Chapter I

Banking Developments and Policy Perspectives (Part 1 of 2)

Introduction

The banking system which constitutes the core of the financial sector, plays a critical role in transmitting monetary policy impulses to the entire economic system. Its efficiency and development, therefore, are vital for enhancing growth and improving the chances for price stability. A number of steps were taken in 1998-99 to highlight the importance of undertaking reforms in the banking and allied sectors and improving the allocative efficiency of resources. The second Narasimham Committee which submitted its report in April 1998 was the first to devote maximum attention to all those aspects of banking where policy actions are considered necessary. Almost around the same time, the Working Group (Chairman: Shri S.H. Khan) constituted by the Reserve Bank for exploring the possibilities of harmonising the role and operations of development financial institutions and banks came out with recommendations in May 1998 for evolving a system of universal banking. As a sequel to the recommendations of the Khan Working Group, the Reserve Bank released a 'Discussion Paper' in January 1999 to place some of the issues raised in the Group's report in a proper perspective so that development of universal banking takes place in a smooth and an orderly manner.

1.2 Besides these assessments, there were other initiatives, significant among them being the release of the Report by an Expert Group on DRTs (Chairman: Shri N.V. Deshpande, August 1998), and the submission of (i) the Report of the Task Force on Non-Banking Finance Companies (Chairman: Shri C.M. Vasudev, October 1998), (ii) the Report of the Expert Committee on Unit Scheme-1964 (US-64) of the Unit Trust of India (Chairman: Shri Deepak Parekh, February 1999), (iii) the Report of the Committee on Technology Upgradation in the Banking Sector (Chairman: Shri A. Vasudevan, July 1999), and (iv) the Report of Working Group on Restructuring of Weak Public Sector Banks (Chairman: Shri M.S. Verma, October 1999). The Report of the Working Group constituted by the Reserve Bank in April 1999 to review the role of Deposit Insurance in India (Chairman: Shri J. Capoor) has been released for discussion. Among these, several recommendations of the Task Force on NBFCs and those of the Expert Committee on US-64 Scheme have been implemented, while the recommendations of the Expert Group on DRTs and those of the Working Group on Restructuring of Weak Public Sector Banks are under consideration. In the area of primary co-operative banks, the Reserve Bank has constituted a High Power Committee (Chairman: Shri K. Madhav Rao, May 1999) to review the policies relating to these banks. To help safeguard against the problems of illiquidity and insolvency arising due to mismatches between assets and liabilities in the banking sector, guidelines were issued by the Reserve Bank to commercial banks to put in place an asset-liability management system with effect from April 1, 1999. In addition, the Reserve Bank also issued guidelines on risk management on October 21, 1999 for the benefit of banks.

1.3 Against the background of the work done by a number of expert groups and the initiatives taken to bring about structural changes, this Chapter presents perspectives on some of the crucial issues that need attention for evolving a sounder and a more resilient banking system in India. The policy environment for operation of the banking system is elaborated in sections 2 to 8 of this Chapter.

2. Monetary and Credit Policy Measures

1.4 The monetary and credit policies have addressed various issues pertaining to the financial sector reform process and as a result substantial improvements have taken place. Among the short term credit policy measures, the important areas relate to the changes in the Bank Rate, Cash Reserve Ratio (CRR), and other rate variables such as the repo rate, the refinance rate, the deposit and lending rates. Major policy changes during 1998-99 and as announced in April 1999 are given in Table I.1. The Mid-term review of Monetary and Credit Policy for the second half of 1999-2000 announced on October 29, 1999 is given in Box I.1. The Mid-term Review continued with the overall stance of policy that was announced in April 1999. In essence, the stance of policy for 1999-2000 would continue to be: provision of reasonable liquidity; stable interest rates with preference for softening to the extent possible within the existing operational and structural constraints; orderly development of financial markets and ensuring financial stability.

Table I.1: Monetary and Credit Policy Measures

Sr. No.	Item	Measures	Effective date
1	2	3	4
1.	**Interest Rates**		
a.	Bank Rate	Reduced from 10.5 per cent to 10 per cent	April 2, 1998
		Reduced to 9 per cent	April 29, 1998
		Reduced to 8 per cent	March 1, 1999
b.	Fixed Rate Repos	Reduced from 9 per cent to 5 per cent in stages	By June 1998
		Increased to 8 per cent	August 21, 1998
		Reduced to 6 per cent	March 3, 1999
c.	Domestic Deposit Rates	The minimum period of maturity of term deposits reduced from 30 to 15 days	April 29, 1998
		Banks were allowed to determine penal interest rates for pre-mature withdrawal of domestic term deposits	
		Banks were allowed to offer varying interest rates on domestic term deposits of identical maturities for deposits of Rs.15 lakh and above.	
d.	Non- Deposits Resident	Interest rate ceilings on FCNR(B) deposits of one year and above was increased by 50 basis points	April 29, 1998

		and that on such deposits below one year was reduced by 25 basis points	
		Banks were allowed to fix their own overdue interest rates in respect of FCNR(B) and NRE deposits remaining overdue for more than14 days subject to these deposits being renewed.	
		Banks were allowed to fix penal rates of interest on pre-mature withdrawal of FCNR(B) and NRE deposits.	
e.	Lending Rates	Interest rates on credit limits upto Rs.2 lakhs stipulated at not exceeding PLR	April 29, 1998
		Board of Directors of banks was allowed to delegate powers to ALM Committee to fix interest rates on deposits	April 20, 1999
		Banks were allowed to offer fixed rate for all term loans subject to conformity to ALM guidelines.	April 24, 1999
		Banks were allowed to operate different PLRs for different maturities.	April 24, 1999
f.	Advances against Domestic/NRE term deposits	Interest rates on loans and advances granted against domestic/NRE term deposits stipulated not to exceed PLR.	April 29, 1998
		Banks were allowed to charge suitable rates of interest on advances against domestic/ NRE term deposits without reference to the ceiling of the PLR in case where deposit rates are equal to or more than PLR or less than one percentage point below PLR.	April 24, 1999
2.	**Reserve Requirements**		
a.	Cash Reserve Ratio (CRR)	Reduced from 10.25 per cent to 10 per cent Increased to 11 per cent Reduced to 10.50 per cent Reduced to 10 per cent	April 11, 1998 August 29, 1998 March 13, 1999 May 8, 1999
b.	Release of Impounded Cash Balances	Remaining part of the impounded cash balance as on April 17, 1992 was released in 12 equal instalments.	Between May 23, 1998 and March 13, 1999

c.	Statutory Liquidity Ratio (SLR)	Remained unchanged at 25 per cent.	-
3.	**Refinance**		
a.	Export Credit Refinance (ECR)		
	i) Limit on ECR	Increased from 50 per cent to100 per cent of the incremental credit over base level (i.e., on February 16, 1996).	May 9, 1998
	ii) Rate of interest on ECR	Reduced from 10 per cent to 9 per cent Reduced to 7 per cent Increased to 8 per cent	April 29, 1998 August 6, 1998 April 1, 1999
b.	General Refinance	Reduced to 0.25 per cent of each bank's fortnightly average outstanding deposits in 1996-97	January 17, 1998
		The facility was withdrawn with introduction of Collateralised Lending Facilty (CLF).	April 21, 1999

Note : Measures relating to Export Credit are discussed separately.

