

Annex: Chronology of Major Policy Developments

Announcement Date	Measures
A) Scheduled Commercial Banks (SCBs)	
2002	
April	<p>11 • The banks were allowed to issue smart cards (both online and offline) to select customers with good financial standing even if they have maintained accounts with the bank for less than 6 months subject to their ensuring the implementation of ‘Know Your Customer’ concept.</p> <p>18 • While reckoning the quantum of unsecured advances and guarantees for applying the norms relating to unsecured advances and guarantees, outstanding credit card dues are to be excluded from the total of unsecured advances.</p> <p>26 • The Reserve Bank approved the merger of ICICI Ltd. with ICICI Bank Ltd., subject to certain conditions.</p> <p>29 • With effect from June 30, 2002, banks and Financial Institutions (FIs) were advised that they 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.</p> <p>• The Non-Resident (Non-Repatriable) Rupee Account Scheme and Non-Resident (Special) Rupee Account Scheme was discontinued effective April 1, 2002.</p>
May	<p>3 • Banks were advised to compute Investment Fluctuation Reserve (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 this purpose.</p> <p>7 • All scheduled commercial banks excluding Regional Rural Banks (RRBs) were advised to maintain with Reserve Bank a Cash Reserve Ratio (CRR) of 5 per cent of Net Demand and Time Liabilities (NDTL) (excluding liabilities subject to zero CRR prescriptions) under Section 42 of the Reserve Bank of India Act, 1934 with effect from fortnight beginning June 1, 2002.</p> <p>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.</p> <p>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.</p> <p>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.</p>

- 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/siphoning of funds therein. The banks and FIs are required to initiate penal measures against wilful defaulters as advised.
- 2002**
- 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 Reserve Bank as well as to Credit Information Bureau (India) Ltd. (CIBIL) 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 were advised to form committees on the same lines as listed companies to look into redressal of shareholders' complaints. Listed banks are 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. was merged with Bank of Baroda effective June 20, 2002.
- The Consultative Group of Directors of Banks and Financial Institutions (Chairman: Dr. A. S. Ganguly), constituted to look into role of Board of Directors of banks / Financial Institutions and make recommendations, for consideration of the Government / Reserve Bank, for making the Boards more effective with a view to minimising risks and over-exposure, submitted its Report to the Reserve Bank. Its implementable recommendations were communicated to the public and private sector banks for adoption and certain recommendations requiring the Central Government approval or legislative amendments were 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 were given the 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 would not be applicable to agricultural advances.
- August 6 • In terms of existing instructions, profit-making banks were permitted to make donations during a financial year aggregating up to one per cent of their published profit for the pervious year. On a review, donations made by the banks to the Prime Minister's Relief Fund were exempted from the above ceiling.
- 16 • Banks were 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 9 • The banks were advised to use the revised Guidance Notes on Management of Credit Risk and Market Risk, which were placed on RBI website, for updating their risk management systems.

November 6 • Unsecured advances given by banks to Self Help Groups (SHGs) against group guarantee were excluded for the purpose of computation of the prudential norms on unsecured guarantees and advances until further notice. It was decided that the matter would be reviewed after a year in the light of growth in aggregate unsecured advances, and the recovery performance of the advance to SHGs.

December 9 • Regarding issue of International Credit Cards to permit settlement of credit card charges out of funds held in the card holders' Non-Resident (Ordinary) Rupee Accounts (NRO) was permitted. Accordingly, authorised dealers were allowed debits to NRO accounts of their Non-Resident Indian / Persons of Indian Origin constituents to the extent of the card limit for use of credit cards issued by banks in India. The debits would also be subject to the conditions for use of the International Credit Cards by residents.

13 • Unsecured advances granted by the branches of foreign banks in India which are backed by the guarantees of their overseas branches may not be taken into account for the purpose of computing the limit on unsecured guarantees and advances.

2002

December 14 • Banks were allowed to open savings bank accounts in the names of State Government departments / bodies / agencies in respect of grants / subsidies released for implementation of various programmes / schemes sponsored by State Governments on production of an authorisation to the bank from the respective Government departments certifying that the concerned Government department or body has been permitted to open savings bank account.

