# Credit Information Review

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## Mid-term Review of Monetary and Credit Policy for 2000-2001

In a meeting with Chief Executives of major commercial banks, Dr.Bimal Jalan, Governor, Reserve Bank of India presented a mid-term review of the Monetary and Credit Policy for 2000-2001. After a review of domestic and external developments, the Governor mentioned that the Reserve Bank will continue to endeavour to maintain a stable interest rate environment. As per present indications, the liquidity conditions are likely to remain adequate to meet the demand for commercial credit from industrial and other sectors. The Governor added that the Reserve Bank would also provide appropriate liquidity as necessary through its Liquidity Adjustment Facility.

### Stance

While discussing the stance of the monetary policy for the second half of 2000-2001, it was noted that the change in the course of monetary measures had elicited a fair amount of comments and debate. The Governor mentioned that the possibility of “a change in course” and “tightening of monetary policy” in the event of a change in the domestic or international situation was specifically recognised in the April policy statement. He also added, based on the recent experience, that central banks changing course in response to the emerging situations was often unavoidable. He emphasised that it was essential for market participants to take greater recourse to appropriate asset-liability and risk management techniques in order to take account of unanticipated changes in monetary conditions and the interest rate outlook.

He observed that the external outlook principally in respect of crude oil prices as also the domestic inflationary outlook were somewhat uncertain. Taking these factors as well as Government’s borrowing requirements into account, liquidity conditions were likely to remain adequate during the rest of the year. The banking system was not expected to face

any difficulty in fully meeting the demand for commercial credit from industrial and other sectors. The Reserve Bank also stood ready to provide appropriate liquidity through its Liquidity Adjustment Facility (LAF) as necessary.

While it would continue to be the endeavour of the Reserve Bank to maintain a stable interest rate environment, the Governor re-emphasised that it would be prudent for banks and financial institutions to make sufficient allowances for unforeseen contingencies, including possible changes in monetary measures in their business operation plans.

While stating that LAF introduced since June 5, 2000 was being effectively used to influence short-term interest rates by modulating day-to-day liquidity conditions and to contain volatility in foreign exchange market, the Governor said that the LAF would continue to be operated in a flexible manner, both in terms of the applicable rates and tenors, in keeping with the developments in financial markets.

**Financial Sector Reforms**

The Governor briefly reviewed the progress made so far in respect of structural measures initiated by the Reserve Bank in the recent past to improve the functioning of the various segments of financial markets and announced modifications to some of them. He pointed out that as far as possible, changes proposed, had been decided after extensive consultations with experts and market participants and suggestions made by commentators in media as well as specialised journals.

While operational guidelines issued by the Reserve Bank on individual basis are covered on pages three to six, the following is the summary of the measures that were announced in the Statement :

**Development of Money Market**

Considering the fact that the repo market was yet to be broad-based in terms of instruments and participants, the specific permission granted to select corporates to route call money transactions through Primary Dealers (PDs), has been extended for a further period of six months, i.e., upto June 2001. The permission granted to corporates earlier was upto December, 2000. As regards other financial institutions and mutual funds which are currently permitted to lend directly in the call/notice money market, a group will be constituted to suggest a smooth phasing out by a planned reduction in their access to call/notice money market.

Taking into account the suggestions received from participants, on a draft of the revised guidelines circulated in July 2000, the guidelines on issue of Commercial Paper (CP) were issued. The new guidelines are expected to provide considerable flexibility to participants and add depth and vibrancy to the CP market while at the same time ensuring prudential safeguards and transparency. In particular, the guidelines will enable companies in the services sector to more easily meet their short-term working capital needs.

With a view to provide flexibility and depth to the secondary market, the restriction on transferability period for CDs issued by both banks and financial institutions is withdrawn.

In order to improve the functional efficiency of the market, the rating is made mandatory for the term deposits accepted by all-India financial institutions with effect from November 1, 2000.

**Government Securities Market**

After reviewing the varied measures taken, the following further measures for development of government securities market are introduced:

With a view to encouraging investors to hold securities in scrip-less form and to ensure that entities holding securities in custody employ practices and procedures so that the constituents' securities are appropriately accounted and kept safe, a set of guidelines governing the maintenance of the Constituents' SGL Accounts is issued.

The Reserve Bank of India would specify the date for switchover to order-driven screen-based system for trading in government securities on the stock exchange, in consultation with SEBI. It will be applicable to all stock exchanges on which banks and FIs can operate.

