYC)' / 'Anti- Money Laundering (AML)' norms, as may be prescribed from time to time, (vi) The bank should possess requisite skills and capabilities to deliver such services, (vii) While the FCNR deposit receipts would be issued by RRBs to the depositors concerned, the foreign currency funds received as deposits could be either placed by the RRBs as deposits matching foreign currency deposits with their sponsor banks or swapped with the sponsor bank into rupees. In both cases, the RRB should not carry any foreign currency or maturity mismatch risk in their books. The operational and accounting details etc. may be decided by mutual agreement between the RRBs and the sponsor banks, (viii) The RRB will maintain CRR/SLR on rupee equivalent of such deposits in accordance with the instructions issued by the Reserve Bank from time to time, (ix) For acceptance of FCNR (B) deposits, the RRB should enter into a tie-up arrangement with its sponsor bank regarding the modalities for maintenance/operation of accounts, placement of deposits with sponsor banks, management of currency and other attendant risks, etc. subject to the guidelines issued by RBI's Foreign Exchange Department (FED) in this regard, (x) The sponsor bank should undertake to provide necessary guidance to the RRB in compliance with various directives/guidelines that might be issued by Reserve Bank of India; and (xi) The bank should have furnished satisfactory compliance on the serious irregularities pointed out in the latest inspection report of NABARD.

RRBs, desirous of opening such accounts, may submit their applications, along with necessary details, to regional offices of Foreign Exchange Department concerned for grant of necessary authorisation in this regard.

(RPCD.CO.RRB.No.BC..106 /03.05.33(C)/2006-07 dated June 28, 2007)

DBOD / DBS Circulars

Gold (Metal) Loan – Tenor of

It has been decided to allow the nominated banks themselves to decide the tenor of the Gold (Metal) loans - which they are permitted to extend to domestic jewellery manufacturers, who are not exporters of jewellery - *provided* the tenor does not exceed 180 days and the bank's policy with regard to the tenor and monitoring of end use of gold loans is documented in the bank's loan policy and strictly adhered to.

(DBOD.No.IBD.BC.71/23.67.001/2006-2007 dated April 3, 2007)

Guarantees for Export Advance

It is reiterated that, as guarantees contain inherent risks, it would not be in the interest of the banks or the financial system if such transactions as mentioned in para 1 of this circular are entered into by banks. Banks are, therefore, advised to be careful while extending guarantees against export advances so as to ensure that no violation of FEMA regulations takes place and banks are not exposed to various risks. It will be important for the banks to carry out due diligence and verify the track record of such exporters to assess their ability to execute such export orders. Banks should also ensure that the export advances received by the exporters are in compliance with the regulations/directions issued under the Foreign Exchange Management Act, 1999. (For details, refer to the original circular).

(DBOD No. Dir.BC.72/ 13.03.00/2006-07 dated April 3, 2007)

Prudential Norms on Income Recognition, Asset Classification and Provisioning Pertaining to Advances – Projects Involving Time Overrun

It has been decided to partially modify the asset classification norms for infrastructure projects alone, involving time overrun in terms of sub-para (iv) of Para 4.2.17 of Master Circular DBOD No. BP.BC. 15/ 21.04.048/ 2006-07 dated 1 July 2006. In case of infrastructure projects to be financed by banks, the date of completion of the project should be clearly spelt out at the time of financial closure of the project and if the date of commencement of commercial production extends beyond a period of one year after the date of completion of the project, as originally envisaged, the account should be treated as sub-standard. The revised instructions come into force with effect from 31 March 2007.

(DBOD No. BP.BC. 76 /21.04.048/2006-07 dated April 12, 2007)

Guidelines - Accounting Standard 17(Segment Reporting) – Enhancement of Disclosures

Banks will adopt the following business segments for public reporting purposes, from March 31, 2008: (a) Treasury, (b) Corporate / Wholesale Banking, (*new*), (c) Retail Banking, (*new*), and (d) Other Banking Business. The geographical segments will remain unchanged as 'domestic' and 'international'. (For the indicative list of items to be included under each category, please refer to the original circular).