Box I.1: Major Policy Measures announced in the Mid-term Review of Monetary and Credit Policy

The important policy measures announced in the Mid-term Review of Monetary and Credit Policy 1999-2000 are summed up as follows:

(i) The Cash Reserve Ratio (CRR) to be maintained by the Scheduled Commercial Banks (SCBs) is to be reduced by one percentage point from 10 per cent to 9 per cent in two instalments, effective from the fortnight beginning November 6, 1999 and the fortnight beginning November 20, 1999, respectively. In addition, it was decided to introduce a lag of two weeks in the maintenance of stipulated CRR by banks.

(ii) The minimum maturity for FCNR(B) deposits is being raised to one year from six months. Banks, however, will continue to have the freedom to offer floating rate deposits (with a maturity of one year or more, and interest reset period of six months). The requirement by banks to maintain an incremental CRR of 10 per cent on increase in liabilities under FCNR(B) Scheme (over the level prevailing as on April 11, 1997) is being withdrawn, with effect from the fortnight beginning November 6, 1999.

(iii) The interest rate surcharge of 30 per cent on import finance, which has been in force since January 1998, is being withdrawn with immediate effect.

(iv) The stipulation requiring banks to charge a minimum rate of 20 per cent interest on overdue export bills is also being withdrawn with immediate effect, imparting on banks the freedom to decide the appropriate rate of interest on overdue export bills.

(v) It was decided to extend the permission granted to non-bank entities to charge a minimum rate of 20 per cent interest on overdue export bills upto end-June 2000.

In addition, a number of structural policy measures were announced.

(a) It was decided to bring MMMFs within the purview of SEBI Regulations. However, banks and financial institutions desirous of setting up MMMFs will have to seek the necessary clearance from the Reserve Bank. It was also decided to henceforth allow MMMFs to be set up as a separate entities in the form of a 'Trusts' only.

(b) It was decided to permit SCBs to offer 'cheque writing' facility to Gilt Funds and to those Liquid Income schemes of mutual funds which predominantly invest in money market instruments (not less than 80 per cent of their corpus), subject to certain safeguards.

(c) It was decided to permit mutual funds to undertake FRAs/IRS with banks, Primary Dealers and financial institutions for the purpose of hedging their own balance sheet risks.

(d) It was decided to publicise gilt instruments through informative pamphlets.

(e) It was decided to advise PDs that they should have self-imposed reasonable leverage ratios with the consent of their Board of Directors.

(f) It was decided to impart freedom to banks to charge interest rates without reference to PLR, in respect of the following categories :

- Loans covered by refinancing schemes of term-lending institutions.
- Lending to intermediary agencies.
- Discounting of bills.
- Advances/Overdraft against domestic/NRE/ FCNR(B) deposits.

(g) The risk weight of 2.5 per cent for investments in government and other approved securities was extended to cover all investments, including securities outside the SLR, with effect from the year ending March 31, 2001.

(h) The exposure ceiling in respect of an individual borrower was lowered from the present level of 25 per cent to 20 per cent; it will be 20 per cent of the bank's capital funds effective April 1, 2000. Where the existing level of exposure as on October 31, 1999, is more than 20 per cent, banks would be expected to reduce the exposure to 20 per cent of capital funds by end October, 2001.

Export Credit

1.5 The interest rates charged on both pre-shipment and post-shipment rupee export credit were progressively reduced during 1997-98 and 1998-99 to step up the rate of growth of exports.

The structure of interest rates on rupee export credit in the recent period is given in Table I.2.

1.6 With a view to making available credit to exporters at internationally competitive rates linked to LIBOR, the Reserve Bank introduced in 1993 the schemes of Pre-shipment Credit in Foreign Currency (PCFC) and Rediscounting of Export Bills Abroad. The rates of interest to be charged under these schemes are given in Table I.3.

Table I.2: Interest Rates on Rupee Export Credit

(Per cent per annum)

Item	Effective from		
	April 30, 1998	August 6, 1998	April 1, 1999
1	2	3	4
1. Pre-shipment Credit			
i) Upto 180 days	11.00	9.00	10.00
ii) Beyond 180 days and upto 270 days	14.00	12.00	13.00
iii) Against incentives receivable from Government covered by ECGC Guarantee upto 90 days	11.00	9.00	10.00
2. Post-shipment Credit			
i) Demand Bills for transit period (as specified by FEDAI)	Not exceeding 11.00	9.00	Not exceeding 10.00
ii) Usance Bills (for total period comprising usance period of export bills, transit period as specified by FEDAI and grace period wherever applicable)			
a) Up to 90 days	Not exceeding 11.00	9.00	Not exceeding 10.00
b) Beyond 90 days and up to six months from the date of shipment	13.00	11.00	12.00

c) Beyond six months from the date of shipment	--	--	--
iii) Against incentives receivable from Government covered by ECGC Guarantee (up to 90 days)	Not Exceeding 11.00	9.00 10.00	Not Exceeding
iv) Against undrawn balance (up to 90 days)	Not Exceeding 11.00	9.00	Not Exceeding 10.00
v) Against retention money (for supplies portion only) payable within one year from the date of shipment (up to 90 days)	Not Exceeding 11.00	9.00	Not Exceeding 10.00
3. Deferred Credit			
Deferred credit for the period beyond 180 days	Free	Free	Free
4. Export Credit not otherwise specified (ECNOS)			
a) Pre-shipment credit	Free	Free	Free
b) Post-shipment credit	20.00 (Min.)	20.00 (Min.)	20.00 (Min.)

Notes : 1. Min. : Minimum.
-- : Not Applicable.
* : Chronic Cases, i.e. overdues as on July 1, 1997 exempted.
2. 'Free' means banks are free to decide the rate of interest to be charged.

