

# Gist of RBI Circulars

## UBD Circulars

### Loans and advances to directors, relatives and firms/concerns in which they are interested-

**UCBs** - The following categories of director related loans are excluded from the purview of the instructions in our circulars dated April 29 and June 24, 2003 - (i) regular employee-related loans to staff directors on the Board of UCBs (ii) normal loans as applicable to members to the directors on the Boards of salary earners' co-operative banks and (iii) normal employee-related loans to Managing Directors of Multi-State co-operative banks. (UBD.PCB.CIR.No.14/13.05.000/05-06 dated October 6, 2005)

**Donations/Contributions for public/charitable purposes out of profits of UCBs** - Banks carrying accumulated losses are not eligible to make donations. All other terms and conditions mentioned in the circular dated April 11, 2005 will continue to apply. (UBD (PCB)/BPD/Cir.15 /09.72.000 /2005-06 dated October 20, 2005)

**Interest Rate on Non-Resident (External) Rupee (NRE) Deposits** - Until further notice and with effect from close of business in India on November 17, 2005, the interest rates on Non-Resident (External) Rupee (NRE) Savings and Term Deposits will be as under: (i) NRE Savings Account: The interest shall be at the rate applicable to domestic savings deposits (as against LIBOR/ SWAP rate for six months maturity on US dollar deposits) (ii) Term Deposits: The interest rates on fresh repatriable NRE Term deposits for one to three years should not exceed the LIBOR/SWAP rates, as on the last working day of the previous month, for US dollar of corresponding maturity plus 75 basis points (as against 50 basis points effective since November 1, 2004). The interest rates as determined above for three year deposits should 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. No. Cir17 /13.01.000/2005-06 dated November 22, 2005) / (RPCD.CO.RF.BC.No.48/ 07.38.01 and RRB.BC.49/03.05.33(C)/2005-06 dated November 22, 2005) / (DBOD No. Dir. 48/13.03.00/ 2005-06 dated November 17, 2005)

**Merger/ Amalgamation of UCBs-Amortisation of Losses-Mid -Term Review of Annual Policy Statement for the year 2005-06** - The acquirer UCB is permitted to amortise the loss taken over from the acquired UCB over a period of not more than five years, including the year of merger. The other instructions contained in our circular dated February 2, 2005 shall remain unchanged. (UBD.BPD.PCB.Cir.18/ 09.16.901/ 2005-06 dated November 22, 2005)

**Mid-Term Review of Annual Policy Statement for the year 2005-06: Additional Provisioning Requirement for Standard Assets-UCBs** - The general provisioning requirement for 'standard advances' shall be 0.40 per cent with immediate effect from the present level of 0.25 percent. However, direct advances to agricultural and SME sectors which are standard assets, would attract a uniform provisioning requirement of 0.25 per cent of the funded outstanding on a portfolio basis, as hitherto. The higher provisioning requirements stipulated above will be applicable for Unit banks and UCBs having multiple branches within a single district with deposits base of Rs 100 crore and above, and all other UCBs operating in more than one district. For other UCBs the existing requirement of provisioning of 0.25 % for standard asset will continue. These provisions would be eligible for inclusion in Tier II capital for capital adequacy purposes up to the permitted extent, as hitherto. (UBD. PCB.Cir No. 20/ 09.11.600/ 2005-06 dated November 24, 2005)

**Financial Inclusion** - All banks are to make available a basic banking 'no-frills' account either with 'nil' or very low minimum balances as well as charges that would make such accounts accessible to vast sections of

population. The nature and number of transactions in such accounts could be restricted, but made known to the customer in advance in a transparent manner. All banks are advised to give wide publicity to the facility of such 'no-frills' account including in the local media indicating the facilities and charges in a transparent manner. (UBD. BPD. Cir No.19 /13.01.000//2005-06 dated November 24, 2005) / (RPCD.RF.BC.54/ 07.38.01/ 2005-06 dated December 13, 2005)/ (DBOD.No.Leg.BC. 44/09.07.005/ 2005-06 dated November 11, 2005)

#### **Maximum Limit on Advances-Limits on Unsecured Advances to Single Party/Connected Group-**

The limit on unsecured advances without surety are now enhanced from Rs.5, 000/- to the under noted levels only in respect of purchase/discount/withdrawal against third party cheques for a temporary period of 30 days in emergent cases.

Category of banks	Grade	Limit	Grade	Limit
Scheduled	Banks in Gr-III & IV	Rs25,000/-	Banks other than Gr-III & IV	Rs 50,000/-
Non- Scheduled	-do-	Rs 10,000/-	-do-	Rs 20,000/-

Where purchase/discount/withdrawal against third party cheques are to be allowed, the names and details of such parties whose cheques are to be lodged should be obtained and their market standing ascertained to ensure that the cheques presented would represent genuine trade transactions and would also be paid in the normal course of business. Strict vigilance should be observed against assisting kite-flying operations of any kind. The ceiling on temporary unsecured advances without sureties for other class of unsecured advances, viz., clean bills, multani hundis, upto a period of 30 days, would however, continue to be limited to a maximum of Rs 5,000/-. The total unsecured advances (with surety and without surety) granted by a bank to its members should not exceed 15 % of its demand and time liabilities (DTL) as against the present limit of 33.33 % However, banks are permitted to conform to the lower limit in a gradual manner, i.e. 20 % of DTL by March 31, 2006 and further to 15 % of DTL by March 31, 2007. All other instructions on unsecured advances (with surety or without surety) issued from time to time remain unchanged. (UBD. PCB.Cir. No.22/13.05.000/05-06 dated December 5, 2005)

**Scheme for Small Enterprises Financial Centres (SEFCs)** - With a view to further smoothening the flow of credit to the Small Scale Industries (SSI) sector, UCBs are advised to take the benefit of the scheme of strategic alliance between branches of banks and SIDBI located in the clusters on such terms as are mutually agreed to between them and SIDBI. (For details of the scheme for "Small Enterprises Financial Centres (SEFCs)" worked out in consultation with the Ministry of SSI and Banking Division, Ministry of Finance, Government of India, SIDBI, IBA and select banks, please refer to the original circular). (UBD.PCB.Cir No. 25/09.09.001/2005-06 dated January 9, 2006)

**Amortization of Expenses incurred on Software – UCBs** - In order to have uniformity in approach, the following guidelines are issued in regard to the cost of the software, the period and the method of amortization to be followed in respect of software expenses.

