

Annexure: Chronology of Major Policy Developments

Announcement Date	Measures
A) Scheduled Commercial Banks	
2000	
April	<p>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.</p> <p>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 the concerned 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.</p> <ul style="list-style-type: none"> • 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 and whose accounts are classified as NPA 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 eligible for inclusion in tier II capital. • It was clarified to banks that effective March 31, 2000 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. • Lending by banks to NBFCs for on-lending to agriculture reckoned as priority sector lending. <p>27 • A move towards risk-based supervision (RBS) of banks announced. The risk-based supervision approach entails the supervision of banks by allocating supervisory resources and focusing supervisory attention according to the risk profile of each bank.</p> <ul style="list-style-type: none"> • 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. • With regard to deposit insurance, the Reserve Bank announced that a new law in supersession of the existing enactment is required to be enacted to implement the recommendations of the Advisory Group on Reforms in Deposit Insurance in India and the task of preparation of the new draft law has been taken up.
May	<p>3 • 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. The additional capital required is to be provided in the bank's books in phases, beginning from the year ending March 2001.</p>

- 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 pattern of deposits and borrowings, loans and advances and investments, 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. However, the information should be disclosed in the Director's Report.
- 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.
- 26 • The exemption granted to RRBs from the practice of marking to market norms in respect of SLR securities was further extended to another two financial years, viz., 2000-01 and 2001-02.
- 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 14 • Banks were advised to bring into force the 'Revised calendar of Reviews' (based on the recommendations of the Working Group appointed for the purpose) with effect from August 1, 2000.
- 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 • Modified guidelines were issued 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 wilful default, fraud and malfeasance. All NPAs categorised as doubtful or loss assets as at 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, 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.
- August 7 • Banks were advised to (i) assign 100 per cent risk-weight to all types of loans and advances granted to the bank's own staff; and (ii) to show these loans under 'Other Assets' in Schedule 11 of the Balance Sheet with a suitable foot note.
- 9 • Insurance business was not permitted to be undertaken departmentally by the banks. Any bank intending to undertake insurance as per the guidelines should obtain prior approval of Reserve Bank before engaging in such business.
- 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.

- 29 • It was clarified that rupee subordinated debts raised by banks as tier II capital, will not be considered for inclusion in capital funds for the purpose of determining the exposure ceiling to individual/group borrowers.
- October 4 • It was decided that tyre re-treading activity (through hot-cold process) and coffee curing / processing shall be treated as an industrial activity registrable as small scale industries.
- 5 • The Reserve Bank issued guidelines for sanction of working capital finance to Information Technology (IT) and Software Industry.
- 8 • The concept of 'Past Due' was dispensed with effective from March 31, 2001. Accordingly as from that date, a NPA shall be an advance where: 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 purchased and discounted; (iv) interest and/or instalment of principal remains overdue for two harvest seasons but 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.
- 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 was 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 end-March 2002.
 - 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; and ii) 50 per cent of inward remittances in respect of others.
 - To provide further operational autonomy, banks were given freedom to decide on charging penal interest to borrowers and may formulate transparent policy for the same 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 on 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.
 - Restrictions on transferability period of CDs issued by banks were withdrawn.
- 16 • The Reserve Bank circulated the revised guidelines relating to categorisation and valuation of banks' investment portfolio. The guidelines were effective from the half year ended September 30, 2000.
- As regards the flow of credit to SSI sector, in the light of the decision of the Group of Ministers, the Reserve Bank advised banks to take the following measures, (i) Banks may, while sanctioning/ renewing credit limits to their large corporate borrowers (i.e., borrowers who enjoy working capital limits of Rs.10 crore and above from the banking system), fix separate sub-limits, within the overall limits, specifically for meeting payment obligations in respect of purchases from SSIs either on cash basis or bill basis, (ii) the size of such sub-limits, may be decided by banks taking into account the projected purchases by corporate borrowers from the SSIs during a year in relation to their total purchase and other relevant factors, (iii) ensuring that sale proceeds/ other receipts of the borrower are credited to this account on a *pro rata* basis.
 - The categories of bank credit for imports exempted from the levy of interest rate surcharge are:
 - (i) Export packing credit provided at concessive rate of interest to meet the cost of imported inputs; (ii) Import of capital goods by *bonafide* borrower-importers under valid Licences issued under the Export Promotion Capital Goods Scheme (EPCG Scheme); (iii) all *bonafide* imports including import of capital goods by Export-Oriented Units (EOUs) and units in the Export Processing Zones (EPZs); (iv) all *bonafide* imports under Advance Licences 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); (v) all *bonafide* imports against the credit under the Duty Entitlement Pass Book (DEPB) Scheme contained in the EXIM Policy 1997-2002; (vi) Bulk Imports in respect of crude oil, petroleum products, fertilizers, edible oils and other essential commodities imported through Government Agencies; (vii) import of crude oil by private and joint sector refineries for actual use in their own refineries, (viii) All *bonafide* imports under duty free replenishment certificate (DFRC) scheme, GEM Replenishment License and Diamond Imprest –License; and (ix) All *bonafide* imports including import of capital goods by units under Electronic Hardware Technology Park (EHTP), Software Hardware Technology Park (STP) and special Economic Zone (SEZ) schemes.
- November 9 • A series of preventive measures were suggested by Reserve Bank to prevent frauds: (i) While opening deposit accounts, banks are required to obtain from customers their photograph and an introduction from an existing customer; (ii) Banks were advised to observe safeguards while issuing Letters of Credit (LCs) to their customers enjoying credit facilities; and (iii) banks must lay out clear instructions for their branch staff in respect of loan accounts where such non-funded facilities have become funded.
- 10 • As recommended by the RBI-SEBI Technical Committee it was decided that within the overall exposure to sensitive sectors, a bank's exposure to capital market by way of investments in shares, convertible debentures and units of mutual funds (other than debts funds) through primary or secondary markets should not exceed 5 per cent of the bank's total outstanding domestic credit (excluding inter-bank lendings and advances outside India) as on March 31 of the previous year.