1.7 Banks have been permitted since January 1999 to extend concessional credit for working capital purposes in respect of export-related activities of all agro-products, including purchase of fertilizers, pesticides and other inputs for growing of flowers, grapes, etc. to give a boost to exports of agro-products, provided banks are in a position to clearly identify such activities as export-related and satisfy themselves of the export potential thereof and that the activities are not covered by direct/indirect finance schemes of NABARD or any other agency.

1.8 The Reserve Bank has reviewed the procedures followed by banks while dispensing export credit and accordingly issued guidelines simplifying the procedures for extending export credit. The guidelines relate to the following:

(i) provision of export credit in foreign currency both at pre/post- shipment stages at internationally competitive rates through larger number of bank branches,

(ii) simplification of application forms and procedures, etc. for assessing credit requirements of exporters in a manner most suitable and appropriate to their business operations,

(iii) providing credit for a longer period than one year,

(iv) permitting interchangeability of pre/post-shipment credit limits,

(v) allowing periodical submission of orders, LCs, etc. for availing pre-shipment credit and for handling export documents, and

(vi) streamlining internal systems and procedures.

Table I.3: Interest Rates on Export Credit in Foreign Currency

(Per cent per annum)

Item		Rate
1.	**Pre-shipment Credit**	
	(a) Upto 180 days	Not exceeding LIBOR/Euro LIBOR /EURIBOR + 1.5
	(b) Beyond 180 days and upto 360 days	Rate for initial period of 180 days prevailing at the time of extension + 2.0
2	**Post-shipment Credit**	
	(a) On demand bills for transit period (as specified by FEDAI)	Not exceeding LIBOR /Euro LIBOR / EURIBOR + 1.5
	(b) Usance bills (for total period comprising usance period of export bills, transit period as specified by FEDAI and grace period whereever applicable) Upto 6 months from the date of shipment	Not exceeding LIBOR /Euro LIBOR / EURIBOR + 1.5
	(c) Export bills (demand or usance) realised after due date but upto date of crystalisation	Rate as prescribed in (a) or (b) + 2.0
3.	**Export Credit Not Otherwise Specified (ECNOS)**	
	(a) Pre-shipment credit	Free
	(b) Post-shipment credit	20.0 (minimum)*

Note : 1 * : Rupee credit rate.

2 : Free indicates that the banks are free to decide the rate of interest being rupee credit rate.

For monitoring the progress made in the implementation of the guidelines by banks on an ongoing basis, a Monitoring Group of Bankers has been constituted.

Special Liquidity Support Facility

1.9 With a view to enabling those scheduled commercial banks, which were temporarily deploying the rupee resources available against Resurgent India Bonds (RIB) in Government securities sold by the Reserve Bank through Open Market Operations (OMO), a Special Liquidity Suport Facility by way of refinance was introduced to tide over their unanticipated liquidity problem. Effective September 17, 1998, such banks were provided liquidity support under Section 17(4) (a) of the Reserve Bank of India Act, 1934 to the extent of their excess holdings of Government Securities/treasury bills purchased through OMO window over the Statutory Liquidity Ratio (SLR) required to be maintained. This facility was provided for two blocks of four weeks each. The rate of interest applicable on this refinance was at the Bank Rate (i.e. 9.0 per cent per annum) for the first four weeks and the Bank Rate plus one percentage point (i.e. 10.0 per cent per annum) for the next four weeks upto March 1, 1999. These rates were reduced to '8.0 per cent per annum' and '9.0 per cent per annum' respectively with effect from the close of business on March 1, 1999 due to the change in the Bank Rate. This refinance facility, however, was withdrawn with effect from April 1, 1999.

Interim Liquidity Adjustment Facility

1.10 The Reserve Bank had agreed in principle with the recommendation of the second Narasimham Committee that the Reserve Bank's support to the market should be through a Liquidity Adjustment Facility (LAF) operated by way of repo and reverse repo providing a reasonable corridor for market players. Pending further upgradation in technology and legal / procedural changes to facilitate electronic transfer and settlement, it was decided to introduce an Interim Liquidity Adjustment Facility (ILAF) through lending against collateral of Central Government securities. Under the ILAF while liquidity is injected into the system through export credit refinance facility, collateralised lending facilities and liquidity support to Primary Dealers, the absorption of liquidity from the market is done through fixed rate repos supplemented by open market operations in dated Government securities and Treasury Bills. The ILAF provides a mechanism by which liquidity is injected at various interest rates, and absorbed when necessary at the fixed repo rate, so that volatility in the money market is minimised and the market operates within a reasonable range.

Collateralised Lending Facility

1.11 Effective April 21, 1999, the General Refinance facility was replaced by a Collateralised Lending Facility (CLF). Under CLF, the scheduled commercial banks (excluding RRBs) are provided refinance to the extent of 0.25 per cent of their fortnightly average outstanding aggregate deposits in 1997-98 and such refinance is available for two weeks at the Bank Rate. An Additional Collateralised Lending Facility (ACLF) for an equivalent amount of CLF is also available at the Bank Rate plus 2 percentage points. Both CLF and ACLF can be availed of for a further period of two weeks at interest rates higher by two percentage points as compared to those applicable for the first two weeks. The policy measure also included the prescription of a cooling period of four weeks during which the banks would not be permitted to draw any refinance. Thereafter, a fresh cycle of two block of two weeks each would begin.

1.12 Effective October 6, 1999, the stipulation of cooling period has been removed altogether so as to enhance the flexibility and effectiveness of the scheme of CLF in meeting the liquidity requirements of banks. Thus, from third week onwards CLF and ACLF will be provided to banks at the Bank Rate plus 2 percentage points and Bank Rate plus 4 percentage points, respectively. The amount drawn under CLF/ ACLF will have to be paid off within a period not exceeding 90 days from the date of drawal. The entitlement of the banking system under CLF and ACLF is of the order of Rs.1,314 crore each (i.e. total of Rs,2,628 crore).

Liquidity Support to Primary Dealers

1.13 In April 1998, the practice of reverse repos with Primary Dealers (PDs) in specified securities was dispensed with, and instead, liquidity support against the security of holdings in Subsidiary General Ledger (SGL) accounts was provided. This was further modified in the context of the introduction of Interim Liquidity Adjustment Facility (ILAF), in the monetary and credit policy announced on April 20, 1999 for the year 1999-2000. Accordingly, liquidity support against collateral of Government securities, based on bidding commitment and other parameters would be available to PDs at the Bank Rate and the amounts would remain constant throughout the year subject to the usual restriction of repayment within 90 days. Additional liquidity support against collateral of Government securities would also be provided to PDs for periods not exceeding two weeks at a time and the interest rate for such advances would be the Bank Rate plus 2 percentage points.