**Cost of software** - Computer software for internal use can be developed internally or acquired. The cost of internally generated software comprises all expenditure that can be directly attributed or allocated on a reasonable and consistent basis to create the software for its intended use. The costs include expenditure on materials and services used or consumed, salaries, wages and other employment related costs of personnel directly engaged in developing the software, and overheads that are necessary to develop the software and that can be allocated on a reasonable and consistent basis to the software. Selling, administration and other overhead expenditure that cannot be directly attributable to the development of the software and expenditure on training the staff to use the

internally developed software may not be treated as components of the cost of internally developed software. The cost of software purchased for internal use comprises its purchase price, including any import duties and other taxes (other than those subsequently recoverable by the enterprise from the taxing authorities) and any directly attributable expenditure on making the software ready for its use. Any trade discounts and rebates have to be deducted in arriving at the cost.

**Amortization period / method** - Taking into consideration the fact that computer software is susceptible to rapid technological obsolescence, UCBs are advised to amortize the cost of the software over a three-year period by using straight-line method, i.e. @33.33% annually. (UBD. BPD. PCB. Cir. No. 28 /12.05.001/2005-06 dated January 24, 2006)

**Collection of Account Payee Cheque – Prohibition on Crediting Proceeds to Third Party account -**

The Reserve Bank has directed the UCBs that they should not collect account payee cheques for any person other than the payee constituent. Where the drawer/payee instructs the bank to credit the proceeds of collection to any account other than that of the payee, the instruction being contrary to the intended inherent character of the 'account payee' cheque, bank should ask the drawer/payee to have the cheque or the account payee mandate thereon withdrawn by the drawer. This instruction would also apply with respect to the cheque drawn by a bank payable to another bank. (UBD. BPD.Cir. No.30 /14.01.062/ 2005-06 dated January 30, 2006) / (DBOD.BP.BC No. 56 / 21.01.001/ 2005-06 dated January 23, 2006)

**Maximum limit on Advances – Limits on Credit Exposure to Individuals/ Group of borrowers -**

**UCBs** - It has been decided that in case of fully drawn term loans, where there is no scope for re-drawal of any portion of the sanctioned limit, banks may reckon the outstanding for arriving at credit exposure limit. (UBD.PCB.Cir.No.29/13.05.000/2005-06 dated January 30, 2006)

**Banking Regulation Act 1949 (AACs)- Investments in Government and other Approved Securities by UCBs - Exemption under Section 24A -**

It has been decided that limited exemption from the requirement under Sec 24 A could be granted to a class of UCBs. Accordingly, non-scheduled UCBs, having single branch-cum-head-office or having multiple branches within a single district, having a deposit base of Rs.100 crore or less would be exempted from maintaining SLR in prescribed assets upto 15% of their DTL on keeping the required amount, in interest bearing deposits, with State Bank of India and its subsidiary banks and the public sector banks including Industrial Development Bank of India Ltd. For the purpose of eligibility for exemption, deposit base of UCBs will be determined on the basis of fortnightly average of the DTL in the immediate preceding financial year. The exemption will be applicable with immediate effect in respect of above categories of UCBs and shall be in force upto March 31, 2008. During this period UCBs should build up adequate infrastructure, risk management practices including human resource and technological up-gradation so as to reduce market related risk. (UBD(PCB).Cir.No.31 /16.26.00/ 2005-06 dated February 17, 2006)

**Advances against Gold Ornaments and Jewellery -**

Banks while considering granting advances against jewellery may keep in view the advantages of hallmarked jewellery and decide on the margin and rates of interest thereon. Other conditions in respect of grant of advances against gold ornaments and jewellery remain unchanged. (UBD.PCB.Cir.No. 34 /13.05.000/2005-06 dated March 2, 2006) / (RPCD.CO.No.RRB.BC.64/03.05.34/2005-06 dated February 27, 2006) / (RPCD.CO.RF.BC.No. 67 /07.40.06/2005-06 dated March 9, 2006) / (DBO).No. IBD.BC. 663/23.67.001/2005-06 date Nov.2, 2005)

**Provision of Note Counting Machines on the counters – UCBs** - It has now been decided that all UCBs should install dual display note counting machines at the payment counters of their branches for the use of their

customers towards building confidence in the minds of the public to accept note packets secured with paper bands. (UBD. BPD. Cir 35 / 09.73.000 / 2005-06 dated March 9, 2006)

**Debt Restructuring Mechanism for Small and Medium Enterprises (SMEs) - Announcement made by the Union Finance Minister** - As part of announcement made by the Hon'ble Finance Minister for improving flow of credit to small and medium enterprises, the RBI has issued guidelines to UCBs for restructuring of debt of all eligible small and medium enterprises (SMEs). (For details of the guidelines, please refer to the original circular) (UBD.BPD.Cir.No.36/09.09.001/05-06 dated March 9, 2006)

**Prevention of Money Laundering Act (PMLA), 2002 – Obligation of banks in terms of Rules notified thereunder** – The provisions of PMLA, 2002 have come into effect from July 1, 2005. Section 12 of the Act casts certain obligations on the banks in regard to preservation and reporting of customer account information. Banks are, therefore, advised to go through the provisions of PMLA, 2002 and the Rules notified thereunder and take all steps considered necessary to ensure compliance with the requirements of section 12 of the Act *ibid*.