**Prudential Measures**

Banks were advised in October 1998 to make a general provision on standard assets of a minimum of 25 basis points from the year ended March 31, 2000. It is proposed to include the general provision on standard assets in Tier 2 capital.

The Report of the Informal Group on Valuation of Banks' Investment Portfolio was circulated among banks and the guidelines have now been finalised keeping in view the comments and suggestions received from them. The revised guidelines are in consonance with the best international practices on categorisation and valuation of investments and are effective from the half-year ended September 30, 2000.

In order to bring more transparency to the balance sheets of public sector banks and as a further step towards consolidated supervision and to provide additional disclosures, public sector banks should also annex the balance sheets of their subsidiaries to their balance sheet beginning from the year ending March 31, 2001.

Due to the improvements in the payment and settlement systems, recovery climate, upgradation of technology in the banking sector, etc., the concept of "past due" is being dispensed with, effective March 31, 2001.

After a review of current practices regarding credit exposure limits vis-à-vis international best practices, it has been decided to prepare a detailed discussion paper on the subject which is expected to be finalised by December 2000. Based on the comments and suggestions on the issues, and followed by an interaction with banks, the Reserve Bank

will take a final view on the approach that should be adopted with a view to making it effective from March end 2002.

**Bank Financing of Equities and Investment in Shares**

Based on the feedback received from banks and other market participants on the RBI – SEBI Technical Committee report, the guidelines on bank financing of equities and investment in shares have been finalised and have been issued. The RBI-SEBI Technical Committee will review the actual working of these new guidelines after six months in consultation with select banks. If any changes in operational procedures and/or overall framework are required, the Committee's recommendations will be widely circulated and discussed with all concerned.

**Review of EEFC Facility**

On a review, in order to facilitate quick export-related payments and reduce transaction costs, it has been decided to fully restore their earlier entitlements of 70 per cent and 50 per cent , respectively. Payments which can be made from these accounts will also remain the same as before. However, the EEFC accounts will now be held in the form of current accounts. The cheque-issuing facility against these accounts will continue to be available for convenience of exporters. No credit facilities, either fund based or non-fund based, will be provided by banks against the EEFC balances.

**Credit Delivery Mechanism**

Since the boards have been empowered to decide the prime lending rate as also the spread over PLR, to give further operational autonomy to the banks, banks will be free to decide penal interest. Banks may formulate transparent policy for charging penal interest rates, with the approval of their boards.

On a review of market conditions and with a view to providing flexibility to banks in prescribing margins, it has been decided to withdraw the existing prescriptions under selective credit control on free sale sugar.

In the context of the present policy of providing more flexibility and operational freedom to banks as well as government and other enterprises, it has been decided to undertake a review of consortium arrangements for food credit. A Committee representing banks, the Reserve Bank, Government and Food Corporation of India will be constituted for the purpose.

A Working Group on Bills Discounting by Banks was constituted under the Chairmanship of Shri K.R. Ramamoorthy, to examine inter alia the possibility of extending bills discounting facility especially to services sector. Based on the feedback and in consultation with market participants, the Reserve Bank will evolve suitable guidelines for implementation.

Banks are advised to closely monitor the progress and make earnest efforts to implement programmes under Kisan credit cards, Swarnjayanti Gram Swarojgar Yojana (SGSY), Self Help Group (SHGs) and Small Scale Industries (SSI).

**Non-Banking Financial Companies**

The Reserve Bank is working out, the modalities in consultation with the associations of NBFCs, for formation of a Self Regulatory Organisation of NBFCs. Draft guidelines for asset liability management and formats of separate balance sheet for NBFCs have been circulated among the members of Informal Advisory Group on NBFCs for the views of industry. Further steps would be taken to put in place the disclosure norms and guidelines for risk management for NBFCs.

**Technology Upgradation**

"Payment System Vision Document", under preparation, will detail the payment system agenda proposed to be followed for the next 2/3 years.

The Reserve Bank has established an internal group on internet banking to identify the risks to the organization and the banking system; suggest an appropriate supervisory and legal framework; suggest measures for adoption of the international best practices; recommend adequate security systems in conformity with international standards; and suggest a clearing and settlement arrangement for electronic banking and electronic money transfers.

In the four metros, the Reserve Bank is all set to introduce Greyscale Imaging Technology as a value added service being provided to the members of the clearing house.

**Legal Reforms**

In his budget speech in February 2000, the Union Finance Minister has underscored the need for according greater flexibility in the conduct of monetary policy. The Reserve Bank of India is working on proposals for amendments to Reserve Bank of India Act, 1934 and the Banking Regulation Act, 1949 in this regard.