State Co-operative Banks

1.14 The Reserve Bank's accommodation to State Co-operative Banks towards general banking business such as clearing adjustments, liquidity, etc. which was earlier at 'Bank Rate plus 2.5 percentage points', was reduced to the 'Bank Rate' with effect from April 20, 1999.

Money Market

1.15 Important policy measures pertaining to various segments of the money market during 1998-99 are given in Table I.4.

Standing Committee on Money Market

1.16 Similar to the Standing Committees on Foreign Exchange Market and Government Securities Market, a Standing Committee on Money Market under the Chairmanship of Dr. Y.V. Reddy, Deputy Governor of the Reserve Bank was set up in April 1997 for advising the Reserve Bank on developing the money market in order to make it more efficient. The Standing Committees on Government Securities Market and Money Market were merged in July 1999 to form a Technical Advisory Committee on Money and Government Securities Market, in view of the overlap and strong connectivity between these two markets.

Report of the Sub-Group on Repos

1.17 A Sub Group of the Technical Advisory Committee on Government Securities Market was constituted to study the Repurchase Agreement (Repos) market. The Group submitted its report in April 1999. The Group has proposed several changes in the structure of the repos market, viz., introduction of exchange traded and over-the-counter repos, allowing roll-over of repos and expansion of the repos market in terms of users and instruments. Further, the sub-group has recommended the removal of the ban on forward trading in repos and replacement of the Public Debt Act by a Government Securities Act.

Banks' Investments

Investment in Shares and Debentures

1.18 In the Monetary and Credit Policy statement for the year 1999-2000, it was announced that in order to encourage the flow of finance for venture capital, the overall ceiling of investment by banks in ordinary shares, convertible debentures of corporates and units of mutual funds, etc., which was at 5 per cent of their incremental deposits, would stand automatically enhanced to the extent of banks' investments in venture capital and such investments in venture capital should be treated as priority sector lending.

Table I.4: Money Market Policy Measures

Sr. No.	Item	Measures	Effective from
1.	Call/Notice Money Market	3 mutual funds viz., Kotak Mahindra, Infrastructure Leasing and Financial Services (IL&FS) and Dundee Mutual Funds were permitted to participate as lenders. 17 corporate entities were permitted to lend through PDs. RBI's permission to non-bank entities to lend in the call/notice money market by routing their operations through PDs will be available only upto end December 1999.	1998-99
2.	Certificates of Deposit	Minimum period for transferability of CDs reduced from30 to 15 days.	May 9, 1998
3.	Money Market Mutual Funds (MMMFs)	Minimum lock-in period reduced from 30 to 15 days.	May 9, 1998

		MMMFs permitted to offer 'cheque writing' facility to their investors.	April 29, 1999
4.	Repos and Reverse Repos Market	Restriction of minimum period of 3 days for inter-bank repo transactions withdrawn. 35 non-banking entities were permitted to undertake ready forward transactions in notified government securities.	October 31, 1998 July 14,1999
5.	Bill rediscounting Market	3 mutual funds viz., Kotak Mahindra,IL&FS and Dundee Mutual Fund were permitted to participate in the bill rediscounting market as lenders only.	1998-99
6.	Forward Rate Agreements (FRAs)/ Interest Rate Swaps(IRSs)	Guidelines for undertaking FRAs/ IRSs issued Banks, PDs and all-India Financial Institutions were allowed to undertake FRAs/IRSs for their own balance sheet management and for market making purposes	July 7, 1999

Valuation of Banks' Investments in Approved Securities

1.19 The Reserve Bank, earlier in April 1992, advised the banks to bifurcate their investments in approved securities into 'permanent' and 'current' categories, and to keep not less than 30.0 per cent of their investments in the current category from the accounting year 1992-93. Over time, the ratio of current investments was increased and it was fixed at 70.0 per cent of the approved securities for the year ending March 31, 1999. These measures were put in place with a view to adopting prudent accounting standards and to moving towards "mark to market" valuation of the investments portfolio. Further, it was indicated in April 1998 that the ratio of current investments in approved securities would be increased progressively to 100 per cent in the next three years in line with the international best practices. With effect from the year ending March 31, 2000, banks would have to classify a minimum of 75 per cent of their securities as current investments.

Improving Credit Delivery System

Extending the Coverage of Priority Sector

1.20 During the year 1998-99, the coverage of Priority Sector credit was widened considerably. Bank credit to NBFCs for the purpose of on-lending to Small Road and Water Transport Operators (i.e. those owning a fleet of vehicles not exceeding ten) is now being treated as priority sector lending provided the ultimate borrowers satisfy the eligibility requirements for being classified under priority sector. Effective October 26, 1998, it was decided that loans to software industry having credit limit upto Rs.1 crore from the banking system would be eligible for inclusion under the priority sector. In view of the escalation in the cost of goods and products sold by retail traders, it was decided, effective November 13, 1998, to increase the existing ceiling of bank advances under priority sector to retail traders from Rs.2 lakh to Rs.5 lakh. In January 1999, it was decided that the food and agro-based processing sector should be included within the definition of priority sector for bank lending. Further, lending by banks to NBFCs or other financial institutions for on-lending to the tiny sector is being classified under priority sector. Banks were advised on April 24, 1999 that investments in venture capital would be eligible for inclusion in priority sector lending.

Credit for Infrastructure

1.21 In view of the national importance attached to infrastructure development, operational guidelines on financing infrastructure projects have been issued to banks/financial institutions on April 23, 1999. Accordingly, banks would be free to sanction term loans for technically feasible, financially viable and bankable projects undertaken by both public and private sector undertakings, subject to prescribed criteria. In this context, four broad modes of financing have been identified and these include (i) financing through funds raised by way of subordinated debt, (ii) entering into take-out financing, (iii) direct financing through rupee term loans, deferred payment guarantees, foreign currency loans, etc., and (iv) investments in infrastructure bonds issued by project promoters/financial institutions. Banks have also been permitted to issue inter-institutional guarantees subject to certain norms.