- 20 • It was decided that 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, and where rehabilitation packages/nursing programmes have been drawn by the banks themselves or under consortium arrangements.
 - 23 • The existing practice of banks submitting credit proposals above Rs. 1 crore to the Reserve Bank for its prior approval under selective credit control has been discontinued. Banks have freedom to sanction such credit proposals in terms of their individual loan policies.
- December 11 • It was decided that loans to the software industry having credit limit upto Rs. one crore from the banking system, will be eligible for inclusion under priority sector. However, small loans given to software professionals etc. upto Rs.5 lakh will continue to be covered and reported under the existing category of “loans to professionals and self-employed”. Other advances to software industry may be reported under a separate head “Software Industry” in the annual statements of priority sector advances.

2001

- January 3 • The guidelines for licensing of new banks in the private sector were revised indicating that: (i) initial minimum paid-up capital for the new bank shall be Rs.200 crore, to be raised to Rs.300 crore within 3 years of commencement of business, (ii) the promoter’s contribution shall be a minimum of 40 per cent of the paid-up capital of the bank at any point of time, (iii) while augmenting the capital base to Rs.300 crore, the promoters will have to bring in additional capital, which would be at least 40 per cent of the fresh capital raised, (iv) NRI participation in the primary equity of a new bank shall be to a maximum extent of 40 per cent, (v) the new bank should not be promoted by a large industrial house. However, individual companies, directly or indirectly connected with large industrial houses may be permitted to participate in the equity of a new private sector bank upto a maximum of 10 per cent but will not have controlling interest in the bank, (vi) the proposed bank shall maintain arms length relationship with business entities in the promoter group and the individual companies investing upto 10 per cent of the equity as stipulated above.
- 6 • Interest-rate surcharge of 50 per cent on bank finance was withdrawn.
 - 18 • It was decided to consider the amounts held under the head “Building Fund” also as eligible to be treated as part of free reserves, to be taken into account for calculating “Capital Funds” for the purpose of determining exposure norms by urban co-operative banks.
 - 29 • With regard to payment of balances in the accounts of the deceased customers to survivors/ claimants, it was clarified that banks may call for succession certificate from legal heirs of deceased depositors if there are disputes and all legal heirs do not join in indemnifying the bank or in certain other exceptional cases where the bank has a reasonable doubt about the genuineness of the claimant/s being the legal heir/s of the depositor.
- February 2 • The Reserve Bank advised banks about the exemption granted by the Ministry of Home Affairs to all associations from provision of Foreign Contribution (Regulation) Act, 1976 to accept foreign contributions, in cash or kind, to provide relief to earthquake victims without obtaining a formal approval of the Central Government.
- 6 • In order to provide relief to the exporters, affected by earthquake of 2001 it was decided to extend the following concessions:

i) Extension of pre-shipment credit

In cases where shipment is likely to be delayed beyond the specified time due to the calamity, banks may, after satisfying themselves of the genuineness of the case, extend upto 180 days,

pre-shipment credit granted for periods less than 180 days (based on the production cycle), at the interest rate applicable for the period upto 180 days (10 per cent per annum) and for period beyond 180 days and upto 360 days, banks may charge concessional rate applicable for the period beyond 180 days and upto 270 days (13 per cent per annum). Extension of credit beyond 360 days may also be considered, where necessary, on the basis of bank's commercial judgement and discretion at the rate applicable for "ECNOS-Pre-shipment" and with the approval of the bank's Board.

In case where the pre-shipment credit has been granted in foreign currency, extension beyond 180 days may be allowed as per the actual cost of roll-over instead of applying 2 per cent over the rate charged for the period upto 180 days as per extant instructions.

(ii) Conversion of dues into short-term loans

Banks may convert the overdue pre-shipment credit, wherever considered necessary, into a short-term loan repayable within a reasonable period of time after taking into account the settlement of ECGC claim, if any, in respect of guarantees taken by the bank. Penal interest which is now required to be decided by the banks should not be charged from the date of advance in case of non-shipment in such cases.

(iii) Application of asset classification norm

Banks need not classify as NPA the pre-shipment credit granted to exporters if period of credit has been extended in terms of paragraph (i) above or where the pre-shipment credit has been converted into short-term loan in terms of paragraph (ii) above. The advances will be treated as NPA if the interest and/or instalment of principal remains unpaid for 180 days after it has become overdue taking into account the revised due dates fixed by the banks after extension of the period or conversion of the pre-shipment credit, as the case may be.

- 28 • Banks were advised to assign 20 per cent risk-weight on all loans and advances to staff which were fully covered by superannuation benefits and mortgage of flat/house and classify under 'Advances' in Schedule 9 of the balance sheet all interest bearing loans and advances granted to their staff. However, all non-interest bearing loans and advances to their own staff was to be included in "Others" under "Other Assets" in Schedule 11 of the balance sheet.
- March 2 • The Reserve Bank of India granted 'in principle' approval to four entities (1) Bank of America Securities (India) Pvt. Ltd. 2) Bank of Baroda (subsidiary to be established) 3) HSBC Primary Dealership (India) Pvt. Ltd. 4) Standard Chartered - UTI securities India Pvt. Ltd. to be accredited as Primary Dealers in the Government Securities Market.
- With regard to the provision of credit to SSI sector, in line with the recommendations of the Nayak Committee, banks were advised to make further improvements towards: (a) delegation of adequate discretionary powers to branch officials for sanction of credit facilities, (b) issuing acknowledgements of loan proposals received, (c) providing technical expertise in branches, (d) providing credit to tiny sector, (e) maintenance of loan application registers in a comprehensive manner, (f) referring proposals liable for rejection/curtailment in the amount of finance to the next higher authority.
- 3 • Banks were advised to prepare action plan for issuing *Kisan* Credit Cards to all eligible borrowers in agricultural sector within next three years and to inform the Reserve Bank if targets are changed in future.
- 22 • To keep a special watch on receipt and utilisation of foreign contribution received for providing relief to the earthquake victims in Gujarat, commercial banks were directed to furnish a monthly report of receipt of foreign contributions by Associations/Organisations in India under Foreign Contribution (Regulation) Act, 1976.

