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RBI SETS UP A REGULATIONS REVIEW AUTHORITY

Background

In order to fulfil its responsibilities in diverse fields, such as, supervision and regulation of banks and other financial entities, public debt management, issue of bonds to the public, exchange control, regulation of some financial markets, issue of currency and coins etc., the Reserve Bank of India has issued a large number of circulars, directives, notifications for compliance by banks, regional offices of the Reserve Bank, market participants and, in some cases, the general public. Banks, financial institutions, market participants, firms and individuals are also required to file various types of returns, either on a regular basis or while seeking a specific approval from the Reserve Bank. All departments of the Reserve Bank are expected to periodically review circulars/directives issued by them and to examine the continued relevance of various returns which are required to be furnished to them. As a result of such reviews, considerable progress has been made in eliminating outdated circulars, forms and returns, and also in simplifying them.

Constitution of the Regulations Review Authority

As part of this review exercise, the Reserve Bank has decided to set up a "Regulations Review Authority" to seek suggestions from the public and various agencies for elimination of unnecessary circulars, cumbersome procedures and forms which do not fulfil their stated purpose, or which are no longer required in view of the changes that have taken place in technology, regulatory framework or market development. The objective is to make the Reserve Bank regulations effective and simple and to reduce unnecessary paper work by the Reserve Bank and others involved.

The Authority will be independent of any department of the Reserve Bank. Through this Authority, it is intended to provide an opportunity to the public at large, to seek a review of the Reserve Bank regulations/forms and procedures, in order to reduce unnecessary paperwork and to make all concerned focus on essentials rather than peripherals. The Authority has been set up for a period of one year from April 1, 1999, and will cease to exist from April 1, 2000, unless it is reconstituted by the Reserve Bank.

Dr. Y.V.Reddy, Deputy Governor, Reserve Bank of India has been appointed as the Regulations Review Authority.

Purpose

The purpose of the Authority is to provide an opportunity to the public at large to question and seek deletion or modification, of any regulation, circular or return issued, or required by the Reserve Bank on the grounds such as, (a) the regulations/circulars/forms do not serve their stated purposes, (b) they are cumbersome and time consuming, (c) they are duplicates and (d) the same objective can be achieved in a much simpler and cost-effective way.

It is clarified that the Authority is not a forum for grievance redressal against the decision of any authority in any individual case.

It is further clarified that the Authority is not a policy making forum, and will not deal with issues relating to overall macro-economics, financial or banking policies.

Who can apply?

Anyone can apply to the Regulations Review Authority - a citizen, a non-resident Indian, an institution (including banks) an association, an academic or even an RBI employee. It is not necessary for the applicant to be an affected party.

Applications are to be made entirely on a voluntary basis. It is emphasised, that unless a specific decision has been taken by the Reserve Bank to change a particular regulation, circular, or form, the existing regulation and practice will continue to be in force. All agencies/public are expected to continue to conform to the Reserve Bank regulations and directives, until they are specifically changed. A mere application to the Authority will not constitute a ground or provide justification for ignoring or violating any of the regulations, etc., currently in force.

What could an applicant seek?

The applicant may suggest a review of any regulation, rule, scheme, circular, advice, form to be filled, or procedures prescribed by the Reserve Bank, in order to fulfil the purposes mentioned above, and to make the RBI regulations simple and effective.

The applicant can also seek a review of the regulations which cover the Reserve Bank employees, such as, staff regulations, provident fund and general regulations.

The applicant may even propose to introduce a regulation to avoid fraud/public inconvenience, or to avoid arbitrariness in processing of cases, or to bring in greater transparency in the Reserve Bank.

How to make an application?

There is no prescribed form for making an application. The applicant may simply put down the details on a plain white paper. The application would no doubt contain the name and address of the applicant, the suggestion made and its justification, in as much detail as possible, with an illustration to enable the Authority to take an expeditious view on the application.

How will the Authority process an application?

The Authority has been given full freedom to evolve its own procedure to process the applications. It has the powers to give personal hearings or seek written clarifications from the applicants or obtain opinions of any persons/organisations.

What are the considerations for the Authority?

While taking a view on an application, the Authority will have the following considerations: whether the purpose for which a regulation was introduced continues to serve that purpose; whether the purpose can be served by any other means, such as, self-regulation, self-declaration, expost random check, etc.; whether the cost of compliance incurred by the regulated is commensurate with the benefits arising out of such a regulation; whether all the information sought by the regulator is being used purposefully and whether such information can be less intrusive and more focussed.

