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MONETARY AND CREDIT INFORMATION REVIEW

POLICY

Repo/Reverse Repo/Marginal Standing Facility Rates

Repo Rate

The repo rate under the liquidity adjustment facility (LAF) has been reduced by 25 basis points from 7.75 per cent to 7.50 per cent from March 19, 2013.

Reverse Repo Rate

Consequent to the change in repo rate, the reverse repo rate under the LAF stands automatically adjusted to 6.50 per cent from March 19, 2013.

Marginal Standing Facility

The marginal standing facility (MSF) rate stands automatically adjusted to 8.50 per cent from March 19, 2013.

Bank Rate

The Bank Rate stands adjusted by 25 basis points from 8.75 per cent to 8.50 per cent with effect from March 19, 2013. All penal interest rates on shortfall in reserve requirements, which are specifically linked to the Bank Rate, also stand revised as indicated below:

Item	Existing Rate	Revised Rate (Effective from March 19, 2013)
Penal interest rates on shortfalls in reserve requirements (depending on duration of shortfalls).	Bank Rate plus 3.0 percentage points (11.75 per cent) or Bank Rate plus 5.0 percentage points (13.75 per cent).	Bank Rate plus 3.0 percentage points (11.50 per cent) or Bank Rate plus 5.0 percentage points (13.50 per cent).

Standing Liquidity Facilities for Banks/PDs

The interest rate charged on the standing liquidity facilities provided to banks under export credit refinance (ECR) and special export credit refinance (SECR) and to primary dealers (PDs) (collateralised liquidity support) from the Reserve Bank would be at the revised repo rate, i.e., at 7.50 per cent from March 19, 2013.

Performance Audit of Agricultural Debt Waiver Scheme

Pursuant to the performance audit of the Agricultural Debt Waiver and Debt Relief Scheme, 2008 undertaken by the office of the Comptroller and Auditor General, serious observations have been made by the Comptroller and Auditor General and it has been, inter alia, desired by the Government of India that -

- The beneficiaries' lists need complete verification with priority being given to areas where indebtedness was high.
- Administrative/accounting lapses on the part of the officials, internal auditors and statutory auditors who were responsible for verification, certification, or for passing the claims be identified and accountability fixed for the lapses. Action needs to be initiated and full responsibility be fixed at the earliest with no exceptions.
- Cases of extending benefits to ineligible beneficiaries must be dealt with on top priority and full recoveries as per law must be made to ensure no loss to the exchequer. It will be the personal responsibility of the institutional heads to ensure that such recoveries are effected in full.
- All cases of tampering of records or alteration, etc., must be identified and scrutinised by higher authority. A decision on each such case in the form of speaking orders must be taken. Stringent action must be initiated against those responsible under the relevant sections of law. This would

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be monitored by the chief vigilance officers of the concerned institutions regularly.

- Debt waiver/debt relief certificates must be issued in all eligible cases immediately and full records of such issuance may be kept ready for inspection.
- A list of eligible beneficiaries who were not extended benefits should also be drawn up and may be examined qualitatively to establish the reasons for such denials. Action may be initiated in all cases where malafides or carelessness appears likely.

PAYMENT SYSTEM

Electronic Payment Transactions

The Reserve Bank has advised banks that with cyber-attacks becoming more unpredictable and electronic payment systems becoming vulnerable to new types of misuse, it is imperative that they should introduce certain minimum checks and balances to minimise the impact of such attacks and to arrest/minimise the damage. Accordingly, with a view to putting in place security and risk control measures, the Reserve Bank has advised banks to -

Securing Card Payment Transactions

- issue all new debit and credit cards only for domestic usage unless international use is specifically sought by the customer. Such cards enabling international usage should essentially be EMV chip and pin enabled;
- convert all existing MagStripe cards to EMV chip card in respect of all customers who have used their cards internationally at least once (for/through e-commerce/ATM/POS);
- fix a threshold limit for international usage for all active Magstripe international cards issued by them. The threshold limit should be determined based on the risk profile of the customer and accepted by the customer. Till such time this process is completed an omnibus threshold limit (say, not exceeding USD 500) as determined by each bank, may be put in place for all debit cards and all credit cards that have not been used for international transactions in the past;
- ensure that the terminals installed at the merchants for capturing card payments (including the double swipe terminals used) are certified for PCI-DSS (Payment Card Industry-Data Security Standards) and PA-DSS (Payment Applications-Data Security Standards);
- frame rules based on the transaction pattern of the usage of cards by the customers in co-ordination with the authorised card payment networks for arresting fraud. This would act as a fraud prevention measure;
- ensure that all acquiring infrastructure that is currently operational on IP (Internet Protocol) based solutions are mandatorily made to go through PCI-DSS and PA-DSS certification. This should include acquirers, processors/aggregators and large merchants;
- move towards real time fraud monitoring system at the earliest;
- provide easier methods (like sms) for the customer to block his card and get a confirmation to that effect after blocking the card;
- move towards a system that facilitates implementation of additional factor of authentication for cards issued in India and used internationally (transactions acquired by banks located abroad); and
- build in a system of call referral in co-ordination with the card payment networks.