- It was clarified that all deposits placed with NABARD/SIDBI in lieu of shortfall in advances to priority sector *vis-à-vis* the prescribed target would attract 100 per cent risk-weight, since these deposits are in lieu of shortfall in assets which carry 100 per cent risk-weight.
- 28 • Public sector banks were instructed to (a) annex only the annual accounts and auditors' report of the subsidiaries to its balance sheet, (b) make available the Directors' report in respect of the subsidiaries on the website of parent bank, (c) continue the above procedure till the bank switches over to the consolidated balance-sheet system. The accounting year of banking subsidiaries should be coterminous with the parent bank and hence date of the annual accounts of subsidiaries, annexed to the parent's balance sheet, should coincide with date of annual accounts of parent bank. For subsidiaries having accounting year different from the parent bank, the annual accounts annexed should not relate to a date earlier than six months prior to the date of the annual accounts of the parent bank.
- 30 • The classification and provisioning norms for restructured accounts in the standard and sub-standard category were reviewed and it was decided that on rescheduling, they could continue to be classified as standard and sub-standard, respectively, if the asset is fully secured and the sacrifice, if any in interest, is either written off or fully provided for.
- April 10 • The operation of the guidelines for a simplified, non-discriminatory and non-discretionary mechanism for settlement of dues relating to NPAs with outstandings upto Rs.5 crore was extended upto June 30, 2001.
- 19 • Banks allowed to offer loans or credit limits over Rs. 2 lakh at below-PLR interest rates to exporters or other credit-worthy borrowers including public enterprises on the lines of a transparent and objective policy approved by their respective boards. However, PLR would serve as ceiling interest rates for loans up to Rs. 2 lakh.
- Banks were permitted to formulate fixed deposit schemes specifically for senior citizens offering higher and fixed rates of interest as compared to normal deposits of any size.
 - To facilitate better ALM, banks were given freedom to exercise discretion to disallow premature withdrawal of large deposits held by entities other than individuals and Hindu Undivided Families, subject to informing the depositors in advance. The period of renewal of overdue term deposits at interest rate prevailing on date of maturity was made 14 days while for overdue period exceeding 14 days banks were allowed to prescribe their own interest rate.
 - In order to move towards international best practices and impart greater transparency, it was decided to introduce classification of loans as non-performing when interest and/or instalment of principal remain overdue for a period of more than 90 days from the year ending March 31, 2004. Banks were advised to make additional provisions from the year ending March 31, 2002 to facilitate smooth transition.
 - Effective from the year 2001-02, audit firms recommended by private sector banks for appointment as Statutory Central Auditors (SCAs) have to satisfy certain minimum standards like minimum number of full time partners, number of chartered accountants exclusively associated, number of professional audit staff, etc.
 - The Reserve Bank announced a reduction in exposure limit for single borrower from the existing 20.0 per cent to 15.0 per cent, effective from March 31, 2002; group exposure limit to 40.0 per cent from the existing 50.0 per cent of capital funds, effective from March 31, 2002; for financing infrastructure projects, the limit is extendable by another 10.0 per cent, i.e. upto 50.0 per cent.
 - Banks were advised to incorporate a condition in the loan agreement for obtaining consent of borrowers to disclose their names if they become defaulters.

- For greater transparency in the operation of borrowal accounts, banks were advised for bi-annual circulation of defaulters list of Rs. 1 crore and above in the doubtful or loss category.
 - In pursuance of the Union Budget announcement, measures were taken to commence operations of the Clearing Corporation, by June 2001, with State Bank of India as chief promoter and five other banks and FIs to facilitate clearing and settlement of money, government securities and foreign exchange transactions.
 - It was decided to introduce an electronic Negotiated Dealing System (NDS) by June 2001 to facilitate transparent electronic bidding in auctions and secondary market transactions on a real time basis.
 - It was proposed while the current eligibility criteria for accreditation as a SD would continue, the existing liquidity support from RBI will be discontinued.
 - With effect from June 30, 2001, banks, FIs, PDs and SDs directed to make fresh investments and hold CP only in dematerialised form. Outstanding investments in scrip form in the books of these institutions should also be converted into dematerialised form by October 31, 2001.
- 20 • HSBC Primary Dealership India Private Limited granted final approval to operate as a PD in government securities market, thereby increasing the number of PDs to sixteen.
- May 2 • Considering that higher loan loss provisioning adds to the overall financial strength of the banks and stability of the financial sector, banks were urged to voluntarily set apart provisions much above the minimum prudential levels as a desirable practice
- Banks and FIs advised that all cases of willful defaults of Rs. 100 crore and above should be reviewed and suits filed, if not done earlier. If in such cases of willful defaults, there are instances of cheating or fraud by the defaulting borrowers, banks should also file criminal cases.
 - Guidelines were issued for compromise settlement of dues of banks and financial institutions through *Lok Adalats*.
- 11 • Revised guidelines were issued on Bank Financing of Equities and Investments in Shares; (i) for making direct investment in shares/debentures etc. at bank's own risk; (ii) for making loans and advances to individuals and sharebroking entities for making investment in capital markets on own account. Here, the investment risk is that of the individual or stock-broking entities. Loans/advances by banks are normally fixed in value and carry stipulated interest rate, and risk to banks could arise on account of inadequacy of margining or the inability of borrowers to meet their repayment/interest obligations to banks because of volatility in share prices or other related reasons, and (iii) shares/debentures may be assigned to banks by individuals and corporates as collateral and additional security for certain approved purposes which do not involve stockbroking or investment in capital market.
- The ceiling of 5 per cent prescribed for investment in shares will henceforth apply to total exposure including both fund based and non-fund based, to capital market by a bank in all form. The ceiling will cover: direct investment by a bank in equity shares, convertible bonds and debentures and units of equity oriented mutual funds; advances against shares to individuals for investment in equity shares (including IPOs), bonds and debentures, units of equity-oriented mutual funds etc; secured and unsecured advances to stockbrokers and guarantees issued on behalf of stockbrokers and market makers.
- 14 • Guidelines issued for bank financing of film production.
- June 7 • Guidelines were issued in respect of investment in non-SLR securities regarding the due diligence to be undertaken, the disclosures to be obtained, and the credit risk analysis to be