Increased Allocation for Housing Finance

1.22 Commercial banks have been advised to compute their share of housing finance allocation for the financial year 1999-2000 (April-March) at 3 per cent of their incremental deposits as on the last reporting Friday of March 1999 over the corresponding figure of the last reporting Friday of March 1998 or the amount of housing finance allocation fixed for the financial year 1998-99; whichever is higher. This is the minimum housing finance allocation and banks could exceed this level having regard to their resources position.

3. Government Securities Market

1.23 The Government securities market plays an important role in that it helps banks and financial institutions by providing a collateral that could be utilised for gaining financial support and liquidity without creating a moral hazard problem. The Reserve Bank, in close coordination with the Government of India, has been pursuing an active internal debt management policy since the fiscal year 1992-93. A number of policy initiatives have been undertaken mainly in the areas of institutional development, instrument development, market efficiency and transparency. Of late, the regulatory and legal aspects have also been pursued. The major policy developments during 1998-99 and thereafter so far are set out in the following paragraphs.

Institutional Development

Primary Dealers

1.24 In order to further deepen the Government securities market and also to increase competition among the existing Primary Dealers (PDs), the Reserve Bank granted approval to 7 more entities to be accredited as PDs in the Government securities market. With the addition of these 7 PDs, the total number of PDs increased to 13.

1.25 As a step towards the Reserve Bank's ultimate objective of moving away from the primary market and facilitatating a larger absorption of Government securities by PDs, the system of underwriting by PDs was changed in the Monetary and Credit Policy statement for the year 1999-2000. In consultation with PDs, it has been decided (a) to obtain a minimum bidding commitment from each PD for each auction of Treasury Bills, so that together they absorb 100 per cent of the notified amount, and (b) to offer an enhanced underwriting option to PDs for the entire notified amount in auctions of dated securities.

Satellite Dealers

1.26 Satellite Dealers (SDs) are expected to play a significant role as a second tier in trading and distribution of Government securities and they need to be therefore, provided with necessary liquidity support. With a view to enabling the SDs to have access to short term borrowings, the Reserve Bank had decided to permit them to issue Commercial Paper (CP) since June 23, 1998, subject to fulfilment of certain preconditions.

Foreign Institutional Investors

1.27 Following the policy decisions taken by the Reserve Bank and the Securities and Exchange Board of India (SEBI) and the amendments to SEBI (FIIs) Regulations, 1995, Foreign Institutional Investors (FIIs) have been permitted since May 18, 1998 to invest in Government dated securities and Treasury Bills within their overall approved debt ceilings. The FIIs would include 100 per cent debt funds and FIIs with a ceiling of 30 per cent investment in debt instruments. The RBI guidelines issued on March 8, 1997 specifying the manner of transactions by the FIIs were amended on June 11, 1998 to enable FIIs, as mentioned above, to invest in Government dated securities (both Government of India and State Governments) and Treasury Bills, both in the primary and the secondary markets.

Gilt Funds

1.28 In the Monetary Policy for the first half of 1996-97, it was indicated that with a view to encouraging the schemes of Mutual Funds which are dedicated exclusively to investments in Government securities (Gilt Funds), the Reserve Bank would provide liquidity support to such dedicated funds floated with the approval of SEBI. The guidelines were issued on April 20, 1996. To operationalise these guidelines and on setting up of the first Gilt Fund in the country by Kotak Mahindra Finance Co. Ltd., a detailed scheme for availing the liquidity support was also framed by the Reserve Bank on December 24, 1998.

Instrument Development

Developments in the Treasury Bills Market

1.29 The facility of notifying the amount which has been prevalent in the case of 91-day Treasury Bills was extended, in the case of all auctions including 364-day and 14-day Treasury Bills with effect from April 1, 1998. Non-competitive bids, however, were continued to be kept outside the notified amount so as to provide certainty to the amounts acceptable from competitive bidders since April 1, 1998.

1.30 A Uniform price auction method was introduced on November 6, 1998 in the auctions for 91-day Treasury Bills on an experimental basis. On April 20, 1999, as part of Monetary and Credit Policy statement for the year 1999-2000, the following policies were announced:

(i) In order to provide a greater certainty in the timing and quantum of primary issues so as to give the market participants sufficient time to plan their investments in Government securities, a calendar for issue of Treasury Bills for the entire year would be announced. In pursuance of this, the following calendar of Treasury Bills Auction was announced (Table I.5). Although, this calendar was initially valid only till September 1999, it is being continued for the rest of the current financial year.

(ii) 182-day Treasury Bills, would be reintroduced and would be issued every fortnight as part of the calendar. Accordingly, 182-day Treasury Bills were reintroduced from May 26, 1999.

Table I.5: Calendar of Treasury Bills Auction

Type of T-Bills	Periodicity	Notified Amount (Rs. crore)	Day of Auction	Day of Payment
1	2	3	4	5
14-day	Weekly	100	Every Friday	The Following day
91-day	Weekly	100	Every Friday	The Following day
182-day	Fortnightly	100	Wednesdays preceding the non-reporting Fridays	The Following day
364-day	Fortnightly	500	Wednesdays preceding the non-reporting Fridays	The Following day

Development in Dated Securities Market

1.31 The Government issued a long-term paper with a maturity of 20 years on November 24, 1998 after a gap of nearly 7 years. Consolidation of outstanding loans was necessary for ensuring sufficient volumes and liquidity in any one issue. Such consolidation also facilitates the emergence of benchmarks and development of Separate Trading of Registered Interest and Principal Securities (STRIPS). Accordingly, the option of issuing new loans on price basis instead of on yield basis as is done currently was introduced through a revised notification on April 5, 1999 from Government of India.

Regulatory and Legal Aspects

Repeal and Replacement of Public Debt Act

1.32 Over the years, a number of rigidities have been noticed in the Public Debt Act and Rules. The procedures prescribed therein were time-consuming and some of the provisions had ceased to be of relevance in the present context. Therefore, a new legislation titled the Government Securities Act has been proposed to repeal and replace the Public Debt Act, 1944. The Government Securities Bill has already been approved by the Cabinet and is awaiting Parliament clearance. However, since the Public Debt Act, 1944 is applicable for marketable loans raised by the RBI on behalf of both the Central and State Governments, the proposal requires consent of all State Governments. Once the new Act is enacted, the RBI will have a substantive instrument of transfer suited to computer environment. The new Act will also give flexibility to allow Government Securities to be held in Depositories while at the same time specifically excluding Government Securities from the purview of Depositories Act, 1996. The draft of the Act is being vetted by the State Governments.