Action on application

The application processing procedure envisages clearly defined time limits for processing at various stages. It is expected that in normal circumstances, the Authority will convey its views on an application to the concerned department of the Reserve Bank within 45 days. All efforts will be made to communicate the Authority's decision to the applicant.

Who should the application be made to ?

The application may be sent to :
The Reserve Bank of India (RRA)
P.O.Box No. 10007
Mumbai 400 001.

or

The Reserve Bank of India (RRA)
16th floor, Central Office Building,

Shahid Bhagat Singh Road,
Mumbai-400 001.
E-Mail : rra@rbi.org.in
Fax : (91)(22) (2662105)

Banking Policy

EXPORT CREDIT IN FOREIGN CURRENCY

The Reserve Bank has announced major simplification and revamping of the Schemes of Export Credit in Foreign Currency, with a view to making credit available to exporters at pre-shipment and post-shipment stages, at internationally competitive rates. As per the existing instructions, interest charged for export credit under the schemes is directly related to the London Inter- bank Offered Rate (LIBOR). Interest rate charged by Indian banks over LIBOR for such credits should not exceed 1.5 per cent. On fresh transactions (from January 1,1999) banks may also use Euro Libor/Euribor, wherever applicable, as the benchmark for the purpose of determining the applicable interest rate. Export credit in foreign currency may be extended in US Dollar, Euro, Pound Sterling and Japanese Yen. Under the revised schemes, export credit is expected to be made available to exporters, without any exchange risk and at rates which are internationally competitive.

The highlights of the revamped schemes of Export Credit in Foreign Currency at internationally competitive rates, are :

- (a) Assessment of export credit limits would be 'need based' and not directly related to the availability of collateral security. As long as the requirement of credit limit is justified on the basis of the exporter's performance and track record, it would not be denied merely on the grounds of non-availability of collateral security.
- (b) In the case of established exporters having satisfactory track records, banks would consider sanctioning 'line of credit' for longer periods, say, three years with in-built flexibility to step-up/step-down the quantum of limits, within the over-all outer limits assessed. The step-up limits would become operative on attainment of pre-determined performance parameters by the exporters. Banks would obtain security documents covering the outer limit sanctioned to the exporters for such longer periods.
- (c) Banks would not insist on submission of export order/letter of credit (LC) for every disbursement of pre-shipment credit, from exporters with consistently good track-records. Instead, a system of periodical submission of a statement of LCs or export orders in hand, would be introduced.
- (d) Banks would adopt any of the methods, viz., projected balance sheet method, turnover method or cash budget method for assessing the working capital requirements of exporter-customers whichever is most suitable/ appropriate to their business.

(e) In the case of consortium finance, once the consortium has approved the assessment, member banks would simultaneously initiate their respective sanctioning processes.

(f) Submission of original sale contract/confirmed order/proforma invoice, would not be insisted upon by banks at the time of handling the export documents, unless required under the terms of the LC.

(g) Banks would sanction peak/non-peak credit facilities for export of seasonal commodities, agro based products, etc.

(h) Banks would permit interchanging of pre and post shipment limits.

Banks have also been advised to simplify their internal procedures, e.g., putting in place a facilitation mechanism for assisting exporter-customers for quick initial scrutiny of credit applications, delegation of higher sanctioning powers to branches for export credit, reducing the intervening layers in the sanction process, bringing out a handbook containing the salient features of the simplified schemes, for the benefit of exporters, and organising periodic exporters meets.

Monitoring Group

The Reserve Bank has constituted a "Monitoring Group of Bankers" consisting of bankers with a Reserve Bank official as convenor, to monitor the implementation by bank branches, of the guidelines of the simplified procedure for release of export credit in foreign currency, at internationally competitive rates. The group will also sort out any operational problems/impediments that might arise in making the foreign currency credit facilities available liberally, to exporters, particularly small and medium scale exporters.

BANKS/FIS TO SUBMIT INFORMATION ON WILFUL DEFAULTERS

The Reserve Bank has asked banks and financial institutions (FIs) to submit to it details of wilful defaulters. Banks and FIs have been asked to report all cases of wilful default, which occurred or are detected after March 31, 1999, on a quarterly basis. The information on wilful default should cover all non-performing borrowal accounts with outstandings (funded facilities and such non-funded facilities which are converted into funded facilities) aggregating Rs.25 lakh and above.