2003

January 16 • It was decided to introduce trading in Government Securities through a nation wide anonymous, order driven, screen based trading system of the stock exchanges, in the same manner in which trading takes place in equities. This facility of trading of government securities on the stock exchanges would be available to banks in addition to the present Negotiated Dealing System (NDS) of the Reserve Bank, which will continue to remain in place. Accordingly, with effect from January 16, 2003, trading of dated Government of India (GOI) securities in dematerialised form was permitted on automated order-driven system of the National Stock Exchange (NSE), The Stock Exchange, Mumbai (BSE) and Over-the-Counter Exchange of India (OTCEI). It was decided that the scheme will subsequently be extended to GOI treasury bills and State Government securities.

24 • While purchasing / discounting / negotiating / rediscounting of genuine commercial / trade bills, banks were given the freedom to decide their own guidelines for assessing / sanctioning working capital limits of borrowers and they may sanction working capital limit as also bills limit to borrowers after proper appraisal of their credit needs and in accordance with the loan policy as approved by their Board of Directors. Guidelines regarding the precautions to be taken by banks were also spelt out.

29 • It was decided to give one more opportunity to the borrowers to come forward for settlement of their outstanding dues. Accordingly fresh guidelines were issued, which provide a simplified, non-discretionary and non-discriminatory mechanism for compromise settlement of chronic NPAs below the prescribed value ceiling. All public sector banks were directed to uniformly implement these guidelines, so that maximum realisation of dues is achieved from the stock of NPAs within the stipulated time. The revised guidelines will cover NPAs (below the prescribed ceiling) relating to all sectors including the small sector. The guidelines will not, however, cover cases of wilful default, fraud and malfeasance.

February 04 • Revised guidelines were issued for financing of infrastructure projects, which defines infrastructure lending and specifies criteria for financing, types of financing by banks, methodology of project appraisal and administrative management. Prudential credit exposure limits, assignment of risk weight for capital adequacy purposes and asset liability management were also provided.

- 05 • As announced in the Union Budget 2002-03, revised guidelines on Corporate Debt Restructuring (CDR) were issued to make operation of CDR mechanism more efficient. One of the main features of the revised guidelines is the provision of two categories of debt restructuring under the CDR system. The accounts, which are classified as 'standard' and 'sub-standard' in the books of the lenders, will be restructured under the first category (Category 1). The accounts which are classified as 'doubtful' in the books of the lenders would be restructured under the second category (Category 2).
- 19 • Detailed guidelines were issued on country risk management and provisioning. These guidelines are applicable only in respect of countries where a bank has exposure of two per cent or more of its assets. It was decided that these guidelines shall be reviewed after one year, taking into account the experience of banks in implementing the guidelines.
- 25 • It was decided to implement the guidelines for consolidated accounting and other quantitative methods to facilitate consolidated supervision. These are based on recommendation of the Working Group (Chairman: Shri Vipin Malik), with suitable changes, wherever considered necessary.
- 26 • The time period allowed to banks for making provision against the net debit balance in the inter-branch account further reduced from one year to six months from the year ending March 31, 2004.
- 2003**
- February 27 • It was decided that banks may recognise income on accrual basis in respect of the three categories of projects under implementation which are classified as 'standard' in terms of the guidelines issued in May 2002.
- 28 • The rate of interest on domestic and ordinary non-resident savings deposits as well as saving deposits under NRE accounts scheme were revised to 3.5 per cent per annum effective March 1, 2003.
- March 19 • The rate of interest on Account 'A' category of Capital Gains Account Scheme – 1988, was revised to 3.5 per cent per annum effective March 01, 2003.
- The eligible banks were permitted to set up more than one OBU, but not in the same Special Economic Zones (SEZ), and allowed to invest their surplus funds outside India under the investment policy framed for this purpose by the Board of Directors of the bank concerned as well as accept deposits from individuals subject to observance of "Know Your Customer" guidelines issued by the Reserve Bank.
- 21 • Banks, while deciding to extend finance to the borrowers who participate in the PSU disinvestment programme, were to advise such borrowers to execute an agreement whereby they undertake to produce the letter of waiver by the Government for disposal of shares acquired under PSU disinvestment programme during the lock-in period, or include a specific provision in the documentation with the Government permitting the pledgee to liquidate the shares during the lock-in period, in case of shortfall in margin requirement or default by the borrower. Banks are permitted to extend finance to the successful bidders even though the shares of the disinvested company acquired / to be acquired by the successful bidder are subjected to a lock-in period / other such restrictions which affect their liquidity, subject to fulfillment of certain conditions.
- April 08 • The ceiling for banks to offer credit / non-credit facilities to Indian Joint Ventures / Wholly Owned Subsidiaries abroad was increased from 5 per cent of the unimpaired Tier I capital to 10 per cent of banks' unimpaired capital funds (Tier I and Tier II capital).