**International Financial Standards and Codes**

It may be recalled that a Standing Committee on International Financial Standards and Codes was set up to identify and monitor the developments in global standards and codes. Advisory groups in ten major subject areas were set up in the beginning of this year to assist the Standing Committee. Of these ten, one group has submitted its final report while three others have submitted first part of their respective reports. The reports are available on the Reserve Bank's website (www.rbi.org.in). All the Advisory Groups are expected to finalise their reports by the end of November 2000.

**Regulation Review Authority**

The Reserve Bank took the opportunity to express its appreciation to bankers, experts, market participants and members of the public who have sent their suggestions to the

Regulations Review Authority (RRA) set up by the Reserve Bank in April 1999. The RRA will formally cease to operate on March 31, 2001.

## Operational Guidelines

Apropos the review, the Reserve Bank issued several operational guidelines which are summarised below:

### Guidelines for Commercial Paper

**Eligibility**: Corporates, primary dealers (PDs), satellite dealers (SDs), and all-India financial institutions (FIs) ; for a corporate to be eligible, (a) the tangible net worth of Rs.4 crore; (b) having a sanctioned working capital limit from a bank/FI; and (c) the borrowal account is a standard asset.
**Rating Requirement**: The minimum credit rating shall be P-2 of CRISIL or such equivalent rating by other approved agencies.
**Maturity**: A minimum of 15 days and a maximum up to one year.
**Denomination**: Minimum of Rs.5 lakh and its multiples.
**Limits and Amount**: CP can be issued as a "stand alone" product. Banks and FIs will have the flexibility to fix working capital limits duly taking into account the resource pattern of companies' financing including CPs.
**Issuing and Paying Agent (IPA)**: Only a scheduled bank can act as an IPA.
**Investment in CP**: CP may be held by individuals, banks, corporates, unincorporated bodies, NRIs and FIIs.
**Mode of Issuance**: CP can be issued as a promissory note or in a dematerialised form. Underwriting is not permitted.
**Preference for Demat**: Issuers and subscribers are encouraged to prefer exclusive reliance on demat form. Banks, FIs, PDs and SDs are advised to invest only in demat form as soon as arrangements are put in place.
**Stand-by Facility**: It is not obligatory for banks/FIs to provide stand-by facility. They have the flexibility to provide credit enhancement facility within the prudential norms.
**Role and Responsibilities**: The Guidelines prescribe role and responsibilities for issuer, IPA and Credit Rating Agency. The Fixed Income and Money Market Dealers' Association (FIMMDA) as a self-regulatory organisation may prescribe standardised procedure and documentation in consonance with the international best practices. Till then, the procedures/documentation prescribed by the Indian banks' Association should be followed.

### Classification and Valuation of Bank Investments

With the introduction of prudential norms on capital adequacy, income recognition, asset classification and provisioning requirements the financial position of banks in India has improved in the last few years. Simultaneously, trading in the securities market has also improved in terms of turnover and the range of maturities dealt with. In view of these developments and taking into consideration the evolving international practices, the Reserve Bank has reviewed its existing instructions on the classification and valuation of

the investments portfolio. The revised guidelines have been made effective from the half-year ended September 30, 2000.

**Highlights**:
The banks are required to classify their entire investment portfolio as on September 30, 2000, under three categories, viz., 'Held to Maturity', 'Available for Sale' and 'Held for Trading'.

In the balance sheet, the investments will continue to be disclosed as per the existing six classifications, viz., (i) Government securities (ii) other approved securities (iii) shares (iv) debentures and bonds (v) subsidiaries/ joint ventures (vi) others (commercial paper, units of mutual funds, etc.).

The investments under the Available for Sale and Held for Trading categories should be marked to market periodically or at more frequent intervals. The investments under the Held to Maturity category need not be marked to market as in the case of 'Permanent' securities at present. Classification of investments, shifting of investments among the three categories, valuation of the investments, methodology for booking profit/ loss on sale of investments and providing for depreciation should be in accordance with the prescribed guidelines.

The risk-weights assigned to the various securities at present, including those for 'market risk', would remain unchanged. The classification of the existing investments among the three categories may be done at the book value of the respective securities as on September 30, 2000. Subsequent valuation of the securities included under the 'Held for Trading' and the 'Available for Sale' categories may be carried out as specified in the revised guidelines.

The first such revaluation may be done as on September 30, 2000 for the securities under the 'Held for Trading' category. Securities under the 'Available for Sale' category may also be revalued as on that date if the bank proposes to revalue this category at intervals more frequent than 'annual' intervals.

