Annex: Chronology of Major Policy Developments

Announcement Date		Measures
		A) Scheduled Commercial Banks
2001		
April	10	• The operation of the guidelines for a simplified, non-discriminatory and non-discretionary mechanism for settlement of dues relating to non-performing assets (NPAs) with outstanding up to Rs.5 crore, in respect of banks, was extended up to June 30, 2001. Same instructions were issued to central public finance institutions on April 18, 2001.
	19	• In order to move towards international best practices and impart greater transparency, it was decided to classify loan as non-performing where the 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. • In line with international best practices, it was decided that the concept of capital funds in India as defined under capital adequacy standards for determining exposure ceiling uniformly by domestic and foreign banks would be made effective March 31, 2002. • It was decided that non fund-based exposures should be reckoned at 100 per cent and banks should include forward contracts in foreign exchange and other derivative products at their replacement cost, effective April 1, 2003. • RBI announced reduction of exposure limit for single borrower from the existing 20.0 per cent to 15.0 per cent and group exposure limit from the existing 50.0 per cent to 40.0 per cent of capital funds, effective March 31, 2002; the group exposure limit is extendable by another 10 percentage points, *i.e.*, upto 50.0 per cent provided the additional credit exposure is on account of extension of credit to infrastructure projects.
	27	• For greater transparency in the operation of borrowal accounts, RBI advised banks for bi-annual circulation of defaulters list of Rs.1 crore and above in the doubtful or loss category and also obtain the consent of borrowers to disclose their names in the event of default.
	30	• Effective June 30, 2001, banks, Financial Institutions (FIs), Primary Dealers (PDs) and Satellite Dealers (SDs) were directed to make fresh investments and hold commercial papers (CPs) only in dematerialised form.
May	2	• Guidelines were issued for compromise settlement of dues of banks and FIs through *Lok Adalats.* • Banks and FIs were advised that all cases of wilful defaults of Rs.one crore and above should be reviewed and suits filed, if not done earlier. If in such cases of wilful defaults, there are instances of cheating or fraud by the defaulting borrowers, banks should file criminal cases.
	11	• According to the revised guidelines issued on bank financing of equities and investments in shares, the ceiling of 5 per cent was made applicable to total exposure of a bank to stock markets with sub-ceilings for total advances to all stock brokers and market makers as well as individual stock-broking entities and their associate/interconnected companies. The 5 per cent ceiling would be computed in relation to the total advances (including CPs) as on March 31 of the previous year.

Month	Date	Measure
June	7	• Banks were advised to put in place appropriate systems to ensure that investment in privately placed unrated instruments was made in accordance with systems and procedures prescribed under the respective bank's investment policy approved by the Board. Banks were also advised to introduce suitable format of disclosure requirements in respect of private placement issues on the lines of the model format recommended by the Technical Group on non-SLR Investments.
	14	• With a view to reduce divergences in assessment of NPAs by banks, statutory auditors and the RBI inspectors, user friendly guidelines defining and clarifying certain related issues in question- answer format were issued.
July	2	• Banks were advised to provide a personal insurance package to all *Kisan* Credit Cards (KCCs) holders to cover them against accidental death or permanent disability up to a maximum of Rs.50,000 and Rs.25,000, respectively.
	18	• For the year 2001-02, Scheduled Commercial Banks (SCBs) were advised to compute their respective share of housing finance allocation at 3 per cent of their incremental deposits as on the last reporting Friday of March 2001 over the corresponding figure of the last reporting Friday of March 2000.
	25	• Public Sector Banks (PSBs) were advised to ensure that no branch in general and that in a rural area in particular, is closed due to non-availability of staff on account of introduction of voluntary retirement scheme and also that lending under various schemes in rural areas is not adversely affected due to this scheme.
	26	• PSBs were advised to earmark five per cent of their net bank credit for lending to women and the target is required to be achieved by March 31, 2004.
August	23	• A three-tier structure of the corporate debt restructuring (CDR) system - 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 Board for Industrial and Financial Reconstruction (BIFR), Debt Recovery Tribunal (DRT) and other legal proceedings.
	24	• To expedite the process of inter-branch reconciliation and provide urgency to the efforts needed on the part of banks, it was decided to further reduce the period allowed for making provisions against the net balance in the inter-branch accounts from two years to one year for the year ending March 31, 2002.

Month	Date	Event
September	29	• The stipulation of minimum networth of Rs.100 crore for introduction of online debit cards is removed which, however, should be adhered to by banks introducing offline mode of operation of debit cards.
October	22	• It has been decided that with effect from fortnight beginning November 3, 2001, all exemptions on the liabilities will be withdrawn except inter-bank liabilities for computation of net demand And time liabilities (NDTL) for the purpose of maintenance of cash reserve ratio (CRR) and the banks will be paid interest at the Bank Rate on all eligible cash balances maintained with the RBI under Section 42 of the RBI Act, 1934.
	27	• Banks which have large exposure to corporates were advised to monitor and review on a monthly basis, through a suitable reporting system, the unhedged portion of the foreign currency exposures of those corporates, whose total foreign currency exposure is relatively large (say about US $25 million or its equivalent). • Banks were advised to furnish the following additional disclosures in the "Notes on Accounts" in their balance sheets, from the year ending March 2002: movement of provisions held towards (i) NPAs and (ii) depreciation on investments. • Banks were advised that they are free to design and implement their own policies for recovery and write-off including compromise and negotiated settlements with the approval of their Boards,particularly for old and unresolved cases falling under the NPA category.
November	7	• Banks have been directed to do away with stapling of note packets and issue only clean notes to publi .
	15	• According to the revised guidelines issued by the RBI on bank financing of margin trading by stock brokers, the Board of each bank should formulate detailed guidelines for lending for margin trading, subject to the prescribed parameters like extending of finance for margin trading within the overall ceiling of 5 per cent prescribed for exposure to capital market, maintenance of minimum margin of 40 per cent on the funds lent for margin trading, etc.
	22	• In response to representations by banks, it was announced that infusion of capital either through domestic issue or overseas float, after the published balance sheet date, would be taken into account in calculating capital funds for the purpose of determination of exposure ceiling.
December	22	• The Boards of PSBs were advised to formulate a policy for the recovery of dues pertaining to loans outstanding up to Rs.25,000, subject to certain parameters. The amount that should be recovered as settlement amount under these guidelines would be the balance outstanding towards principal in the loan account as on March 31, 1998. The compromise settlement reached should be reviewed by the Board at monthly intervals. The guidelines were operative up to June 30, 2002.
2002		
January	9	• Banks/FIs were advised to exercise due caution while taking any investment decisions to subscribe to debentures, bonds, shares, etc. and refer to the defaulters lists to ensure that investments are not made in companies/entities who are defaulters to banks/FIs.