- 23 • The final guidelines on Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002 was issued. The guidelines and directions provide for different aspects of asset reconstruction and securitisation relating to registration, owned fund, permissible business, operational structure for giving effect to the business of securitisation and asset reconstruction, deployment of surplus funds, internal control system, prudential norms, disclosure requirements, *etc.*, so as to facilitate the smooth formation and functioning of Securitisation Companies and Reconstruction Companies. In addition to the guidelines and directions, which are mandatory, the Reserve Bank also issued guidance notes of recommendatory nature covering aspects relating to acquisition of assets, issue of security receipts, *etc.* A set of standard guidelines in the matter of takeover of the management, sale or lease of whole or part of the business of the borrower is being formulated.
- 24 • It was decided that the concessions / credit relaxations to borrowers / customers in the State of Jammu & Kashmir will continue to be operative for a further period of one year *i.e.* upto March 31, 2004.
- 29 • All Scheduled Commercial Banks, excluding Regional Rural Banks (RRBs), were advised to maintain with the Reserve Bank a Cash Reserve Ratio(CRR) of 4.5 per cent of Net Demand and Time Liabilities (NDTL) (excluding liabilities subject to zero CRR prescriptions) under Section 42 of the Reserve Bank of India, Act, 1934 with effect from fortnight beginning June 14, 2003.
- Banks were advised that the maturity period of fresh NRE deposits, with immediate effect, would be 1 to 3 years. Further, the above instructions would apply to NRE deposits renewed after their present maturity.
- May 05 • Banks / all-India Financial Institutions were advised to adopt the broad guidelines and put in place Fair Practices Code regarding applications for loans and their processing, loan appraisal and terms/ conditions, disbursement of loans including changes in terms and conditions, and post disbursement supervision, duly approved by their Board of Directors, not later than August 1, 2003.
- 2003**
- May 07 • To give further relaxation in building IFR it was decided that effective from March 31, 2003 onwards, while IFR would continue to be treated as Tier II capital, it would not be subject to the ceiling of 1.25 per cent of the total risk weighted assets. However, for the purpose of compliance with the capital adequacy norms, Tier II capital including IFR would be considered up to a maximum of 100 per cent of total Tier I capital.
- 23 • The time period for receipt of applications under the One Time Settlement (OTS) Scheme was extended from April 30, 2003 to September 30, 2003 and date of processing applications from October 31, 2003 to December 31, 2003.
- June 26 • As regards dishonour of cheques, it was suggested that in addition to the existing instruction in respect of dishonoured instruments for want of funds, banks may follow the additional instructions *viz.*, procedure for return / despatch of dishonoured cheques, information on dishonoured cheques, and dealing with incidence of frequent dishonour. Banks were also advised to adopt, with the approval of their respective Boards, appropriate procedure for dealing with dishonoured cheques with inherent preventive measures and for preventing any scope for collusion of the staff of the bank or any other person, with the drawer of the cheque for causing delay in or withholding the communication of the fact of dishonour of the cheque to the payee / holder or the return of such dishonoured cheque to him.
- July 17 • Banks were exempt from the requirement of appropriating the profit on sale of securities from Held to Maturity (HTM) category to 'Capital Reserve Account', as a one time measure. This exemption will be applicable only in respect of the identified securities which are sold to the Government of India under the scheme of Government of India's Debt Buyback Programme.

