Credit Information Review

257

DECEMBER 2000

Important Developments in 2000

January

- 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. Banks were asked to make a provision equivalent to 100 per cent for 2000-01 in case of a net debit.
- 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 does not enjoy any credit facility with any other bank or a declaration giving particulars of credit facilities enjoyed with other banks. This was done keeping in view the importance of credit discipline for reduction in non-performing assets.
- The Reserve Bank amended and clarified certain directions relating to non-banking finance companies issued by it earlier.
- The Reserve Bank issued comprehensive Asset Liability Management (ALM) guidelines for the ten all-India term lending and refinancing institutions (FIs).

February

- The Reserve Bank issued guidelines in respect of income recognition, asset classification and provisioning norms for export project finance.
- The Reserve Bank granted general permission for the issue of American Depository Receipts and Global Depository Receipts.
- 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.
- 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

- 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.
- 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.

- As a follow-up of Regulation Review Authority's decision, Money Market Mutual Funds were brought within the purview of SEBI regulations. Banks and financial institutions would now be required to seek clearance from Reserve Bank of India only for setting up an MMMF.

April

- The Reserve Bank announced the Monetary and Credit Policy: 2000-2001 on April 27, 2000.
- Final guidelines for banks' entry into insurance issued.
- Export credit refinance facility liberalised.
- Limit for post-award clearance of export projects enhanced.
- Minimum daily requirement of cash reserve ratio balances reduced to 65 per cent.
- Minimum maturity of Certificates of Deposit reduced to 15 days.
- Banks have been provided the freedom to operate different PLRs for different maturities.
- To make the market more "online", banks have been given freedom to choose the current swap rates while offering FCNR (B) deposits.
- Decision taken to move towards best practices in prudential regulation and supervision.
- Decided to make improvements in credit delivery mechanisms.
- It was clarified to the banks that extra provision needed in the event of depreciation in the value of the investments should be debited to the profit and loss account. Further, 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 instructions were made applicable for the balance sheet effective the year ended March 31, 2000.
- Bank lending to non-banking financial company for on-lending to agriculture was made eligible to be reckoned as priority sector lending.
- The Regulation Review Authority (RRA) was originally set up for a period of one year from April 1, 1999 with a view to making the Reserve Bank regulations simple, effective and reduce unnecessary paper work. Dr. Y.V. Reddy, Deputy Governor was appointed as the RRA. The RRA's term was extended by a year from April 1, 2000.
- The Reserve Bank announced a move towards Risk-Based Supervision (RBS) of banks. The risk based supervision approach entails monitoring of banks by allocating supervisory resources and focusing supervisory attention according to the risk profile of each institution.
- In a clarification, banks were advised that they should assign risk weight of 100 per cent only on those state government guaranteed securities which were issued by defaulting entities and not on all the securities issued or guaranteed by that state government. Banks were also 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.

- Banks were advised that no provision need to be made for a period of one year in respect of additional credit facilities granted to small scale industrial units which are identified as sick and 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. Banks were also advised that the provisions towards standard assets should be shown separately as "contingent provisions against standard assets", and would not be eligible for inclusion in Tier II capital.

May

- On prudential considerations and in line with international standards, 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. Banks were advised to provide additional capital 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.
- 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. Earlier, the provisions were required to be made in the balance sheet for the year ending March 2000. The decision was taken taking into consideration the difficulties expressed by some banks.
- Banks were permitted to rediscount bills discounted by non-banking finance companies 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.
- Regional Rural Banks having minimum working capital of Rs. 25 crore and satisfying other criteria were authorised to open/maintain non-resident (external) rupee accounts.

June

- The Foreign Exchange Management Act (FEMA) replaced the Foreign Exchange Regulations Act (FERA) 1973 with effect from June 1, 2000. The FEMA is consistent with full current account convertibility and contains provisions for progressive liberalisation of capital account transactions.
- Banks were advised to urgently review all pending suit filed cases relating to their non performing assets and convey to the functionaries at all levels, the need for close monitoring of suit filed and decreed cases on an ongoing basis.