Month	Date	Event
	10	• In order to build up investment fluctuation reserve (IFR), banks were advised to transfer maximum amount of the gains realised on sale of investment in securities to the IFR account with the objective of achieving IFR of a minimum of 5 per cent of the portfolio within a period of 5 years.
	22	• The norm of two harvest seasons, not exceeding two half years, for reckoning NPAs in respect of short term agricultural loans for production and marketing of seasonal agricultural crops such as paddy, wheat, oilseeds, sugarcane, etc., was extended to cover all direct agricultural advances.
	25	• Banks/FIs may not refuse proposals for investments in companies whose Director's names find a place in defaulters list circulated by the RBI at periodical intervals and particularly in respect of those bank accounts which have been restructured under the extant RBI guidelines, provided the proposal is viable and satisfies all parameters for such credit extension.
	30	• Based on the recommendations of a High Level Committee chaired by Dr. I. G. Patel, former Governor, the RBI decided to issue 'in-principle' approval to two applicants for setting up new banks.
February	14	• The RBI issued detailed guidelines for raising subordinated debt through head office borrowings in foreign currency for inclusion in tier II capital by foreign banks. The salient features of the guidelines *inter alia* are: the amount eligible for inclusion in tier II capital as subordinated debt would be subject to a maximum ceiling of 50 per cent of the tier I capital maintained in India; the head office borrowings should have a minimum initial maturity of 5 years and should be fully paid up, etc.
	16	• Consolidated guidelines were issued on foreign direct investments (FDI) in the banking sector. It was clarified that FDI from all sources in private banks is permitted under the automatic route up to 49 per cent. Foreign direct investment and portfolio investment in PSBs including State Bank of India, however, is permitted up to 20 per cent. The maximum limit of 49 per cent is applicable also to foreign banks having branch presence in India and wishing to make FDI in private banks.
March	20	• The RBI liberalised the norms for issue and pricing of shares by private sector banks. According to the revised norms, all private sector banks - listed or unlisted - would be free to issue bonus and rights issues without prior approval of the RBI. Moreover, the bonus issue will now be delinked from the rights issue. For initial public offerings and preferential shares, however,the RBI approval will be necessary.
	22	• In line with the announcements in the Central Government Budget 2002-03, the RBI announced special one-time settlement (OTS) Scheme for small and marginal farmers. The guidelines would cover loans up to Rs.50,000 principal amount (excluding any interest element) which have become NPAs as on March 31, 1998. The guidelines will remain operative up to December 31, 2002.

Month	Date	Event
April	11	• The banks can issue smart cards (both online and offline) to select customers with good financial standing subject to their ensuring the implementation of 'Know Your Customer' concept.
	18	• The RBI advised that while reckoning the quantum of unsecured advances and guarantees for applying the norms relating to unsecured advances and guarantees, outstanding credit card dues should be excluded from the total of unsecured advances.
	26	• The RBI approved the merger of ICICI Ltd. with ICICI Bank Ltd., subject to certain conditions.
	29	• It has been decided that with effect from June 30, 2002, banks and FIs should issue Certificates of Deposits (CDs) only in the dematerialised form and the existing outstandings of CDs should be converted into same form by October 31, 2002. • The Non-Resident (Non-Repatriable) Rupee Account Scheme and Non-Resident (Special) Rupee Account Scheme was discontinued effective April 1, 2002.
May	3	• Banks were advised to compute IFR with reference to investments in two categories, *viz.*, "held for trading" and "available for sale" and not include investments under "held to maturity" for the purpose.
	7	• All scheduled commercial banks excluding Regional Rural Banks (RRBs) have been advised to maintain with RBI a CRR of 5 per cent of NDTL (excluding liabilities subject to zero CRR prescriptions) under Section 42 of the RBI Act, 1934 with effect from fortnight beginning June 1, 2002.
	9	• Banks were advised that, effective March 31, 2005, an asset would be classified as doubtful if it remained in the sub-standard category for 12 months. Banks were permitted to phase the additional provisioning consequent upon the reduction in the transition period from sub-standard to doubtful asset from 18 months to 12 months over a four year period, commencing from the year ending March 31, 2005, with a minimum of 20 per cent each year. • As an interim measure, the RBI would grant permission for CDR on the basis of specific recommendations of CDR "Core Group", if a minimum of 75 per cent of the lenders consent for CDR, irrespective of differences in asset classification status in banks/FIs.
	24	• Banks were advised that loans and advances secured by mortgage of residential property may be assigned a risk weight of 50 per cent instead of the existing 100 per cent for the purpose of Capital adequacy. Loans against mortgage of commercial real estate would continue to attract 100 per cent risk weight as hitherto. Bank's investment in mortgage backed securities (MBS) of residential assets of Housing Finance Companies (HFCs) which are supervised by the National Housing Bank (NHB) would be eligible for risk weight of 50 per cent for the purpose of capital adequacy.