(DBOD.No. BP.BC. 81 / 21.04.018/ 2006-07 dated April 18, 2007)

Introduction of 'Protected Disclosures Scheme for Private Sector and Foreign Banks'

The Government of India, vide its resolution dated April 21, 2004 had authorized the Central Vigilance Commission (CVC) as the 'Designated Agency' to receive written complaints for disclosure on any allegation of corruption or misuse of office by any employee of the Central Government or of any corporation established by or under any Central Act, Government companies, societies or local authorities owned or controlled by the Central Government and recommend appropriate action. The resolution mentioned above is applicable to Central Government and Public Sector enterprises including Public Sector Banks. As private sector and foreign banks are not covered by the above resolution, RBI proposed to introduce a similar scheme for these banks. The draft of the scheme was placed on the website of Reserve Bank on January 25, 2006 inviting suggestions from all concerned, including members of public. After considering all the suggestions received by RBI, the scheme has since been finalized and it has been decided to implement the same with immediate effect. Details of the scheme are furnished in the Annex. All the private sector and foreign banks operating in India are requested to take necessary action in this regard. (For details of the scheme, refer to the original circular).

(DO DBS .FrMC No. BC 5 /23.02.011 /2006-07 dated April 18, 2007)

Maintenance of Cash Reserve Ratio (CRR) on Exempted Categories

Every Scheduled Commercial Bank shall be exempted from maintaining average CRR with effect from April 01, 2007 on the following liabilities as computed under section 42 (1) of the Reserve Bank of India Act, 1934: (i) Liabilities to the banking system in India as computed under Clause (d) of the Explanation to Section 42 (1) of the RBI Act, 1934, (ii) Credit balances in ACU (US\$) Accounts, (iii) Transactions in Collateralized Borrowing and Lending Obligation (CBLO) with Clearing Corporation of India. (CCIL), and (iv) Demand and Time Liabilities in respect of their Offshore Banking Units (OBUs)

(DBOD.No. Ret.BC.84 /12.01.001/2006-07 dated April 20, 2007)

Comprehensive Guidelines on Derivatives

Draft comprehensive guidelines on derivatives based on the recommendations of the Internal Group of the RBI were placed on the RBI website on December 11, 2006 and were open for comments from all concerned. Comments were received from a wide spectrum of banks and other market participants. The guidelines have been suitably revised in the light of the feedback received and are furnished in the Annex. Guidelines in respect of foreign exchange derivatives will be issued separately. (For the detailed guidelines on derivatives, please refer to the original circular)

(DBOD.No.BP.BC. 86/21.04.157/2006-07 dated April 20, 2007)

Prudential Norms for Classification, Valuation and Operation of Investment Portfolio by Banks

It is observed that banks are adopting different accounting methods for amortising the premium in respect of their HTM securities. Banks may refer to the format of the balance sheet and profit and loss account prescribed in the Third Schedule to the Banking Regulation Act, 1949 which indicate the accounting of loss on revaluation of investments. Accordingly banks should (a) reflect the amortised amount during an accounting period in the Profit and Loss account of the bank in 'Schedule 14 – Other Income: Item III – Profit on revaluation of investment' as a deduction, and (b) the book value of the security should be reduced to the extent of the amount amortised during the relevant accounting period. Banks should adopt the correct accounting methodology while finalizing their financial statements including the statements for the year ended March 31, 2007.

(DBOD.BP.BC. 87 /21.04.141/ 2006-07 dated April 20, 2007)

Compliance Function in Banks

Based on the responses / comments on the draft guidelines received from banks, Self Regulatory Organizations and others, the draft guidelines have been suitably modified. The guidelines may be implemented in full within a time frame of six months from the date of this circular. The implementation would be subjected to comprehensive review by the Reserve Bank of India during the ensuing Annual Financial Inspection. (For the details of guidelines of compliance function, please refer to the original circular).

(DBS. CO.PP.BC 6/11.01.005/2006-07 dated April 20, 2007)

Prudential Guidelines Implementation of New Capital Adequacy Framework

The guidelines for implementation of the New Capital Adequacy Framework (Revised Framework) have been finalised and furnished in the Annex for implementation. Foreign banks operating in India and Indian banks having operational presence outside India should adopt Standardised Approach (SA) for credit risk and Basic Indicator Approach (BIA) for operational risk for computing their capital requirements under the Revised Framework with effect from March 31, 2008. All other commercial banks (excluding Local Area Banks and Regional Rural Banks) are encouraged to migrate to these approaches under the revised framework in alignment with them but in any case not later than March 31, 2009. These banks shall continue to apply the Standardised Duration Approach (SDA) for computing capital requirement for market risks under the revised framework.