Banks have been asked to formulate an investment policy with the approval of their board of directors to take care of the requirements on classification, shifting and valuation of investments under the revised guidelines. The policy should adequately address risk-management aspects, ensure that the procedures to be adopted by the banks under the revised guidelines are consistent, transparent and well documented to facilitate easy verification by inspectors and statutory auditors.

*Definitions*
The securities acquired by the banks with the intention to hold them up to maturity will be classified under Held to Maturity. The securities acquired by the banks with the intention to trade by taking advantage of the short-term price/ interest rate movements will be

classified under Held for Trading. The securities which do not fall within the above two categories will be classified under Available for Sale.

**Provision on Standard Assets**
In line with the international best practices followed in regard to capital adequacy, banks have now been allowed to include the 'General Provisions on Standard Assets' in Tier II capital. The provisions on standard assets together with other 'general provisions/ loss reserves' will, however, be admitted as Tier II capital up to a maximum of 1.25 per cent of the total risk weighted assets.

In terms of earlier instructions, the provision on 'Standard Assets' is not eligible for inclusion in Tier II capital.

**Balance Sheets of Subsidiaries**
In order to bring more transparency to the balance sheets of the public sector banks and as a further step towards consolidated supervision and to provide additional disclosures, beginning from the year ending March 2001, public sector banks would need to annex the balance sheet, profit and loss account, report of the board of directors, and the auditors' report in respect of each of their subsidiaries, to their own balance sheets.

Banks were earlier advised to voluntarily build in the risk-weighted components of their subsidiaries into their own balance sheet on notional basis, at par with the risk weights applicable to their own assets and earmark additional capital in their books, in phases, beginning from the year ending March 2001.

At present public sector banks are not required to annex the balance sheets of their subsidiaries to their balance sheet unlike other banking companies which are required to do so under the provisions of the Companies Act, 1956.

**'Past Due' in Asset Classification**
Banks have been since 1992 asked to consider an amount to be "past due" when it remains outstanding for 30 days beyond the due date.

Due to the improvements in the payment and settlement systems, recovery climate and upgradation of technology in the banking system, the concept has been rendered redundant. It has been decided to dispense with 'past due' concept, with effect from March 31, 2001. Accordingly, as from that date, a Non-performing Asset (NPA) would be an advance where

(i) Interest and/or instalment of principal remain overdue for a period of more than 180 days in respect of a term loan,
(ii) the account remains 'out of order' for a period of more than 180 days, in respect of an overdraft/cash credit (OD/CC),
(iii) the bill remains overdue for a period of more than 180 days in the case of bills purchase and discounted,

(iv) interest and/or instalment of principal remains overdue for two harvest seasons but for a period not exceeding two half years in the case of an advance granted for agricultural purposes, and
(v) any amount to be received remains overdue for a period of more than 180 days in respect of other accounts.

**Charging of Penal Interest**
To give further operational autonomy to the banks, it has been decided that they may now formulate transparent policy for charging overall penal interest rates, with the approval of their boards. The policy should be governed by well accepted principles of transparency, fairness, incentive to service the debt and due regard to genuine difficulties of customers.

Earlier, according to a Reserve Bank of India's prescription, the overall penal/additional interest to be charged by banks could not exceed two per cent over and above the rate of interest applicable/normally charged to the respective borrowers.

**Margins for Free Sale Sugar**
On a review of market conditions and with a view to providing the flexibility to banks in prescribing margins, it has been decided to withdraw the existing prescriptions under selective credit control on free sale sugar. Banks can now decide on margins in respect of free sale sugar based on their commercial judgement. The prescribed margins of 10 per cent in respect of levy stock and zero margin in respect of buffer stocks will continue without change. The minimum margin on levy sugar was earlier 10 per cent while the free sale sugar was subject to a margin of 15 per cent and the buffer stock was at zero per cent margin.

**G-secs can be sold after Allotment**
Banks and primary dealers have now been permitted, subject to certain terms and conditions, to sell government securities after allotment to them in primary auctions. As such, banks successful in the auction of primary issue of Government securities may enter into contracts for sale of the allotted securities in accordance with the prescribed terms and conditions. Apart from securities allotted in a primary auction, however, banks should not sell government securities without actually holding them in their investment account. That is, in no circumstances, a bank should hold an oversold position in any security.

Earlier, no sale transaction could be put through by any bank without actually holding the securities in its investment account at the time of sale. This restriction inhibited banks from selling government securities allotted in the auctions for primary issues on the day of the auctions.

