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CREDIT INFORMATION REVIEW

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POLICY

Best Practices Code

To bring about a certain minimum level of uniformity with regard to the content and coverage of the Best Practices Code (BPC), the Reserve Bank has prepared guidelines for banks to keep in view while preparing the BPC. The BPC should -

(a) Be a comprehensive and homogenous document.

(b) Not merely constitute of a consolidation/incorporation of instructions/circulars issued by banks from time to time.

(c) Take into account the instructions issued by the Reserve Bank from time to time to banks relating to the common fraud prone areas and their prevention.

(d) Highlight the recommendations of the Ghosh Committee and the Mitra Committee.

(e) Take into account the relevant recommendations of the Narang Committee on Study of Large Value Frauds, Narasimham Committee on Banking Sector Reforms, recommendations of the Estimate Committee on prevention of frauds in public sector banks, etc.

(f) Take into account the instructions of the Central Vigilance Commission, if any, issued from time to time.

(g) Cover all the functional areas like cash, safe custody of valuables (demand draft/telegraphic transfer/letter of credit/ guarantee forms, etc.), deposit accounts, investment portfolio, credit portfolio, foreign exchange transactions, treasury operations, bills portfolio, remittances, cash receipts and payments, issue/payment of demand drafts, clearing transactions, government transactions, letters of credit/ guarantees, etc.

(h) Incorporate practices that would help prevention of losses to the bank's customers and include suitable guidance to its customers. Banks may codify the precautions to be taken by customers and publicise them by placing them on their website or through any other medium.

(i) Be periodically revised and updated in the light of the experience gained, fresh instructions from the Reserve Bank and suggestions made by internal/external auditors.

Banks which have already prepared the BPC may carry out the necessary changes in the document in the light of these guidelines.

The Reserve Bank had, in May 2002, commended to banks implementation of the BPC as a measure to prevent frauds. On an examination of the BPC developed by certain select banks, it was observed that there was no uniformity in their content and coverage. The documents were not prepared as envisaged by the Mitra Committee. The BPC, as envisaged by the Mitra Committee, relates to detailed procedural rules for entering into transactional relations. The main objective is that such procedures, especially those in all fraud-prone areas, should be well documented, compared with national and international best practices, experimented with, and improved upon in the light of the experience gained. Preparation of BPC should involve examination of all procedures, processes, products, activities and systems, existing and future (as and when a new product/ process is introduced). The BPC should be integrated with the overall risk management strategy of the bank. Apart from it being viewed in the context of prevention of frauds, it should also be considered as a part of the strategy to mitigate all possible operational risk losses.

SGSY

The Reserve Bank has advised the state level bankers' committees (SLBCs) to allocate the state-wise credit mobilisation targets indicated by the government, under the swarnjayanti gram swarozgar yojana (SGSY), among

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commercial banks, co-operative banks and regional rural banks. The SLBCs have been further advised to finalise the targets of individual banks on the basis of acceptable parameters like resources, number of rural/semi-urban branches, etc., so that each bank would be in a position to arrive at its corporate target. The Reserve Bank would monitor the achievement of the credit targets by banks.

Banks have been advised to put in all efforts to achieve the credit targets, minimum subsidy credit ratio fixed and maintain per family investment of Rs. 25000.

Lead Banks have been advised to review the performance of credit mobilisation at regular intervals in each state/union territory through the respective SLBC/District Consultative Committee (DCC).

PMRY

All scheduled commercial banks (except regional rural banks) have been advised that the cut-off date for lapsing of sanctions and completion of disbursement for the programme year 2003-2004 under the prime minister's rozgar yojana (PMRY) have been extended to September 30, 2004.

Banks have been advised to issue necessary instructions to all their branches/controlling offices in this regard and ensure achievement of target for the programme year 2003-2004 under the PMRY.

UCBs

Grant of Advances against the Security of Relief Bonds

Reiterating its instructions of June 2, 1993, the Reserve Bank has clarified to urban co-operative banks (UCBs) that they may sanction advances against the security of Relief Bonds issued in different series subject to the conditions detailed below :

(i) UCBs should satisfy themselves regarding the purpose, genuineness of the credit need of the borrower and the end-use of funds lent. Banks should not be guided solely by availability of Relief Bonds as security.