Banks were advised to have a parallel run of the revised framework. A copy of the quarterly reports to the

Board of Directors may be continued to be submitted to the Reserve Bank of India – one each to the Department of Banking Supervision, Central Office and the Department of Banking Operations and Development, Central Office.

Banks are required to obtain the prior approval of the Reserve Bank to migrate to the Internal Rating Based Approach (IRBA) for credit risk and the Standardised Approach (TSA) or the Advanced Measurement Approach (AMA) for operational risk for computing regulatory capital requirements. (For the revised guidelines on new capital adequacy framework, please refer to the original circular).

(DBOD. No. BP. BC. 90 / 20.06.001/ 2006-07 dated April 27, 2007)

Import of Gold Coin - Tie-up Arrangements

It has now been brought to our notice that some of the nominated banks authorised to import gold are reportedly having tie-up arrangements with non-nominated banks/non-banking financial companies/co-operative banks for retailing of imported gold/gold coins. It is advised that nominated banks should not enter into any tie up arrangements for retailing of gold/gold coins with any other entity including non-banking financial companies/co-operative banks/non-nominated banks.

(DBOD. IBD.BC.95 /23.67.002/2006-07 dated May 8, 2007)

Guidelines on Purchase / Sale of Non Performing Assets

In partial modification of the guidelines issued on July 13, 2005, it has now been decided that at least 10% of the estimated cash flows should be realized in the first year and at least 5% in each half year thereafter, subject to full recovery within three years. The revised guidelines come into force immediately. All other conditions stipulated in the aforesaid circular remain unchanged.

(DBOD. No. BP. BC.97/21.04.048/2006-07 dated May 16, 2007)

Doorstep Banking

It has been decided to permit banks to (i) deliver cash/draft at the doorstep of the individual customers also (in addition to corporate customers/Government Departments/PSUs, etc. either against cheques received at the counter or requests received through any secure convenient channel such as phone banking/internet banking and (ii) deliver cash/draft at the doorstep of corporate customers/Government Departments/PSUs, etc. against cheques received at the counter or requests received through any secure convenient channel such as phone banking/internet banking, subject to the banks adopting technology and security standards and procedures as envisaged in our circular DBOD.Comp.BC.130/07.03.23/2000-2001 dated June 14, 2001, including those specifically relating to authenticating users as indicated in paragraph II(b) thereof and taking adequate safeguards/precautions in undertaking the above transactions.

(DBOD.No.BL.BC. 99 /22.01.010/2006-2007 dated May 24, 2007)

Guidelines on Stress Testing

Internationally, stress testing has become an integral part of banks' risk management systems and is used to evaluate the potential vulnerability to some unlikely but plausible events or movements in financial variables. There are broadly two categories of stress tests used in banks viz. sensitivity tests and scenario tests. These may be used either separately or in conjunction with each other. On the basis of the feedback received, the

draft guidelines have been suitably revised and are furnished in the Annex. Guidelines on stress testing, as relevant for the Basel II framework, will be issued separately. Banks shall put in place appropriate stress test policies and the relevant stress test framework for the various risk factors by September 30, 2007. As it is appreciated that banks may need to undertake the stress tests on a trial basis and use the results of these trial tests as a feedback to further refine the framework, it has been decided that banks be allowed some time to refine the stress testing frameworks. Banks are required to ensure that their formal stress testing frameworks, which are in accordance with the guidelines in Annex, are operational from March 31, 2008 (For the details of the guidelines on stress testing, please refer to the original circular).

(DBOD. No. BP. BC.101 / 21.04.103/ 2006-07 dated June 26, 2007)

Pension Funds Management by Banks

Banks may now undertake Pension Funds Management (PFM) through their subsidiaries set up for the purpose subject to their satisfying the eligibility criteria prescribed by PFRDA for Pension Fund Managers. PFM should not be undertaken departmentally. Banks intending to undertake pension funds management as per guidelines set out in Annex should obtain prior approval of Reserve Bank of India before engaging in such business. Banks may therefore submit necessary applications to us furnishing full details in respect of the various eligibility criteria as specified in the Annex along with the details of the equity contribution proposed to be made in the subsidiary. (For details of guidelines, please refer to the original circular)

(DBOD.No.FSD.BC.102/24.01.022/2006-07 dated June 28, 2007)

UBD: Urban Banks Department

RPCD: Rural Planning and Credit Department

DBOD: Department of Banking Operations and Development

DBS: Department of Banking Supervision

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