Amendments to Securities Contracts (Regulation) Act, 1956

1.33 The Reserve Bank had proposed to the Government of India to amend the section 29(A) of the Securities Contracts (Regulation) Act (SCRA) to add an enabling provision to provide jurisdiction to the Reserve Bank in the regulation of the debt markets. With this, the respective regulatory roles of SEBI and the Reserve Bank in the debt market will be formalised. The proposed changes in the SCRA will pave the way for a more active repos market and help in introducing new market feature of 'when-issued trading'. The proposed amendment is presently under consideration of the Government.

Amendment to Indian Stamp Act, 1899

1.34 To facilitate trading in financial instruments, it is necessary that the transfers in dematerialised form are exempted from stamp duty. Therefore, an amendment has been made in the Indian Stamp Act, 1899. In the Indian Stamp Act, 1899, in section 8A, after clause (e), the following clause has been inserted, namely, "(f) transfer of beneficial ownership of debentures, such debentures being debentures of a company formed and registered under the Companies Act, 1956 or a body corporate established by a Central Act, dealt with by a depository, shall not be liable to duty under article 27 of schedule 1 of this Act."

1.35 There are other issues regarding which the Reserve Bank has suggested amendments to the Government. These included the (i) stamp duty on PSU bonds, debentures, etc. traded in dematerialised environment, (ii) stamp duty on English mortgage and secondary market non-convertible debentures with respect to infrastructure finance, and (iii) definition of securitised debt instruments and stamp duties thereof.

Other Developments

Flexible Approach to State Borrowings

1.36 A flexible approach to market borrowing programme of State Governments was introduced whereby, the State Governments were offered a facility of raising 5 per cent to 35 per cent of their market borrowing allocation in a flexible manner as regards timing, maturity, and rate of interest. Accordingly, the Punjab Government raised Rs.60 crore through 10 year stock on January 13, 1999 through auction, which was the first of its kind. The State Governments of Goa, Andhra Pradesh and Uttar Pradesh mobilised Rs.850 crore through 12.50 per cent State Development Loan, 2009 on tap during February 10 -12, 1999. Further the State Government of Andhra Pradesh and Tamil Nadu, mobilised Rs.600 crore through 10 year stock on August 19, 1999.

Guarantees by State Governments

1.37 In the interest of prudent financial management and the credibility of the guarantees issued by the States, there was a need for a guarantee policy for each State Government on the basis of certain parameters. Accordingly, the Reserve Bank constituted a technical committee of State Finance Secretaries to examine the issue of State Government guarantees in all its aspects. The report of the Committee was submitted in February 1999. While recommending a ceiling on guarantee, the Committee, inter alia, has also set out certain parameters for the ceiling. The Committee has also recommended selectivity in calling for and providing of guarantees. The other recommendations relate to honouring of guarantees, disclosure, transparency and reporting of guarantees, letter of comfort, automatic debit mechanisms, tripartite structured payment agreements, escrow mechanisms for independent power projects, standardisation of documentation, guarantee fee, constitution of a Contingency Fund for Guarantees and monitoring of guarantees and implicit contingent liabilities. Persuant to the Report, the Government of Karnataka has passed a Bill to provide for ceiling on Government Guarantees. The Rajasthan Government has set up a Guarantee Redemption Fund with an initial contribution of Rs.1 crore.

4. Strengthening of Capital and Supervision

Recapitalisation of Public Sector Banks

1.38 The Government of India has been providing funds to public sector banks (PSBs) to help strengthen their capital. During 1998-99, the Government extended recapitalisation facility to three PSBs and provided a sum aggregating Rs.400 crore as compared with Rs.2,700 crore provided last year to three PSBs (Table I.6). So far the Government has contributed an aggregate amount of Rs.20,446.12 crore upto March 31, 1999.

Write-off of Capital

1.39 The Government is encouraging the PSBs to raise capital through public issues. The write-off of accumulated losses against paid-up capital would enable PSBs to have earning per share (EPS) at higher level for making public issues. During 1998-99, Government allowed four PSBs to reduce their capital by writing off accumulated losses equivalent to Rs.2,066.64 crore[1] .

Canara Bank was given a capital assistance of Rs.600 crore; of which, it was allowed to write off accumulated losses of Rs.507.1 crore relating to loss in a mutual fund scheme. Till the year ended March 31, 1999, the losses written off against capital amounted to Rs.6,037.18 crore.

Table I.6: Recapitalisation of Public Sector Banks: 1998-99

Sr. No.	Name of the bank	Amount (Rs. crore)
1.	Indian Bank	100
2.	UCO Bank	200
3.	United Bank of India	100
	Total	**400**

Ownership pattern of Nationalised banks

1.40 In recent years, the government made attempts to dilute its holding in public sector banks with a view to broad-base the ownership pattern. In this context it may be mentioned that in the case of State Bank of India, the share holding of the Government and the Reserve Bank constituted 1.8 per cent and 59.7 per cent, respectively during 1998-99. The ownership pattern of nationalised banks varies from bank to bank. A Table I.7 is presented below giving the details of Central Government ownership of capital in nationalised banks.

Public issue of Shares

1.41 The continued depressed conditions in primary market for new issues discouraged banks from floating issues in the market to raise their capital. During 1998-99, the Reserve Bank gave approval for two public issues of South India Bank Ltd. and UTI Bank Ltd. The Reserve Bank has also approved three proposals during the year for rights issues of Ganesh Bank of Kurundwad Ltd., Catholic Syrian Bank Ltd., and Bharat Overseas Bank Ltd. However, Ganesh Bank of Kurundwad Ltd. had not made the rights issue till June 1999. The on-going liberalisation in the banking sector has given more freedom to private sector banks, whose shares are already listed on stock exchanges for floating new issues. Barring bonus issues, the private sector banks have been permitted to directly raise capital in the form of equity issues without the approval of the Reserve Bank.

Issue of Sub-Ordinated Debt Instruments for Inclusion in Tier II Capital

1.42 During the year ended March 1999, four banks raised subordinated debt for inclusion in their Tier II capital (Table I.8)

1. The PSBs allowed to write off their losses against capital during 1998-99 were: (a) Andhra Bank Rs.243.37 crore, (b) Bank of Maharashtra Rs.418.18 crore, (c) Punjab and Sind Bank Rs.462.47 crore and (d) Syndicate Bank Rs.942.62 crore.

