Appendix Table I.3: Major Policy Announcements relating to Commercial Banking Sector

Announcement Date		Measures
1999		
April	20	Banks were advised to classify a minimum of 75 per cent of their investment in approved securities as current investments for the year ended March 31, 2000. Banks were permitted to offer fixed rate term loans subject to conformity to ALM guidelines. The investment by a bank in Tier II bonds issued by other banks would be subject to a ceiling of 10 per cent of the bank's total capital. The coverage of the priority sector was broadened to include incremental credit given to NBFCs by banks for on-lending to small road and water transport operators and to units in tiny sector of industry (after March 31, 1999) and investment in venture capital. A special cell was set up in the Reserve Bank, with a time frame of one year in order to liaise with NABARD and micro credit institutions for augmenting the flow of credit to this sector. In certain situations (e.g., cyclical downturns) where loans have been rescheduled, but borrowers have started servicing their loans on a regular basis after a short gap, the classification of loans as sub-standard for at least two years of satisfactory performance under the renegotiated or rescheduled terms was reduced to one year (or four quarters) if the interest and instalment of loans are serviced regularly as per the terms of rescheduling.
	23	The Reserve Bank issued operational guidelines on financing of infrastructure projects to banks/ FIs. Accordingly, banks were permitted to sanction term loans for technically feasible, financially viable and bankable projects undertaken by both public and private sector undertakings, subject to prescribed criteria. Banks were also permitted to issue inter-institutional guarantee subject to certain norms.
	24	In order to encourage 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., of 5 per cent of their incremental deposits of the previous year was enhanced to the extent of bank's investment in venture capital. Interest rates applicable to bank loans extended to micro-credit organisations were de-linked from direct small loans applicable to individual beneficiaries.
May	25	The ceiling on bank credit, earlier linked to net owned fund (NOF), was removed in respect of all registered NBFCs and engaged in the principal business of equipment leasing, hire purchase, loan and investment activities.
	27	The Reserve Bank issued guidelines for constitution of Settlement Advisory Committees (SAC) and compromise settlement of NPAs of small-scale sector by the public sector banks.
July	1	Banks were advised not to participate in the equity of any financial services venture such as portfolio investments in the equity of financial companies, including Stock Exchanges, depositories etc. without obtaining the prior approval of the Reserve Bank.
	17	The Reserve Bank introduced the second tranche of DSB Returns to capture liquidity, interest rate and foreign exchange risks on quarterly basis as on last reporting Friday of the quarter. The