made in regard to privately placed investments especially for unrated instruments.

- 14 • With a view to reduce divergences in assessment of NPAs by banks, statutory auditors and RBI Inspectors, user friendly guidelines defining and clarifying certain related issues in question-answer format were issued.
 - The guidelines on internet banking were released.
- August 23 • Based on extensive discussions that the Government of India and Reserve Bank had with banks and financial institutions, the scheme of Corporate Debt Restructuring (CDR) was finalised. The objective of the CDR framework is to ensure a timely and transparent mechanism for restructuring of the corporate debts of viable corporate entities affected by internal or external factors, outside the purview of BIFR, DRT and other legal proceedings, for the benefit of all concerned. CDR will apply only to multiple banking accounts/syndicates/consortium accounts with outstanding exposure of Rs. 20 crore and above with the banks and financial institutions.
- September 22 • Based on the recommendations of the RBI-SEBI Technical Committee, on an experimental basis it was decided to permit banks to extend finance to stockbrokers for margin trading within the overall ceiling of 5 per cent prescribed for exposure of banks to capital market subject to certain conditions. These guidelines will be valid for a period of 60 days (i.e. upto November 22, 2001) and will be reviewed in the light of actual experience.
- 24 • A special financial package was drawn in consultation with the Government of India, for large value exports of select products, which are internationally competitive and have high value addition. The products eligible for export under special financial package are: (a) pharmaceuticals (including drugs, fine chemicals), (b) agro-chemicals (including inorganic and organic chemicals), (c) transport equipment (including commercial vehicles, two and three wheelers, tractors, railway wagons, locomotives), (d) cement (including glass, glassware, ceramics and refractories), (e) iron and steel (including iron & steel bars/rods and primary and semi-finished iron & steel), (f) electrical machinery (including transmission line towers, switch gear, transformers).
- 26 • A reduction in the ceiling rate for export credit by 1.0 percentage point across the board for period upto March 31, 2002 was announced. Accordingly, the maximum rate that the bank would charge to exporters was revised to 2.5 percentage points below its PLR for pre-shipment credit upto 180 days and for post-shipment credit upto 90 days.
- October 22 • It was decided that banks should furnish the following, additional disclosures in the 'Notes on Accounts' in their balance sheets, from the year ending March 2002: (i) movement or provisions held towards NPAs and (ii) movement of provisions held towards depreciation on investments.
- 25 • Banks were given the freedom to change the composition of working capital by increasing the cash credit component beyond 20 per cent, or to increase the 'loan component' beyond 80 per cent, as the case may be, for working capital limits of Rs. 10 crore and above, if they so desire. Banks are expected to appropriately price each of the two components of working capital finance, taking into account the impact of such decisions on their cash and liquidity management.

B) Co-operative Banks

2000

- August 30 • Based on the recommendations of the High Power Committee, revised licensing policy for setting up of new UCBs was announced. The thrust of the revised policy is on strong start-up capital and corporate governance. Accordingly, Entry Point Norms were enhanced significantly

based on population criteria. To improve corporate governance, a thorough screening of credentials of promoters is required to be carried out. Also, there should at all times be at least two directors with suitable banking experience or persons with relevant professional qualification on the Boards of Management. The promoters should not be defaulters to any financial institutions or banks and should also not have any association with *chit fund*/NBFC/co-operative banks or commercial banks in the capacity of directors on the Board.

2001

- April 19 • The interim prudential measures for UCBs proposed to provide greater security to depositors and members included stopping of direct or indirect lending by UCBs to individuals or corporates against security of shares with immediate effect, unwinding of existing lending to stock brokers or direct investment in shares, limiting of their borrowings from call money market up to 2.0 per cent of their aggregate deposits as at end-March in the previous financial year, no permission for increase in their term deposits in other UCBs and unwinding of existing term deposits by June 2002, increases in their SLR holdings in government and other approved securities as per cent of NDTL by March 2002 from 15 to 20 per cent for scheduled UCBs; from 10 to 15 per cent for non-scheduled UCBs with deposit base of Rs. 25 crore and above and from zero to 10.0 per cent in case of other non-scheduled UCBs, maintenance of the entire SLR of 25 per cent of NDTL for scheduled UCB only in government and other approved securities with effect from April 1, 2003 and maintenance of investment in Government securities of scheduled as well as non-scheduled UCBs only in SGL accounts with Reserve Bank or in constituent SGL Accounts of public sector banks and PDs.
- Reserve Bank proposed a new apex supervisory body, which can take over the entire inspection/supervisory functions in relation to scheduled and non-scheduled UCBs. This apex body could be under the control of a separate high level supervisory board consisting of representatives of Central Government, State Governments, Reserve Bank as well as experts and it may be given the responsibility of inspection/and supervision of UCBs and ensuring their conformity with prudential, capital adequacy and risk management norms laid down by the Reserve Bank.
- 25 • Pursuant to High Power Committee's recommendation, Capital to Risk-weighted Assets Ratio (CRAR) has been made applicable to UCBs in a phased manner. Over a period of three years, UCBs should fall in line with the discipline applicable to commercial banks.
- 26 • Branch Licensing Policy for licensed UCBs was revised. UCBs which are not classified as weak/sick may apply for allotment of centres to the Reserve Bank, provided they satisfy the criteria in terms of CRAR, profitability, NPAs, fulfillment of priority sector advance targets and compliance with B.R. Act 1949 (AACS) and Reserve Bank of India Act, 1934 and the instructions/directions issued by the Reserve Bank from time to time. They should also maintain requisite level of CRR and SLR and also ensure timely submission of statutory and other returns.
- October 22 • In response to representations received from UCBs and their federations, it was proposed to allow UCBs to grant loans to individuals against security of shares, subject to certain parameters.
- In response to representations received from UCBs and their federations, it was proposed to modify the timeframe for achieving the prescribed levels of SLR holding by UCBs.
 - It was clarified that scheduled UCBs are required to achieve capital adequacy norms gradually by March 2004 and the non-scheduled UCBs by March 2005.