- A full-fledged liquidity adjustment facility (LAF) operated through repos and reverse repos was introduced. The LAF was expected to facilitate the movement of short-term money market rate within a corridor, to impart greater stability and to facilitate the emergence of a short-term rupee yield curve.

July

- 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 was completed. The provision of repatriation was also made applicable to direct investments in banks made by NRIs/OCBs, foreign banking companies or finance companies, including multilateral institutions.
- 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. The guidelines covered NPAs in all sectors up to Rs. 5 crore but not cases of willful default, fraud and malfeasance. All NPAs categorised as doubtful or loss assets as on end-March 1997 as well as sub-standard assets as on that date which had subsequently become doubtful were also covered under the revised guidelines. The amount of settlement arrived at was to 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 boards of directors of the banks could evolve detailed policy guidelines regarding one time settlement of NPAs over Rs.5 crore covering the computation formula, realisable amount, cut-off date and payment conditions, etc., as part of its loan recovery policy and decide individual cases in accordance with such policy.
- The Reserve Bank modified its extant guidelines relating to raising of resources by all-India financial institutions. Under the revised guidelines, financial institutions need not seek the Reserve Bank's issue-wise prior approval/registration for raising of resources by way of issue of bonds.

August

- The Reserve Bank advised that the bank should assign hundred percent risk weight to all types of loans and advances granted to the banks own staff. Such loans and advances should be shown under 'other assets' in schedule eleven of the balance sheet with a footnote indicating their aggregate quantum.
- The Reserve Bank clarified to all the commercial banks (excluding RRBs) that the rupee subordinated debts raised by them as tier II capital would not be considered for inclusion in capital funds for the purpose of determining the exposure ceilings to individual /group borrowers.

September

- Foreign Institutional Investors (FII) were permitted to invest in exchange traded index futures by way of hedging on the recognised stock exchanges of India.
- The Reserve Bank introduced a special funds facility scheme to avoid grid locks in security settlement.
- The Government operationalised the automatic route for fresh External Commercial approvals upto USD 50 million and for all refinancing of the existing ECBs.

October

- The Reserve Bank announced the Mid-term review of the Monetary and Credit Policy on October 10, 2000.
- General provision on standard assets was allowed to be included in Tier II capital.
- The Reserve Bank now allows banks and primary dealers which get allotments in primary issues to sell the allotted securities on the same day.
- 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.
- Liquidity Adjustment Facility (LAF) operated through repo and reverse repos to influence short-term interest rates by modulating day-to-day liquidity conditions and to contain volatility in foreign exchange market will continue to be operated in a flexible manner both in terms of the applicable rates and tenors.
- On the basis of the comments received from the media and other market participants on the proposals made by the Standing Committee on Bank Financing of Equities as well as the views expressed by banks in the meeting between the Reserve Bank and the Chief Executives of major banks, the Reserve Bank issued final guidelines for banks' participation in capital market.
- The Reserve Bank issued the final guidelines for Commercial Paper. Much greater flexibility given to corporates to raise resources through commercial paper.
- Transferability of Certificates of Deposits issued by both banks and financial institutions made easier.
- Measures to improve credit delivery mechanisms, technology upgradation, further deregulation and rationalisation of procedures.
- 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.
- On a review of the August 14, 2000 measure relating to EEFC accounts, it was decided to fully restore 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 Cards to farmer borrowers within the yearly target fixed for them and draw action plan for achieving the overall target.
- The Reserve Bank circulated the final guidelines relating to categorisation and valuation of banks' investment portfolio. The guidelines were made effective from the half year ended September 30, 2000.
- The Reserve Bank issued guidelines for Constituents' SGL Account holders.
- Banks and primary dealers permitted to undertake transactions in securities among themselves or with non-bank clients through members of the National Stock Exchange (NSE), Over the Counter Exchange of India (OTCEI) and the Stock Exchange, Mumbai (BSE).
- State Bank of India permitted to float a scheme called `India Millennium Deposits' (IMDs).

November

- The Reserve Bank instructed all Scheduled commercial banks to submit Form A returns along with Annexure A and B in prescribed format a per the revised methodology from reporting Friday December 1, 2000.