Month	Date	Policy Measure
	28	• In order to ensure that the loan assets relating to projects under implementation were appropriately classified and asset quality correctly reflected, the norms on income recognition, asset classification and provisioning with respect to industrial projects under implementation, which involve time overrun, earlier applicable to FIs only, were made applicable to banks also.
	29	• Keeping in view the nature of operations of banks and the need to ensure uniformity in regulatory requirements, it was decided that compliance with the following accounting standards (AS) be made optional for banks only for the financial year ended March 31, 2002: AS 17 on segment reporting, AS 18 on related party disclosure, AS 21 on consolidated financial statements and AS 22 on Taxes on Income. Banks would be required to conform to the above AS by March 31, 2003 in accordance with the detailed guidelines to be issued on the basis of the recommendations of a Working Group on the issue.
	30	• Based on the recommendations of the Working Group on Wilful Defaulters, the term 'wilful default' was redefined and widened so as to cover the aspects of diversion of/siphoning off funds therein. The banks and FIs are required to initiate penal measures against wilful defaulters as advised.
June	4	• The banks, all India notified FIs and State Financial Corporations (SFCs) were advised to submit the list of suit-filed accounts of Rs.1 crore and above as on March 31, 2002 and quarterly updates thereof till December 2002 and suit-filed accounts of wilful defaulters of Rs.25 lakh and above as at end-March, June, September and December 2002 to the RBI as well as to Credit Information Bureau (India) Ltd. (CIBIL) for a period of one year till March 31, 2003 and thereafter to CIBIL only. • In the process of extending the guidelines of Securities and Exchange Board of India (SEBI) Committee on Corporate Governance, the public and private sector banks have been advised to form committees on the same lines as listed companies to look into redressal of shareholders' complaints and listed banks have to provide unaudited financial results on half-yearly basis to their shareholders.
	15	• In order to increase the investor base, the minimum size of CDs to single investor was reduced from the existing level of Rs. 5 lakh to Rs.1 lakh and in multiples of Rs. 1 lakh thereafter. The amount relates to face value (i.e. maturity value) of CDs issued.

	20	• The Benares State Bank Ltd. has been merged with Bank of Baroda effective June 20, 2002. • The Consultative Group of Directors of Banks and Financial Institutions (FIs) [Chairman: Dr. A. S. Ganguly], constituted to look into role of Board of Directors of banks/FIs and make recommendations, for consideration by the Government/RBI, for making it more effective with a view to minimising risks and over-exposure, submitted its Report to the RBI. Its implementablerecommendations have been communicated to the public and private sector banks for adoption and certain recommendations requiring the Central Government approval or legislative amendments have been referred to Central Government for consideration.
July	26	• In supersession of the earlier instructions on system of charging interest on advances at monthly rests, banks have been given option to compound interest at monthly rests effective either from April 1, 2002 or July 1, 2002 or April 1, 2003. However, instructions on charging interest at monthly rests shall not be applicable to agricultural advances.
August	6	• In terms of extant instructions, profit-making banks are permitted to make donations during a financial year aggregating up to 1 per cent of their published profit for the pervious year. On a view, it has been decided that the donations made by the banks to the Prime Minister's Relief Fund would be exempted from the above ceiling.
	16	• Banks have been issued consolidated guidelines, as part of 'Know Your Customer' concept, to facilitate identification of depositors and to control financial frauds, identify money laundering and for monitoring of large value cash transactions.
October	12	• The banks have been advised to use the revised Guidance Notes on Management of Credit Risk and Market Risk, which have been placed on RBI Website, for updating their risk management systems.
	21	• The banks have been advised that Boards of each bank may fix a suitable cut off limit with reference to the borrowing entity's overall exposure on the banking system, over which audit of accounts of borrowers by Chartered Accountants would be mandatory.
		B) Urban Co-operative Banks
2001		
April	4	• The RBI advised co-operative banks facing liquidity problems in their day-to-day operations in the wake of the Gujarat earthquake to approach PSBs and also Primary Dealers (PDs) for repo facilities against their holdings of eligible government securities and, in the event of a shortfall, approach the RBI for special liquidity support against the eligible holdings of appropriate assets for temporary periods upto 90 days.

19 • The interim prudential measures were announced for urban co-operative banks (UCBs) to provide greater security to depositors and members. These included stopping of direct and 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 borrowing from call money market upto 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 with other UCBs and unwinding of existing term deposits by June 2002; increases in the component of government and other approved securities in their SLR holdings by March 31, 2002 (extended upto September 30, 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 25.0 per cent of NDTL for scheduled UCBs only in government and other approved securities with effect from April 1, 2003 and maintenance of investment in government securities of scheduled UCBs as well as non-scheduled UCBs with NDTL of Rs. 25 crore and above only in Subsdiary General Ledger (SGL) accounts with the RBI or in constituent SGL Accounts of PSBs and PDs.

- The RBI 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, RBI 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 RBI.
- In order to improve the functioning of co-operative banks on a professional basis and also to substantially improve the entry point norms and stiffer prudential and other parameters, State Governments were requested to implement the recommendations of the High Power Committee at the earliest.

23 • As per the revised guidelines for classification and valuation of investment, all UCBs were directed to classify their entire investment portfolio under 'held to maturity', 'available for sale' and 'held for trading' with investments in the latter two categories marked-to-market. These instructions were applicable effective March 31, 2002.

