Credit Information Review

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Package of Monetary Measures

After a review of developments in the international and domestic financial markets, including the foreign exchange market, the Reserve Bank of India on July 21, 2000 announced the following measures:

(i) An increase in the Bank Rate by one percentage point from its present level of 7 per cent to 8 per cent as at the close of business on July 21, 2000;

(ii) An increase in Cash Reserve Ratio (CRR) by 0.5 percentage point from its present level of 8 per cent to 8.5 per cent in two stages by 0.25 percentage point each effective from fortnights beginning July 29, 2000 and August 12, 2000, respectively, which would absorb resources of scheduled commercial banks to the extent of about Rs.1,900 crore at each stage;

(iii) A reduction in limits available to banks for all refinance facilities including the collateralised lending facility (CLF), temporarily to the extent of 50 per cent of the eligible limits as per the present formulae. This will be implemented in two stages: reduction by 25 per cent effective from July 29, 2000 and by another 25 per cent effective August 12, 2000. There will, however, be no change in the limits under liquidity support facility to primary dealers in the government securities market; these would remain at the same level as at present.

Penal Interest on Shortfall in CRR/SLR

Apropos the one percentage point increase in the Bank Rate, the penal interest charged on the amount of shortfall in the maintenance of Cash Reserve Ratio (CRR) And Statutory Liquidity Ratio

(SLR) also stands revised from the close of business on July 21, 2000. The penal rate of interest on shortfalls in CRR/SLR is linked to the Bank Rate.

Finance

Raising of Resources by AIFIs

The Reserve Bank has, after a review, modified its extant guidelines relating to raising of resources by All India Financial Institutions (AIFIs). The guidelines take immediate effect. They will, however, be reviewed in March 2001 in the light of the actual experience.
As per the modified guidelines, FIs need not seek the Reserve Bank's issue-wise prior approval/registration for raising of resources by way of issue of bonds (both public issue and private placement) if:

(i) the minimum maturity of the bond is three years ;
(ii) the call/put or both options, if any, are not exercisable before the expiry of one year from the date of issue of bonds;
(iii) the YTM offered, at the time of issue of bonds, does not exceed 200 basis points above the YTM on the Government of India securities of equal residual maturities; and the effective YTM on instruments having call/put options satisfy this requirement;
(iv) No 'exit' option on the bonds is offered before the end of one year, from the date of issue.

Furthermore, in case of floating rate bonds, FIs need to seek prior approval from the Reserve Bank, with regard to 'reference rate' selected and the methods of floating rate determination. The approval will, however, not be required for subsequent individual issues so long as the underlying reference rate and method of floating rate determination remain unchanged.
The Reserve Bank has also stated that the outstandings of total resources mobilised at any point of time by an individual FI, including funds mobilised under the 'umbrella limit' as prescribed by the Reserve Bank, should not exceed 10 times its net owned funds (NOF) as per the latest audited balance sheet.
The Reserve Bank has clarified that the limit fixed for raising resources is only an enabling provision and has advised FIs to arrive at their requirements of resources along with maturity structure and the interest rate offered on a realistic basis, derived inter alia, from a sound system of asset liability and risk management.
In addition, FIs should continue to comply with the prudential requirements of other regulatory authorities, such as, SEBI.
They should furnish monthly consolidated return on aggregate resources raised and monthly return on resources raised through bonds to the Reserve Bank. The returns as at the end of a month should be furnished on or before the 10th day of the following month. The details in respect of public issue of bonds should be incorporated in the return for the month during which the respective issue is closed.

Branch Banking

Ban on Import of Conflict Diamonds

With a view to ensuring that no support is extended to any trading in conflict diamonds so that the legitimate trading in non-conflict diamond is not affected, it has been decided that banks should obtain an undertaking from the clients who have been extended credit for doing any business relating to diamonds. The undertaking should be to the effect that the clients would not knowingly do any business in conflict diamonds that has been banned by the UN Security Resolution Nos.1173 and 1176 or conflict diamonds which come from any area in Africa controlled by forces rebelling against the legitimate and internationally recognised government of the relevant country. The clients would also have to give their consent to the withdrawal of all their credit entitlements if at any time, they are found guilty of knowingly having conducted business in conflict diamonds. The circular was issued as it was brought to the notice of the Reserve Bank that conflict diamonds which comprise less than 4 per cent of the total global value of diamonds play a large role in funding the rebels in the civil torn areas of Sierra Leone, Angola and Congo. There are no direct imports of rough diamonds from any of the diamond mining countries into India. There is as such no possibility of any direct import of conflict diamonds into India.