(ii) The rate of interest should be in accordance with the directives on interest rates issued by the Reserve Bank from time to time.

(iii) Banks should keep adequate margin to cover defaults, if any, in repayment of the principal and interest at the appropriate rate.

UCBs have also been advised to exercise caution and keep the following aspects in view while sanctioning loans against relief bonds/certificates :

- There is no provision to record a lien of the lending bank against a government security including bond ledger account. In case the lending bank would like to have the government security as a collateral, it has to be got transferred in its name. As per extant instructions, relief bonds can be held by any banking company if they are transferred in the name of the bank for the limited purpose of obtaining advances against the security of such bonds.
- Third party loans cannot be sanctioned against relief bonds.
- Savings bonds are not eligible for being held as security against loans.

It had been observed that many banks had not got the relief bonds/certificates transferred in their own names before disbursal of loans. Some banks had also reported that the bonds pledged with them but not transferred in their name had been lost. A few instances of fake bonds/certificates had also come to the Reserve Bank's notice. Recently, there was a case where a person, reporting himself to be an agent of the bond holder, had submitted a colour xerox copy of the bond for signature verification of the bond holder.

Hence, UCBs are advised to be vigilant and put in place necessary safeguards to ensure that such irregularities do not take place.

Off-site Surveillance Returns

The Reserve Bank, in consultation with a few primary (urban) co-operative banks (UCBs), has revised the formats of the off-site surveillance (OSS) returns to be submitted by UCBs. The revision has been done with the objective of reducing the volume of data required to be reported by UCBs, while increasing the breadth and depth of information being obtained from these returns. As such, the earlier set of 10 OSS forms has been rationalised and condensed into 8 returns. Out of the 8 returns, the periodicity of one return, viz., Statement on Bank Profile (Return No. 8) is annual and the remaining seven are required to be submitted at quarterly intervals.

UCBs have been advised that the OSS returns required to be submitted at quarterly intervals, should be prepared with reference to the financial position as on March 31, June 30, September 30 and December 31 every year. The Statement on Bank Profile, being an annual return, should be prepared only once every year, with reference to the position as on March 31, i.e., at the end of each financial year.

UCBs have been further advised that all OSS returns should be submitted within one month of the close of the relative quarter/year. If the returns relating to the quarter/year ended March 31 are based on un-audited financial position, a revised set of OSS returns should be submitted as on that date, within 3 weeks of completion of the statutory audit. As such, for the quarter/year ended March 31, UCBs should submit two sets of OSS returns, the first before April 30 and the second within 3 weeks of completion of audit.

The OSS returns should be approved by the board of directors/chief executive officer of the UCB and sent to the Urban Banks Department of the Reserve Bank's regional office under whose jurisdiction the UCB functions and to which the UCB submits other regulatory returns. It is further advised that the Reserve Bank attaches utmost importance to this reporting system and expects UCBs to submit the OSS returns correctly compiled and within the prescribed time.

UCBs may designate and authorise one or two senior official/s who would be responsible for the correct compilation and timely submission of these returns and who would be fully responsible for the information furnished. Such designated authorised reporting official/s (ARO/s) should liase with the officials of the OSS Division of the Reserve Bank's Urban Banks Department. UCBs should indicate the names and designations of the ARO/s to the Reserve Bank's concerned Regional Office while forwarding the OSS returns.

The modified OSS Returns would come into effect from March 31, 2004.

BANKING

Liberalised Remittance Scheme

It has been decided in public interest, that all banks, both Indian and foreign, including those not having an operational presence in India, should seek the Reserve Bank's prior approval for the schemes being marketed by them in India to residents either for soliciting foreign currency deposits for their foreign/ overseas branches or for acting as agents for overseas mutual funds or any other foreign financial services company. While seeking such approval, banks should provide the following information to the Reserve Bank :

- The bank's name and the location of its head office (and local offices, if applicable) with its full address;
- the identity of the primary bank supervisory authority (or authorities) responsible for the supervision of the bank's head office;
- the long-term rating given by an internationally acceptable rating agency such as Moody's or Standard and Poor; and
- full details of the scheme being marketed.