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25 • Pursuant to the High Power Committee recommendation, CRAR was 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.

Month	Date	Event
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 conditions. • It was clarified that scheduled UCBs are required to achieve capital adequacy norms gradually by March 2004 and non-scheduled UCBs by March 2005.
November	12	• It was decided to effect certain changes in the norms relating to restructuring /rescheduling / renegotiation of terms of the standard and sub-standard loan assets of UCBs.
2002		
March	7	• The RBI reduced the minimum lending rate of UCBs from 13 per cent to 12 per cent, effective March 2, 2002. The decision was taken in the wake of representations from UCBs which felt that such a reduction would help them offer competitive rates to their borrowers.
	21	• The RBI decided to consider, on a case-by-case basis, extension of timeframe for investment in government and other approved securities by UCBs as part of SLR investments. The relaxation was made in order to smoothen the process of compliance in respect of banks that may have difficulties in complying with RBI norms on SLR investments
April	1	• UCBs were advised that accretion to or reduction in the share capital after the balance sheet date may be taken into account for determining the exposure ceiling at half-yearly intervals, with the approval of the Board of Directors.
June	7	• In light of the fraudulent transactions in government securities in physical form by a few co- operative banks with the help of some broker entities, it was decided that all SGL holders/ stock certificate holders with the Public Debt Office of the RBI (PDs/RRBs/UCBs/SCBs) should necessarily hold their investments in government securities portfolio in either SGL (with RBI) or constituent SGL (with SCB/State co-operative bank/PD/FIs/sponsor banks –in case of RRBs) and Stock Holding Corporation of India or in a dematerialised account with depositories, National Security Depository Limited (NSDL)/Central Security Depository Limited (CSDL), depending on the concerned institution. Secondly, only one CSGL or dematerialised account can be opened by any such entity. Thirdly, in case the CSGL accounts are opened with a SCB or state co-operative bank, the account holder has to open a designated funds folder (for all CSGL related transactions) with the same bank. Finally, a RBI regulated entity should not, with immediate effect, undertake government securities transaction in physical form with any broker.

August	26 •	In respect of charging interest at monthly rests, the following consolidated instructions are effective: (a) banks have the option to compound interest at monthly rests effective either from April 1, 2002 or July 1, 2002 or April 1, 2003. (b) with effect from the quarter beginning July 1, 2002, banks should ensure that the effective rate does not go up merely on account of the switchover to the system of charging/compounding interest at monthly rests and increase the burden on the borrowers. (c) application of interest on monthly rests may be implemented for all running accounts (e.g., cash credit, overdraft, export packing credit accounts, etc). At the time of changing over to monthly rests, banks may obtain consent letter/supplemental agreement from the borrowers for the purpose of documentation. (d) Interest at monthly rests shall be applied in case of all new and existing loans and other loans of longer/fixed tenor. (e) The proviso "provided that the interest payable by the borrower shall be charged in conformity with the instructions issued in this regard by the RBI from time to time" may invariably be incorporated in the case of loan agreements.
		C) Financial Institutions
2001		
April	18 •	The operation of the guidelines for a simplified, non-discriminatory and non-discretionary mechanism for settlement of dues relating to NPAs with outstanding up to Rs.5 crore was extended upto June 30, 2001 in respect of central public financial institutions.
	26 •	To bring convergence in the norms for asset classification between financial institutions (FIs) and banks over a reasonable period of time, effective from the year ending March 31, 2002, a credit facility of a FI would be treated as non-performing if interest and/or principal remains overdue for more than 180 days in a year.
	28 •	The RBI clarified the approach to universal banking for all-India term lending and refinancing institutions. The salient operational and regulatory features to be addressed by the FIs for conversion into universal bank included those with respect to : (a) reserve requirements, (b) permissible activities, (c) disposal of non-banking assets, (d) composition of the Board, (e) prohibition of floating charge on assets, (f) nature of subsidiaries,(g) restriction on investments, (h) connected lending, (i) licensing, (j) branch network, (k) assets in India, (l) format of annual reports, (m) managerial remuneration of Chief Executive Officers, (n) deposit insurance, (o) Authorised Dealers licence, (p) priority sector lending and (q) prudential norms.
	30 •	With effect from June 30, 2001, banks, FIs, PDs and SDs were directed to make fresh investments and hold CPs only in dematerialised form.

Month	Date	Details
May	2	• In view of certain advantages in using the forum of *Lok Adalats* by the banks and FIs in compromise settlements of their NPAs, guidelines were issued to the FIs for making increasing use of *Lok Adalats* for settling banking disputes involving smaller amounts.
June	20	• In line with international best practices, the RBI decided to adopt the concept of 'capital funds' as defined under capital adequacy standards for determining exposure ceilings for the FIs, effective March 31, 2002.
August	7	• The FIs were advised to assign a risk weight of 20 per cent to all such loans and advances granted by them to their own employees which 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	• The FIs were advised the details of the CDR system which is a three-tier structure envisaging a non-statutory, voluntary mechanism based on debtor-creditor and inter-creditor agreements to provide a transparent mechanism for restructuring of corporate debts of viable corporate entities affected by internal or external factors, outside the purview of BIFR, DRT and other legal proceedings.
	27	• It was clarified to refinancing institutions that credit exposure norms are also applicable to them, except their refinancing portfolio since refinancing operations constituted their core operations. However, from the prudential perspective, it is expected that these institutions evolve their own exposure norms, with the approval of their respective Boards, which could be related to the capital funds/regulatory capital of the FI concerned.
	28	• As a corollary to the instructions to FIs to make fresh investment and hold CPs only in dematerialised form with effect from June 30, 2001 and with a view to extend the 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, 2001. Outstanding investments in scrip form were also to be converted into dematerialised form by June 30, 2002.
	29	• The guidelines relating to asset liability management (ALM), issued to the FIs, were amended to amplify the time-buckets for slotting of the off-balance sheet items for compiling the liquidity and interest rate gap reports and to modify the treatment of securities in the trading book for compiling the interest rate sensitivity statement.
2001		
October	16	• A clarificatory circular was issued to FIs on the classification and valuation of investments, based on suggestions/queries received from various FIs. These included definitions of joint ventures, treatment of preference shares, tenor of bonds/debentures deemed to be in the volume of advance, frequency of category, transfer of investment, eligible investments for 'held to maturity' category, valuation of equity preference shares and ceilings, etc.