The CEOs of banks are advised to personally monitor the progress in this regard and take appropriate steps to ensure that systems and procedures are put in place and instructions have percolated to the operational levels. It should also be ensured that there is a proper system of fixing accountability for serious lapses and intentional circumvention of the prescribed procedures and guidelines. For details of the reporting requirements and formats thereof please refer to the original circular. (UBD.BPD.Cir No.38 /09.16.100/2005-06 dated March 21, 2006) / (RPCD.CO. RF.AML.BC.65/07.02.12/2005-06 dated March 3, 2006 / (RPCD.CO. RRB.AML.BC.68/03.05.33(E)/ 2005-06 dated March 9, 2006) / (DBOD.NO.AML.BC.63 /14.01.001/2005-06 dated February 15, 2006)

**Currency Chest facility for UCBs** - It has since been decided to extend currency chest facility to scheduled UCBs which are registered under Multi State Co-operative Societies Act, 2002 and under the State Acts, where the State Governments concerned have assured regulatory co-ordination by entering into MOU with the Bank subject to compliance with the following eligibility norms: (a) the bank should have minimum net worth of Rs 200 crore, (b) it should have a CRAR of 12 % and net NPA less than 10 %, (c) the bank should have made profit in the preceding three years and should not have accumulated losses, (d) the bank should have a minimum 'A' audit classification, (e) the bank should be complying with CRR and SLR requirements, and (f) the bank should have an elected board of management, with at least two professionals. UCBs satisfying the above norms may apply to the Reserve Bank of India, Department of Currency Management, Central Office, Mumbai – 400 001 for necessary authorisation. (UBD(PCB).Cir.No.39/ 09.17.500/2005-06 dated March 24, 2006.)

**Investment Portfolio of UCBs - Classification and Valuation of Investments** - It has been decided, as a special case to allow UCBs to shift securities from and to HTM once more on or before March 31, 2006. Where the market value is lower than the face value, the provision required would be the difference between book value and face value. Further, the provisioning may be made over the remaining period to maturity instead of five years. It may, however be noted that, if the security was acquired at a discount to face value i.e. the book value is lower than the face value, the difference should be booked as profit only at the time of maturity of the security as hitherto. The above revised valuation norms will apply only to transfers to HTM made during the current financial year. In case as a result of valuation as above the provision already held by the bank is rendered surplus, the same should not be taken to the P & L account. (UBD (PCB).BPD. Cir. 41 /16.20.000/2005-06 dated March 29, 2006)

## RPCD Circulars

### **The Advisory Committee on Flow of Credit to Agriculture and Related Activities from the Banking System**

The issue relating to providing relief measures by banks through rescheduling of loans in case of natural calamities, when there is delay in declaration of Annewari by the State Government, has been reviewed and, as an alternative to the present system of Annewari, it has been decided that the task can be assigned to the District Consultative Committee (DCC) which has representatives from banks as well as the State Government and is headed by the District Collector. Our guidelines on the subject envisage that the convenors of the DCCs of the affected district/s should convene a meeting immediately after the occurrence of natural calamities, to facilitate coordination and expeditious action by the financing institutions. In the event of the calamity covering a larger part of a State, the convenor of the State Level Bankers' Committee will also convene a meeting immediately, to evolve a coordinated programme of action for implementation of the programme in collaboration with the State/district authorities. Therefore, the following procedure may be followed as an alternative to the present system of Annewari declaration:

The District Collector, on occurrence of a natural calamity such as drought, flood etc., may ask the Lead Bank Officer to convene a meeting of the DCC, and submit a report to the DCC on the extent of crop loss in the area affected by the natural calamity. If the DCC is satisfied that there has been extensive crop loss on account of the natural calamity, relief including conversion/restructuring facilities of agricultural loans as per the standing guidelines may be extended to the farmers affected by the natural calamity without declaring Annewari. (RPCD. PLFS. BC.No. 42 / 05.02.02/ 2005-06 dated October 1, 2005)

### **Balance sheets of Co-operative Banks – Disclosure of additional information**

It has been decided to introduce certain disclosure standards in the form of 'Notes on Accounts' to the Balance Sheets of SCBs/DCCBs. The SCBs / DCCBs are advised to furnish the information as 'Notes on Accounts' to their Balance Sheets effective from the year ended March 31, 2006. (For details, please refer to the original circular) (RPCD.CO.RF.BC.No. 44 / 07.38.03 / 2005-06 dated October 10, 2005)

### **A Review of Swarnjayanti Gram Swarozgar Yojana (SGSY)- Central Level Coordination Committee (CLCC) meeting held on Feb 7, 2005 at NABARD Mumbai**

The CLCC under SGSY made certain recommendations during the course of its deliberations - (i) banks may review the delegation of powers granted to branch managers and ensure that they can sanction all SGSY applications without any reference to higher authorities (ii) banks may ensure that all the pending applications at the end of the year should be brought forward and disposed of in the first quarter of the succeeding year (iii) banks may explore the possibility of utilising micro-finance institutions for bridging the credit gap (iv) banks may take appropriate action to achieve the desired credit to subsidy ratio of 1:3 (v) banks may furnish a status report to Ministry of Rural Development on the under-performance of their branches in lending under the scheme during the last two years and (vi) banks should maintain separate record for recovery data in respect of SGSY distinct from IRDP. Banks are further advised to utilize the Non-Public Business Working Day to attend to the problems of Swarozgaris under SGSY also. Since SGSY is the major poverty alleviation and employment generation programme being implemented in rural areas of the country banks are advised to make earnest effort to achieve the targets fixed increase credit flow under the scheme. (RPCD.SP.BC. 45 /CLCC/09.01.01/2005-06 dated October 18, 2005)

### **Mid-Term Review of Annual Policy Statement for the year 2005-06: Additional Provisioning Requirement for Standard Assets**

The general provisioning requirement for 'standard advances' has been increased from the present level of 0.25 per cent to 0.40 per cent. Consequently, the standard assets with the exception of banks' direct advances to agricultural and SME sectors would attract a uniform provisioning requirement of 0.40 per cent of the funded outstanding on a portfolio basis. Banks would continue to make provision at 0.25

per cent for direct advances to agricultural and SME sectors in the standard category. (RPCD.CO.RRB.No. BC. 46 / 03.05.3 4/ 2005-06 dated November 8, 2005) / (DBOD.NO.BP. BC.40/ 21.04.048/ 2005-06 dated 4 November 2005)