Issue of Cheque Books

The Reserve Bank of India has advised all scheduled commercial banks (excluding Regional Rural Banks) to ensure that their cheque books are printed with due care so as to avoid any inconvenience to the customers. Action taken in this regard should be reported to the Reserve Bank. It was observed that the quality of cheque books issued by some banks to their customers was not up to the mark inasmuch as the perforation in the cheque leaves as also the binding of cheque books was not satisfactory. As a result, the cheque leaves got torn/mutilated while removing from cheque books, which caused inconvenience and embarrassment to the customers as well as to the banks.

Recovery of NPAs

The Reserve Bank of India has reiterated that banks should urgently review the pendency of all suit filed cases and convey to the functionaries at all levels the need for close monitoring of suit filed and decreed cases on an ongoing basis. The legal officers of banks should have a continuous dialogue with the bank's advocates to expedite judgements as also the execution of decrees of pending cases. The existing arrangements in the bank in this regard should be reviewed and where necessary, proper procedure for monitoring and reporting to the higher authorities of all suit filed cases pending for more than three years and decreed debts pending action for more than a year should be laid down. As a part of strengthening internal controls, the internal auditors of the banks should also be instructed to make critical comments on long pending suit filed/decreed debt accounts and suggest time bound corrective actions. Further, a system of annual critical review of performance of the banks advocates should be introduced, if not already in existence, to ensure that their efficiency in conducting bank's suits is taken into account while entrusting fresh cases. These instructions were issued in the light of a judgement of Bombay high court which expressed a serious concern over the failure of a bank to get a decree executed in time due to which the execution petition was rendered time-barred.

Indirect Finance to Agriculture

At present credit limits upto Rs.5 lakh granted for financing distribution of inputs for activities allied to agriculture, such as cattle feed, poultry feed, etc., are eligible for being reckoned as indirect finance to agriculture under the priority sector. The position was reviewed and this limit was raised from Rs.5 lakh to Rs.15 lakh with immediate effect.

Stapling of Bank Notes

All Primary Co-operative Banks (PCBs) should (a) do away with stapling of fresh bank note packets supplied by note presses and instead supply fresh note packets secured with paper bands; (b) stop forthwith the practice of writing the number of note-pieces in loose packets on the watermark window; (c) advise their branches to sort out notes into reissuable and non-issuable categories for ensuring that only clean notes are put back into circulation; and (d) Install dual display note counting machines on their counters to build confidence in the minds of public. These instructions have been issued in the light of decisions taken by the Government of India and the Reserve Bank.

Exchange Control

Release of Exchange by Money Changers

To give effect to the amendments made by the enactment of FEMA, 1999 the Reserve Bank issued a circular enhancing the limit up to which money changers now release foreign exchange per person in one calendar year for one or more private visits to any country except Nepal and Bhutan. As against the earlier limit of US $ 5000, money changers can now release US$ 25000 to a person for business travel irrespective of period of stay.
It has also been decided that the Reserve Bank will not prescribe the documents to be verified by the money changers while releasing foreign exchange. Money changers should obtain a declaration from the person undertaking foreign exchange transaction that the transaction would not involve and is not designed for the purpose of any contravention or evasion of the provisions of the FEMA or any rule, regulation, notification, direction or order issued under FEMA. Moneychangers should keep on record any information /documentation on the basis of which the transaction was undertaken for verification by the Reserve Bank.

Forex-Rupee Swaps

It has been decided that pending review of the entire instructions relating to long term foreign currency-rupee swaps, banks should put through such transactions only on a fully matched basis. Banks have been asked to approach the Reserve Bank for any further clarifications on this issue. Authorised persons were permitted to arrange foreign currency-rupee swaps for corporates who run long term foreign currency exposures. Such transactions were to be concluded as far as possible on a matched basis. However, wherever this was not feasible, authorised persons were permitted to temporarily warehouse swaps and absorb the mismatches within their open position/gap limits.

