Credit Information Review

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RBI Notifications on Capital Account

The following paragraphs summarise the Reserve Bank notifications issued apropos the Union Budget 2001-2002 to liberalise the capital account:

1) Indian companies wishing to make acquisitions of foreign companies or direct investment abroad in joint ventures/wholly owned subsidiaries may now invest upto US$ 50 million on an annual basis through automatic route without being subject to the three year profitability condition. Thus, the limit of investment upto US$ 50 million which was earlier available in a block of three years would now be available annually without any profitability condition.

2) Companies may invest 100 per cent of the proceeds of their American Depository Receipt/Global Depository Receipt (ADR/GDR) issues for acquisitions of foreign companies and direct investments in joint ventures and wholly owned subsidiaries. Earlier such investments out of ADR/GDR issues were subject to a ceiling of 50 per cent.

Budget and Banking Sector

- 7 more DRTs will be set up during 2001-02.
- A legislation that will facilitate foreclosure and enforcement of securities in cases of default will be brought in, in order to enable the institutions to realise their dues.
- Greater autonomy will be provided to bank managements. The Banking Services Recruitment Boards will be abolished in association with the Reserve Bank of India by July 31, 2001 or earlier. All future recruitments will be done by banks themselves.

3) A new facility for additional block allocation of foreign exchange to companies with proven track record which have already exhausted the limit of US$ 50 million available under the automatic route for investment/acquisition overseas is also being instituted by the Reserve Bank. While considering such application, the Reserve Bank would consider (a) the financial

position and business track record of the Indian company (b) prima facie viability of the investments and justification for additional requirement of foreign exchange and (c) contribution of the applicant company to the external trade and other potential benefits to the country out of the investment. Such block allocation will be sanctioned by the Reserve Bank in advance and will, therefore, enable Indian companies to negotiate and finalise their acquisitions/ direct investments without having to secure permission of the Reserve Bank, subject to post-facto reporting to the Reserve Bank. While providing such block allocation, the Reserve Bank would also specify the means of financing as well as the time period over which such permission would be valid.

4) Any Indian company that has issued ADRs/GDRs may acquire shares of foreign companies engaged in the same area of core activity upto an amount of US$100 million or an amount equivalent to ten times of their exports in a year, whichever is higher. Earlier, this facility was available only to Indian companies in certain sectors.

5) Two-way fungibility in ADR/GDR issues of Indian companies has been introduced, subject to sectoral caps, wherever applicable. Stockbrokers in India may now purchase shares and deposit these with the Indian custodian for issue of ADRs/GDRs by the overseas depository to the extent of the ADRs/GDRs that have been converted into underlying shares.

Budget and Debt Market

- A Clearing Corporation will be set up under the active encouragement of the RBI, with State Bank of India as the chief promoter, and is expected to be in place by June 2001. It will also enable settlement of forex transactions.
- Trading of Government Securities, through order driven screen-based system will be implemented.
- An electronic Negotiated Dealing System will be set up by the RBI by June 2001 to facilitate transparent electronic bidding in auctions and dealings in Government securities on a real time basis.
- In order to ensure smooth and quick movement of funds, the Electronic Fund Transfer (EFT) and Real Time Gross Settlement Systems (RTGS) are being put in place by the Reserve Bank of India within the next year.
- Clarifications are being issued by CBDT to promote the issuance of STRIPS, zero coupon bonds, deep discount bonds, and the like.
- The old Public Debt Act will be replaced by Government Securities Act.
- Comprehensive legislation will be introduced on securitisation.
- A small group comprising the Reserve Bank of India, Securities Exchange Board of India, the stock exchanges and Ministry of Finance to monitor and implement these developments will be set up so that the debt market becomes active next year.

6) Indian companies will now be able to sponsor ADR/GDR issues with an overseas depository against shares held by its shareholders who wish to use this option. The issue price would be determined by the lead manager to the issue and the issue proceeds would be repatriated within one month. The sponsoring company would have to comply with the

provisions of the scheme for issue of foreign currency convertible Bonds and Ordinary Shares (through Depository Receipt Mechanism) Scheme, 1993 and guidelines issued there under by the central government.

7) The ban on overseas investments by registered partnership firms has been removed. Partnership firms providing certain specified professional services, viz. chartered accountancy, legal services, medical and health care services, information technology and entertainment software related services would now be able to invest abroad in foreign concerns in the same line of activity upto US$ one million under automatic route. For such investments exceeding US$ one million, approval of the Reserve Bank will be necessary.

8) Indian employees who have the benefit of Employee Stock Option (ESOP) schemes in foreign owned companies can now invest upto US$ 20,000 per annum. Earlier, this facility was available only to the extent of US$ 10,000 in a block of five years.

9) Foreign Institutional Investors (FIIs) can invest in a company under the portfolio investment route upto 24 per cent of the paid up capital of the company. This can be increased to 40 per cent with the approval of the general body of the shareholders by a special resolution. This limit has now been increased from 40 per cent to 49 per cent.

