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Policy

Investment Activities of OCBs

The Reserve Bank, in consultation with the government, has decided to derecognise overseas corporate bodies (OCBs) in India as an eligible 'class of investor' under various routes/schemes available under extant foreign exchange management regulations. Overseas entities owned by nonresident Indians (NRIs) would, however, continue to enjoy all the facilities available to any foreign investor, including automatic route for foreign direct investment.

This decision is a follow up of the review of investment activities of OCBs in India, carried out by the Reserve Bank on the basis of the recommendations of the Joint Parliamentary Committee on the Securities Market Scam. Based on the review, it has been decided that –

(a) The ban imposed on OCBs under portfolio investment scheme (PIS) in November 2001 shall continue.

(b) OCBs as a 'class of investor' entity shall not be allowed to make fresh investments in India under various routes/schemes available under extant foreign exchange management

regulations. The facility of opening fresh non-resident (external) rupee (NRE) account, foreign currency non-resident (banks) [FCNR(B)] account and non-resident ordinary rupee (NRO) deposit account shall also be withdrawn.

(c) Unincorporated entities shall also not be allowed to make fresh investments under foreign direct investment (FDI) scheme including the automatic route.

Accordingly, it has been decided that with immediate effect -

(i) An unincorporated entity and OCB shall not make fresh investment under FDI scheme (including automatic route). Unincorporated entities and OCBs may, however, continue to hold shares and convertible debentures till they are sold/redeemed.

(ii) OCBs shall not purchase shares/convertible debentures on non-repatriation basis. OCBs may, however, continue to hold shares/convertible debentures purchased on non-repatriation basis till they are sold/redeemed.

(iii) OCBs shall not purchase government dated securities/ treasury bills/ units of domestic mutual funds or units of money market mutual funds in India or national plan/ savings certificates both on repatriation and non-repatriation basis. OCBs may, however, continue to hold these securities till they are sold.

(iv) A person resident outside India including OCBs shall not transfer by way of sale or gift, the shares or convertible debentures held by them, to another OCB.

(v) OCBs shall not purchase equity or preference shares or convertible debentures offered on right basis by an Indian company.

(vi) A person resident in India shall not borrow in foreign currency from an OCB.

(vii) An Indian company shall not borrow in rupees on repatriation and non-repatriation basis from OCBs by way of investment in non-convertible debentures.

(viii) An Indian company, a proprietorship concern or a firm in India shall not accept deposits from OCBs on non-repatriation basis.

(ix) OCBs shall not open and maintain NRE, FCNR(B) and NRO deposit accounts with authorised dealers (ADs) in India.

All existing NRE (savings, current) accounts of OCBs (other than the specific OCB accounts disallowed operations without the Reserve Bank's prior permission) should be closed forthwith and balances repatriated strictly as originally authorised, expeditiously. The existing NRE deposits (recurring or fixed), FCNR (B) accounts and NRO deposit (recurring or fixed) accounts are permitted to continue till original maturity. The maturity proceeds of NRE deposits and FCNR (B) accounts should be repatriated expeditiously.

No new NRE//FCNR/NRO accounts in the name of OCBs should be opened and no renewal of deposits should be made.

The Reserve Bank's earlier instructions of not allowing operations in the accounts of specific OCBs without its prior permission, shall continue to be operative.

ADs may allow repatriation as authorised, in cases of investment on repatriation basis (including investment related income which is repatriable). As regards investment on non-repatriation basis, ADs should obtain requests for disposal of funds from their OCB clients and seek the Reserve Bank's specific approval, on a case to case basis.

The ban imposed on OCBs under PIS would continue. OCBs may, however, continue to hold shares and convertible debentures purchased under PIS till such time these are sold on stock exchanges in India.

Credit to SSI Sector

The Reserve Bank has advised all scheduled commercial banks (including regional rural banks and local area banks) to initiate necessary steps to implement the action points relating to credit to the small scale industries (SSI) sector indicated below :

(i) Banks which have not intimated the Reserve Bank regarding self-set target fixed for SSI as advised in June 2003, should do so by September 30, 2003.