Table I.7: Central Government ownership of Capital of Nationalised Banks

(Per cent)

Sr. No.	Name of the Bank	1996-97	1997-98	1998-99
1	2	3	4	5
1.	Allahabad Bank	*	*	*
2.	Andhra Bank	*	*	*
3.	Bank of Baroda	77.1	66.9	66.6
4.	Bank of India	81.9	76.6	76.6
5.	Bank of Maharashtra	*	*	*
6.	Canara Bank	*	*	*
7.	Central Bank of India	*	*	*
8.	Corporation Bank	*	68.4	68.3
9.	Dena Bank	71.0	71.0	71.0
10.	Indian Bank	*	*	*
11.	Indian Overseas Bank	*	*	*
12.	Oriental Bank of Commerce	66.5	66.5	66.5
13.	Punjab & Sind Bank	*	*	*
14.	Punjab National Bank	*	*	*
15.	Syndicate Bank	*	*	*
16.	UCO Bank	*	*	*
17.	Union Bank of India	*	*	*
18.	United Bank of India	*	*	*
19.	Vijaya Bank	*	*	*

Note: * Fully owned by Central Government.

Supervision of Banks

1.43 The main purpose of bank supervision is not only to protect the interests of depositors but also to nurture a healthy and sound banking system. The principal instruments of supervision are on-site examination and off-site surveillance. Based on the recommendations of the Narasimham Committee Report of 1991, the Reserve Bank has set up the Board for Financial Supervision (BFS) in 1993, so as to evolve an integrated approach to supervision of financial institutions (mainly credit institutions). Under the umbrella of BFS, three channels of credit extended by commercial banks, development financial institutions and non-banking-financial companies are supervised by the Reserve Bank on a 'continuous basis' through an off-site surveillance mechanism supplementing the on-siteexaminations. The Reserve Bank has now embarked on a project to upgrade the off-site database by June 2000 with enhanced capabilities, of processing of reports on risk exposures based on submission of recently introduced returns on asset-liability management (ALM).

Table I.8: Raising of Tier II Capital by Banks

Sr. No.	Name of the bank	Amount raised (Rs.crore)
1.	Catholic Syrian Bank	16.60
2.	United western Bank Ltd.	70.00
3.	ICICI Bank	68.00
4.	Federal Bank Ltd.	150.00

1.44 The Reserve Bank is also in the process of moving towards a regime of risk based supervision and has begun re-orienting the focus of its on-site examination with this goal in mind. It has also adopted a rating model CAMELS for the evaluation of banks based on on-site inputs which is a variant of the internationally accepted CAMEL approach –Capital adequacy, Asset quality, Management, Earnings and Liquidity, and adding to it 'S' for Systems and procedures. The Bank has also introduced a special supervisory regime for weak banks which includes quarterly reporting by banks and on-site visits at frequent intervals. The housekeeping areas of banks which are prone to operational risks, have come under increased supervisory focus and the reconciliation of interbranch and interbank accounts has been prominent on the supervisory agenda.

1.45 Transparency and public disclosures need to be supplemented with supervisory standards and best practices so as to promote market discipline and ensure a robust banking and financial system. In 1997, the Basle Committee on Banking supervision evolved a set of twenty-five core principles for effective banking supervision which have been endorsed world wide. The Reserve Bank of India is committed to the implementation of these principles and had assessed its own position with respect to them. Based on this assessment, working groups have been set up to make recommendations on strengthening certain areas; the main areas in this regard relate to (a) risk management system for banks, (b) amendments to banking legislation, (c) introduction of consolidated supervision, (d) developing a framework for home and host country relations, and (e) enhancing inter-agency and inter-department cooperation. The groups have since given their recommendations which are being examined for implementation.

1.46 The Basle Capital Adequacy Accord was introduced in 1988 as a means of setting minimum capital asset ratios for international banks. Post Basle 1988, international banking witnessed a gradual blurring of functional distinction among financial intermediaries. The speed and complexity of adjustment made it difficult for the supervisory authorities to effectively regulate financial entities in their countries. Since banks in different countries encountered different degrees of risks, the rule of 'one-size-fits-all' aspect of the capital adequacy ratio of 1988 was therefore subject to intense debate. Besides, the original Accord emphasized only the credit risk aspect of banking operations, ignoring the other relatively important risk factors like interest rate risk, market risk and operational risk. The Basle norms also could not adequately internalize the differences in credit ratings of dissimilar corporate borrowers. Such criticism against the old Accord seems to have led the Basle Committee on Banking Supervision to propose the new Consultative Paper on Capital Adequacy Framework in June 1999 which aims at further strengthening the soundness of the financial system (Box I.2).

1.47 The Reserve Bank has set out the supervisory agenda for the coming year and, in this context, is examining the recommendations of in-house Working Groups on areas such as the impact of the implementation of revised capital adequacy requirements as suggested by the Basle Committee on Banking Supervision and the development of a framework for setting up a credit information bureau.

Box I.2: The New Basle Norms

The structure and operations of banks and other financial intermediaries has evolved rapidly in recent years, under the impact of revolution in information technology and the associated increase in competition, at both national and international levels. As a result, the erosion of dividing lines among the financial intermediaries has increased. The major financial intermediaries have become increasingly global in geographical coverage and universal in their financial operations, encompassing a wide range of activities including banking, securities markets activities and insurance activities. The increase in competition, combined with difficult financial conditions in the early 1980s, put downward pressure on profit margins and capital ratios. The growing concern of commercial banks regarding international competitiveness and capital ratios led to the formation of the Basle Accord of 1988.

Although the Basle norms helped to arrest the erosion of banks' capital ratios, concerns were raised regarding the applicability of capital ratios in the changed environment of operations. The blurring of functional and national divisions among the financial intermediaries, and the speed and complexity of adjustment (wrought in by information technology, derivatives, etc.) has made it difficult for regulators to keep up with the growing pace of change. In particular, the rule of 'one-size-fits-all' aspect of the capital adequacy ratio has been the subject of intense debate and recent crises have only drilled home the point that baseline capital adequacy norms are not enough to hedge against failures. In a recent study, Goldstein (1996) provides useful statistics relating to actual and required capital (Table 1). He argued that governments in developing countries, with few exceptions, have not set national capital standards much above the Basle minimum norm and their banks have not held actual capital much above that for banks in countries with significantly more stable operating environments.

Such criticism seems to have led the Basle Committee on Banking Supervision to propose the new Consultative Paper on Capital Adequacy Framework in June 1999 which aims at further strengthening the soundness of the financial system. The paper has been released for consultation among national supervisory authorities all over the world. In the light of the comments received by March 2000, the revised Capital Adequacy Framework is sought to be put in place. The primary objectives of the new framework include (a) the promotion of safety and soundness in the financial system, (b) the enhancement of competitive equality, and (c) the constitution of a more comprehensive approach to addressing risks. The current Accord is based on three pillars of (I) *minimum capital requirements*, (II) *supervisory review process*, and (III) *effective use of market discipline*.