Month	Day	Event
	20	• Since the introduction of the prudential off-site surveillance system (PSRS) for FIs, several changes in the prudential norms applicable to FIs, had taken place which necessitated certain modifications in the formats of some of the returns. In light of the foregoing, and with a view to migrate to a more user-friendly and efficient software platform, it was decided to modify the format of some of the returns. A complete set of the revised returns along with a floppy diskette containing a soft copy thereof, was forwarded to the FIs.
November	12	• The frequency of all the seven off-site returns was made quarterly with effect from the quarter ended September 2001.
	28	• In view of the interest evinced by some of the all-India FIs, falling within the regulatory and supervisory domain of the RBI, in entering the insurance business, the guidelines for entry of the FIs into insurance business were formulated. FIs having net owned fund of Rs. 2 crore were permitted to undertake insurance business as agent of insurance companies on fee basis, without any risk participation. For permission to set up a joint venture company for undertaking insurance business with risk participation, FIs would need to satisfy the following criteria: i. The owned fund of FI should not be less than Rs. 500 crore. The owned fund for the purpose should be computed as per the definition of ‘net owned fund’ under Section 45-IA of the RBI Act, 1934; ii. The CRAR of FI should be not less than 15 per cent; iii. The level of NPAs assets should not be more than 5 per cent of the total outstanding loans and advances; iv. The FI should have earned net profit for the last three continuous years; v. The track record of the performance of the subsidiaries, if any, of the concerned FI should be satisfactory. Regulatory compliance with the RBI guidelines for raising of resources by the FIs should be demonstrated.

	29	• In order to obviate anomalies in respect of the treatment of preference shares, with original maturity of 20 years, issued by the FIs for the purpose of capital adequacy norms, the norms were reviewed and it was decided to modify instructions in the matter. Accordingly, in respect of preference shares (existing as well as those that may be issued in future) of 20 year original maturity, the amount of "grant equivalent" that can be reckoned towards the tier 1 capital of the FIs would be computed after making the following adjustments in the amount received against subscription to the preference shares: Amount received against the preference shares………(A) Less: (a) the amount of corpus created; (b) the present value of the dividend outflows on the preference shares issued; (c) the present value of the dividend tax payable; (d) the present value of the tax payable on the income from investment of the amount left after creating the corpus; Add: (e) the present value of the cash inflows / income from the investment of the amount left after creating the corpus Amount of "grant equivalent" that would be counted towards tier 1 capital = [A – (a + b + c + d) + e]
2002		
January	9	• Banks and FIs were advised to exercise due caution while taking any investment decision to subscribe to debentures, bonds, shares of companies and refer to the defaulters list to ensure that investments are not made in companies/entities which are defaulters of banks/FIs.
February	1	• Certain clarifications were issued to the FIs regarding the treatment of restructured accounts relating to the accounting issues, write back of provision / write off, treatment of security, funded interest, conversion of debt into various instruments under the prudential norms. • Recognising the need to evolve an objective and definite timeframe for completion of projects under implementation (PUI) so as to ensure that the loan assets relating to PUI are appropriately classified and asset quality correctly reflected, it was decided to group all the projects under three categories and the norms for asset classification for each category of project were prescribed for the FIs. • The new software developed by the RBI for submission of returns by the FIs under the Off-Site Monitoring and Surveillance System (OSMOS), after considering and, as far as possible, incorporating the suggestions received from various FIs, was forwarded to the FIs for installation and operationalisation.
	8	• With a view to bring greater transparency in the published annual reports of the FIs and in tune with international best practices, FIs were advised to disclose, in addition to the parameters already prescribed earlier, in their published annual report, with effect from the financial year 2001-02, as part of "notes to accounts" the following additional information: movement in the provisions held towards (i) non-performing assets and (ii) depreciation in investment portfolio.The format of these disclosures was also prescribed.