(ii) Banks may consider having at least three slabs for rate of interest, i.e., for loans up to Rs.50,000, between Rs.50,000 and Rs.2 lakh and those above Rs.2 lakh.

(iii) Banks which have not issued instructions regarding enhancing composite loan limit for SSI from Rs.25 lakh to Rs.50 lakh, should do so by September 30, 2003.

(iv) Credit requirement in the identified clusters should be incorporated in banks' annual credit plans for the year 2003-04.

(v) Banks should co-ordinate with the Small Industries Development Bank of India (SIDBI) to take steps to give adequate publicity to their schemes.

(vi) Banks should give adequate publicity to their schemes/facilities like availability of collateral-free/composite loan and schemes under Technology Upgradation Funds (TUF)/National Equity Fund (NEF)/Khadi and Village Industries Commission(KVIC)/Credit Guarantee Trust for Small Industries (CGTISI), etc.

(vii) Banks should co-ordinate with SSI associations to increase credit flow to SSI Sector.

(viii) Banks should initiate innovative steps for increasing credit flow by promoting mutual funds, which may focus on SSI and venture capital funds.

(ix) Banks which had not forwarded a copy of the review note to the Reserve Bank on the

progress made by them in assisting SSI units under the new guidelines on rehabilitation of sick SSIs may do so by September 30, 2003.

(x) Banks should recognise the interest subsidy eligibility certificates issued by the KVIC for extending credit to entrepreneurs.

(xi) The National Bank for Agriculture and Rural Development (NABARD) should furnish details of their promotional schemes to SSI associations and KVIC.

(xii) CGTSI should inform about the action taken for fixing graded guarantee fee.

RIDF - Interest Rates

RIDF - IV to VII

It has been decided with the approval of the Government of India, to restructure the lending and deposit rates, in respect of undisbursed amounts of Rural Infrastructure Development Fund (RIDF) IV to VII from October 1, 2003. Accordingly, the state governments will be required to pay nine per cent on the undisbursed amount of these tranches, while the banks will be paid eight per cent on their contribution to RIDF IV to VII uniformly.

Disbursements to state governments under any tranche of RIDF take a few years to be completed and the state governments pay interest at the rates decided at the time of operationalisation of the tranche, irrespective of the market rates prevailing at the time of actual disbursement. As in a declining interest rate scenario, this puts the state governments at a disadvantage, requests were received from some state governments for charging floating rates of interest on undisbursed amounts of the earlier tranches of RIDF which were contracted at higher rates.

RIDF - IX

RIDF IX has been established with NABARD with a corpus of Rs. 5500 crore. The Finance Minister in his budget speech for the year 2002-03 had announced that the interest rate to be charged on loans to state governments out of RIDF VIII onwards would be fixed at 2.0 per cent above the prevailing Bank Rate. Accordingly, the interest rates payable on deposits to be made by contributing banks in RIDF IX will be as indicated below :

Shortfall in lending to agriculture in terms of percentage to net bank credit (i.e., target minus achievement)	Rate of interest on the entire deposit to be made in RIDF IX (per cent per annum)
Less than 2 percentage points	Prevailing Bank Rate plus 1.5 per cent
2 per cent to 4.99 percentage points	Prevailing Bank Rate plus 0.5 per cent
5 per cent to 8.99 percentage points	Prevailing Bank Rate

9 percentage points and above	minus 0.5 per cent Prevailing Bank Rate minus 1.5 per cent
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The above rates are floating rates and linked to the Bank Rate prevailing at the time of sanction of loans to state governments by NABARD.

The actual rate of interest payable to banks on the deposit made in RIDF IX would be communicated by NABARD at the time of making demand for deposit.

Domestic scheduled commercial banks, both in the public and private sector are required to contribute an amount equivalent to the extent of shortfall in achieving their priority sector lending target/agriculture lending target to the RIDF.