Securing Electronic Payment Transactions

Banks may also introduce some additional measures for electronic modes of payment like RTGS, NEFT and IMPS as follows:

- Providing customer induced options for fixing a cap on the value/mode of transactions/beneficiaries. If a customer wants to exceed the cap, an additional authorisation may be insisted upon.
- Limit the number of beneficiaries that may be added in a day per account.
- Introduce a system of alert when a beneficiary is added.
- Put in place a mechanism for velocity check on the number of transactions effected per day/per beneficiary and any suspicious operations should be subjected to alert within the bank and to the customer.
- Introduce additional factor of authentication (preferably dynamic in nature).
- Implement digital signature for large value payments for all customers, to start with, for RTGS transactions.
- Capture internet protocol (IP) address as an additional validation check.
- Sub-membership of banks to the centralised payment systems has made it possible for customers of such sub-members to reap the benefits of the same. Banks accepting sub-members should ensure that the security measures put in place by the sub members are on par with the standards followed by them so as to ensure safety and mitigate the reputation risk.
- Explore the feasibility of implementing new technologies like adaptive authentication, etc., for fraud detection.

Banks are expected to put in place these security measures by June 30, 2013.

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Migrating to CTS 2010 Standards

On a review of the progress made by banks so far in migrating to CTS-2010 standard cheques and in consultation with a few banks and the Indian Banks Association, it has been decided to put in place the following arrangements for clearing of residual non-CTS-2010 standard cheques beyond the cut-off date of March 31, 2013:

- All cheques issued by banks (including DDs/POs) from March 18, 2013 should necessarily conform to CTS-2010 standard.
- Banks should not charge their savings bank account customers for issuance of CTS-2010 standard cheques when they are issued for the first time. Banks may, however, continue to follow their existing policy regarding cheque book issuance for additional issuance of cheques, in adherence to their accepted fair practices code.
- All residual non-CTS-2010 cheques with customers would continue to be valid and accepted in all clearing houses, including the cheque truncation system (CTS) centres, for another four months up to July 31, 2013, subject to a review in June 2013.
- Cheque issuing banks should make all efforts to withdraw the non-CTS-2010 standard cheques in circulation before the extended timeline of July 31, 2013 by creating awareness among customers through sms alerts, letters, display boards in branches/ATMs, log-on message in internet banking, notification on the website, etc.
- A progress report in this regard should be submitted to the Reserve Bank's Department of Payment and Settlement System in the prescribed format, enabling monitoring of the progress made by banks in respect of migration to CTS-2010 standard cheques.
- In addition, the bank-wise volume of inward clearing instruments processed in the cheque processing centres will be monitored with respect to the CTS-2010/non-CTS-2010 standard cheques presented on them.
- No fresh post dated cheques (PDC)/equated monthly installment (EMI) cheques (either in old format or new CTS-2010 format) should be accepted by lending banks in locations where ECS/RECS (Debit) facility is available. Lending banks should make all efforts to convert existing PDCs in such locations into ECS/RECS (Debit) by obtaining fresh mandates from the borrowers.

FEMA

Write-off of Unrealised Export Bills

With a view to further simplifying and liberalising the procedure and for providing greater flexibility to all exporters as well as authorised dealer banks, the Reserve Bank has reviewed its instructions regarding write-off of unrealised export bills. It has now been decided to effect the following liberalisation in the limits of "write-offs" of unrealised export bills:

Write-off Limit	Per Cent
Self "write-off" by an exporter (other than status holder exporter)	5*
Self "write-off" by status holder exporter	10*
'Write-off" by authorised dealer bank	10*
*of the total export proceeds realised during the previous calendar year	

The above limits will be related to total export proceeds realised during the previous calendar year and will be cumulatively available in a year.

The above "write-off" will be subject to the following conditions:

(a) the relevant amount has remained outstanding for more than one year;

(b) satisfactory documentary evidence is furnished in support of the exporter having made all efforts to realise the dues;

(c) the case falls under any of the undernoted categories:

(i) The overseas buyer has been declared insolvent and a certificate from the official liquidator indicating that there is no possibility of recovery of export proceeds has been produced.

(ii) The overseas buyer is not traceable over a reasonably long period of time.

(iii) The goods exported have been auctioned or destroyed by the port/customs/health authorities in the importing country.

(iv) The unrealised amount represents the balance due in a case settled through the intervention of the Indian Embassy, foreign chamber of commerce or similar organisation.

(v) The unrealised amount represents the undrawn balance of an export bill (not exceeding 10 per cent of the invoice value) remaining outstanding and turned out to be unrealisable despite all efforts made by the exporter.