### Credit Deposit Ratio – Implementation of the Recommendations of Expert Group on CD Ratio -

The CD Ratio of banks should be monitored at different levels on the basis of the following parameters –

Institution / Level	Indicator	Note :
Individual banks at Head Office	Cu + RIDF	Cu = Credit as per place of Utilization;
State Level (SLBC)	Cu + RIDF	Cs = Credit as per place of Sanction
District Level	Cs	RIDF = Total Resource support provided to States under RIDF

It has also been decided to set up Special Sub-Committee (SSCs) of DCC in the districts having CDR less than 40 to monitor the CDR and to draw up Monitorable Action Plans (MAPs) to increase the CDR. While the LDM will be the convenor of the SSC, it will have, as members, the District Co-ordinators of banks functioning in the area and the DDM, NABARD, LDO, RBI, District Planning Officer or a representative of the Collector duly empowered to take decisions on behalf of the district administration. The SSC will draw up a MAP for improving the CDR in their districts on a self-set graduated basis. For this purpose, the SSC will, on the basis of the various ground level parameters, set for itself a definite time frame for the CDR beyond 60 in annual increments. Upon approval by the DCC, the SSC will take up the plans for implementation and monitor the same assiduously once in two months and report the progress to the DCC on quarterly basis and through them to the convenor of SLBC. On the basis of the feedback received from the DCC regarding the progress in the implementation of the MAPs, consolidated report will be prepared and tabled at all SLBC meetings for discussion / information.

The districts generally located in hilly, desert, inaccessible terrains and / or those dependent solely on the primary sector and / or characterized by poor law and order have CDR of less than 20. In such areas, conventional methods are not likely to work unless the banking system and the State Government come together in a specially meaningful way. While the framework for implementation for raising the CDR in these districts will be the same as in the case of districts with CDR below 40 (i.e. setting up of SSC etc.), the focus of attention and the level of efforts should be of a much higher scale. For this, (i) All such districts should first be placed in a special category. (ii) The responsibility for increasing their CDR should be taken by banks and State Governments and the districts should be 'adopted' by the District Administration and the Lead Bank jointly (iii) While banks would be responsible for credit disbursement, the State Government would be required to give an upfront commitment regarding its responsibilities for creation of identified rural infrastructure together with support in creating an enabling environment for banks to lend and to recover their dues. Given such a collaborative framework, meaningful increase in CDR is possible. (iv) Progress in the special category districts will be monitored at the district level and reported to the corporate offices of the concerned banks and (v) CMDs of banks would give special attention to the CDR in such districts. Banks should initiate action for constitution of SSCs of the DCCs in the districts having CDR less than 40 and take steps as stated above. The districts having CDR between 40 and 60 will be monitored under the existing system by the DCC. (RPCD.LBS.BC.No.47/02.13.03/2005-06 dated November 9, 2005)

**Participation in various fora under Lead Bank Scheme -** Private sector banks were requested to take active part in various fora under the Lead Bank Scheme as well as Government sponsored schemes and also cooperate with the Lead Bank in the district and take appropriate steps to improve the flow of credit to the priority sector/weaker sections so that comprehensive credit planning and monitoring can be done at various levels. It is, however, observed that (a) there is non-participation/low level participation by banks in district/block level meetings (b) participants attending the meetings have no feed back on the progress of their bank

branches in the district (c) participants attending the meeting often do not have decision making powers (d) new generation banks do not accept targets approved by DCC. In view of the above, the private sector banks are once again advised to ensure that they actively participate in these fora and help increase the flow of credit to agriculture, priority sector and weaker sections of the society. (RPCD. LBS. BC. No.50/02.01.01/2005-06 dated December 06, 2005)

### **Financing of Projects under Agri-clinics and Agri-business Center Scheme – Review at meetings -**

In view of the importance and priorities being given for improved credit delivery to the rural areas, State level in-charges of Small Farmers' Agri-Business Consortium (SFAC) and Nodal Officers of SFAC may be invited in the Sub-Committee of SLBC as 'Special Invitees' to discuss the problems, if any, faced in the implementation of Scheme for establishment of Agri-Clinics/Agri-Graduates in rural areas. (RPCD.LBS.BC.No.52/02.01.01/2005-06 dated December 6, 2005)

### **Maintenance of CRR / SLR on transaction in Collateralised Borrowing and Lending Obligation (CBLO) -**

It is clarified that since CCIL is considered as a non-bank institution, borrowing bank should classify its borrowing under CBLO as 'Liability in India to Others', which qualify for reserve requirements. Accordingly, Scheduled SCBs/ RRBs are required to include in their NDTL, the borrowing under CBLO. However, in order to develop CBLO as a money market instrument, it has been decided to grant Scheduled SCBs/ RRBs a special exemption from CRR prescription subject to the bank maintaining statutory minimum CRR of 3%. Besides, the Scheduled SCBs and RRBs are also required to maintain statutory liquidity ratio (SLR) of 25% on NDTL including borrowing through CBLO. Further, securities lodged in the Gilt Account of the bank maintained with CCIL under CSGL facilities remaining unencumbered at the end of any day can be reckoned for SLR purposes by the concerned bank. For this purpose, CCIL will provide a daily statement to banks / RBI listing the securities lodged / utilized / remaining unencumbered. (RPCD.CO.RF.BC. 53/07.02.01/2005-06 dated December 8, 2005)

### **Scheme to Cover Loans for General Purposes under General Credit Card (GCC) -**

It has been decided that banks introduce a GCC Scheme for issuing GCC to their constituents in rural and semi-urban areas, based on the assessment of income and cash flow of the household similar to that prevailing under normal credit card. Under the scheme, there would not be any insistence on security and the purpose or end-use of the credit. Interest rate on the facility may be charged, as considered appropriate and reasonable. The limit may be periodically reviewed and revised/cancelled depending on track record of the account holder. With a view to targeting women as beneficiaries of bank credit, they may be given a preferential treatment under the GCC Scheme. Banks may utilize the services of local post offices, schools, primary health centers, local government functionaries, farmers' association/club, well-established community-based agencies and civil society organizations for sourcing of borrowers for issuing GCC. (For details, please see the original circular) (RPCD.CO.No. RRB. BC.59/03.05.33 (F)/2005-06 dated December 27, 2005)