The RIDF was established with NABARD pursuant to the Union Finance Minister's budget speech for the year 1995-96, for assisting the state governments and state owned corporations in quick completion of on-going projects relating to minor and medium irrigation, soil conservation, watershed management and other forms of rural infrastructure. Subsequently, further tranches of the RIDF were established on a year-to-year basis by announcements in the Union Budget. The Fund has completed its eighth year of operation.

UCBs

UCBs to undertake Insurance Business

The Reserve Bank has decided to permit scheduled urban co-operative banks (UCBs) to undertake insurance business. Financially strong UCBs which comply with the following norms may undertake business as corporate agent without risk participation :

The UCB should -

(i) have a minimum net worth of Rs. 100 crore as per the Reserve Bank's latest inspection report;

(ii) not have violated individual and group exposure norms; and

(iii) have complied with the Reserve Bank's instructions on loans and advances to directors/relatives, firms, etc.

Scheduled UCBs fulfilling these norms and desirous of undertaking insurance business as corporate agents may forward their application along with a certified copy of their board resolution and details of their financial position as at the end of the previous quarter, to the Reserve Bank's concerned regional office.

UCBs have been further advised that they should not undertake insurance business without obtaining the Reserve Bank's prior permission.

Insurance has been notified as a form of business which may be undertaken by co-operative banks under Section (6) (1) of the Banking Regulations Act, 1949. Further,

Insurance Regulatory and Development Authority (Licensing of Corporate Agents) Regulations, 2002 also recognises co-operative banks as one of the entities eligible to act as corporate agent or a composite corporate agent.

Branch Banking

Computation of NDTL for Maintenance of CRR/SLR

The Reserve Bank has advised all scheduled commercial banks to reckon their liability in respect of arrangements with correspondent banks for remittance facilities and disbursement of interest/dividend warrants in the following manner :

- When a bank accepts funds from a client under its remittance facility scheme, it becomes a liability ('liabilities to others') in its books. The liability of the bank accepting funds will extinguish only when the correspondent bank honours the drafts issued by the accepting bank to its customers. As such, the balance amount towards drafts issued by the accepting bank on its correspondent bank under the remittance facility scheme and remaining unpaid, should be reflected in the accepting bank's books as an outside liability. It should also be taken into account for computation of net demand and time liabilities (NDTL) for the purpose of cash reserve ratio (CRR)/statutory liquidity ratio (SLR).
- The amount received by correspondent banks should be shown as 'liabilities to the banking system' by them and not as 'liabilities to others'. This liability should be netted off by correspondent banks against their inter-bank assets. Likewise, sums placed by banks issuing drafts/interest/ dividend warrants are to be treated as 'assets with banking system' in their books and may be netted off from their inter-bank liabilities.

It has been observed that banks are not following a uniform practice in reckoning liability in respect of arrangements with correspondent banks for remittance facilities and disbursement of interest/dividend warrants. Under both the arrangements, funds are transferred by accepting bank to its correspondent bank and the correspondent bank is obliged to honour the instruments. Such transfer of funds and obligation of correspondent bank to honour the instruments, however, in no way absolves the primary liability of the accepting bank issuing drafts and interest/dividend warrants to its customers.

Legal Expenses in Suit Filed Accounts

The Reserve Bank has advised banks to adopt the following guidelines for accounting of legal expenses in suit filed accounts :

- Legal expenses by banks in respect of suit-filed accounts should be debited to the profit and loss account as and when incurred. Banks may keep a memorandum control account for monitoring the recovery of such expenses from the borrowers.
- At the time of recovery of the legal expenses from the borrower, the amount recovered should be recognised in the profit and loss account of the year in which the recovery is made.
- Banks should consistently follow this accounting policy while preparing and presenting the financial statement.

Banks have been advised to adopt the revised procedure in a uniform manner from the year ending March 31, 2004.

It was observed that banks follow divergent practices for accounting legal expenses incurred in case of suit filed accounts. Hence, the issue was examined in consultation with the Institute of Chartered Accountants of India.