Banks have also been asked to ensure that only the Boards of Directors are empowered to consider fresh limits/renewal/enhancement of limits in the case of wilful defaulters, on the merits of individual cases.

The Reserve Bank, for this purpose, has defined wilful default as :

- (a) deliberate non-payment of dues despite adequate cash flow and good network,
- (b) siphoning off of funds to the detriment of the defaulting unit,

- (c) assets financed have either not been purchased or have been sold and proceeds have been misutilised,
(d) misrepresentation/falsification of records,
(e) disposal/removal of securities without the knowledge of the bank,
(f) fraudulent transactions by the borrower.

It may be recalled that the Central Vigilance Commission (CVC) had asked the Reserve Bank to collect and disseminate among reporting banks and FIs, information on wilful defaults of Rs.25 lakh and above. Pursuant to this, the Reserve Bank, has formulated a scheme under which banks and FIs, viz., IDBI,IFCI and ICICI will be required to submit to the Reserve Bank details of wilful defaults.

Interest Rates on Export Credit of Scheduled Commercial Banks Effective April 1, 1999			
		<u>Interest Rates</u>	
		Existing Upto March 31, 1999	<u>(Effective April 1, 1999)</u> Originally scheduled Now Revised
Per cent per annum			
1. Pre-Shipment Credit			
a)	(i) Upto 180 days	9.0	11.0
	(ii) Beyond 180 days and upto 270 days	12.0	14.0
b)	Against incentives receivable from Government covered by ECGC guarantee upto 90 days	9.0	11.0
2. Post-Shipment Credit			
a)	On demand bills for transit period (as specified by FEDAI)	9.0	'Not exceeding 11.0'
b)	Usance Bills (for total period comprising usance period of export bills, transit period as specified by FEDAI and grace period wherever applicable)		
	i) Upto 90 days	9.0	'Not exceeding 11.0'
	ii) Beyond 90 days and upto 6 months from the date of shipment	11.0	13.0
c)	Against incentives receivable from Government covered by ECGC guarantee upto 90days	9.0	'Not exceeding 11.0'
d)	Against undrawn balances	9.0	'Not exceeding 10.0'

	(upto 90 days) exceeding		exceeding 11.0'	exceeding 10.0'
e)	Against retention money (for supplies portion only) payable within one year from the date of shipment (upto 90 days)	9.0	'Not exceeding 11.0'	'Not exceeding 10.0'
3.	Deferred Credit			
	Deferred credit for period beyond 180 day	Free*	Free*	Free*
4.	Export Credit			
	Not Otherwise Specified			
	(a) Pre-shipment credit	Free*	Free*	Free*
	(b) Post-shipment credit	20.0	20.0	20.0
		(Minimum)	(Minimum)	(Minimum)
* Free - banks are free to decide the rate of interest to be charged.				

The scheme will come into effect from April 1, 1999. Banks and FIs will accordingly have to file the first return on wilful defaults containing cases for the quarter April- June 30, 1999. The return is required to be submitted within one month from the quarter to which it relates. The return should contain inter-alia, the names of directors who are stakeholders only, and not the names of professional/nominee directors of FIs, Central/State Governments. Further, in case of consortium/multiple lending, the information on wilful defaulters should also be shared by bank and FIs with the other participating/financing entities. Cases of wilful defaults at overseas branches should also be reported if such disclosure is permitted under the laws of the host country. Returns for the subsequent quarter should contain fresh cases as well as those reported in the earlier return but should exclude cases which have been subsequently regularised.

Budget and Banking

The Budget for the year 1999-2000 was presented by the Finance Minister on February 27, 1999.

Consequently, the Reserve Bank has directed banks to:

* accelerate the pace of issue of Kisan Credit Cards, to achieve the target of issuing 20 lakh cards during the year, set by the government.

* compute their share of housing finance allocation at 3 per cent of the incremental deposits as on the last reporting Friday of March 1999, over the corresponding figure of the last reporting Friday of March 1998. Banks may even exceed these levels if permitted by their resources. They may also deploy their funds under the housing finance allocation in any of the three categories, i.e., direct finance, indirect finance or investment in bonds of NHB/HUDCO or a combination of all these.