C) Financial Institutions

2000

- May
- 5 • It was clarified that in regard to the treatment of accounting of provision on Standard Assets, (i) the provision for Standard Asset need not be netted from gross advances, but shown separately as ‘Contingent Provisions against Standard Assets’ under ‘Other Liabilities and Provisions’ in the balance sheet, (ii) the above provisions would not be eligible for inclusion in tier II capital and (iii) provision for standard assets should not be reckoned for arriving at net NPAs.
- 25 • It was clarified that the interest rate surcharge of 50 per cent of the actual lending rate on credit for imports, which was reintroduced as a temporary measure, with effect from May 26, 2000, would not be applicable to the following categories of credit for imports: (i) Export Packing Credit provided at concessive rate to meet the cost of imported inputs, (ii) import of capital goods by *bonafide* borrowers-importers under valid licences issued under the Export Promotion Capital Goods Scheme, (iii) all *bonafide* imports including import of capital goods by Export-Oriented Units and units in the Export Processing Zones, (iv) all *bonafide* imports under Advance Licenses granted for “Inputs” such as raw materials, intermediaries, components, etc., by either the original holder or a transferee (of transferred under an endorsement of the Directorate General of Foreign Trade enabling such transfer), (v) all *bonafide* imports against the credit under the Duty Entitlement Pass Book Scheme contained in the EXIM Policy 1997-2000, (vi) bulk imports in respect of crude oil, petroleum products, fertiliser, edible oils and other essential commodities imported through Government Agencies, and, (vii) import of crude oil by private and joint sector refineries for actual use in their own refineries.
- 30 • It was advised that (i) FIs need to assign risk-weight of 100 per cent only on those State Government guaranteed securities which are issued by the defaulting entities and not on all the securities issued or guaranteed by that State Government, and, (ii) the excess provision towards depreciation on investments should be appropriated to “Investment Fluctuation Reserve Account” instead of “Capital Reserve Account” and will be eligible for inclusion in tier II capital and the existing amount of excess provision towards depreciation on investments held under “Capital Reserve Account” should stand transferred to “Investment Fluctuation Reserve Account”. The amount held under “Investment Fluctuation Reserve Account” could be utilised to meet, in future, the depreciation requirement on investment.
- June
- 21 • It was clarified that FIs need not seek Reserve Bank’s, issue-wise prior approval /registration for raising of resources by way of bonds (both public issue and private placement) subject to the fulfillment of the following conditions: (i) the minimum maturity of the bond should be 3 years, (ii) in respect of bonds having call/put options, the same should not be exercisable before the expiry of one year from the date of issue of bonds, (iii) the Yield to Maturity (YTM) offered, at the time of issue of bonds, should not exceed 200 basis points above the YTM on the Government of India securities of equal residual maturities. The effective YTM on instruments having call/put options should also satisfy this requirement, (iv) no ‘exit’ option on the bonds will be offered before the end of one year, from the date of issue, (v) the outstandings of total resources mobilised at any point of time by an individual FI including funds mobilised under the ‘umbrella limit’ as prescribed by the Reserve Bank should not exceed 10 times its net owned funds (NOF) as per the latest audited balance sheet, (vi) the limit for raising resources is only an enabling provision, FIs are advised to arrive at their requirements of resources along with maturity structure and the interest rate offered thereon on a realistic basis, derived, *inter alia*, from a sound system of ALM/Risk Management, (vii) in case of floating rate bonds, FIs should seek prior approval from Reserve Bank, in regard to ‘reference rate’ selected and the methods of floating rate determination (the same is not required for subsequent individual issues as long as the underlying reference rate and methods of floating rate determination remain unchanged), (viii) FIs should take note to comply with the prudential requirements of other regulatory authorities, such as SEBI, etc., as *hitherto*, (ix) FIs are required to furnish monthly statements (to be submitted on or before the 10th day of the following month) giving details on the resources raised.
- July
- 20 • Considering the fact that FIs, which are raising capital abroad for improving their capital base, have largely Rupee-denominated assets and that most of the risk limits are linked to their capital, FIs were advised to repatriate the entire proceeds of Global Depository Receipts (GDRs)/ American Depository Receipts (ADRs) soon after the issue process has been completed.