Forward Cover for FIIs

The Reserve Bank has clarified that Foreign Institutional Investors (FII) cannot rebook the amounts once cancelled merely on account of shuffling of the underlying portfolio. The eligible amount of forward cover would stand reduced by the amount of cancellation. Some banks had sought clarification as to whether an FII that has cancelled a forward contract would be eligible to rebook the cancelled amount consequent upon changing the composition of the underlying portfolio (selling investments in one company and investing the proceeds in another).

Direct Investment, in JVs/WOSs

Consequent upon the enactment of FEMA, 1999, the Reserve Bank has issued the following instructions to the authorised dealers in respect of Indian direct investments in joint ventures (JVs)/wholly owned subsidiaries (WOSs) outside India.

Form submission

In respect of direct investment by Indian parties outside India, the authorised dealers should allow remittance upto the permissible limit on receipt of an application in form ODA, in triplicate, along with necessary documents and form A-2, duly filled in, from the investing company. Immediately after the remittance is made, the authorised dealer should forward to the Regional Office of the Exchange Control Department, under whose jurisdiction it is functioning, two copies of form ODA along with a report on remittance in form ODR, in duplicate. In cases where investment is being made jointly by more than one Indian company, form ODA should be signed jointly by all the investing companies and submitted to the designated branch of the authorised dealer, who in turn should immediately forward it to the Reserve Bank, together with a consolidated form ODR. The same procedure should also be followed where the investment is made out of the proceeds of ADR/GDR issues of Indian party.

*One-branch dealing*s

All transactions relating to investment in a JV/WOS should be routed through only one branch of an authorised dealer designated by the Indian party. For proper follow-up, the authorised dealers should maintain party-wise record in respect of each JV/WOS separately. In respect of approvals already issued by the Reserve Bank where the name of the designated branch of authorised dealer has not been indicated, the remittance may be allowed by the authorised dealer after satisfying itself that no remittance has been effected through any other authorised dealer against the relative approval letter and after obtaining an undertaking from the party that all its future foreign exchange transactions relating to the JV/WOS would be effected only through this authorised dealer .

Loans/guarantees

Authorised dealers should allow remittance towards loan to the JV/WOS and/or issue guarantee to/on behalf of the JV/WOS abroad provided the applicant has an equity stake in the JV/WOS.

Capitalisation

Indian parties are also permitted to make direct investment in JV/WOS abroad by way of capitalisation of exports or other dues/entitlements like royalties, technical know-how fees, consultancy fees, etc. In such cases the authorised dealer should advise Indian parties to submit details of the capitalisation in form ODA. The designated branch of authorised dealer should forward the application to the Regional Office of the Reserve Bank under whose jurisdiction it is functioning together with a report in form ODR. The investment by way of capitalisation of exports and other entitlements made by the Indian party in accordance with the approval obtained from the Reserve Bank should also be reported in form ODR based on the information furnished by the party.

The Reserve Bank has clarified that the amount of investment by way of capitalisation of exports and other dues made together with the investment made by way of market purchase of foreign exchange should not exceed 25 per cent of the networth of the Indian party as on the date of the last audited balance sheet. In cases where the export proceeds are being capitalised the authorised dealer should also obtain a custom certified copy of the invoice and forward it to the Reserve Bank together with forms ODA and ODR.

Unique ID

On receipt of forms ODA and ODR from authorised dealers, the Reserve Bank will allot a unique identification number to each JV or WOS abroad, which should be quoted in all future correspondence by the authorised dealer or Indian party with the Reserve Bank. Where investment is being made in an existing JV/WOS the unique identification number already allotted by the Reserve Bank should be cited in the forms and all the correspondence by the Indian party as well as authorised dealers.

Prior approval cases

In certain cases investment in JV/WOS require prior approval of the Reserve Bank. The designated authorised dealer should report before allotment of remittance all such cases to the concerned Regional Office of the Reserve Bank in the form of ODR. The authorised dealers should ensure that the terms and conditions stipulated by the Reserve Bank have been complied with.