- In order to provide consistency in the interest rates offered to non-resident Indians, the interest rate on fresh repatriable non-resident external (NRE) deposits for one to three years was reduced. Effective July 17, 2003 such interest rate should not exceed 250 basis points above the LIBOR/ SWAP rates for US dollar of corresponding maturity until further notice.
- 29 • Revised guidelines were issued to banks to take the measures in identifying and reporting instances of wilful default. Banks were also advised to create a grievance redressal mechanism for giving a hearing to borrowers who represent that they were wrongly classified as wilful defaulter.
- August 1 • A quick review of the progress in adoption of the recommendations of the Consultative Group of Directors of Bank and Financial Institutions by the banks showed mixed response with some of the banks accepting and implementing them in entirety, while most others were still in the process of implementation.
- 18 • Detailed operational guidelines, to be followed by the banks for the process of take over of bank branches in rural and semi-urban centres, were issued.
- 21 • Regarding computation of NDTL for the purpose of maintenance of CRR / SLR banks were advised to reckon the liability in respect of arrangement with correspondent banks in the following manner:
- (a) The balance amount in respect of the 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 and the same should also be taken into account for computation of NDTL for CRR / SLR purpose.
- (b) The amount received by correspondent banks has to be shown as 'Liabilities to the Banking System' by them and not as 'Liabilities to Others' and this liability could be netted off by the 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 can be netted off from their inter-bank liabilities.
- September 11 • Banks, which are registered with SEBI as Depository Participants, were allowed to provide the facility of Depository Services to its customers at Extension Counters.
- 2003**
- September 13 • In consultation with Institute of Chartered Accountants of India, banks were directed to adopt the following guidelines, effective from March 31, 2004, for accounting legal expenses in suit- filed accounts:
- (a) Legal expenses incurred by banks in respect of suit-filed accounts should be debited to the profit and loss account at the time of incurrence. For the purpose of monitoring the recovery of such expenses from the borrowers, the banks may keep a memorandum control account.
- (b) 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.
- 15 • Banks were directed that, 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, till further notice.
- 16 • It was decided, in consultation with the Government, 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.

- 26 • A new credit facility “*Swarojgar Credit Card (SCC) Scheme*”, was introduced for fishermen, rickshaw owners, self employed persons, *etc.*, to provide adequate and timely credit. *i.e.*, working capital / or block capital or both, from the banking system in a flexible, hassle free and cost effective manner.
- October 10 • It was decided that a bank should not borrow from its Off-shore Banking Units (OBUs) and the exposures of an OBU in the domestic tariff area (DTA) will be restricted to the amount a corporate in the DTA can borrow from an OBU only under the scheme of External Commercial Borrowings (ECBs), subject to FEMA regulations. The aggregate of such exposures should not exceed 25 per cent of its total liabilities as at the close of business of the previous working day, at any point of time.
- 15 • Banks were directed that only those Special Purpose Vehicles (SPVs) would not be treated as investment companies and, therefore, would not be considered as NBFCs for the limited purpose of being eligible for bank finance for PSU disinvestments of Government of India, subject to compliance with the other guidelines and which comply with the following conditions, *viz.*, (a) they function as holding companies, special purpose vehicles, *etc.* with not less than 90 per cent of their total assets as investment in shares held for the purpose of holding ownership stake, (b) they do not trade in these shares except for block sale, (c) they do not undertake any other financial activities, and (d) they do not hold / accept public deposits.
- 18 • Authorised Dealers operating in Special Economic Zones (SEZs) were allowed to raise the External Commercial Borrowings (ECBs) in compliance with the Government of India guidelines, subject to the following conditions: (a) Units in SEZ shall raise ECBs for its own requirement. (b) It shall not transfer or on-lend any borrowed funds to its sister concern or any other unit in Domestic Tariff Area (DTA).
- It was decided, until further notice, that the interest rates on fresh repatriable Non Resident (External) Rupee (NRE) Deposits for one to three years contracted effective close of business in India on October 18, 2003 should not exceed 25 basis points (as against 250 basis points announced on July 17, 2003 and 100 basis points on September 15, 2003) above the LIBOR / SWAP rates for US dollar of corresponding maturity. The changes in interest rates will also apply to repatriable NRE deposits renewed after their present maturity period.
- 21 • Banks were permitted to determine rates of interest on advances without reference to PLR and regardless of the size of loan.