- 28 • It was advised that the guidelines for recovery of dues relating to non-performing assets (NPAs) issued to public sector banks should also be uniformly implemented by Central Public Financial Institutions. The revised guidelines cover NPAs relating to all sectors including the small sector.
- August
- 24 • The FIs were informed that the Rule 9 of the draft Ozone Rules 2000 prohibited expansion of capacity and establishment of new capacity based on Ozone Depleting Substances (ODS), and it was expected that FIs were not extending finance for setting up of units consuming / producing the specified ODS. The sectors covered in the phase out programme included, foam products, refrigerators and air conditioners, aerosol products, solvents in cleaning applications and fire extinguishers.
 - 31 • The guidelines for Recovery of Dues Relating to NPAs were extended up to September 30, 2001 for giving notice to eligible borrowers.
- September
- 19 • As regards advances against shares and debentures, it was advised that (i) whenever the limits of advances granted to a borrower against the security of shares/debentures exceed Rs.10 lakh, it should be ensured that the said shares/debentures are transferred in the FI's name and (ii) in the case of default by the borrower, the FI may invoke the pledge of dematerialised securities (as amended by SEBI (Depositories and Participants) Regulations, 1996, to facilitate the pledge of such securities) subject to the provisions of the pledge document and on such invocation, the depository will register the name of the FI as the beneficial owner of such securities.
- October
- 10 • It was advised that in order to improve the functional efficiency of the market, rating would be mandatory for term deposits accepted by AIFIs.
 - 11 • Due to improvements in the payment and settlement systems, the recovery climate, upgradation of technology in the banking system, etc., it was decided to dispense with 'Past Due' concept, effective March 31, 2001. Accordingly, it was clarified that a NPA shall be an advance where (a) interest remains overdue for a period of more than 180 days and /or instalment of principal remains overdue for a period of 365 days or more in respect of a term loan, (ii) the bill remains overdue and unpaid for a period of more than 180 days in the case of bills purchased and discounted, and (iii) any amount to be received remains overdue for a period of more than 180 days in respect of other accounts.
 - It was decided to allow financial institutions to include 'General Provisions on Standard Assets' in tier II capital. However, the provision on standard assets together with other 'General Provisions and Loss Reserves' should not exceed 1.25 per cent of the total risk-weighted assets.
- November
- 9 • The guidelines on classification and valuation of investments by FIs were revised on the basis of recommendations of the Informal Group in the Reserve Bank so that they are in consonance with the best international practices. The highlights of the revised guidelines are given below: (i) the revised guidelines will be effective from the half-year ended March 31, 2001, (ii) FIs are required to classify the entire investment portfolio as on March 31, 2001 under three categories, viz., 'Held to Maturity', 'Available for Sale' and 'Held for Trading' categories, (iii) the investments will be classified as (a) Government securities, (b) other approved securities, (c) shares, (d) debentures and bonds, (e) subsidiaries/joint ventures, (f) others (CPs, mutual fund units, etc), (iv) the investments under 'Available for Sale' and 'Held for Trading' categories should be marked to market as prescribed or at more frequent intervals, (v) the investments under Held to Maturity category need not be marked to market, (vi) 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 guidelines of the Reserve Bank and (vii) the risk-weights assigned to the various securities at present including those for 'market risk', would remain unchanged.
- December
- 5 • Commercial Paper was added to the list of instruments under the 'umbrella limit' equivalent to

one time NOF in the amended set of returns regarding raising of resources by all-India FIs.

2001

- January 24 • In line with the recommendations of the Informal Advisory Group on Regulation and Supervision of FIs, it was decided that (i) the information requirement of the inspection team would be advised to the FIs at least one month before the commencement of inspection to ensure better time management and efficiency of the examination process, (ii) before the commencement of inspection, the management of the FI may be asked to make a presentation to the inspection team of the FI's perspective on its own risk exposures, and the manner in which these risks were addressed in the past and the future strategy of the FI in this regard and (iii) the inspection team should also meet the internal and external auditors to appreciate the scope of their work and the results of their audit. On conclusion of the inspection, the Principal Inspecting Officer, along with his team members as considered necessary, should meet the Audit Committee as also the CEO of the FI to discuss the major findings of the inspection.
- February 7 • In the context of transition of the banks and the all-India FIs from a regulated to a deregulated regime, informal meetings of the Heads of select banks and the FIs, including the Chairman of IBA convened by the Reserve Bank led to the emergence of the following seven issues (i) timeframe for sanction of facilities, (ii) asset classification across consortium members, (iii) disciplining borrowers-change in management, (iv) levy of charges in the problem accounts, (v) group approach to borrowers, (vi) sharing of securities and cash flows, and (vii) treatment of restructured accounts for asset classification purpose. Ground Rules were framed for the above issues. The Reserve Bank advised FIs to place the minutes indicating the agreed Ground Rules before their Board of Directors for adoption and ensure implementation thereof thereafter.
- 10 • FIs were advised that the prescription of interest at 25 per cent per annum (minimum) in respect of overdue export bills was withdrawn. The revision in the rate of interest would be applicable not only to fresh advances but also to the existing advances for the remaining period.
- March 23 • FIs were advised to disclose certain important financial ratios/data in their published annual accounts with effect from the financial year 2000-01. Such disclosures were to be made as part of 'Notes on Accounts' to enable the auditors to authenticate the information, notwithstanding the fact that such information might be contained elsewhere in the published annual report. These disclosures could be classified into four heads (i) Capital, (ii) Asset Quality and Credit Concentration, (iii) Liquidity and (iv) Operating Results. Under (i), the disclosures included (a) CRAR, core CRAR and supplementary CRAR, (b) amount of sub-ordinated debt raised and outstanding as tier II capital, (c) risk-weighted assets-separately for on- and off-balance sheet items and (d) the shareholding pattern as on the date of the balance sheet. Under (ii), the disclosures included, (a) percentage of net NPA to net loans and advances, (b) amount and percentage of net NPAs under the prescribed asset classification categories, (c) amount of provisions made during the year towards standard assets, NPAs, investments (other than those in the nature of an advance), income tax, (d) movement in net NPAs, (e) credit exposure as percentage of capital funds and as percentage of total assets, in respect of (e1) the largest single borrower, (e2) the largest borrower group, (e3) the 10 largest single borrowers and (e4) the 10 largest borrower groups and (f) credit exposures to the five largest industrial sectors as percentage of total loan assets. Under (iii) the disclosures included, (a) maturity pattern of Rupee assets and liabilities and (b) maturity pattern of foreign currency assets and liabilities. Under (iv), the disclosures included, (a) interest income as a percentage to average working funds, (b) non- interest income as a percentage to average working funds, (c) operating profit as a percentage of average working funds, (d) return on average assets and (e) net profit per employee.
- In addition, the following disclosures would also need to be made under the RBI guidelines, (a) the notional principal of swap agreements, (b) nature and terms of the swaps including information on credit and market risk and the accounting policies adopted for recording the