**Transfer to Reserve Funds**
With the introduction of capital adequacy requirements in line with international norms, strengthening of the core capital through retained earnings has assumed added importance. It has, therefore, been decided that all scheduled commercial banks operating in India (including foreign banks) should transfer not less than 25 per cent of the 'net profit'

(before appropriations) to the Reserve Fund with effect from the year ending March 31, 2001. Further, the transfer to reserves may be made "after adjustment/provision towards bonus to staff."

In terms of extant instructions, all Indian scheduled commercial banks were required to transfer at least 25 per cent of the disclosed profits (before making adjustment/provision for bonus to staff) to Reserve Fund as against the level of 20 per cent prescribed in Sections 17(1) of Banking Regulation Act, 1949. Apart from this, some banks transferred only amounts equivalent to the statutory minimum of 20 per cent of such profits to Reserve Fund. Again, the extant instructions required transfer of profit to reserves to be made "before making adjustment/provision towards bonus to staff."

**Bank Financing of Equities and Investments in Shares**

The Standing Technical Committee on Bank Financing of Equities, comprising officials of RBI and SEBI, set up to develop operating guidelines for a transparent and stable system of bank financing of equities and investments in shares submitted its report on August 30, 2000. The report was released for public comments. On the basis of the comments received from the media and other market participants on the proposals made by the Committee as well as the views expressed by banks in the meeting taken by the Reserve Bank with the Chief Executives of major banks on September 19, 2000, Reserve Bank prepared new draft guidelines.

Based on the feedback received from banks and others, the guidelines on bank financing of equities and investments in shares have now been finalised. These are:

*Bank Financing of Equities*

(i) *Financing of initial public offerings (IPOs)*

(a) The financing of Initial Public Offerings (IPOs) should be treated as advances against shares to individuals. Accordingly, banks may grant advances for subscribing to IPOs only to individuals. The maximum amount of finance that can be extended to an individual against IPOs should be Rs.10 lakh, as applicable to advances against physical shares. The corporates should not be extended credit by banks for investment in other companies' IPOs. Similarly, banks should not provide finance to NBFCs for further lending to individuals for IPOs.

(b) Finance extended by a bank for IPOs should be reckoned as an exposure to capital market.

(ii) *Issue of guarantees on behalf of brokers*

A minimum margin of 25 per cent inclusive of cash margin, should be obtained by banks for issue of guarantees on behalf of share brokers. Banks may, at their discretion, obtain margin higher than 25 per cent as per the policy approved by their Board of Directors.

(iii) *Total exposure*

The Board of Directors of banks may lay down a prudential ceiling on the bank's aggregate exposure to capital market, keeping in view its overall risk profile. Boards of

each bank should also take a view on the exposure on a particular corporate either through primary or secondary market or through book building route, keeping in view its overall risk management policy. The bank's exposure should, however, meet the statutory requirements regarding holding of shares of a company contained in sections 19(2) and (3) and 20(1)(a) of the Banking Regulation Act, 1949, as also the single borrower and borrower-group exposure norms stipulated by the Reserve Bank. The following may be excluded for reckoning the bank's aggregate exposure to capital market:

(a) Advances against collateral security of shares.
(b) Advances to individuals for personal purposes like education, housing, consumption, etc., against the security of shares.
(c) Credit substitutes like commercial paper, non-convertible debenture, etc., may not be reckoned as part of credit portfolio for arriving at the bank's exposure to capital market.

*Bank Investments in Shares and Debentures*

(i) Presently, banks are free to acquire shares, convertible debentures of corporates and units of equity oriented mutual funds, subject to a ceiling of 5 per cent of the incremental deposits of the previous year. The RBI-SEBI Technical Committee has recommended that the ceiling prescribed for banks' investments in shares, convertible debentures, etc., should be related to outstanding advances and not to incremental deposits of the previous year. It has, therefore, been decided that within the overall exposure to sensitive sectors, a bank's total exposure to capital market by way of investments in shares, convertible debentures and units of mutual funds (other than debt funds) should not exceed 5 per cent of the banks' total outstanding credit as on March 31 of the previous year. It is further clarified that the ceilings for investments in shares, etc., are maximum permissible ceiling and a bank's Board of Directors is free to adopt a lower ceiling for an individual bank, keeping in view the bank's overall risk profile and volatility in equity prices. In respect of those banks where the present outstanding investments in equities are relatively small and well below the 5 per cent overall ceiling, as a prudential measure, the Board should also lay down an annual ceiling for fresh investments in equities so that any increase in fresh investments in equities take place in a phased, gradual and cautious manner, within the absolute ceiling fixed by the Board for each year.