**Special Package for RRBs -** The special package for RRBs include the following measures:

**1) Enhancing resource base:** i) *Line of credit from sponsor banks:* Sponsor banks should effectively use their sponsored RRBs to increase flow of credit to the rural areas. To supplement the resources of the RRBs, sponsor banks may provide to RRBs lines of credit at a reasonable rate of interest. ii) *Access to inter-RRB term money/ borrowings:* As there are no restrictions on RRBs' access to term money markets, it is clarified that within this framework RRBs can borrow from/place funds with other RRBs including those sponsored by other banks, subject to counter-party credit risk policy and limits. iii) *Access to repo/CBLO markets:* RRBs can enter into ready forward transactions in government securities with SGL/CSGL account holders, subject to the conditions specified in IDMD Circular No.IDMD/PDRS/4779/10.02.01/2004-05 dated May 11, 2005. Further, they can participate in CBLO market with the settlement undertaken through their Gilt Account. RRBs desirous of participating in repos/

CBLO market may approach the sponsor banks for guidance. Sponsor banks, in turn, may actively facilitate such access and provide necessary training to RRB staff. With a view to equipping RRBs' staff with necessary skill, the Reserve Bank and NABARD will help in organizing training programme/s for them in the regulatory and operational aspects of the repo/CBLO market. Sponsor banks/RRBs interested in such training may get in touch with Regional Offices of RPCD.

**2) Issue of Credit/Debit Cards and Setting-up of ATMs:** In collaboration with their sponsor banks or other banks, RRBs may issue credit cards/debit cards to their constituents to be able to provide better facilities. In case any RRB wishes to set up an off-site ATM in its area of operation, it may do so after assessing the cost and benefit. Prior approval of RBI need not be obtained, but on opening of such ATMs, RRBs should immediately inform the respective Regional Office of the RPCD for the purpose of getting a formal authorization for the place of business.

**3) Opening of Currency Chests:** Requests from RRBs for opening of currency chests would be considered by the Reserve Bank, on case-by-case basis, taking into account their financial position, compliance with SLR/CRR/inspection findings, general position of management, grading, etc. Such requests should be submitted to the respective Regional Offices of the RPCD.

**4) Forex business:** Reserve Bank is in the process of reviewing the existing norms for conduct of various types of foreign exchange transactions by RRBs with a view to allowing them to undertake non-trade related current account transactions pertaining to release of foreign exchange for certain specified purposes such as private visits, business travel, medical treatment, overseas education, visa fees, etc, as per the report of our Foreign Exchange Department, which has been posted on the website ([www.rbi.org.in](http://www.rbi.org.in)) on December 1, 2005. A communication in this regard will follow.

**5) Pension/ Government business:** Banks authorized to handle government business are permitted to appoint sub-agents in terms of the agency agreements. Accordingly RRBs which are desirous of handling pension and other government business as sub-agents may contact the concerned banks. (RPCD.CO.No.RRB.BC.57/03.05.33 (F)/2005-06 dated December 27, 2005)

**One-Time Settlement Scheme for Small Borrowal Accounts and Eligibility for Fresh Loans -** All scheduled commercial banks including RRBs and LABs are advised to provide a simplified mechanism for one-time settlement of small loans where the principal amount is equal to or less than Rs.25000/- and which have become doubtful and loss assets as on September 30, 2005. In case of loans granted under government-sponsored schemes, banks may frame separate guidelines following a state-specific approach to be evolved by the SLBC. The mechanism will not, however, cover cases of fraud and malfeasance. The borrowers whose accounts are settled under this mechanism will be fully eligible for fresh loans. (RPCD.PLNFS.BC.No.56/06.02.31/2005-06 dated December 27, 2005)

**Financial Inclusion - Trilingual Forms/Brochures/Pamphlets -** In order to ensure that banking facilities percolate to the vast sections of the population, RRBs should make available all printed material used by retail customers including account opening forms, pay-in-slips, passbooks, etc. in trilingual form i.e. English, Hindi and the concerned regional language. However, in cases where RRBs have already made available such material in regional language/s, they need not provide the same in trilingual form. (RPCD.CO.No.RRB.BC.60 & 61/03.05.33(F)/2005-06 dated December 30, 2005)

**Charging of Depreciation on Computers – Method and Rate thereof -** It is reiterated that all SCBs / DCCBs should continue to charge depreciation on computers on a straight-line method at the rate of 33.33 percent per annum. This would enable the banks to replace the outdated / obsolete computers and related

hardware within a period of three years as in view of the rapid developments in technology, it is likely that the installed computers and related hardware may become outdated / obsolete within a short period, needing replacements / upgradations. (RPCD.CO.RF.BC.No. 62 /07.40.06/2005-06 dated January 19, 2006)

**Master Circular on Lending to Priority Sector-Modification** - As a part of power sector reforms, some of the States have bifurcated/restructured the Electricity Boards into two corporations - one for generation and the other for distribution of power. It has, therefore, been decided that loans to power distribution corporations/ companies, emerging out of bifurcation /restructuring of SEBs, may also be classified as indirect finance to agriculture subject to the same conditions as stipulated in paragraph 1.2.2 (i) of the Master Circular. (RPCD. PLFS.BC. NO.63/05.05.03/2005-06 dated February 20, 2006)

**Union Budget 2006-07 - Guidelines for Relief to Farmers** - The Union Budget Speech envisages grant of interest relief of two percentage points in the interest rate on the principal amount upto Rs1 lakh on crop loans availed by the farmers for Kharif and Rabi 2005-06. It has been decided that banks may first credit the proposed relief to the farmer's account before March 31, 2006 and thereafter seek reimbursement. All crop loans for Kharif & Rabi disbursed to farmers during the financial year 2005-06 will be eligible for the interest relief of two percentage points. However, where each crop loan exceeds Rs.1 lakh, the interest relief will be applicable on the principal amount up to Rs.1 lakh only. Interest relief may be calculated at two percentage points, on the amount of the crop loan disbursed from the date of disbursement /drawal up to the date of payment or upto the date beyond which the outstanding loan becomes overdue i.e. March 31, 2006 for Kharif and June 30, 2006 for Rabi, respectively, whichever is earlier. (RPCD.No.PLFS.BC.66/05.04.02(Kharif-05)/2005-06 dated March 09, 2006)