		returns were (i) Statement of Structural Liquidity (Rupee), (ii) Statement of Interest Rate Sensitivity (Rupee), (iii) Statement of Maturity and Position (Forex), and (iv) Statement of Interest Rate Sensitivity (Forex).
July	17	With a view to bringing in uniformity in the accounting practices of banks undertaking leasing activity departmentally, banks were advised to follow the “Guidance Note on Accounting for Leases” issued by the Institute of Chartered Accountants of India (ICAI).
	24	The Reserve Bank developed a rating model for SCBs based on CAMELS factor and a rating model of the foreign banks based on CACS factors. The prime purpose of introducing the system of supervisory rating of banks was to summarise the performance of individual banks and also to assess the aggregate strength and soundness of the banking system.
August	16	Banks were advised not to provide loans to companies for buy-back of shares/securities.
September	7	The Reserve Bank advised the Indian Banks’ Association (IBA) and the Foreign Exchange Dealers Association (FEDAI) to totally dispense with the practice of fixing benchmark service charges on behalf of member banks including charges for forex transactions to give freedom to banks in prescribing service charges.
	15	SCBs were advised to disclose the details of the maturity profile of deposits and borrowings, loans and advances and investments, movements in provisions and lending to sensitive sectors as additional information in the ‘Notes on Accounts’ to the Balance sheet for the year ended March 31, 2000.
	22	The powers of Chairman and Managing Director of public sector banks for waiver/write-off of loans was raised from Rs.10 lakh to Rs.50 lakh.
	30	Banks were advised to include the flow of micro credit in their corporate strategy/plan and to review progress thereof at the highest level on a quarterly basis.
October	5	The Reserve Bank circulated detailed guidelines for the gold deposit scheme.
	7	The Reserve Bank issued detailed guidelines for risk management system in banks. The guidelines broadly cover management of credit, market and operational risks. The guidelines on risk management issued together with the ALM guidelines were purported to serve as a benchmark to the banks which were yet to establish an integrated risk management system. Banks operating in international markets were advised to develop by March 31, 2001 suitable methodologies for estimating and maintaining economic capital. Other banks should formulate a medium-term strategy to comply with these requirements. The Board of the banks are required to review the progress in implementation of the guidelines at half-yearly intervals.
	11	The Reserve Bank advised that the facility of fixed rate term loans specially for project finance would be available to banks for all term loans, repayable within a period of not less than three years, and for all purposes including small loans (up to Rs.2 lakh) subject to the conformity with the ALM guidelines.
	12	RRBs were allowed to invest in Tier-II Bonds issued by sponsor banks or other banks/FIs only to the extent of 10 per cent of RRBs owned funds.
	18	Banks were advised to submit a Report to the Reserve Bank giving details of the issue of subordinate debt for raising Tier-II capital, such as amount raised, maturity of instrument, rate of interest together with a copy of the offer document, soon after the issue is completed.
October	21	It was decided that in respect of agricultural advances and advances for other purposes granted by banks to PACSs/FSSs under the on lending system, only that particular credit facility granted

		to a PACS/FSS which is in default for a period of two harvest seasons (not exceeding two half years/two quarters as the case may be), after it has become past due (one month after due date), will be classified as NPA and not all the credit facilities sanctioned. However, the other direct loans and advances if any, granted by banks to the member borrowers of PACS/FSS outside the on lending arrangements will become NPA even if one of the credit facilities granted to the same borrower becomes NPA.
	27	With a view to strengthening the internal inspection/audit of banks, the Reserve Bank advised them to formulate a comprehensive policy document for internal inspection/audit which requires to be reviewed periodically, keeping in view the changing environment, directives and guidelines of the Reserve Bank.
	29	In line with the policy of minimising country's short term external borrowing liabilities, the minimum maturity for FCNR(B) deposits was raised to one year from six months.
November	2	With regard to bill finance for settlement of dues of SSI suppliers, the mandatory minimum 25 per cent for acceptance of bills was withdrawn.
	3	It was decided that banks' investments in all securities including securities outside SLR, should be assigned a risk weight of 2.5 per cent for market risk with effect from the year ending March 31, 2001. This was also made applicable to investments in securities carrying 100 per cent risk weight, since in line with best practices, some capital cushion should also be provided for market risk in addition to credit risk.
		With a view to moving closer to the international standard of 15 per cent, in phases, the exposure ceiling in respect of an individual borrower was lowered from 25 per cent to 20 per cent of the bank's capital funds, effective April 1, 2000. Banks were advised that where the level of exposure as on October 31, 1999, was more than 20 per cent, they should reduce the exposure to 20 per cent of capital funds over a two year period (i.e. by end- October 2001).
	12	The Reserve Bank issued guidelines to the banks for issuing debit cards and smart cards with a view to helping banks to introduce appropriate schemes in issuing of electronic cards to ease pressure on physical cash.
December	3	The Reserve Bank set up a working group on discounting of bills by banks to examine the possibility of extending bill discounting facility to services sector. The Committee submitted its report in September 2000.
	10	The Reserve Bank set up a Standing Committee on International Financial Standards and Codes to evolve sound standards based on recognized best practices in fiscal, financial and accounting areas, for adopting transparency while adhering to the codes.
2000		
January	10	The Reserve Bank decided to reduce the time lag for making provision against net debit balance in inter-branch accounts from three years to two years with effect from the accounting year ending March 31, 2001. Accordingly, banks were required to segregate the debit and credit entries in inter-branch accounts pertaining to the period up to March 31, 1998 and outstanding as on March 31, 2001 and arrive at the net position. In case of a net debit, a provision equivalent to 100 per cent thereof may be made for 2000-01.
	25	Keeping in view the importance of credit discipline for reduction in NPAs, banks were advised to insist on a declaration from the account-holder, at the time of opening of current account, to the effect that he is not enjoying any credit facility with any other bank or a declaration giving particulars of credit facilities enjoyed with other banks.
February	7	The Reserve Bank issued guidelines in respect of income recognition, asset classification and