* consider financing marginally profit making central public sector enterprises, for rationalising manpower under the voluntary retirement scheme (VRS). Earlier, banks were advised that they could, while

determining the quantum of financial assistance for modernisation plans of cotton mills, take into account the outgo on account of VRS and gratuity, as rationalisation of manpower under VRS with appropriate financial assistance, as a part of modernisation.

* treat as priority sector lending, credit given by them for food/ agro processing industries

* treat as priority sector lending, credit given by them to NBFCs or other financial intermediaries, for on-lending to the tiny sector

* issue appropriate instructions/guidelines to their controlling offices/branches to assess the potential for self-help groups - bank linkages in their respective service areas and forge linkages with self-help groups either on their own initiative as many banks have done, or after enlisting the support of non-government organisations (NGOs) whose names are made available by the local offices of the National Bank for Agriculture and Rural Development.

* to delegate more powers to branches, to grant ad hoc limits, to simplify applications forms, to fix norms for assessment of credit requirements and to open more SSI branches, for easing bank credit to the SSI sector

Among the other important measures envisaged by the Budget are:

* The scope of the Rural Infrastructure Development Fund (RIDF) to be widened to allow lending to gram panchayats/self-help groups etc., and the corpus to be increased to Rs.3,500 crore

* Provision of Rs.168 crore to be made for recapitlization of Regional Rural Banks.

* Credit linked capital subsidy scheme for construction of cold storages and godowns to be implemented by the Ministry of Agriculture/NABARD.

* A bill to be introduced in Parliament to make amendments in the Recovery of Debts due to Banks and Financial Institutions Act, to strengthen its provisions and to set up more Debt Recovery Tribunals.

* Public Sector Banks to be encouraged to set up settlement advisory committees, to look into chronic cases of overdue loans.

* Rules for NRI investment in India to be simplified.

Reduction in Rates

On March 1, 1999, the Reserve Bank announced reduction in:

- * Bank rate from 9 per cent to 8 per cent, effective from the close of business hours on March 1, 1999.
- * Repo rate from 8 per cent to 6 per cent, effective March 3, 1999.
- * Cash Reserve Ratio (CRR) from 11 per cent to 10.5 per cent effective from the fortnight beginning March 13, 1999.

The scheme requires that the identification of the default be made keeping in view the track record of the borrower and not be decided on the basis of isolated transactions/incidents. The default to be categorised as wilful must be intentional, deliberate and calculated.

The Reserve Bank has asked banks/FIs to form a committee consisting of three general managers/deputy general managers or equivalent to general manager/deputy general manager for identifying cases of wilful default.

The scheme is in addition to the Scheme of Disclosure of Information on Defaulting Borrowers of banks and FIs, introduced by the Reserve Bank in April 1994, under which banks and notified FIs are required to furnish to the Reserve Bank, details of defaulters of Rs.one crore and above, classified as doubtful or loss, and suit filed accounts, as on March 31 and September 30, and in addition to the publication of the list of borrowal accounts, against which banks and FIs have filed suits for recovery of dues as on March 31 every year.

**Statement about ownership and other particulars
concerning CREDIT INFORMATION REVIEW
FORM IV**

- | | | |
|--|---|--|
| 1. Place of publication | : | Mumbai |
| 2. Periodicity of publication | : | Monthly |
| 3. Editor, publisher and printer's name, nationality and address | : | Alpana Kilawala
Indian,
Reserve Bank of India,
Press Relations Division,
Central Office,
Shahid Bhagat Singh Road,
Mumbai 400 001. |
| 4. Names and addresses of individuals who own the newspaper | : | Reserve Bank of India,
Press Relations Division,
Central Office,
Shahid Bhagat Singh Road,
Mumbai 400 001. |

I, Alpana Kilawala, hereby declare that the particulars given above are true to the best of my knowledge and belief.

Sd/-
Alpana Kilawala
Signature of Publisher

Date : March 1, 1999.

Edited and published by Alpana Killawala for the Reserve Bank of India, Press Relations Division, Central Office, Shahid Bhagat Singh Marg, Mumbai 400 001 and printed by her at Mouj Printing Bureau, Khatau Wadi, Girgaon, Mumbai 400 004. Annual Subscription : Rs. 12. Subscription to be remitted to the Director, DRRP (Sales Section), DEAP, Reserve Bank of India, Amar Building, Sir P.M. Road, P.B. No. 1036, Mumbai - 400 001.