**Investment Portfolio of SCBs/DCCBs - Irregularities observed by NABARD** - The major deficiencies observed by NABARD and the steps to be taken to rectify the position are: (1) Many banks have not undertaken the half-yearly review of their investment portfolio (2) Some banks have not framed investment policy (3) Some banks do not have approved panel of brokers (4) SCBs/DCCBs have placed funds as deposits with PSU/Companies / Corporations/ UCBs/NBFCs etc. (5) Some SCBs/DCCBs are not submitting the quarterly certificate of securities actually held by them to the Regional Office of of RPCD (6) Irregularities in non-SLR investments (7) Concurrent audit of SLR investment portfolio is not undertaken and the monthly audit report of treasury transaction is not forwarded to NABARD/RBI (8) Violation of Section 19 of the B.R.Act, 1949 (AACs) - investments in shares of other co-operative institutions in violation of the prescribed limits. All SCBs/DCCBs are advised to follow the extant instructions in the matter and to comply with the above requirement without fail. (RPCD.CO.RF.BC.No.69/ 07.02.03/2005-06 dated March 21, 2006)

**Valuation of investment in SLR/Approved Securities by RRBs** - The exemption granted to RRBs up to the financial year 2005-06 from 'mark to market' norms in respect of their investments in SLR securities has been extended by one more year i.e. for the financial year 2006-07. Accordingly, RRBs will have the freedom to classify their entire investment portfolio of SLR securities under 'Held to Maturity' for the financial year 2006-07 with valuation on book value basis and amortisation of premium, if any, over the remaining life of securities. (RPCD.RRB.BC.No.71/03.05.34/2005-06 dated March 31, 2006)

**Interest Rate on FCNR(B) Deposits** - In respect of FCNR(B) deposits of all maturities contracted effective close of business in India on March 28, 2006, interest shall be paid within the ceiling rate of LIBOR / SWAP rates for the respective currency / corresponding maturities. On floating rate deposits, interest shall be paid within the ceiling of SWAP rates for the respective currency / maturity. For floating rate deposits, the interest reset period shall be six months. (RPCD.CO.RF.BC. 72/ 07.38.01 / 2005-06 dated March 31, 2006) / (DBOD.No.Dir.BC. 75 / 13.03.00 / 2005-06 dated March 29, 2006)

## DBOD Circulars

**Capital Adequacy - Investment Fluctuation Reserve (IFR)** - Banks which have maintained capital of at least 9 per cent of the risk weighted assets for both credit risk and market risks for both HFT and AFS category as on March 31, 2006, would be permitted to treat the entire balance in the IFR as Tier I capital. For this purpose, banks may transfer the balance in the IFR 'below the line' in the Profit and Loss Appropriation Account to Statutory Reserve, General Reserve or balance of Profit & Loss Account. In the event provisions created on account of depreciation in the AFS or HFT categories are found to be in excess of the required amount in any year, the excess should be credited to the Profit & Loss account and an equivalent amount (net of taxes, if any and net of transfer to Statutory Reserves as applicable to such excess provision) should be appropriated to an Investment Reserve Account in Schedule 2 – "Reserves & Surplus" under the head "Revenue and other Reserves" and would be eligible for inclusion under Tier II within the overall ceiling of 1.25 per cent of total Risk Weighted Assets prescribed for General Provisions/ Loss Reserves. (DBOD. No. BP.BC. 38/21.04.141/2005-06 dated October 10, 2005)

**Guidance Note on Management of Operational Risk** - The draft Guidance Note on management of operational risk is now placed on the website of RBI (<http://www.rbi.org.in>). Banks may use this Guidance Note for upgrading their risk management systems. The design of risk management framework should be oriented towards the banks' own requirements dictated by the size and complexity of business, risk philosophy, market perception and the expected level of capital. The systems, procedures and tools prescribed in the Guidance Note for effective Management of Operational Risk may, therefore, be treated as indicative. The risk management systems in the banks should, however, be adaptable to changes in business, size, the market dynamics and introduction of innovative products by banks in future. (DBOD.No.BP.BC.39/ 21.04.118/2004-05 dated October 14, 2005)

**Revised Guidelines on Corporate Debt Restructuring (CDR) Mechanism** - The revised guidelines on CDR mechanism relate to (a) extension of the scheme to entities with outstanding exposure of Rs.10 crore or more (b) requirement of support of 60% of creditors by number in addition to the support of 75% of creditors by value with a view to make the decision making more equitable (c) discretion to the core group in dealing with wilful defaulters in certain cases other than cases involving frauds or diversion of funds with malafide intentions (d) linking the restoration of asset classification prevailing on the date of reference to the CDR Cell to implementation of the CDR package within four months from the date of approval of the package (e) restricting the regulatory concession in asset classification and provisioning to the first restructuring where the package also has to meet norms relating to turn-around period and minimum sacrifice and funds infusion by promoters (f) convergence in the methodology for computation of economic sacrifice among banks and FIs (g) limiting RBI's role to providing broad guidelines for CDR mechanism (h) enhancing disclosures in the balance sheet for providing greater transparency (i) pro-rata sharing of additional finance requirement by both term lenders and working capital lenders (j) allowing OTS as a part of the CDR mechanism to make the exit option more flexible and (k) regulatory treatment of non-SLR instruments acquired while funding interest or in lieu of outstanding principal and valuation of such instruments. (For details, please refer to the original circular) (DBOD.No.BP.BC. 45 / 21.04.132/ 2005-06 dated November 10, 2005)