Table 1: Required and Actual Capital Ratios: 1995

(Per cent)

Country	Capital Adequacy Ratio (national requirements)	Actual Risk-based Capital Ratio
Argentina	12	18.5
Chile	8[a]	10.7
Brazil	8	12.9
Mexico	8	11.3
Indonesia	8	11.9
Malaysia	8	11.3
Thailand	8	9.3
India	8	9.5[b]
Japan	8	9.1
United States	8	12.8

Note: a. Legislation now before Congress.
b. Relates only to public sector banks.

Source: Goldstein (1996)

Pillar I : Minimum Capital Requirements

Under the first pillar, the Committee has proposed to build on the extant 'minimum regulatory capital requirements' by announcing explicit risk weighting structure for different activities. When the Accord was first established, it was primarily concerned with minimum capital standards to cover credit risk. Insofar as these capital charges covered other types of risk, these were effectively assumed proportional to credit risk. In view of the increasing internationalisation of activities of banks, the Committee has proposed to develop explicit risk weights for other risk categories such as operational risk and interest rate risk, which have assumed significant importance in the deregulated environment. This apart, the Committee has also decided to introduce changes in the extant market risk component of the Accord to enhance consistency of treatment between the banking and trading books and to ensure adequate capital coverage for trading book items.

Pillar II: Supervisory Review of Capital Adequacy

The second pillar of supervisory review of capital adequacy envisages a more pro-active role for the regulator by requiring that they ensure that the bank's capital position is consistent with its overall risk profile and strategy. This is to be achieved through supervisory review of bank-specific internal capital assessment processes. In effect, the extant supervisory review process comprising on-site inspection, off-site surveillance and external auditing is being supplanted through the review of the internal capital adequacy assessments of banks.

One important motivation for a supervisory review of a bank's regulatory capital measures is to identify as early as possible the potential for serious erosion of a bank' capital position. The need for such early intervention reflects the relatively illiquid nature of bank's assets and the limited options available to banks in quickly raising capital. The new Accord therefore places significant emphasis on the supervisory authorities for identifying, reviewing and evaluating a bank's internal capital adequacy assessment as well as its compliance with regulatory capital ratios, failing which supervisors are supposed to intervene so as to ensure that banks are able to withstand normal business shocks.

Pillar III: Effective Use of Market Discipline

The third pillar of market discipline imposes strong incentives on banks to conduct their business in a safe, sound and efficient manner. Towards this end, the Committee has urged banks to disclose to the public, in a timely fashion, all key features of the capital held as cushion against losses, and the risk exposures that may give rise to such losses. In other words, it seeks to ensure greater levels of disclosure and enhance the role of market participants in encouraging greater capital holdings by banks.

An important rationale behind the pillar of market discipline is to provide sufficient information to enable the user to assess whether the available capital is sufficient to meet credit risk and market risk and other risk requirements. To the extent that such disclosures are comprehensive and objective, it is expected to assist market participants in judging how a bank's management of its capital adequacy relates to its other risk management processes and how well it is able to withstand future volatility.

It thus seeks to create a feedback loop from market assessment (pillar 3) to the credit weighting structure (pillar 1), which is to be monitored through the supervisory review of capital adequacy (pillar 2).

References

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Goldstein, M. (1996), *'The Case for an International Banking Standard'*, Washington, D.C.: Institute for International Economics.

Goodhart, C. (1998), 'Financial Regulation', in C. Goodhart (ed.) *The Emerging Framework of Financial Regulation*, U.K.: Central Banking Publications Ltd.

1.48 The Reserve Bank has introduced and also modified the regulatory parameters for NBFCs to effectively monitor, supervise and guide their operations. In exercise of the powers conferred by the Reserve Bank of India Act, 1934 for the purpose of enabling the Bank to regulate the credit system, the Reserve Bank introduced various amendments in NBFCs guidelines issued earlier, in particular, the guidelines notified in January 1998. As per the modified guidelines pertaining to NBFCs' investment restrictions on land and building and unquoted shares of companies, a return has to be submitted on a half-yearly basis as per the prescribed format. Further, the notification of December 18, 1998 has prescribed amendments in quarterly return for the purpose of ensuring compliance with the maintenance of a certain percentage of assets by NBFCs. The amendments to Non-Banking Financial Companies Acceptance of Public Deposit (Reserve Bank) Directions 1998 brought out (i) changes in acceptance of deposits criteria by Equipment Leasing Company (ELC) and Investment Company (IC) and (ii) relaxation in norms for returning the excess amount of deposit received from the public. Besides, as on April 20, 1999, the requirement of minimum Net Owned Fund (NOF) of Rs.25 lakh has been raised to Rs.200 lakh for those NBFCs which would commence business on or after April 21, 1999.

Regulations Review Authority

1.49 The Reserve Bank has set up the Regulations Review Authority (Dr. Y.V. Reddy as the Regulations Review Authority) on April 1, 1999 for a period of one year with the objective to provide opportunity to public as well as various other agencies to seek relevant modification of any regulations, circulars or returns issued by the Reserve Bank to avoid cumbersome procedures involving duplication, etc. During the period upto September 30, 1999, RRA implemented several suggestions, of which major ones are as follows:

i) As a measure consistent with current accent on competition, the work of fixing the bench mark service charges by the banks, hitherto attended to by IBA and FEDAI (for commercial banks and authorized dealers in foreign exchange respectively) has been decentralized to enable individual banks themselves to work out and levy service charges, based on the cost of providing services.

ii) Arrangements have been made with the regional offices of the Reserve Bank for supplying to general public, information on NBFCs registered with the Bank and to display this information on Bank's Website regularly with periodical updating.

iii) An internal committee, appointed by RRA for working out the modalities for classification and dissemination of various types of information in the Bank in electronic form through e-mail facility has since submitted the report to RRA. The report has been accepted for implementation in ten operational departments. The committee has been asked to implement the recommendations and to submit to RRA an interim report of compliance before December 1999 and the final report of compliance before March 2000.

iv) With a view to mitigating the procedural difficulties faced by banks and its clients, banks' requirements for sample test checking of newly printed MICR instruments, at MICR cheques processing centers in the Bank, before putting them into use, has been done away with.