swaps, (c) quantification of the losses which would be incurred if the counterparties failed to fulfil their obligation under the agreements, (d) collateral required by the entity upon entering into swaps, (e) any concentration of credit risk arising from the swaps, and (f) the “fair” value of the total swaps book.

- 28 • The Reserve Bank issued revised guidelines in respect of the norms relating to restructuring/rescheduling/renewal of loans on the standard and sub-standard loan assets.
- April
- 18 • The period of operations of the guidelines issued in respect of Central Public Financial institutions for Recovery of Dues Relating to NPAs was extended finally upto June 30, 2001. The FIs were advised that all applications received upto June 30, 2001 should be processed and decisions taken thereof at the earliest, but not later than September 30, 2001.
 - 26 • It was clarified that FIs would treat a credit facility as non-performing if interest and/or instalment of principal remain overdue for more than 180 days with effect from the year ending March 31, 2002.
 - 28 • The FIs were advised that for evolving a path for transition of a FI to a universal bank, several operational and regulatory issues would need to be addressed. In this context, the Reserve Bank briefly enumerated some of the salient ones for information and guidance of the FIs. These included, reserve requirements, range of permissible activities, disposal of non-banking assets, composition of the Board, prohibition of floating charge on assets, nature of subsidiaries, restrictions on investments, connected lending, licensing, branch network, assets in India, format of Annual Reports, managerial remuneration, deposit insurance, Authorised Dealer’s licence, priority sector lending and prudential norms.
- May
- 2 • As a move towards compromise settlement of dues, financial institutions were advised to take recourse to the forum of *Lok Adalats* to settle banking disputes involving smaller amounts (upto Rs.5 lakh).
- June
- 20 • FIs were advised that (a) the concept of capital funds as defined under capital adequacy standards for determining exposure ceiling for the FI would include both tier I and tier II capital, (b) non-fund based exposures would be reckoned at 100 per cent value with effect from April 1, 2003, (c) forward contracts in foreign exchange and other derivative products like currency swaps, options, etc., will need to be taken at their replacement cost for determining individual/group borrower exposure (methodology to be adopted by FIs for arriving at replacement cost of the derivatives to be advised separately) and (d) the exposure ceiling in respect of single borrower was reduced from 20 per cent to 15 per cent of capital funds, effective March 31, 2002. Similarly, the group exposure ceilings were also reduced to 40 per cent of capital funds, effective March 31, 2002. In case of financing infrastructure projects, the borrower-group exposure ceiling was extendable by another 10 per cent (i.e., upto 50 per cent).
- August
- 7 • A risk-weight of 20 per cent should be assigned to all such loans and advances granted by the FIs to their own employees as are covered by superannuation benefits and mortgage of flats/houses. All other loans and advances to own employees should, however, be subject to 100 per cent risk-weight.
 - 25 • A three-tier structure of the Corporate Debt Restructuring (CDR) system, which is a non-statutory, voluntary mechanism, based on the debtor-creditor and inter-creditor agreements, was envisaged to provide a transparent mechanism for restructuring of corporate debts of viable corporate entities affected by internal and external factors, outside the purview of BIFR, DRT and other legal proceedings. The CDR system is to be applied only to multiple banking/syndicates/consortium accounts, in the standard and sub-standard category, with outstanding exposure of Rs.20 crore and above with the banks and FIs.
 - 27 • It was clarified that the credit exposure norms are also applicable to refinancing institutions, excepting their refinancing portfolio. However, from the prudential perspective, it is expected

that these institutions evolve their own exposure norms relating to the capital funds/regulatory capital of the FI concerned with the approval of their respective Boards.

- 28 • As a corollary to the instructions of FIs to make fresh investment and hold CPs only in dematerialised form with effect from June 30, 2001 and with a view to extend demat form of holding to other investments such as bonds, debentures and equities, it was decided to permit the FIs to make fresh investments and hold bonds, debentures, privately placed or otherwise, only in dematerialised form with effect from October 31, 2000. Outstanding investments in scrip form should also be converted into dematerialised form by June 30, 2002.
- 29 • Amended guidelines relating to Asset-Liability Management was issued to FIs covering time-buckets for slotting of the off-balance sheet items and treatment of securities in the trading book for interest rate sensitivity statement.
- October 16 • A clarificatory circular was issued to FIs on classification and valuation of investments, based on suggestions/queries received from various FIs. These include definitions of joint-ventures, treatment of preference shares, tenor of bonds/debentures deemed to be in the volume of advances, frequency of category, transfer of investment, eligible investments for 'held to maturity' category, valuation of equity preference shares and ceilings, etc.