The applications in this regard may be addressed to the Chief General Manager-in-Charge, Department of Banking Operations and Development, Reserve Bank of India, Central Office, Centre-1, World Trade Centre, Cuffe Parade, Mumbai -400005.

These instructions do not restrict the freedom of resident individuals from investing in permissible capital account transactions under the Scheme.

It was noticed that, pursuant to the Reserve Bank announcing a Scheme permitting resident individuals to make remittance for an amount not exceeding USD 25,000 per calendar year for any current or capital account transaction or a combination of both, a number of foreign banks operating in India as well as Indian banks have been soliciting foreign currency deposits from residents under the Scheme. It was also observed that several advertisements appeared soliciting foreign currency funds/deposits at certain interest rates to be placed at overseas centres or on behalf of overseas mutual funds. These advertisements do not contain appropriate disclosures to guide potential depositors. In the case of banks operating in India, concerns arise regarding adequate disclosures from the point of view of protecting the interest of the resident individuals. Further, marketing in India of schemes soliciting foreign currency deposits by foreign entities, not having operational presence in India, also raises supervisory concerns.

Government Sponsored Schemes

As desired by the government, the data on progress under various government sponsored schemes, such as the Swarnjayanti Gram Swarozgar Yojana (SGSY), Swarna Jayanti Shahari Rozgar Yojana (SJSRY) and Scheme of Liberation and Rehabilitation of Scavengers (SLRS) should be obtained/ reviewed by the Reserve Bank on a monthly basis, instead of on quarterly basis.

Banks are, therefore, advised to furnish the data under these schemes to the Reserve Bank on a monthly basis (so as to reach it by the end of the next month to which the data relates). This change in periodicity would be effective from the month of April 2004 onwards and the first such monthly progress report (for the month of April 2004) should be forwarded to the Reserve Bank so as to reach it by end of May 2004. The format for submission of data remains the same.

RTGS System goes Live

The Real Time Gross Settlement (RTGS) System was put in live operations from March 26, 2004. For the time being inter-bank transactions are being put through and the customer related transfers will be enabled in due course.

After about two weeks, other banks/primary dealers will join the System in a phased manner. Depending on their full technical and other preparedness, eligible participants will join the System at an interval of a week. It is expected that all prospective RTGS participants will join the System in about three months.

It may be recalled that as a part of payment system reforms, the Reserve Bank of India had initiated several measures to reduce risks especially settlement and systemic risks, in payment systems. Prime among these initiatives is the Real Time Gross Settlement (RTGS) System for settling interbank transactions on transaction by transaction (i.e., gross) basis, in an online at real time mode. Trial run of the RTGS System was held for about two months with the participation of four banks. During this period, as a measure of abundant caution, the RTGS system, the policies, procedures, security and other aspects were also subjected to a review by an external group of experts.

More information on RTGS is available at the Real Time Gross Settlement System link on the Reserve Bank of India's home page.

EXCHANGE FACILITIES

Current Account Transactions

As a step towards further liberalisation, it has been decided to freely allow the following categories of remittances by residents.

Health Insurance

Authorised Dealers (ADs) may now freely allow remittances towards securing insurance for health from a company abroad. Earlier, such remittances required the approval of the Ministry of Finance (Insurance Division).

Remittance by Artiste

Remittances by artistes e.g., wrestlers, dancers, entertainers, etc., now, do not require the Reserve Bank's prior approval.

Commission for Sale of Property

ADs may now freely allow remittance by way of commission to agents abroad for sale of residential flats/commercial plots in India, upto USD 25,000 or 5 per cent of the inward remittance, per transaction, whichever is higher.

Earlier, such remittances exceeding 5 per cent of the inward remittance required the Reserve Bank's prior approval.

Short-term Credit

Short term credit to overseas offices of Indian companies now does not require the Reserve Bank's prior approval.

Advertisement on Foreign TV

ADs have now been permitted to freely allow remittances for advertisement on foreign television channels. Earlier, the Reserve Bank's prior approval was required in cases where the export earnings of the advertiser were less than Rs.10 lakhs during each of the preceding two years.