(ii) Banks may make investment in shares directly or through UTI and SEBI approved other diversified mutual funds with good track records. Investment in UTI/mutual funds will be as per the investment policy approved by the Board of Directors, taking into account the in-house expertise available within the bank. It is advised that the decisions in regard to investments in shares, etc., should be taken by the Investment Committee set up by the bank.

(iii) Underwriting commitments taken up by the banks in respect of primary issues through book building route would also be within the above norms.

(iv) Loans sanctioned to corporates for meeting promoters' contributions and bridge loans sanctioned to companies for a period not exceeding one year against

expected equity flows/issues, expected proceeds of non-convertible debentures, external commercial borrowings, GDRs and/or funds in the nature of foreign direct investments, (which are now within the ceiling of 5 per cent of the incremental deposits of the previous year), would also continue to be within the above overall ceiling.

(v) The decision on investments in shares, debentures, etc., maybe made by the Board/ALCO of each bank keeping in view the permitted tolerance levels of mismatch. The quantum and tenure of such investments may be decided by Boards of each bank.

(vi) Banks whose investments in shares, etc., are now in excess of 5 per cent of outstanding credit as on March 31, 2000 may bring down their investments gradually to conform to this prudential norm, by March 31, 2001.

*Valuation and Disclosure*

Banks should mark to market their investment portfolio in equities like other investments on a quarterly basis. Further, banks should disclose the total investments made in shares, convertible shares and units of equity oriented mutual funds as also aggregate advances against shares, etc., in the 'Notes on Accounts' to their balance sheets, beginning from the year ending March 2001.

*Review of Guidelines*

The Standing Technical Committee of RBI and SEBI will review the guidelines after six months in consultation with banks, keeping in view the operational mechanism and the experience gained. In case any changes are required in the light of actual experience, the Committee will make appropriate recommendations to the Reserve Bank.

**CDs Scheme**

With a view to providing flexibility and depth to secondary market, the restriction on transferability period for CDs issued by banks has been withdrawn.

Earlier, in April, 2000 the minimum lock-in period for CDs was reduced to 15 days from the date of issue.

**Banking Policy**

**Export Credit Procedure Simplified**

The Bankers' Group and Reserve Bank have examined the suggestions received from export organisations and exporters on further improvement of procedures for export credit delivery. Accordingly the banks are advised to implement the following recommendations of the Bankers' Group.

In cases where the export credit limits are utilised fully, banks may adopt a flexible approach in negotiating the bills drawn against LCs and consider in such cases delegating discretionary/ higher sanctioning powers to branch managers to meet the credit requirements of the exporters. Similarly, branches may also be authorised to disburse a certain percentage of the enhanced/adhoc limits, pending sanction by higher

authorities/board/committee who had originally accorded sanctions, to enable the exporters to execute urgent export orders in time.

It is reported that banks are hesitant to waive submission of order/LC even in respect of exporters with good track record as settlement of claims, if any, by ECGC is adversely affected by such waivers. ECGC has reported that any waiver of submission of order/LC should form part of the terms of sanction of the export credit limits and should be communicated to ECGC. Where such waivers are permitted ab-initio and the system of obtaining periodical statement of outstanding orders/LCs on hand has been put in place, the same may be incorporated in the sanction proposals as well as in the sanction letters issued to exporters and appropriately brought to the notice of ECGC. Further, if such waivers are permitted at a time subsequent to sanction of export credit limits with the approval of the appropriate authority, the same may be incorporated in the terms of sanction by way of amendments and communicated to ECGC.

**Interest Rate Surcharge on Import Finance**

It has been decided to exempt the following categories of export related imports covered under EXIM Policy 1997-2002(amended as on March 31, 2000) from the levy of Interest Rate Surcharge with effect from October 16,2000.

i) All bona fide imports under Duty Free Replenishment Certificate (DFRC) Scheme, Gem Replenishment Licence and Diamond Imprest Licence.
ii) All bona fide imports including import of capital goods by units under Electronic Hardware Technology Park (EHTP), Software Technology Park (STP) and Special Economic Zone (SEZ) Schemes.