provisioning norms for export project finance.

18 Banks were advised that micro credit extended by them to individual borrowers either directly or through any intermediary would be reckoned as part of their priority sector lending.

29 The Reserve Bank issued guidelines to banks on take-out finance in respect of the criteria for assigning risk weight for calculation of capital adequacy ratio and prudential norms of income recognition, asset classification and provisioning.

March 2 The Reserve Bank advised that the relaxation in group exposure norms with regard to financing of infrastructure projects would be available only in respect of four sectors, *viz*., roads, power, telecommunication and ports.

7 The Reserve Bank advised banks not to book as income any appreciation in the value of securities on account of the method of valuation. Further, banks which adopted a more prudent method of valuation of securities than the one suggested were required to continue with the practice followed by them.

April 6 All Indian banks having branches/offices/subsidiaries/joint ventures abroad were advised to dispense with RALOO statements from the quarter ended June 2000. Instead DSB(O) quarterly reporting system consisting of seven returns was introduced.

24 Banks were advised to assign risk weight of 100 per cent only on those State Government guaranteed securities issued by the defaulting entities and not on all the securities issued or guaranteed by that State Government. Banks were advised to pay due regard to the record of the particular State Government in honouring their guarantees while processing any further requests for loans to PSUs in that State on the strength of State Government guarantee.

No provision need be made for a period of one year in respect of additional credit facilities granted to SSI units which are identified as sick where rehabilitation packages/nursing programme have been drawn by the banks themselves or under consortium arrangements.

Banks were advised to make general provision of 0.25 per cent on Standard Assets on global portfolio basis and not on domestic advances alone. The Provisions towards Standard Assets are to be shown separately as “Contingent Provisions against Standard Assets”, and would not be eligible for inclusion in Tier II Capital.

It was clarified to the banks that the extra provision needed in the event of a depreciation in the value of the investments should be debited to the Profit and Loss Account and if required, an equivalent amount may be transferred from the ‘Investment Fluctuation Reserve Account’ to the Profit and Loss Account as a **‘**below the line**’** item after determining the profit for the year. The above instructions are applicable for finalising the balance sheet, effective the year ended March 31, 2000.

Lending by banks to NBFCs for on-lending to agriculture should be reckoned as priority sector lending.

27 The Reserve Bank announced a move towards Risk-based supervision (RBS) of banks. The risk based supervision approach entails the monitoring of banks by allocating supervisory resources and focusing supervisory attention according to the risk profile of each institution.

May 3 On prudential considerations and in line with international standard, banks were advised that they may 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 the bank’s own assets. Banks were further advised to earmark additional capital in their books over a period of time so as to obviate the possibility of impairment to their net worth when switchover to unified balance sheet for the group as a whole is adopted after some time. The additional capital required is to be provided in the bank's books in phases, beginning from the year ending March 2001.

Banks were advised to make the necessary in-house arrangement for gathering and collection of credit and other information in one place for transmitting it to the Credit Information Bureau, as and when it is established.