D) Non-Banking Financial Companies

2000

- June 9 • The Reserve Bank issued guidelines for entry of NBFCs into insurance business. According to the guidelines:
 - (i) Any NBFC registered with Reserve Bank, having net owned fund of Rs. 2 crore would be permitted to undertake insurance business as agent of insurance companies on fee basis, without any risk participation.
 - (ii) All NBFCs registered with Reserve Bank which satisfy the eligibility criteria given below will be permitted to set up a joint venture company for undertaking insurance business with risk participation subject to safeguards:(a) the owned fund of NBFC should not be less than Rs. 500 crore, (b) the CRAR of the NBFC engaged in loan and investment activities holding public deposits should not be less than 15 per cent and for other NBFCs at 12 per cent, irrespective of their holding public deposits, (c) the level of net non-performing assets should not be more than 5 per cent of the total outstanding leased/hire purchase assets and advances taken together, (d) the NBFC should have net profit for the last three consecutive years, (e) the track record of the performance of the subsidiaries, if any, of the concerned NBFC should be satisfactory, and (f) regulatory compliance and servicing of public deposits, if held, should be satisfactory. The maximum equity contribution such NBFC can hold in a joint venture company will normally be 50 per cent of the paid up capital of the insurance company. On a selective basis, the Reserve Bank may permit a higher equity contribution by a promoter NBFC initially pending divestment of equity within the prescribed period.
 - (iii) Registered NBFCs which are not eligible as joint venture participants can make investment upto 10 per cent of its owned fund or Rs. 50 crore, whichever is lower, in equity of insurance companies subject to fulfilment of conditions *viz.*, (a) CRAR of 15 per cent for loan and investment companies and 12 per cent for other companies, (b) net NPAs not more than 5 per cent of total outstanding lease / hire purchase assets and advances, and (c) net profit for the last three continuous years for entering into any form of insurance business.
 - (iv) NBFCs desirous of entering into any form of insurance business should obtain prior approval of Reserve Bank.

- 30 • Provisioning norms in respect of lease and hire purchase assets were rationalised to encourage the NBFCs to continue to provide asset creating facilities and lease / HP finance against second hand assets.
 - The instructions relating to introduction of depositors of NBFCs were rationalised. NBFCs may obtain and keep on their records a copy of the passport, ration card, election ID card, identification by an existing depositor, etc., as an evidence of identification of new depositors.
 - Residuary Non-Banking Companies were permitted to make investment in the schemes of mutual funds approved by the Securities and Exchange Board of India along with the schemes of Unit Trust of India. The floor ceiling on interest rates payable by these companies was also lowered by two percentage points.
 - NBFCs were permitted to treat deposits from the relatives of the Directors outside the purview of public deposits subject to adequate disclosures in this regard.
 - The formats of all the returns prescribed in terms of Directions issued under RBI Act, to be submitted by the non-banking financial companies, residuary non-banking companies and *chit fund* companies at quarterly, half-yearly and annual intervals were rationalised with a view to improving reporting of supervisory information and facilitating electronic processing of these returns to enable Reserve Bank to take expeditious steps to address the concerns, wherever necessary.
- October 10 • In terms of guidelines issued by the Reserve Bank, applicability of Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998 would not be applicable to receipt of money by NBFCs by issuance of commercial paper in accordance with the guidelines.
- 2001**
- March 31 • Taking into account the market conditions and changes in other interest rates in the system, the maximum rate of interest that NBFCs can pay on their public deposits was reduced from 16 per cent to 14 per cent per annum with effect from April 1, 2001. The ceiling on interest rate was brought down to 14 per cent per annum to deposits accepted by Miscellaneous non-banking companies (*Chit Fund* companies) and *Nidhi* companies also in terms of directions prescribed by Reserve Bank.
- June 27 • Asset-Liability Management (ALM) guidelines for NBFCs including RNBCs were announced as a part of the overall system for effective risk management in their various portfolios and initially made applicable to such companies which have asset size of Rs. 100 crore and above or public deposits of Rs. 20 crore and above as per their balance sheet as on March 31, 2001. NBFCs have been advised that it would be desirable to constitute an Asset-Liability Management Committee under the charge of Chief Executive Officer or other Senior Executive with other specialist members for carrying out the spadework for formalising ALM system in the institution. The ALM system is required to be implemented by the year ending March 31, 2002. While companies holding public deposits are required to submit the first ALM return (comprising of statements on structural liquidity, short-term dynamic liquidity and interest rate sensitivity) as on September 30, 2002 by October 31, 2002, arrangements for companies not holding public deposits are being worked out. *Chit funds* and *Nidhi* companies have been kept out of the purview of these guidelines. NBFCs not coming under the purview of the guidelines presently have also been advised to put in place ALM system as it is the objective of Reserve Bank to make these guidelines applicable to all NBFCs.
- Since issue of CPs by NBFCs would be governed by the guidelines issued by the Reserve Bank it was decided to exempt from the purview of public deposits the monies received by issue of CP in accordance with the guidelines;
 - (i) The procedure of accounting for repossessed assets was clarified and suitable guidelines were issued.
 - (ii) To ensure adoption of a uniform practice by companies for computing the net amount of outstanding

public deposit liabilities, it was clarified that NBFCs may maintain liquid assets on deposit liabilities as netted off in respect of TDS actually deducted and remitted to Government.

(iii) In order to improve the accountability of the management of the company to its shareholders, statutory auditors of NBFCs were advised that their observations on contravention of RBI Act / Directions should also form part of the reports submitted by them to the shareholders of the company under Section 227 (2) of the Companies Act, 1956, besides directly reporting such contravention to Reserve Bank.

(iv) An option was given to companies which have been granted Certificate of Registration with authorisation to accept public deposits but which were not submitting returns since they have repaid the public deposits or placed the requisite amount with scheduled commercial banks advising them to either submit periodic returns or apply for conversion into a non-public deposit taking company within 30 days.

October 31 • Taking into account the market conditions and changes in other interest rates in the system, the maximum rate of interest that NBFCs can pay on their public deposits was reduced, effective November 1, 2001, from 14 per cent to 12.5 per cent per annum.