B) Urban Co-operative Banks (UCBs)

2002

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 Reserve Bank (PDs / RRBs / UCBs / SCBs) should necessarily hold their investments in Government securities portfolio in either SGL (with the Reserve Bank) or Constituent SGL (with 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 such (for all CSGL related transactions) with the same bank. Finally, a Reserve Bank 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 Reserve Bank from time to time” may invariably be incorporated in the case of loan agreements.
- December 4 • It was decided that the overall ceiling for loans and advances to directors, their relatives and concerns in which they are interested should be brought down to 5 per cent of the time and demand liabilities (DTL) from the earlier ceiling of 10 per cent of the DTL. Those banks whose outstandings of such loans on September 30, 2002 or thereafter, were more than 5 per cent of their DTL were directed not to sanction any fresh loans / renew the existing facilities to their directors, their relatives and concerns in which they are interested so as to reduce the outstandings of such loans and bring these within the prescribed limit of 5 per cent at the earliest but not later than March 31, 2003.
- 2003**
- March 13 • Primary (urban) co-operative banks were allowed to undertake transactions in dated Government of India (GOI) securities in dematerialised form on automated order driven system of the NSE, BSE and Over-the-Counter Exchange of India (OTCEI) in addition to the existing mode of dealing through SGL accounts with the Reserve Bank or Constituent SGL accounts with the designated entities such as Scheduled Commercial Bank.
- April 29 • All UCBs were advised to introduce mandatory concurrent audit with immediate effect.
- 2003**
- May 14 • It was decided that advances up to Rs.20 lakh per dealer, granted by UCBs to dealers in drip irrigation / sprinkler irrigation systems and agricultural machinery, may be classified under ‘Indirect Finance to Agriculture’ as a part of priority sector lending. As part of priority sector lending, banks are free to extend direct housing loans up to Rs.10 lakh in rural and semi-urban areas also.

- 17 • It was decided to permit non-scheduled UCBs to place deposits with strong scheduled UCBs. Only strong scheduled UCBs complying with certain norms were permitted to deposits from other non-scheduled UCBs.
- 22 • In line with announcement made in Monetary and Credit Policy for the year 2003-04, both gold loans and small loans upto Rs.1 lakh were exempted from the 90 days norm for recognition of loan impairment. These loans would therefore continue to be governed by the 180 days norm for classification as Non Performing Assets (NPAs) even after March 31, 2004.
- June 13 • In order to have a proper reporting system under priority sector advances, all the Primary (Urban) Co-operative Banks were advised to submit half yearly statements (for the half year ending March 31 / September 30) commencing from March 31, 2003, showing the progress made by them in deployment of credit to minority communities to the concerned Regional Office of Urban Banks Department under whose jurisdiction the banks are located. The half yearly statement as indicated above should be submitted within 15 days from the close of the relevant period. The first such report would be for the half-year ended March 31, 2003.
- July 08 • Primary (Urban) co-operative banks which are not a member of NDS–CCIL system, were directed to undertake their transactions in Government securities through gilt account / demat account maintained with NDS member.
- September 05 • Under off-site surveillance (OSS) returns, the number of required statements to be submitted by UCBs, was reduced from 10 to 8. Out of the eight returns, the periodicity of one return is annual and the rest seven would have to be submitted at quarterly intervals.
- 19 • It was decided that, UCBs which have not been classified by the Reserve Bank as Grade II, III or IV may declare dividend, provided, however, that the dividend pay-out does not impair the bank's liquidity position. Banks classified as Grade II should obtain the prior permission from the concerned Regional Office of the Reserve Bank to declare dividend. The consideration on their application will be subject to their compliance with certain parameters.
- Banks may net off all entries representing clearing differences 'receivable' against entries representing clearing differences 'payable', of amounts less than Rs. 500 each which are outstanding in the Clearing Adjustment Accounts for more than three years as on March 31, 2003, *i.e.*, all outstanding entries of less than Rs. 500 each in the Clearing Adjustment Account (receivables against payables) originated on or before March 31, 2000 and outstanding as on March 31, 2003.
- October 18 • It was decided, until further notice, that the interest rates on fresh repatriable Non Resident (External) Rupee (NRE) Deposits for one to three years contracted effective close of business in India on October 18, 2003 should not exceed 25 basis points (as against 250 basis points announced on July 17, 2003 and 100 basis points on September 15, 2003) above the LIBOR / SWAP rates for US dollar of corresponding maturity. The changes in interest rates will also apply to repatriable NRE deposits renewed after their present maturity period.