December

- Notified amount for 364-day treasury bills increased from Rs. 500 crore to Rs. 750 crore.
- Capital adequacy norms for Primary Dealers introduced.
- The Reserve Bank advised all the public sector banks to implement the Action Plan contained in the report on Strengthening of Credit Delivery System to Women particularly in Tiny and SSI sector. The Action Points required to be taken up by banks in order to reach potential women entrepreneurs and encourage them to avail credit and credit plus services from banks are : Redefining of Banks' policies/Long term plans, Setting up women cells, Orientation of Bank officers/staff on gender concerns/credit requirements of women etc.

Committees and Working Groups

- The Reserve Bank set up working group on priority areas in Banking Technology in March, 2000, in view of the growing application of the Information Technology in the banking and financial sector in India. This group consists of experts and was set up to prioritise major areas of emphasis, to be addressed by the Institute for

Development and Research in Banking Technology (IDRBT) Hyderabad in this regard.

- The Governor constituted a Standing Committee on International Financial Standards and Codes, under the chairmanship of Dr.Y.V. Reddy, Deputy Governor, Reserve Bank of India. This committee appointed ten advisory groups consisting of experts in different subject areas. Out of the 10 advisory groups the following groups submitted their reports in September 2000 :

  Advisory Group on Transparency in Monetary and Financial Policies which was constituted to study present status of applicability and relevance and compliance in India of the relevant standards and codes, to review the feasibility of compliance and the time frame within which this can be achieved given the prevailing legal and institutional practices in India, to compare the levels of adherence in India, vis-a-vis, industrialised countries and also emerging economies particularly to understand India's position and prioritise actions on some of the more important codes and standards and to chalk out a course of action for achieving the best practices.

  Advisory group on Insurance Regulation submitted part I of its report which chalks out a course of action to achieve the best practices in the field of insurance regulation in India. The Group deliberated on the Indian insurance legislation at present in light of standards and codes prescribed by the International Association of Insurance Supervisors (IAIS) and the twenty Insurance Guidelines issued by the OECD for its members.

  The Advisory group on Banking Supervision submitted Part I of its report which deals with corporate governance in banks, supervision of cross border banking, transparency in banks and internal rating system in banks.

- The Reserve Bank set up a multi-disciplinary working group to look into the introduction of consolidated accounting and other quantitative techniques of consolidated supervision of bank groups in November, 2000. The Group has been set up against the backdrop of the renewed focus on empowering supervisors to undertake consolidated supervision of bank groups in recent times. The renewed focus on consolidated supervision is following the failure of large international banks triggered by the operations of their subsidiary ventures and by the concerns arising out of the entry of banks into other lines of business. The Group will:

  1. examine the feasibility of introducing consolidated accounting for groups in which banks are either parents or subsidiaries in line with international best practices.

  2. specify (i) the scope and (ii) the techniques to be used for consolidation of accounts and recommend the introduction or adoption of any accounting standards for this purpose.

  3. recommend the introduction of any other quantitative methods such as group prudential norms to facilitate consolidated supervision, revenue recognition and reporting of statement of changes in the financial position of the group.

  4. outline the sequencing of the introduction of consolidated accounting and other quantitative methods.

5. specify the legislative amendments which would be required for the introduction of consolidated accounting and other quantitative methods.

Credit to Diamond Exporters

The Reserve Bank has decided that the banks should obtain an undertaking in a revised format from such of the clients who are extended credit for doing any business relating to diamonds in view of further imposition of prohibition on the direct/indirect import of all rough diamonds from Sierra Leone, vide UN Security Council Resolution No.1306 (2000).

They should furnish the details (name and address) of diamond industry clients from whom an undertaking in the revised format has been obtained so as to reach the Reserve Bank on or before December 31, 2000. They should also advise any future addition/deletion on a half yearly basis as at the end of June and December.

Further, they should also furnish at half yearly intervals, a statement containing information regarding alleged violations, of the prohibition imposed, so as to reach the Reserve Bank within a period of 15 days from the end of the half-year to which it relates. In case, there is no information, a 'nil' statement should be sent. The first such return should relate to the period ending December 2000.