Investment by Foreign Venture Capital Investors

It has been decided to permit registered foreign venture capital investors to invest in an Indian venture capital undertaking /venture capital funds in accordance with regulations framed for the purpose.

A registered foreign venture capital investor (FVCI) may, through the Securities and Exchange Board of India, apply to the Reserve Bank for permission to invest in Indian venture capital undertaking (IVCU) or in a venture capital fund (VCF) or in a scheme floated by such VCFs.

The registered FVCI permitted by the Reserve Bank may purchase equity/equity linked instruments/ debt / debt instruments, debentures of a IVCU or of a VCF through initial public offer or private placement or in units of schemes/funds set up by a VCF. The amount of consideration for investment in VCFs/IVCUs should be paid out of inward remittance from abroad through normal banking channels or out of funds held in an account maintained with the designated branch of an authorised dealer in India.

The permitted FVCI may, open a foreign currency account and/or a rupee account with a designated branch of an authorised dealer with certain permissible transactions:

Forward Cover

Authorised dealers may offer forward cover to FVCIs to the extent of total inward remittance. In case the FVCI has made any remittance by liquidating some investments, original cost of the investments will be deducted from the eligible cover.

Valuation of Investments

The FVCI may acquire by purchase or otherwise or sell shares/convertible debentures/units or any other investment held by it in the IVCUs or VCFs or schemes/funds set up by the VCFs at a price that is mutually acceptable to the buyer and the seller/issuer. The FVCI may also receive the proceeds arising of the liquidation of VCFs or schemes/funds set up by the VCFs.

Adherence to SEBI Guidelines

FVCIs should abide by the relevant regulations/guidelines issued by the Securities and Exchange Board of India.

BRANCH BANKING

ACU Funding of Nostro Accounts

The Reserve Bank will now accept requests from ADs for funding their ACU dollar accounts with commercial banks in participating countries as well as for repatriation of the excess liquidity in the ACU dollar accounts of their correspondent banks maintained with them, would be accepted in ACU 1 and ACU 2 format respectively, and also on 'Tom' (for delivery tomorrow) basis in addition to 'Spot' basis. The decision came into effect from March 1, 2001. ADs desirous of availing the facility of booking transactions on 'Tom' basis, should submit their applications to the Department of External Investments and Operations (DEIO), Reserve Bank, Mumbai before 3.00 p.m. a day prior to Value Date.

Intimation on Deposit Maturity

In view of the suggestion of the Regulation Review Authority, the Reserve Bank has reiterated that the banks must send intimation of impending due date of deposit well in advance to their depositors as a rule in order to extend better customer service.

Exemption Limit for Collateral for PMRY Loans

The Reserve Bank has clarified to all Indian scheduled commercial banks (except RRBs) that under Prime Minister's Rozgar Yojana (PMRY) industry sector projects with cost upto Rs two lakh (the loan ceiling under PMRY) are eligible for exemption of obtention of collateral security, with effect from February 12, 2001. There is no change as regards business and service sectors. For partnership project in industry sector, the exemption limit for obtention of collateral security would be Rs five lakh per borrowal account in the tiny sector.

Limits on Credit Exposure to Individual Borrowers

It has been decided to consider the amounts held under the head 'Building Fund" also as eligible to be treated as part of free reserves and would be taken into account for calculating 'Capital Funds' for the purpose of determining exposure norms.

Term Deposit of a Deceased Depositor

Credit Information Review (January 2001) had on page 2, published an item on payment of interest on deceased depositors accounts. The item contained certain inaccuracies. The correct paragraph is reproduced below.

At present no interest is payable beyond the date of maturity of a term deposit, where the death of the depositor occurs after the maturity of the deposit. Banks pay interest to the claimants on the term deposit account of the deceased beyond the date of maturity at the interest rate applicable to the period for which the deposit has remained with the bank upto the date of actual payment.

It has now been decided that in the case of death of a depositor after the maturity date of the term deposit where the depositor has failed to renew the deposit for a further period, interest should be paid by the banks at savings deposit rate (in case of Rupee deposits) or Resident Foreign Currency (RFC) Savings deposit rate (in case of FCNR (B) deposits) operative on the date of maturity from the date of maturity till the date of payment.

BANKING POLICY

Reduction in Bank Rate

The Reserve Bank further reduced the Bank Rate from '7.5 per cent per annum' to '7.0 per cent per annum' effective close of business on March 1, 2001.

The Bank Rate was reduced from 8 per cent to 7.5 per cent on February 16, 2001.

Treatment of VRS Expense

The Reserve Bank of India has issued guidelines on the accounting treatment in respect of Voluntary Retirement Scheme (VRS) related expenditure such as ex-gratia payment and other termination benefits.

Disclosure

The Board of Directors of a bank must disclose the accounting policies followed in respect of VRS expenditure. If VRS applications were accepted subsequent to the closure of the accounting year, the Board of Directors would be required to make a disclosure in the Board Report of that fact and of the likely impact of the VRS.