Royalty/Lump-sum fee

ADs may now allow remittances for royalty and payment of lump-sum fee provided the royalty does not exceed 5 per cent on local sales and 8 per cent on exports and lump-sum payment does

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not exceed USD two million. Earlier, the Reserve Bank's prior approval was required if the agreement for technical collaboration was not registered with it.

Purchase of Trademark/Franchise

ADs may now freely allow remittances for use of trade mark/ franchise in India. The Reserve Bank's prior approval would, however, be required for remittance towards purchase of trademark/ franchise.

Hiring Charges of Transponders

Proposals for hiring of transponders by TV Channels and internet service providers would now require the prior approval of the Ministry of Information & Broadcasting. Earlier, the Reserve Bank's prior approval was required for remittance of hiring charges of transponders.

Export of Goods by way of Gifts

The limit for export of goods by way of gift has been raised from rupees one lakh to rupees five lakh per annum.

Direct Receipt of Import Bills/Documents

ADs are now permitted to make remittances up to USD 100,000 in respect of import bills/documents which are received directly by importers from their overseas suppliers.

Grant of Rupee loan to NRIs

It has been decided to allow ADs to grant rupee loans to non-resident Indians (NRIs) as per policy laid down by the bank's board of directors. ADs may, however, ensure that the proceeds of the rupee loan are not utilised for any of the following activities :

(i) business of chit fund, or

(ii) nidhi company, or

(iii) agricultural or plantation activities or in real estate business, or construction of farm houses, or

(iv) trading in transferable development rights (TDRs), or

(v) investment in capital market including margin trading and derivatives.

The repayment of the loan may be made by debit to non-resident (external) (NRE)/foreign currency non-resident (FCNR)/non-resident ordinary (NRO) accounts of the non-resident borrowers or out of inward remittances by borrowers. The quantum of loan, rate of interest, margins etc., on such loans may be decided by the ADs based on the relevant directives issued in this regard by the Reserve Bank's Department of Banking Operations and Development.

In May 2000, ADs were allowed to grant loans in rupees to NRIs (i) for personal or business purposes against the security of shares or immovable property in India and (ii) housing loans against the security of houses/flats to be acquired for acquisition of residential accommodation in India.

Loans by Indian Companies to their Overseas Employees

It has been decided to grant general permission to Indian Companies in India to grant loans in foreign currency to the employees of their branches outside India for personal purposes in accordance with their staff welfare scheme/loan rules and other terms and conditions as applicable to their staff resident in India and abroad.

FIRPS Withdrawn

The Reserve Bank reviewed the relevance of the Foreign Inward Remittance Payment System (FIRPS) in consultation with the Foreign Exchange Dealers' Association of India (FEDAI) and has decided to withdraw it as it is no longer used by banks in the wake of electronic credits and online transfer of funds.

Rationalisation of Overseas Foreign Currency Borrowings

It has been decided to rationalise the existing facilities for overseas borrowings and introduce a monitoring and reporting system for all authorised dealers (ADs). The earlier facilities would now be replaced by a single facility, in terms of which, all categories of overseas foreign currency borrowings including existing external commercial borrowings (ECBs) and overdrafts in nostro accounts not adjusted within five days, shall not exceed 25 per cent of their unimpaired Tier-I capital as at the close of the previous quarter, or USD 10 million (or its equivalent), whichever is higher. Fresh borrowings above this limit would require the Reserve Bank's prior approval. Applications for fresh ECBs should be made as per the ECB policy advised by the Reserve Bank in January 2004.

The transactions indicated below would continue to be outside the limit of 25 per cent of unimpaired Tier-I Capital or USD 10 million (or its equivalent),

(i) Overseas borrowings by ADs for the purposes of financing export credit subject to the conditions prescribed in the Reserve Bank's Master Circular of July 1, 2003 on Export Credit in Foreign Currency.

(ii) Subordinated debt placed by head offices of foreign banks with their branches in India as Tier-II capital.

All ADs have been advised to report their total outstanding overseas foreign currency borrowings under all categories as on March 20, 2004 to the Chief General Manager, Foreign Exchange Department, (Forex Markets Division) Central Office, Reserve Bank of India by March 31, 2004.

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Sd/-
Alpana Killawala
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