	20	• Revised guidelines as briefly enumerated below, were issued to the FIs for financing of infrastructure projects. Criteria for Financing - Finance for infrastructure projects undertaken by government owned entities. For infrastructure projects, where financing is by way of term loans or investment in bonds issued by government owned entities, banks/FIs should undertake due diligence on the viability and bankability of such projects to ensure efficient utilisation of resources and creditworthiness of the projects financed. Banks should also ensure that the individual components of financing and returns on the project are well defined and assessed. Lending/investment decisions should be based solely on the commercial judgment of banks/FIs. In respect of projects undertaken by public sector units, term loans may be sanctioned only for public sector undertakings registered under the Companies Act or a Corporation established under the relevant statute. Further, such term loans should not be *in lieu* of or to substitute budgetary resources envisaged for the project. The term loans could supplement the budgetary resources if such supplementing was contemplated in the project design. While such public sector units may include special purpose vehicles (SPVs) registered under the Companies Act set up for financing infrastructure projects, banks and FIs should ensure that these loans/investments are not used for financing the budgets of the State Governments. Inter-Institutional Guarantees For infrastructure projects, banks are permitted to issue guarantees favouring other lending institutions, provided the bank issuing the guarantee takes a funded share in the project at least to the extent of 5 per cent of the project cost and undertakes normal credit appraisal, monitoring and follow up of the project. Group Exposure Limit The additional exposures of 10 per cent in group exposure limit presently restricted to projects in four specified infrastructure sectors, *viz.*, roads, power, telecommunications and ports may be extended to projects in all infrastructure sectors.
2002		
April	29	• FIs were advised that with effect from June 30, 2002 they should issue CDs only in the dematerialised form and their holdings of CDs should also be converted into dematerialised form by October 2002.
May	14	• The terms and conditions subject to which the ready forward contracts (including the reverse ready forward contracts) may be entered into among the participants were modified to provide for settlement through the SGL account (with the RBI) of Clearing Corporation of India Limited (CCIL) also, in addition to the SGL account of the participants with the RBI.

Month	Date	Event
June	4	• The notified all-India FIs were advised to submit the list of suit-filed accounts of Rs.1 crore and above as on March 31, 2002 and quarterly updates thereof till December 2002 and suit-filed accounts of wilful defaulters of Rs.25 lakh and above as at end-March, June, September, and December 2002 to the RBI as well as to CIBIL for a period of 1 year till March 31, 2003. Thereafter, such information should be submitted to CIBIL only.
	7	• In the context of guidelines on asset classification of certain categories of projects under implementation, "financial closure" for a project was defined as followsFor greenfield projects, financial closure is defined as a legally binding commitment of equity holders and debt financiers to provide or mobilise funding for the project. Such funding must account for a significant part of the project cost which should not be less than 90 per cent of the total project cost securing the construction of the facility.
	20	• With a view to expand the investor base for the CDs, both the minimum and the multiple requirements were reduced from the existing levels of Rs. 10 lakh and Rs. 5 lakh to Rs. 1 lakh only. The amount relates to the face value (maturity value) of the CDs.
July	13	• In view of the stabilisation of the PSRS, which includes a comprehensive quarterly return on capital adequacy (RCA), the requirement of submission of half-yearly statements in respect of CRAR was dispensed with, with effect from half year ended March 31, 2002.
	18	• All-India term lending and refinancing institutions were advised to ensure full compliance with the instructions issued on transactions in government securities at the earliest, but notlater than July 31, 2002.
	22	• Pursuant to certain suggestions and queries received from some of the FIs in respect of the guidelines for classification and valuation of investments, detailed clarifications were issued regarding the definition of joint ventures, treatment and valuation of preference shares in the light of the changes in the Income Tax Act, valuation of equity in the nature of advance, etc.

August	8	• In February 2002, banks were permitted to extend guarantees in respect of infrastructure projects in favour of other lending institutions provided the bank issuing the guarantee takes a funded share in the infrastructure project at least to the extent of 5 per cent of the project cost and undertakes normal credit appraisal, monitoring and follow up of the project. • The following guidelines were issued to FIs regarding the applicable risk weight for the loan extended by an FI against the guarantee of a bank in the CRAR computation of the FI and the treatment of the loan for the purpose of exposure norms. a) In the transactions of the type referred to above, the loan extended by an FI against the guarantee of a bank would attract a risk weight of 20 per cent in computation of CRAR of the lending FI. The risk weight of 20 per cent would apply to only that part of the loan which is covered by the bank's guarantee and the remaining amount of loan, if any, would normally attract 100 per cent risk weight. b) For the purpose of exposure norms, however, the entire loan transaction should be reckoned as an exposure on the borrowing entity and not on the bank guaranteeing the loan, so as to correctly reflect the degree of credit concentration. In case the funded facility is by way of a term loan, the level of exposure should be reckoned, as per the RBI's extant guidelines.
2002		
August	31	• In order to liberalise the prudential norms for FIs in keeping with the international practice, it was decided, with immediate effect, that: a) housing loans extended by FIs to individuals against the mortgage of residential housing properties would attract a risk weight of 50 per cent (as against the 100 per cent risk weight at present); and b) investments by FIs in the mortgage backed securities (MBS) would attract a risk weight of 50 per cent (in addition to the 2.5 per cent risk weight for market risk) provided that the assets underlying the MBS are the residential loan assets of the Housing Finance Companies which are recognised and supervised by the National Housing Bank; and that the MBS satisfy certain terms and conditions, as indicated in the circular.
September	2	• Pursuant to the report of the 'Working Group on Consolidated Accounting and Other Quantitative Methods to Facilitate Consolidated Supervision', the draft Guidelines for Consolidated Accounting and Consolidated Supervision were issued to the FIs for comments, with the objective of introducing consolidated supervision for the FIs. The proposed consolidated supervisory framework envisages the following three components: (a) consolidated financial statements (CFS), (b) consolidated prudential returns (CPR), and (c) application of prudential regulations like capital adequacy, large exposures and liquidity gaps on group- wide basis.
	14	• Under the asset classification norms for the projects under implementation which fall in category II, their asset classification is to be decided with reference to the 'deemed date of completion' of such projects as determined by the independent group constituted for the purpose. In this context, it was clarified that the FIs should not reverse the provisions held in respect of those accounts which might become eligible for upgradation to the 'standard' category as per the deemed date of completion.