C) Financial Institutions (FIs)

- 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 dematerialized form by October 2002.
- 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 Reserve Bank) of CCIL also, in addition to the SGL account of the participants with the Reserve Bank.

- 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 Reserve Bank as well as to CIBIL for a period of one 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 follows: for 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 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 not later 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 • 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) 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 Reserve Bank’s extant guidelines.
- 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.

2002

- 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.
- 2003**
- January 20 • With effect from April 1, 2003, FIs have been suggested with two methods for measuring the credit risk exposure inherent in derivatives, viz. the Original Exposure Method and the Current Exposure Method, for determining individual / group borrower exposures. FIs are encouraged to follow the Current Exposure Method.
- May 30 • A revised guideline was issued for compromise settlement of chronic NPAs. The last date for receipt of the applications under the revised One Time Settlement (OTS) Scheme was extended from April 30, 2003 to September 30, 2003 and the date of completion of processing of the applications from October 31, 2003 to December 31, 2003.
- June 20 • The submission of the monthly concurrent audit report to the Reserve Bank was discontinued with immediate effect. With effect from the half-year ended March 31, 2003, major irregularities observed in the concurrent audit report of the treasury transactions should be incorporated in the half-yearly reviews of the investment portfolio and submitted to the Regional Offices of the Department of Banking Supervision (DBS) of the Reserve Bank.
- July 1 • GOI dated securities could be traded on the automated system of the National Stock Exchange, BSE and OTCEI. In order to regulate such trading, FIs have been extended with more facilities by the Reserve Bank, SEBI and Exchanges.
- 17 • FIs were advised to place the Reserve Bank Guidelines on preventing slippage of NPAs before their Board of Directors to initiate appropriate action for implementing the recommended measures, to the extent considered necessary, in keeping with the spirit of the Guidelines.
- 29 • Revised guidelines were issued to FIs to take the measures in identifying and reporting instances of wilful default. Banks were also advised to create a grievance redressal mechanism for giving a hearing to borrowers who represent that they were wrongly classified as wilful defaulter.
- August 1 • Final guidelines on Consolidated Accounting and Consolidated Supervision of the FIs were issued.
- 6 • In order to provide flexibility to both the issuer and investor in the Commercial Paper (CP) market, non-bank entities, including corporates, were allowed to provide unconditional and irrevocable guarantee for credit enhancement for issue of CPs subject to certain conditions.

D) Non-Banking Financial Companies (NBFCs)

- 2002**
- April 22 • The Reserve Bank 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:
- (a) 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.
- (b) 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.
- (c) Stipulation of a cut off date not exceeding six months from the date of sanction of loan for

- The Reserve Bank 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 06
- 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 Constituent’s Subsidiary General Ledger Account (CSGL) with Scheduled Commercial Banks (SCB) / Stock Holding Corporation of India Ltd. (SHCIL), or in a dematerialised account with depositories National Securities Depository Ltd. (NSDL) / Central Depository Services (India) Ltd. (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 dematerialized 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 Reserve Bank for opening a demat / SGL account with any of the organisations mentioned above, but must inform the concerned Regional Office of the Reserve Bank, of the details of the account within one week of doing so.
 - As a depositor protection measure, NBFCs were 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 was 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 were 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 was directed to inform the Reserve Bank 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.
- 2003**
- March 03
- Keeping in view the prevailing interest rates in the entire financial system, the maximum interest rate payable on public deposits of NBFCs was revised to 11 per cent per annum on and from March 4, 2003. It is clarified that this is the maximum permissible rate an NBFC can pay on its public deposits and they are free to offer lower rates. The new rate of interest is applicable to fresh public deposits and renewals of matured public deposits.