Depository Services at Extension Counters

Based on requests received from banks, the Reserve Bank has allowed banks registered with the Securities and Exchange Board of India (SEBI) as depository participants, to provide the facility of depository services to its customers at extension counters. The transactions, such extension counters may undertake are :

- Dematerialisation, i.e., converting physical securities into electronic form.
- Rematerialisation, i.e., converting electronic securities balances in the beneficial owners accounts, into physical form.
- Maintaining record of holdings in electronic form.
- Settlement of trades by delivering/receiving underlying securities from/in beneficial owners accounts.
- Providing electronic credit in respect of securities allotted by issuers under initial public offer (IPO).
- Receiving on behalf of demat account holders, non-cash corporate benefits, such as, allotment of bonus and rights shares in electronic form or securities ensuing upon consolidation, stock split or merger/amalgamation of companies.

Banks should comply with the SEBI/National Securities Depository Limited (NSDL)/Central Depository of Securities Limited (CDSL) and any other regulations applicable. The extension counter should not extend credit facility against pledge of dematerialised securities or facilitate securities lending and borrowing thereat.

Interest Rate on NRE Deposits

On a review, the Reserve Bank has decided that, until further notice, the interest rates on fresh repatriable NRE deposits for one to three years contracted effective close of business in India on September 15, 2003 should not exceed 100 basis points (instead of 250 basis points announced on July 17, 2003) above the LIBOR/SWAP rates for US dollar of corresponding maturity.

The maturity period of repatriable NRE deposits would continue to be one to three years and the revised interest rate would also be applicable in case the maturity period exceeds three years.

These changes in interest rates would also apply to repatriable NRE deposits renewed after their present maturity period.

Banks may advise their overseas branches and Indian branches dealing with NRE deposits, the revised interest rates at the earliest.

Forex

Advance Remittance for Imports

With a view to further liberalising and simplifying the procedure for import of goods into India, it has now been decided that ADs may, henceforth, allow advance remittance for import of goods into India as under :

(a) If the amount of advance remittance exceeds USD 100,000 (USD one hundred thousand) or its equivalent, an unconditional, irrevocable standby letter of credit or a guarantee from an international bank of repute situated outside India or a guarantee of an AD in India, if such guarantee is issued against the counter guarantee of an international bank of repute situated outside India, should be obtained.

(b) In cases where the importer (other than a public sector company or a department/undertaking of the Government of India/state governments) is unable to obtain bank guarantee from overseas suppliers and the AD is satisfied about the track record and bonafides of the importer, bank guarantee/standby letter of credit may not be insisted upon for advance remittances upto USD 1,000,000 (US dollars one million). ADs may frame their own internal guidelines to deal with such cases as per a suitable policy framed by the bank's board of directors.

(c) In the case of a public sector company or a department/ undertaking of central/state governments, the requirement of bank guarantee has been specifically waived by the Ministry of Finance, Government of India for advance remittances exceeding USD 100,000.

In June 2003, ADs were permitted to make advance remittance upto USD 100,000 or its equivalent, without bank guarantee for import of goods into India.

Remittance of Salary

It has been decided that Indian citizens employed by a foreign company outside India and on deputation to the office/ branch/subsidiary/joint venture in India of such foreign company, may be allowed to open, hold and maintain a foreign currency account with a bank outside India. They can receive salary payable to them for services rendered to the office/ branch/subsidiary/joint venture in India of the foreign company, by credit to their foreign currency bank account outside India, provided :

(i) the amount credited to such account does not exceed 75 per cent of the salary accrued to or received by such person from the foreign company;

(ii) the remaining salary is paid in rupees in India; and

(iii) the entire salary as accrued in India would be subject to applicable taxes.

Non-diplomatic Staff of Foreign Embassies

The Reserve Bank has advised ADs to allow non-diplomatic staff of foreign embassies in India who are foreign nationals and hold official passport, to maintain foreign currency deposit accounts.

Earlier, in May 2000, diplomatic missions and diplomatic personnel in India were allowed to hold deposits in foreign currency accounts.

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