D) Non-Banking Financial Companies		
2001		
June	27	• The monies received by Non-Banking Financial Companies (NBFCs) by issue of CPs in accordance with IECD guidelines dated October 10, 2000 have been exempted from the purview of public deposits. Procedure for accounting of repossessed lease/hire purchase assets was clarified. • Guidelines relating to asset liability management system for NBFCs were issued. ALM guidelines have been recommended to all the NBFCs irrespective of whether they are accepting/holding public deposits or not. To begin with, NBFCs meeting the criteria of asset base of Rs.100 crore or holding public deposits of Rs.20 crore or more, as per their audited balance sheet as on March 31, 2001 have been required to put in place ALM system. ALM guidelines have since become fully operational effective from March 31, 2002.
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 14.0 per cent to 12.5 per cent per annum.
2002		

January	1	•	The RBI announced a rationalisation of the guidelines pertaining to the NBFC sector. The details of rationalisation announced in the regulations are: (i) In line with the earlier amendment in the Mid-term Review of the Monetary and Credit Policy of October 2001, it was decided that companies, whose application for Certificate of Registration (CoR) have been rejected or companies whose CoR have been cancelled, have to continue to repay their deposits, if any, on due dates and dispose of their financial assets or convert into non-banking non-financial companies within three years from date of rejection/cancellation. (ii) NBFCs were advised to report to Company Law Board whenever they default in repayment of matured deposits or payment of interest to small depositors within 60 days of default in terms of Section 58AA of the Companies Act. (iii)To ensure alignment of RBI regulations with provisions of Companies Act, the requirement of constituting an Audit Committee, having the same power, functions and duties as laid down in Section 292-A of Companies Act, was prescribed for companies with paid up capital of not less than Rs. 5 crore or asset size of Rs. 50 crore and above. (iv) NBFCs, which were hitherto private limited companies but have become public limited companies under the Companies Act because of their holding public deposits, were advised to approach the RBI for change in the CoR to reflect the new name as public limited company. (v) In view of the recent strides towards dematerialisation of securities, NBFCs and RNBCs were permitted to keep securities with any scheduled commercial bank or with a Depository Participant registered with the SEBI, Stock Holding Corporation of India Ltd. or in constituent's SGL account, with the prior written approval of the RBI. (vi) In order to classify NBFCs into Equipment Leasing/Hire Purchase (HP) categories, it was decided that loans against hypothecation of certain specific assets, (*viz.*, automobiles registered with the Road Transport Authority and the charge is recognised under Motor Vehicles Act, aircrafts registered with Director General of Civil Aviation and ships registered with Director General of Shipping along with other equipment leasing and hire purchase assets) may also be considered to satisfy the 60 per cent norm (*i.e.*, 60 per cent of total assets in lease and hire purchase and deriving not less than 60 per cent of total income from them) (vii) Re-examining the issue of valuation of investments in the light of AS-13 of the Institute of Chartered Accountants of India, NBFCs were directed to frame investment policy, classify each investment into current and long term at the time of making the investment, make inter-class transfer scripwise at the lower of book value or market value without taking advantage of block valuation. Further, such transfer would be permissible only at the beginning of half-year with the approval of the Board and not on an *ad-hoc* basis. (viii) NBFCs were advised to include in the letter of appointment to statutory auditors the responsibility to report directly to the RBI, the violations or irregularities, if any, noticed by them in the course of their audit of the NBFC. (ix) It was reiterated that every NBFC is required to maintain the prescribed minimum capital ratio, not only on reporting dates, but on an on-going basis.

April	22	• The RBI announced that all NBFCs granting/intending to grant demand/call loans should lay down a policy duly approved by their board of directors. The policy should cover the following aspects: 1. Stipulation of a cut off date within which the repayment of the loan will be demanded/ called up. If the cut off date is beyond one year, the sanctioning authority should record specific reasons. 2. Stipulation of the rate of interest and the periodic rests for payment of interest, which should be at quarterly/monthly intervals. Where no interest is levied or a moratorium is granted, the sanctioning authority should record specific reasons. 3. Stipulation of a cut off date not exceeding six months from the date of sanction of loan for review of its performance. 4. Such loans should be renewed on the basis of a review covering satisfactory compliance with the terms of sanction.The RBI also clarified that all such loans remaining unpaid for more than six months from the date of demand/call or loans where interest remained past due for a period of six months from the due date would be classified as NPA. The provisioning requirements as applicable to loans, advances and other credit facility would be applicable to such loans. • The RBI announced that the past due period of 30 days for identification of NPAs by NBFCs would be done away with, effective March 31, 2003. As such, a loan asset would become a NPA if the instalment or interest remains overdue for six months or more.
June	6	• The Non-Banking Financial Companies Prudential Norms (Reserve Bank) Directions, 1998, were amended. The primary amendments related to (i) removal of the concept of “past due”, (ii) definition of NPAs, (iii) maintenance of capital adequacy, etc.

October	1	• NBFCs should necessarily hold their investments in government securities either in CSGL with SCB/SHCIL or in a dematerialised account with depositories (NSDL/CDSL) through a depository participant registered with SEBI. The facility of holding government securities in physical form, therefore, stands withdrawn. Government guaranteed bonds, which have not been dematerialised may be kept in physical form till such time, these are dematerialised. Only one CSGL or a dematerialised account can be opened by any NBFC. All further transactions of purchase and sale of government securities have to be compulsorily through CSGL /demat account. Government securities held in physical form should be dematerialised on or before October 31, 2002. The NBFCs need not seek prior approval of the RBI for opening a demat/ SGL account with any of the organisations mentioned above, but must inform the concerned Regional Office of the RBI, DNBS of the details of the account within one week of doing so. • As a depositor protection measure, NBFCs have been advised to include in their advertisements or statements *in lieu* of advertisement the fact that the deposits collected by them are not insured. • With a view to capturing the information relating to exposure of the NBFCs to the capital market, it has been decided to call for information and data from NBFCs holding public deposits of Rs. 50 crore and above and the RNBCs having aggregate liabilities to the depositors of Rs. 50 crore and above as on March 31, 2002 or thereafter regarding their exposure to the capital market. Accordingly, all NBFCs and RNBCs covered by the above criteria have been advised to furnish the information in a quarterly return within one month of the close of the relative quarter and the first such return is to be submitted as on December 31, 2002. • Every NBFC including a Government company which is not holding/accepting public deposits has been directed to inform the RBI any change in the address of its registered office and names of its directors / principal officers / authorised signatories / auditors, within 30 days of occurrence of the event.