	5	Taking into consideration the difficulties expressed by some of the banks, it was decided that, details of the maturity profile of deposits and borrowings, loans and advances and investments, movements in provisions and lending to sensitive sectors may be disclosed as additional information in the 'Notes on Accounts' to the Balance sheet for the year ending March 2001 and not end-March 2000 as originally stipulated**.**
	12	Banks were permitted to rediscount bills discounted by NBFCs arising from sale of two wheeler and three wheeler vehicles subject to the conditions that the bills were to have been drawn by the manufacturers on dealers only.
	28	RRBs having minimum working capital of Rs.25 crore and satisfying other criteria were authorised to open/maintain NRE accounts in rupees.
June	12	Banks were advised to review urgently the pendency of all suit filed cases relating to NPAs and convey to the functionaries at all levels, the need for close monitoring of suit filed and decreed cases on an ongoing basis.
July	20	The issue of repatriation of the proceeds of GDRs/ADRs issued by banks was reviewed and banks were advised to repatriate the entire proceeds of GDRs/ADRs soon after the issue process is completed. This provision would also be applicable to direct investments in banks made by NRIs/OCBs, foreign banking companies or finance companies, including multilateral institutions.
	27	The Reserve Bank issued modified guidelines to the public sector banks in order to provide a simplified non-discretionary and non-discriminatory mechanism for recovery of stock of NPAs. These guidelines cover NPAs in all sectors up to Rs. 5 crore but do not cover cases of willful default, fraud and malfeasance. All NPAs categorized as doubtful or loss assets as on end-March 1997 as well as sub standard assets as on that date which have become doubtful subsequently will also be covered. The amount of settlement arrived at should be paid within one year together with interest at the existing PLR from date of settlement up to the date of final payment. The guidelines would be operative up to end-March 2001. The Board of Directors of the banks were also advised that they could evolve detailed policy guidelines regarding one time settlement of NPAs over Rs.5 crore covering the computation formula, realizable amount, cut-off date and payment conditions, etc. as part of its loan recovery policy and decide individual cases in accordance with such policy.
August	14	It was decided to scale down the balances in EEFC accounts to 50 per cent of the amount held on August 11, 2000. Accordingly, banks were permitted to credit i) 35 per cent of the inward remittances in the EEFC accounts of Export oriented units, units in Export Processing Zone, Software Technology Park or Electronic Hardware Technology Park; and ii) 25 per cent of inward remittances in respect of others. Further, future accretions would be permitted only up to 50 per cent of the currently eligible amount. Accretions should be maintained in liquid form as current/ savings accounts. Besides, credit facilities available against such accounts would be held in abeyance.
October	10	General provision on standard assets was allowed to be included in Tier II capital.
		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, it was decided that

public sector banks should annex the balance sheet, Profit and Loss Account, Report of the Board of Directors and the Report of the Auditors in respect of each of their subsidiaries to their balance sheet beginning from the year ending March 31, 2001.

The concept of “past due” (grace period of 30 days) which was incorporated into the two quarter delinquency norm on income recognition, asset classification and provisioning introduced in April 1992, would be dispensed with, effective March 31, 2001.

After a review of current practices regarding credit exposure limits *vis-à-vis* international best practices, it was 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 would take a final view on the approach that should be adopted with a view to making it effective from March end 2002.

The Reserve Bank annouced the final guidelines on bank financing of equities and investments in shares.

On a review of the August 14, 2000 measure relating to EEFC accounts, it was decided to restore fully the earlier entitlement of i) 70 per cent of the inward remittances in the EEFC accounts of Export oriented units, units in Export Processing Zone, Software Technology Park or Electronic Hardware Technology Park; ii) and 50 per cent of inward remittances in respect of others.

To provide further operational autonomy to the banks, banks were given freedom to decide on charging penal interest to borrowers. 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, the prescription of minimum margin of 15 per cent under selective credit control on free sale sugar was withdrawn. Margins in respect of free sale sugar would be decided by the banks based on their commercial judgement.

Public sector banks were advised to set monthly targets for issue of Kisan Credit Card to farmer Borrowers within the yearly target fixed for the bank and draw action plan for achieving the overall target.

16 The Reserve Bank circulated the final guidelines relating to categorisation and valuation of banks’ investment portfolio. The guidelines were effective from the half year ended September 30, 2000.