(vi) The cost of resorting to legal action would be disproportionate to the unrealised amount of the export bill or where the exporter even after winning the court case against the overseas buyer could not execute the court decree due to reasons beyond his control.

(vii) Bills were drawn for the difference between the letter of credit value and actual export value or between the provisional and the actual freight charges but the amount has remained unrealised consequent on dishonour of the bills by the overseas buyer and there are no prospects of realisation.

(d) the exporter has surrendered proportionate export incentives (for cases not covered under A. P. (DIR. Series) Circular No. 3 dated July 22, 2010), if any, availed of in respect of the relative shipments. AD category - I banks should obtain documents evidencing surrender of export incentives availed of before permitting the relevant bills to be written off;

(e) in case of self write-off, the exporter should submit to the concerned AD bank, a chartered accountant's certificate, indicating the export realisation in the preceding calendar year and also the amount of write-off already availed of during

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the year, if any, the relevant GR/SDF nos. to be written off, bill number, invoice value, commodity exported and country of export. The chartered accountant's certificate should also indicate that the export benefits, if any, availed of by the exporter have been surrendered.

The following would, however, not qualify for the "write off" facility:

- Exports made to countries with externalisation problem i.e., where the overseas buyer has deposited the value of export in local currency but the amount has not been allowed to be repatriated by the central banking authorities of the country.
- GR/SDF forms which are under investigation by agencies like, Enforcement Directorate, Directorate of Revenue Intelligence, Central Bureau of Investigation, etc., as also the outstanding bills which are subject matter of civil/criminal suit.

AD banks have been further advised to put in place a system under which their internal inspectors or auditors (including external auditors appointed by authorised dealers) should carry out random sample check/percentage check of "write-off" outstanding export bills.

INFORMATION

Guidelines for Licensing of New Banks in the Private Sector released

The Reserve Bank of India on February 22, 2013, released on its website, the Guidelines for "Licensing of New Banks in the Private Sector". Key features of the guidelines are:

(i) *Eligible promoters:* Entities/groups in the private sector, entities in public sector and non-banking financial companies (NBFCs) would be eligible to set up a bank through a wholly-owned non-operative financial holding company (NOFHC).

(ii) *'Fit and Proper' criteria:* Entities/groups should have a past record of sound credentials and integrity, be financially sound with a successful track record of 10 years. For this purpose, the Reserve Bank may seek feedback from other regulators and enforcement and investigative agencies.

(iii) *Corporate structure of the NOFHC:* The NOFHC should be wholly owned by the promoter/promoter group. The NOFHC should hold the bank as well as all the other financial services entities of the group.

(iv) *Minimum voting equity capital requirements for banks and shareholding by NOFHC:* The initial minimum paid-up voting equity capital for a bank would be Rs.5 billion. The NOFHC should initially hold a minimum of 40 per cent of the paid-up voting equity capital of the bank which would be locked in for a period of five years and which should be brought down to 15 per cent within 12 years. The bank should get its shares listed on the stock exchanges within three years of commencement of business.

(v) *Regulatory framework:* The bank will be governed by the provisions of the relevant acts, relevant statutes and the directives, prudential regulations and other guidelines/ instructions issued by the Reserve Bank and other regulators. The NOFHC should be registered as a NBFC with the Reserve Bank and would be governed by a separate set of directions issued by the Reserve Bank.

(vi) *Foreign shareholding in the bank:* The aggregate non-resident shareholding in the new bank should not exceed 49 per cent for the first 5 years after which it would be as per the extant policy.

(vii) *Corporate governance of NOFHC:* At least 50 per cent of the directors of the NOFHC should be independent directors. The corporate structure should not impede effective supervision of the bank and the NOFHC on a consolidated basis by the Reserve Bank.

(viii) *Prudential norms for the NOFHC:* The prudential norms would be applied to NOFHC both on stand-alone as well as on a consolidated basis and the norms would be on similar lines as that of the bank.

(ix) *Exposure norms:* The NOFHC and the bank should not have any exposure to the promoter group. The bank should not invest in the equity/debt capital instruments of any financial entities held by the NOFHC.

(x) *Business plan for the bank:* The business plan should be realistic and viable and should address how the bank proposes to achieve financial inclusion.

(xi) *Other conditions for the bank :*

- The banks's board should have a majority of independent directors.
- The bank should open at least 25 per cent of its branches in unbanked rural centres (population up to 9,999 as per the latest census).
- The bank should comply with the priority sector lending targets and sub-targets as applicable to the existing domestic banks.
- Banks promoted by groups having 40 per cent or more assets/income from non-financial business would require the Reserve Bank's prior approval for raising paid-up voting equity capital beyond Rs. 10 billion for every block of Rs. 5 billion.
- Any non-compliance of these terms and conditions would attract penal measures including cancellation of the bank's licence.

(xii) *Additional conditions for NBFCs promoting/converting into a bank:* Existing NBFCs, if considered eligible, may be permitted to promote a new bank or convert themselves into banks.

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