Primary Dealers

2001		
April	19	• Existing liquidity support from the RBI for satellite dealers (SDs) was discontinued. Liquidity support to PDs was split into two parts, normal at bank rate and backstop at daily variable rate linked to cut-off rates emerging in LAF auctions.
	20	• The RBI granted final approval to HSBC Primary Dealership India Private Limited to operate as a PD in the government securities market thereby increasing the number of PDs to sixteen.

Month	Date	Event
September	18	• Authorisation of Ceat Financial Services Limited (CFSL) as PD was not renewed. Hence, the company ceased to be a PD. • The RBI issued directions to all PDs and SDs making it compulsory for them to make fresh investments and hold bonds and debentures, privately placed or otherwise, only in dematerialised form.
November	1	• The RBI granted final approval to Banc of America Securities (India) Pvt. Ltd., and Standard Chartered-UTI Securities India Pvt. Ltd., to operate as PDs in the government securities market.
2002		
January	1	• The RBI issued updated guidelines for enlistment and operations of PDs in government securities, incorporating changes effected from time to time. The guidelines covered, *inter alia :* i) the objectives of PD system, ii) eligibility conditions for authorisation, of PDs iii) roles and objectives of PDs iv) facilities from RBI to PDs, v) procedure for authorisation of PDs and vi) regulation of PDs. It was also indicated in the guidelines that the decision to enlist PDs would be taken by the RBI based on its perception of market needs, suitability of the applicant and the likely value addition to the system.
	4	• As a follow up of the earlier prescription of capital adequacy standards for PDs and introduction of value at risk (VaR) based models for improving the risk management system, PDs were required to provide back-testing results for the year ended December 31, 2001 along with the PDR III returns for the December quarter. They were also advised to follow a prudent distribution policy in the current year so as to build up sufficient reserves even in excess of regulatory requirements which can act as a cushion against any adverse interest rate movements in the future.
	8	• The daily report format for PDs was revised to include additional information for better off-site supervision, taking into account the diversified sources and application of funds of PDs.
	12	• The ALM guidelines for NBFCs were made applicable to PDs also with some modifications.
	17	• PDs' acceptance of funds through ICDs were restricted to a maximum limit of 50 per cent of their NOFs. PDs were advised to evolve a policy for acceptance of ICDs after due consideration of the risks involved.
March	16	• Final approval was given to BOB Capital Markets Limited to operate as a new PD in government securities market.

	26	• RBI announced revised terms and conditions subject to which ready forward contracts could be undertaken. As per the revised terms and conditions, any banking company, a co-operative bank or any person maintaining a SGL account with RBI, Mumbai would be eligible to enter into ready forward contracts in dated securities and treasury bills issued by Government of India and dated securities issued by State Governments. Ready forward contracts should be settled through the subsidiary general ledger (SGL) accounts of the participants with RBI or through the SGL account of Clearing Corporation of India with RBI.
May	8	• PDs were advised to review their call money lending/borrowing positions and fix prudent limits in terms of their NOFs, as part of the overall risk management policy. • PDs were advised that the provisions of the scheme for bidding, underwriting and liquidity support for the year 2001-02 will continue to apply for the year 2002-03 also, except that for computation of success ratio in the case of dated securities, the success ratio of 40 per cent will be based on actual bids tendered and not the bidding commitment.
	17	• The penalty period for reduction in liquidity support, in case a PD fails to submit the required minimum bid or submits a bid lower than its commitment in any auction of treasury bills, was reduced from existing 6 months to 3 months.
	20	• RBI regulated entities were instructed : (i) not to undertake transactions in physical form with any broker entity with immediate effect and (ii) to necessarily hold all their investments in government securities portfolio in either SGL (with RBI) or CSGL (with bank/PD/FI) or in dematerialised account with depositories.
	31	• Satellite dealers scheme was discontinued effective May 31, 2002.
June	5	• PDs, as a category, were brought under the purview of Board for Financial Supervision (BFS).
	10	• PDs were advised to confirm that all debt securities and government securities in their portfolio are held by them in dematerialised form. It was also stipulated that future transactions in government securities should be compulsorily through SGL/CSGL/demat accounts. PDs were advised to ensure that brokers approved by them for transacting government securities business are specifically registered with the debt market segment of National Stock Exchange (NSE)/ Over the Counter Exchange of India (OTCEI)/Bombay Stock Exchange (BSE).
July	26	• PDs were advised to publish their audited annual financial results in leading financial dailies and on their website.

	31	•	PDs were advised that with effect from October 5, 2002, they will be permitted to lend in call/ notice money market only upto 25 per cent of their NOFs. It was also advised that their access to borrow in call/notice money market would be reduced to 200 per cent of their NOF (as at end-March of the previous financial year) in Stage I and to 100 per cent of their NOF in Stage II on fulfilment of certain specific conditions.
October	10	•	It was clarified that the above limit of 25 per cent of NOF for lending in call/notice money marketby PDs will be determined on an "average" basis and not on a daily basis during a reportingfortnight.