The following categories of bank credit for imports are already exempt from the levy of interest rate surcharge earlier.

a. Export Packing Credit provided at concessive rate of interest to meet the cost of imported inputs.
b. Import of capital goods by bona fide borrower-importers under valid Licenses issued under the Export Promotion Capital Goods Scheme (EPCG Scheme).
c. All bona fide imports including import of capital goods by Export-Oriented Units (EOUs) and units in the Export Processing Zones (EPZs).
d. All bona fide imports under Advance Licenses granted for import of “Inputs” such as raw materials, intermediates, components, etc., by either the original holder or a transferee (if transferred under an endorsement of the Directorate General of Foreign Trade enabling such transfer).
e. All bona fide imports against the credit under the Duty Entitlement Pass Book (DEPB) Scheme contained in the EXIM Policy 1997-2002.
f. Bulk Imports in respect of crude oil, petroleum products, fertilisers, edible oils and other essential commodities imported through Government Agencies, and
g. Import of crude oil by private and joint sector refineries for actual use in their own refineries.

**Depreciation on Computers**

It was observed that there was no uniform practice among banks in the method adopted for charging depreciation in respect of computers as well as the rate of depreciation applied. In view of rapid development in technology, it is likely that the computers and other hardware become outdated / obsolete within a short period needing replacement / upgradation. The guideline for charging depreciation on computers was issued against this background.

It has been decided that all banks should now charge depreciation on computers on a straight line method at the rate of 33.33 per cent per annum. This would enable the banks to replace the outdated / obsolete computers within a period of three years.

## BRANCH BANKING

### Savings Bank Accounts for Certain Bodies

The Reserve Bank has advised all commercial banks (including regional rural banks ) that it has now been decided to allow banks to open savings bank accounts in the name of Government departments/bodies/ agencies in respect of grants/subsidies released for implementation of various programmes/schemes sponsored by Central Government on production of an authorisation to the bank from the respective Government departments certifying that the concerned Government department or body has been permitted to open savings bank account .Banks should keep on their record a copy of the authorisation issued by the respective Central Government departments.

Accordingly, the Reserve Bank has issued revised directive stating that the banks can open savings bank account in the name of the following organisations / agencies.

(a) Primary Co-operative Credit Society which is being financed by the bank.
(b) Khadi and Village Industries Boards.
(c) Agriculture Produce Market Committees.
(d) Societies registered under Societies Registration Act, 1860 or any other corresponding law in force in State or a Union Territory.
(e) Companies governed by the Companies Act, 1956 which have been licensed by the Central Government under Section 25 of the said Act, or under the corresponding provision in the Indian Companies Act, 1913 and permitted, not to add to their names the word “Limited” or the words “Private Limited”.
(f) Institutions other than those mentioned in clause (i) above and whose entire income is exempt from payment of income tax under Income-Tax Act, 1961.
(g) Government departments/bodies/agencies in respect of grants/ subsidies released for implementation of various programmes/ schemes sponsored by Central Government subject to production of an authorisation from the respective Government departments to open savings bank account.
(h) Development of Women and Children in Rural Areas (DWCRA).
(i) Self-Help Groups (SHGs), registered or unregistered, which are engaged in promoting savings habits among their members.
(j) Farmers’ Clubs - Vikas Volunteer Vahini - VVV.

**Payment of Balance to Survivors**
It has been decided that while settling the claims of the survivors/claimants of the deceased depositors, the requirement of insisting on succession certificate from the legal heirs should be totally withdrawn irrespective of the amount involved. However, banks should adopt such safeguards in settling claims, as they consider appropriate including taking of indemnity bond. These guidelines have been reviewed in the light of suggestion received through Regulation Review Authority, constituted in the Reserve Bank

**Rediscounting of Bills by Banks**
It has been decided that scheduled primary co-operative banks may rediscount bills discounted by non banking financial companies (NBFCs) arising from sale of two wheeler and three wheeler vehicles subject to the following conditions

i. the bills should have been drawn by the manufacturers on dealers only
ii. the bills should represent genuine sale transactions as may be ascertained from the chassis/engine number
iii. before rediscounting the bills, the scheduled primary co-operative banks should satisfy themselves about the bonafides and track record of NBFCs which have discounted the bills.

This decision has been taken in view of requests from various NBFCs to allow them to avail of bills rediscounting facility with banks /financial institutions in respect of bills arising out of sale of two wheeler/three wheeler vehicles.

**Single Exposure Limit for RRBs**
It has been decided that regional rural banks (RRBs) can extend financial assistance to borrowers subject to the limit of 20 per cent of owned funds of RRBs without reference to borrowing unit's paid up capital. If, however, the RRB has invested in the shares\bonds of a company, the loan and investment together should be limited to 20 per cent of the RRB's owned funds. This relaxation has been primarily intended to enable the RRBs to meet the genuine credit requirements of small and tiny business units adequately because of their small capital base. They should avoid building up huge credit exposure to a few large borrowers even within the single exposure limit.