**Debt Restructuring Mechanism for Small and Medium Enterprises (SMEs)** - The issue has been reviewed in the light of the modifications introduced for the identification of the wilful defaulters in which an opportunity is provided to the borrower to make representation before final classification is made. The procedure for identification of the wilful defaulters has been made more transparent. While corporates indulging in frauds and malfeasance will continue to remain ineligible for restructuring under the Debt Restructuring Mechanism for SMEs as hitherto, banks may review the reasons for classification of the borrower as wilful defaulter specially in old cases where the manner of classification of a borrower as a wilful defaulter was not transparent and satisfy itself that the borrower

is in a position to rectify the wilful default provided he is granted an opportunity under the Debt Restructuring Mechanism for SMEs. Such exceptional cases may be admitted for restructuring only with the approval of the Board of Directors of the banks. The banks may ensure that cases involving frauds or diversion of funds with malafide intent are not covered. Accounts involving fraud and malfeasance will continue to remain ineligible for restructuring under these guidelines. (DBOD. BP. BC. No.46 / 21.04.132/ 2005-06 dated November 10, 2005)

**Credit Card Operations of banks** - Guidelines on credit card operations of banks have been framed based on the recommendations of a Working Group as also the feedback received from the members of the public, card issuing banks and others. All the credit card issuing banks / NBFCs should implement the guidelines immediately. Each bank / NBFC must have a well-documented policy and a Fair Practices Code for credit card operations. In March 2005, the IBA released a Fair Practices Code for credit card operations which could be adopted by banks / NBFCs. The bank / NBFC's Fair Practice Code should, at a minimum, incorporate the relevant guidelines contained in this circular. Banks / NBFCs should widely disseminate the contents thereof including through their websites, at the latest by November 30, 2005. (For details, please refer to the original circular). (DBOD.FSD.BC. 49/ 24.01.011/ 2005-06 dated November 21, 2005)

**Donations by banks** - It has been decided that henceforth, the policy relating to donations given by banks to various entities may be formulated by the banks' Boards of Directors, keeping in view certain general principles as indicated in the circular. (DBOD.No.Dir.BC. 50/13.01.01/2005-06 dated December 21, 2005)

**Guidelines for Bank Finance to Employees/ Employee Trusts for Purchasing Banks' Own Shares** - The banks are not allowed to extend advances including to their employees/ Employee Trusts set up by them for the purpose of purchasing their (banks') own shares under ESOP/ IPO or from the secondary market. This prohibition will apply irrespective of whether the advances are unsecured or secured. (DBOD No. Dir. BC. 51/ 13.07.05/2005-06 dated December 27, 2005)

**Banking Cash Transaction Tax (BCTT) - Filing of Monthly Returns** - The Government of India has observed that some of the banks have been defaulting in filing the above monthly Return. Accordingly, scheduled commercial banks have been advised to ensure regular filing of the monthly return. In case of no BCTT collection, a Nil return may be submitted. (DBOD.No.Dir. BC. 54/13.03.00/2005-06 dated January 20, 2006)

**Section 23 of the Banking Regulation Act, 1949 - Branch Authorisation Policy** - Banks are advised to follow the under mentioned procedure scrupulously in order to comply with the requirements of Section 23 of Banking Regulation Act, 1949. (i) Banks should submit proposals for opening of all types of branches, including satellite offices, accompanied by Form VI. However, Form VI need not be submitted for opening of off-site ATMs, administrative / controlling offices, credit card centres and back offices / processing centres. (ii) Banks may proceed with opening of a "branch" which includes all types of offices and off-site ATMs at centres for which permission has been granted in the consolidated letter of authorization / permission issued to them in this regard. No separate permission is required for an on-site ATM that is opened within a branch. After a branch has been opened, banks should immediately report the complete address and date of opening of the branch to the concerned RBI Regional Office. (iii) Banks should submit details of branches opened / closed / shifted etc, on a quarterly basis, in Proforma I & II to DESACS, RBI, Mumbai and Regional Office concerned. (iv) The validity of authorization granted would be one year from the date of issue of the consolidated letter of authorization / permission issued to banks. Banks should take necessary steps to open the branches within the stipulated time. In case a bank is not able to open a particular branch due to any genuine reason, it can approach the concerned RBI Regional Office for extension of time not exceeding three months. Clarifications in regard to certain provisions of the branch authorisation policy have been posted on the Mail Box ([www.rbi.org.in/dbodmailbox](http://www.rbi.org.in/dbodmailbox)). (For details, please refer to the original circular. (DBOD. No.BL. BC. 55 / 22.01. 001/ 2005- 2006 dated January 23, 2006)

**Financial Inclusion by Extension of Banking Services - Use of Business Facilitators (BF) and Business Correspondents (BC)** - With the objective of ensuring greater financial inclusion and increasing the outreach of the banking sector, it has been decided in public interest to enable banks to use the services of Non-Governmental Organisations/ Self Help Groups (NGOs/ SHGs), Micro Finance Institutions (MFIs) and other Civil Society Organisations (CSOs) as intermediaries in providing financial and banking services through the use of BF and BC models. For details, please refer to the original circular. (DBOD.No.BL.BC. 58/22.01.001/2005-2006 dated January 25, 2006)

**Enhancement of Banks' Capital Raising Options for Capital Adequacy purposes** - With the transition to the new capital adequacy framework (Basel II) scheduled for March 2007, banks would need to further shore up their capital funds to meet the requirements under the revised framework. Under Basel II, the capital requirements are not only more sensitive to the level of risk but also apply to operational risks. Thus banks would need to raise additional capital on account of market risk, Basel II requirements as well as to support the expansion of their balance sheets. The Basel Capital Accord 1988 classifies capital under three Tiers. Tier 3 consists of short-term subordinated debt for the *sole* purpose of meeting a proportion of the capital requirements for market risks and at present, banks are not allowed to raise Tier 3 capital. The present Accord does not allow banks to raise capital funds through the issue of (a) Preference shares – both cumulative and non cumulative; (b) Innovative capital instruments for inclusion in Tier 1 capital; and (c) Hybrid debt instruments for inclusion in Tier 2 capital. The feasibility of allowing banks to raise capital funds through the above-mentioned instruments has been examined. However, since Tier 3 capital is short term in nature and is an optional item of capital for meeting a portion of banks' exposures to market risks, this option has not been considered for the present.