Regulatory Issues

The Reserve Bank has also advised that in view of the extra-ordinary nature of the event, VRS related Deferred Revenue Expenditure would not be reduced from Tier I capital. The position will stand regularised by the end of the accounting year in which the deferred expenses are totally wiped out.

Some banks have proposed to meet the VRS related expenditure partly on cash basis and the other part in the form of bonds and to treat the bond as subordinated debt counting for Tier II capital. It is advised that the bonds to be issued to the VRS employees as compensation package, net of the unamortised Deferred Revenue Expenditure, could be treated as Tier II capital, subject to compliance with the terms and conditions stipulated for issue of such bonds.

Master Circulars

n compliance with the directions of the Regulations Review Authority, several operational departments of the Reserve Bank have issued master circulars on important topics for the benefit of the users. Master circulars are compilation of all operative instructions on a subject. The master circulars are available on the Reserve Bank website under a special URL (www.mastercirculars.rbi.org.in) The master circulars available so far are :Lending to Priority Sector

- Guarantees and Co-acceptances
- Lending to Non-Banking Financial Companies (NBFCs)
- Loans and Advances - Statutory and Other Restrictions
- Deposits held in FCNR(B) Accounts
- Interest Rates on Rupee Deposits held in Domestic, Ordinary Non-Resident (NRO), Non-Resident Special Rupee (NRSR) and Non-Resident (External) (NRE) accounts
- Exposure Norms
- Bank Finance against Shares and Debentures

Features of various deposit schemes available to Non-Resident Indians (NRIs)

Types of Deposit Schemes					
Particulars	**FCNR a/c (Foreign Currency Non-Resident a/c.)**	**NRE a/c (Non-Resident External Rupee a/c.)**	**NRNR a/c (Non-Resident Non-Repatriable a/c.)**	**NRO a/c (Non-Resident Ordinary a/c.)**	**NRSR a/c [Non-Resident (Special) Rupee Accounts]**
1	2	3	4	5	6
• Who can open an account	NRIs or OCBs.	NRIs or OCBs	Any person resident outside India.	Any person resident outside India	NRIs
• Joint account of two or more NRIs	Permitted	Permitted	Permitted	Permitted	Permitted
• Joint account with another person resident in India	Not permitted	Not permitted	Permitted	Permitted	Permitted.
• Currency in which account denominated	Pound Sterling, US Dollar, DM , Jap. Yen, or Euro.	Indian Rupees	Indian Rupees	Indian Rupees	Indian Rupees
• Repatriability: Principal Interest	Freely repatriable	Freely repatriable	Not repatriable	Not repatriable	Not repatriable
	Freely repatriable	Freely repatriable	Freely repatriable	Freely repatriable	Not repatriable in accordance with the undertaking given at the time of opening the account
• Foreign Currency Risk	Account holder is protected against changes in INR value vis-à-vis the currency in which the account is denominated.	Account holder is exposed to the fluctuations in the value of INR .	Account holder is exposed to the fluctuations, in the value of INR to the extent of interest amount.	Account holder is exposed to the fluctuations, in the value of INR to the extent of interest amount.	No exposures to foreign exchange risk as no part of the balances are repatriable.
• Rate of |Interest	Banks are free to determine interest rates within the ceiling, if any, prescribed by the Reserve Bank	Banks are free to determine interest rates.	Banks are free to determine interest rates.	Banks are free to determine interest rates.	Banks are free to determine interest rates.
• Rupee Loans in India against Security of the funds held in the account to :					
1) a/c holders	permitted	permitted	permitted	Permitted	permitted
2) third party	permitted	permitted	permitted	Permitted	permitted
• Foreign currency loans outside India against Security of the funds held in the account to :					
1) a/c holders	permitted	permitted	Not permitted	Not permitted	Not permitted
2) third party	permitted	permitted	Not permitted	Not permitted	Not permitted

Notes:

1. Nomination facilities, for nominating either a resident or a non-resident are available, in all types of accounts maintained in the name of individuals only.
2. For details of tax benefits available against each account please refer to the current Income Tax rules.
3. For the purposes of maintaining an account in India

   (A) NRI is a person resident outside India who ;

   i. is citizen of India, or
   ii. is a citizen of any country other than Bangladesh or Pakistan if
       a. he at any time held Indian passport, or
       b. he or either his parents or any of his grand parents were a citizen of India by virtue of the constitution of India or the Citizenship Act , 1955 (57 of 1955), or
       c. a person is a spouse of an Indian citizen or a person referred to in sub-clause (a) or (b) above."

   (B) OCB is defined as:

"a company, partnership, firm, society or any other corporate body owned directly or indirectly to the extent of at least 60% by non-resident Indians and includes overseas Trust in which not less than 60% beneficial interest is held by non-resident Indians directly or indirectly but irrevocably."

* Credit Information Review (February 2001) published the features of various deposit schemes available to the Non-Resident Indians. Some errors had inadvertently crept in, in the summary. The table is therefore, reproduced here giving accurate information.