Earnest money deposit / bid bond guarantee

On being approached by an Indian party which is eligible for investment under Regulation 6 of FEMA the authorised dealer may allow remittance towards earnest money deposit (EMD) after obtaining form A2 duly filled in or may issue bid bond guarantee on behalf of the party for participation in bidding or tender procedure for acquisition of a company incorporated outside India. On winning the bid, authorised dealers may remit the acquisition value after obtaining form

A2 duly filled in and report such remittance (including the amount initially remitted towards EMD) to the Regional Office of the Exchange Control Department of the Reserve Bank under whose jurisdiction it is functioning, in form ODR, along with the details of the investment in form ODA, in duplicate, submitted by the Indian party. Authorised dealers while permitting remittance towards EMD should advise the Indian party that in case it is not successful in the bid, it should ensure that the amount remitted is repatriated in accordance with Foreign Exchange Management (Realisation, Repatriation and Surrender of Foreign Exchange) Regulations, 2000.
In cases where an Indian party, after being successful in the bid/tender decides not to proceed further with the investment, authorised dealers should submit details of remittance allowed towards EMD/invoked bid bond guarantee in form ODR to the concerned Regional Office of the Reserve Bank.

Opening of NRO/NRE accounts by RRBs

It has been decided to authorise regional rural banks (RRBs) satisfying certain criteria to open / maintain Non Resident Ordinary / External(NRO/NRE) accounts in Rupees. The criteria include : i) a minimum working capital of Rs 25 crore; ii) 'A' rating by NABARD in the last inspection report; iii) no default in the submission of statutory returns and other statements; and iv) full compliance with CRR/SLR requirements. The application for permission to maintain non resident accounts should be routed through the sponsor bank. The permission would be accorded by the Exchange Control Department of the Reserve Bank after obtaining the recommendations of its local Rural Planning and Credit Department.

Cooperative Banks

Prudential norms

The Reserve Bank of India, after due consideration to bankers' representations has modified the methods of income recognition, asset classification and provisioning for co-operative banks. Provisions towards standard assets should be shown separately as "contingent provision against standard assets" under "other funds and reserves" in the balance sheet.
If the provisions maintained by the banks are in excess of those prescribed by the statutory auditor/Reserve Bank inspection for impaired credits under bad and doubtful debt reserve, additional provision required for standard assets may be separated from it and be placed under the head "contingent provisions against standard assets" with the board of directors approval. Shortfall, if any, may be made good in the normal course.

HRD

Training in Banks

A committee was set up in the Reserve Bank to review the activities and future direction of the Bankers Training College (BTC) with a vision reaching upto the year 2005 and to study the role of BTC in the context of various other training facilities that have been established in the banking sector. In view of the paramount importance of training in the development of human resources and efficient work force in the banking sector, banks may consider implementation of the following recommendations of the Committee.

* Banks should continue to bestow more attention on training. As base level programmes and those on general banking will be discontinued in BTC and will be conducted by banks in their own colleges or in-house facilities, the posts of Principal and Members of Faculty should be accorded higher importance. Talented and knowledgeable officers with proven track record should be appointed as Members of Faculty with a good package of facilities.
* Officers posted as faculty to training colleges should also be sufficiently exposed to suitable training so that banks are in a position to replicate some of the training programmes conducted in BTC in their own training establishments.
* Banks should take care that there is a proper fit between the profiles of the participant and the programme. There should also be a match between the training undergone by an officer and his post-training placement so that the benefits arising out of the training may be put to the best use of both, the bank and the officer.
* Banks should assume a proactive role of encouraging and counselling their employees to acquire professional qualifications for strengthening their knowledge base and enhancement in professional competence.
* The Indian Institute of Bankers and Indira Gandhi National Open University have now jointly come out with an MBA programme in banking and finance exclusively for bank staff. As a measure of encouraging professional learning and acquisition of a specialised post-graduate degree in banking and finance, all banks may consider reimbursing the course expenses to those staff who pass this special MBA degree.
* An indicator of the importance attached to training is the amount of allocation made for training in the budget of a bank. Banks should, therefore, carry out a study to deter111mine the adequacy of training provided to the officers and also about the funds allocated for training vis-…-vis their overall establishment expenses and take necessary corrective measure.

As huge training gaps exist in the banking industry, banks could come together and establish collaborative training colleges at regional centres. Alternatively, needy banks can utilize training colleges of banks, which have excess capacity or training facilities. Large commercial banks should explore the possibility of opening up their training establishments (to the extent of spare capacity or spare channels available) for officers of other banks in which training facilities are either deficient or where there are no courses in specific areas.

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