It has been decided that banks may augment their capital funds by issue of the following additional instruments: (a) Innovative Perpetual Debt Instruments (IPDI) eligible for inclusion as Tier 1 capital (b) Debt Capital Instruments eligible for inclusion as Upper Tier 2 capital; (c) Perpetual Non-cumulative Preference Shares eligible for inclusion as Tier 1 capital - subject to laws in force from time to time; and (d) Redeemable Cumulative Preference Shares eligible for inclusion as Tier 2 capital - subject to laws in force from time to time. The guidelines governing the instruments at (a) and (b) above indicating the minimum regulatory requirements have since been issued. Detailed guidelines regarding items (c) and (d) above will be issued separately as appropriate in due course. Banks should ensure that the instruments that may be issued by them are in strict conformity with these guidelines. (DBOD.No.BP.BC. 57 / 21.01.002 / 2005-2006 dated January 25, 2006)

**Guidelines on Securitisation of Standard Assets** - RBI has issued guidelines on securitisation of standard assets as applicable to banks, financial institutions and non-banking financial companies. The guidelines come into force with immediate effect. The Reserve Bank would take a view on the treatment for the securitization transactions undertaken in the prior period on a case-by-case basis with the objective of ensuring adherence to basic principles of prudence. (For details, please refer to the original circular) (DBOD.NO.BP.BC.60 / 21.04.048/ 2005-06 dated February 1, 2006)

**Recommendations of the Working Group to Review Export Credit** - The RBI has constituted a Working Group to review various aspects of the functioning of the Export Credit Scheme. The Chief General Manager-in-Charge, Department of Banking Operations and Development, Central Office is the chairperson of the Group, consisting of select banks' and exporters' organisations. In the light of the recommendations of the Working Group, banks are advised (a) to review the existing procedure for export credit (b) to review the Gold Card Scheme (c) to review export credit for non-star exporters and (d) to review other issues. (For details, please refer to the original circular). (DBOD. Dir. (Exp) BC.No. 61/ 04.02.02 (WG)/2005-06 dated February 7, 2006).

**Guidelines for Banks undertaking PD business** - Taking into account the views / suggestions received, guidelines for banks undertaking PD business have been finalized. Accordingly, banks are eligible to apply for Primary Dealership subject to certain guidelines enumerated in the circular. (DBOB.FSD.BC.No. 64 / 24.92.001/ 2005-06 dated February 27, 2006)

**Banks' Exposure to Real Estate Sector** - While appraising loan proposals involving real estate, banks should ensure that the borrowers have obtained prior permission from government /local governments/other statutory authorities for the project, wherever required. In order that the loan approval process is not hampered on account of this, while the proposals could be sanctioned in normal course, the disbursements should be made only after the borrower has obtained requisite clearances from the government authorities. (DBOD.BP.BC. 65 /08.12.01/2005-06 dated March 1, 2006)

**Financial Inclusion by Extension of Banking Services - Use of Business Facilitators and Correspondents** - RBI is in the process of examining the eligibility criteria, etc. of NBFCs who can be assigned the role of Business Correspondents by banks. Pending the exercise, banks are advised to defer selection/use of NBFCs as Business Correspondents. However, banks can use NBFCs licensed under Section 25 of the Companies Act, 1956 as Business Correspondents. (DBOD.No.BL.BC. 72/22.01.009/2005-2006 dated March 22, 2006)

**Bills discounted under LC – Risk Weight and Exposure Norms** - It has been decided that (i) bills purchased / discounted / negotiated under LC (where the payment to the beneficiary is not made 'under reserve') will be treated as an exposure on the LC issuing bank and not on the borrower (ii) all clean negotiations as indicated in para (i) above will be assigned the risk weight as is normally applicable to inter-bank exposures for capital adequacy purposes (iii) in case of negotiations 'under reserve' the exposure should be treated as on the borrower and risk weight assigned accordingly. The above guidelines will come into operation with immediate effect. (DBOD.BP.BC. 73/21.03.054/2005-06 dated March 24, 2006)

## DPSS Circulars

**Electronic Clearing Service (ECS)** - While ECS has proved to be of great convenience to both the user and the beneficiary customers, there has been a rise in the number of complaints. The main complaint is that details provided by the banks in the Pass Book / Statement of Accounts for the ECS entries are not complete and in the absence of details, reconciliation of transactions by the customers becomes very difficult. The Committee on Procedures and Performance Audit of Public Services (CPPAPS)(Tarapore Committee) has emphasized the need for full details of transactions in the statements. It may be mentioned that in the ECS report (paper as well as electronic), a short abbreviation of the user name is provided to the banks to facilitate provision of details in the account statements. This abbreviation may be appropriately captured and utilized. In view of the above, suitable instructions may please be issued by banks to the branches to provide the required details to the customers in their Pass Book / Account Statement regarding the credits effected through ECS. Appropriate technology solutions may also be adopted to make the above simpler. Similar approach may be adopted for capturing the sender / remittance details for other electronic payment products like EFT, SEFT, RTGS, etc., as well. (DPSS (CO) No.590/ 01.01.15 / 2005 dated October 17, 2005)

**Electronic Payment Products - Service Charges** - It is emphasized that there is a need for banks to quickly move towards electronic payment systems from paper based payment systems and to bring greater efficiency in transaction processing. Banks are, therefore, requested to develop appropriate delivery channels of electronic payment services using the RBI developed payment systems like RTGS, ECS, EFT, NEFT etc., as payment system infrastructure with no further delay. In line with the spirit of above para, the service charges may also be reviewed keeping in mind the need for promotion of electronic payment culture, which in due course, may work out cost effective for the banks and provide several spin-off benefits. (DPSS (CO) No.796/ 01.01.59/2005-2006 dated November 23, 2005)

UBD : Urban Banks Department  
 RPCD : Rural Planning and Credit Department  
 DBOD : Department of Banking Operations and Development  
 DPSS : Department of Payment and Settlement Systems