**Opening / Shifting of Branches**
The Reserve Bank has clarified to all scheduled commercial banks (excluding RRBs) that they should open new place of business / shift their existing branches only after obtaining the licence / amendment to the licence as the case may be, from the concerned regional office of the Reserve Bank . This clarification has been given in view of the observation that some banks have been approaching regional offices of the Reserve Bank for obtention of licence /amendment to the licence after opening offices/extension counters ,shifting etc., which is a violation of Section 23 of the Banking Regulation Act 1949. Further it has also been clarified that shifting/merger of branches in rural areas is applicable only at centres served by more than one commercial bank (excluding RRBs) . Hence , a branch which is the only bank branch functioning at a rural centre should not be shifted /closed/merged outside the service area as this would render the relative area unbanked. .However, under

exceptional / unforeseen circumstances, banks may approach the Reserve Bank for prior permission after taking the approval of District Consultative Committee/Department of Institutional Finance.

**Maximum Limit on Advances**

The Reserve Bank has advised all primary co-operative banks that, with effect from August 25, 2000 the present definition of capital funds has been revised. Capital Funds would now comprise of paid up capital and free reserves as per the audited accounts .Reserves, if any, created out of revaluation of fixed assets or those created to meet outside liabilities should not be included in the capital funds. Free reserves shall exclude all reserves/ provisions which are created to meet anticipated loan losses, losses on account of frauds etc, depreciation in investments and other assets and other outside liabilities. The Bad and Doubtful debts reserve and Building Fund should also be excluded.

**EXCHANGE CONTROL**

**Imports under FEMA**

**Postal Imports**

Remittances against bills received for collection in respect of imports by post parcel may be made by ADs, provided the goods imported are such as are normally despatched by post parcel. In these cases, the relative parcel receipts must be produced as evidence of despatch and an undertaking to submit Postal Appraisal Form or Customs Assessment Certificate as evidence of import within three months from the date of remittance should be furnished by importers. If the parcel has already been received in India, Postal Appraisal Form or Customs Assessment Certificate should be produced in support of the remittance application. Where goods to be imported are not of a kind normally imported by post parcel or where AD is not satisfied about the bonafides of the application, the case should be referred to the Reserve Bank for prior approval with full particulars together with relative parcel receipt/s and Postal Appraisal Form or Customs Assessment Certificate.

ADs may make remittances towards import of books by post parcel by book-sellers/publishers against bills received for collection, irrespective of the amounts involved, without prior approval of the Reserve Bank against endorsement on the import licence wherever applicable in the normal course. They may also make remittances even if import licences covering the imports have been issued subsequent to the date of import subject to endorsement on such licences.

**Import of Gold/Platinum/Silver**

*(i) Import of Gold on Consignment basis*

Gold may be imported by the nominated agencies/banks on consignment basis where the ownership of the goods would remain with the supplier and the importer (consignee) would be acting as an agent of the supplier (consignor). Remittances towards the cost of import shall be made as and when sales take place and in terms of the provisions of agreement entered into between the overseas supplier and nominated agency/bank.

*(ii) Import of gold on unfixed price basis*

The nominated agency/bank may import gold on outright purchase basis subject to the condition that although ownership of the gold shall be passed on to the importer at the time of import itself, the price of gold shall be fixed later, as and when the importer sells the gold to the users.

Instructions contained in this paragraph would also apply to import of platinum and silver.

**Import of Films on Lease/Rental Basis**

ADs may allow remittance of rent, royalty, licence fee, profit, etc., in connection with import of cinematograph feature films and video films subject to the following conditions :

1. a 'No Objection Certificate' from Central Board of Film Certification, wherever required, has been submitted;
2. a Chartered Accountant's certificate is produced indicating that the payment to overseas supplier is due and the amount sought to be remitted is in conformity with the terms of contract; and
3. an undertaking/Certificate regarding payment of income-tax has been submitted .

**Import Factoring**

ADS may enter into arrangements with international factoring companies of repute, preferably members of Factors Chain International, without approval of the Reserve Bank. However, ADs will have to ensure compliance with the extant exchange control directions relating to imports, Import Trade Control policy in force and any other guidelines/directives issued by the Reserve Bank.

**Import of Gold, Silver and Jewellery**

Gold brought by an NRI in accordance with the Export and Import Policy in vogue, is permitted to be sold to residents against payment in rupees. ADs should credit the amounts so received only to ordinary non-resident rupee (NRO) accounts of the concerned NRI seller.

For imports of other goods and services under FEMA, please see Credit Information Review, September 2000.

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