July 31 • Regulatory framework of NBFCs was amended to permit ready forward contracts in dated securities and Treasury bills (TBs) issued by the Government of India and dated securities issued by the State Governments.

2003

August 01 • In order to align the prudential norms with those applicable to the banks and FIs, particularly in relation to infrastructure projects, it was decided to amend the prudential norms for NBFCs relating to *inter alia* the following:- 1) Period of non-performing assets; 2) Infrastructure loans; 3) Restructuring or reschedulement or renegotiation; 4) Treatment of restructured standard and sub-standard accounts; 5) Funded interest; 6) Income recognition norms; 7) Provisioning; 8) Eligibility for upgradation of restructured sub-standard infrastructure loans; 9) Conversion of debt into equity or debentures; and 10) Applicability of restructuring and other norms to loans other than infrastructure loans.

28 • A NBFCs, which is a securitisation company or reconstruction company, registered with the Reserve Bank under Section 3 of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002, is exempted from provisions of Sections (45- IA), (45-IB) and (45-IC) of the Reserve Bank of India Act, 1934. Section 45-IA defines requirement of registration and net owned fund, section 45-IB deals with maintenance of percentage of assets in unencumbered approved securities, and section 45-IC deals with reserve funds of NBFCs.

October 28 • The rate of interest on the deposits payable by Non-Banking Financial Companies (NBFCs), Miscellaneous Non-Banking Companies (MNBCs) and Residuary Non-Banking Companies (RNBCs) was capped at 25 basis points above the LIBOR / SWAP rates for US dollar of the corresponding maturity on fresh rapatriable NRE deposits.

Primary Dealers (PDs)

2002

May 08 • PDs were advised to review their call money lending / borrowing positions and fix prudent limits in terms of their net own funds (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 of 40 per cent in the case of dated securities 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 • PDs 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 the Reserve Bank) or CSDL (with bank / PD / FI) or in dematerialized account with depositories.

31 • Satellite dealers scheme was discontinued effective May 31, 2002.

June 05 • 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 / CSDL / 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 NSE / OTCEI / BSE.

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|-------------|----|---|
| 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 up to 25 per cent of their NOFs. It was also advised that their access to borrow in call / notice money market would be up 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. |
| 2002 | | |
| October | 10 | • It was clarified that the limit of 25 per cent of NOF for lending in call / notice money market by PDs will be determined on an “average” basis and not on a daily basis during a reporting fortnight. |
| 2003 | | |
| Jan | 16 | • Buying and selling of Government securities through the stock exchanges commenced in NSE, BSE and OTCEI. |
| | 20 | • Collateralised borrowing and lending obligation (CBLO) was operationalised as a money market instrument through the CCIL. |
| Feb | 21 | • Guidelines were issued to extend eligibility for ready forward (repo) contracts to select categories of gilt account holders, with adequate safeguards to ensure DvP and transparency. The guidelines came into effect from March 3, 2003. |
| March | 24 | • PDs were allowed to avail of FCNR(B) loans for funding their operations, subject to the foreign exchange risk of such loans being hedged at all times at least to the extent of 50 per cent of the exposure. |
| April | 03 | • Operational guidelines were issued to CCIL for operationalisation of Government securities lending scheme. The CCIL was permitted to enter into an arrangement with any of its members for borrowing Government securities for the purpose of handling securities shortage in the settlement of transactions. |
| | 10 | • Operational guidelines were issued to PDs for Portfolio Management Services (PMS). PDs, with prior approval of the Reserve Bank and registration with SEBI, were permitted to offer PMS services only to entities not regulated by the Reserve Bank. |
| June | 03 | • With a view to enabling PDs to manage their exposure to interest rate risks, PDs were allowed to deal in Interest Rate Derivatives (IRDs) in a phased manner. In the first phase, such entities were allowed only in interest rate futures on notional bonds and T-Bills for the limited purpose of hedging the risk in their underlying investment portfolio. Allowing transactions in a wider range of products, as also market making would be considered in the next stage on the basis of the experience gained. |
| | 11 | • Based on the feedback, PDs were allowed to hold trading positions in Interest Rate Futures subject to the certain prudential regulations viz., construction of trading portfolio, interest rate sensitivity of trading portfolio, and accounting for trading positions. |