

MONETARY AND CREDIT INFORMATION REVIEW

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BANKING POLICY

Guidelines for Banks undertaking PD Business

With a view to expanding the primary dealership (PD) business by including banks which fulfill certain minimum eligibility criteria, the Reserve Bank has finalised the guidelines in this regard. Banks desirous of undertaking primary dealership business may apply to the Reserve Bank provided they fulfill eligibility criteria as follows :

Eligibility Criteria

The categories of banks which would be eligible to apply for PD licence are:

- (i) Banks which do not at present have a partly or wholly owned subsidiary.
- (ii) Indian banks which are presently undertaking PD business through a partly or wholly owned subsidiary and wish to undertake PD business departmentally by merging/taking over the PD business from their partly/wholly owned subsidiary.
- (iii) Foreign banks operating in India who wish to undertake PD business departmentally by merging the PD business being undertaken by group companies.

The above categories of banks would, however, have to fulfill criteria as follows :

- (a) Minimum net owned funds (NOF) of Rs.1,000 crore.
- (b) Minimum capital to risk weighted assets ratio (CRAR) of 9 per cent.

(c) Net non-performing assets (NPAs) of less than 3 per cent and a profit making record for the last three years.

The authorisation granted by the Reserve Bank would be for a period of one year (July-June). Thereafter, the authorisation would be reviewed on a yearly basis based on the performance criteria, such as, underwriting in auctions of primary issuance of government dated securities and treasury bills, fulfillment of bidding commitment and success ratio in the primary market and achieving the turnover ratio in the secondary market, etc.

The Reserve Bank's approval would be subject to compliance with all other relevant laws.

Obligation

The Bank-PDs would be subject to underwriting and all other obligations as applicable to standalone PDs and as may be prescribed from time to time. Further, banks would have to maintain, at any point of time, a minimum portfolio size of Rs.100 crore in their separate subsidiary general ledger (SGL) accounts for PD business.

Prudential Norms

- No separate capital adequacy has been prescribed for PD business. The capital adequacy requirement for a bank would also apply to its PD business.
- Government dated securities and treasury bills under PD business would count for statutory liquidity ratio (SLR).
- The investment valuation guidelines applicable to banks regarding "held for trading" portfolio would also apply to the portfolio of government dated securities and treasury bills earmarked for PD business.
- Banks would have to maintain separate SGL accounts for their subsidiaries. Bank should also develop a proper management information system (MIS) in this regard.

Regulation/Supervision

- The Reserve Bank's instructions to primary dealers would apply to Bank-PDs, to the extent applicable.
- As banks have access to the call money market and the liquidity adjustment facility (LAF) of the Reserve Bank, Bank-PDs will not have separate access to these facilities.
- The Reserve Bank will conduct on-site inspection of Bank-PD business.
- Bank-PDs would be required to submit prescribed returns as advised by the Reserve Bank from time to time.
- A Bank-PD should bring to the Reserve Bank's attention any major complaint against it or action initiated/taken against it by authorities, such as, the stock exchanges, Securities

Exchange Board of India, Central Board of Investigation, Enforcement Directorate, Income Tax, etc.

- The Reserve Bank reserves the right to cancel the Bank-PD authorization if, in its view, the concerned bank has not fulfilled any of the prescribed eligibility and performance criteria.

The Reserve Bank reserves its right to amend or modify these guidelines from time to time, as may be considered necessary.

Banks eligible to apply for primary dealership may approach the Chief General Manager, Department of Banking Operations & Development, Reserve Bank of India, Central Office, World Trade Centre, Cuffe Parade, Colaba Mumbai-400005 for licence for undertaking PD business.

Banks' Exposure to Real Estate Sector

The Reserve Bank has advised all scheduled commercial banks that while appraising loan proposals involving real estate, they should ensure that the borrowers have obtained prior permission from the government/local governments/other statutory authorities for the project, wherever required. In order not to hamper the loan approval process, the proposals could be sanctioned in normal course, however, the disbursements should be made only after the borrower has obtained requisite clearances from the government authorities.

Banking Services through Business Correspondents

The Reserve Bank has advised that presently it is in the process of examining the eligibility criteria, etc. of non-banking finance companies (NBFCs) who could be assigned the role of business correspondent/s by banks. Banks have been advised that, pending this exercise, they may defer selection/use of NBFCs as business correspondent/s. Banks may, however, engage NBFCs licensed under Section 25 of the Companies Act, 1956 as business correspondents.

It may be recalled that in January 2006, the Reserve Bank had advised that under the "business correspondent" model, NGOs/MFIs set up under societies/trust acts, societies registered under Mutually Aided Cooperative Societies Acts or the Cooperative Societies Acts of States, section 25 companies and post offices could be engaged as intermediaries by banks.

BRANCH BANKING

Interest Relief for Farmers

The Union Budget 2006-07 envisaged grant of interest relief of two percentage points in the interest rate on the principal amount up to Rs. 1 lakh on crop loans availed by farmers for kharif and rabi 2005-06. The amount of the relief is to be credited to the borrower's account before March 31, 2006.

Accordingly, the Reserve Bank has advised all scheduled commercial banks to first credit the proposed relief to the farmer's account before March 31, 2006 and thereafter, seek reimbursement.

The interest relief should be worked out on the following basis:

(a) All crop loans for kharif and rabi disbursed to farmers during the financial year 2005-06 would be eligible for the interest relief of two percentage points. Where each crop loan exceeds Rs.1 lakh, the interest relief would be applicable on the principal amount up to Rs.1 lakh only.

(b) Interest relief should be calculated at two percentage points on the amount of the crop loan disbursed from the date of disbursement/drawal up to the date of payment or up to the date beyond which the outstanding loan becomes overdue i.e., March 31, 2006 for kharif and June 30, 2006 for rabi, respectively, whichever is earlier.

Banks may submit their claims to the Chief General Manager-in-Charge, Rural Planning and Credit Department, Reserve Bank of India, Central Office, Mumbai. Banks may also furnish their claims to the Reserve Bank in instalments, as convenient to them. Banks would be reimbursed their claims by way of credit to their accounts with the Reserve Bank within one month of the date of receipt of the claim. The claims submitted by banks would be subject to audit/inspection by the Reserve Bank subsequently.

Banks should maintain information regarding crop loans disbursed and interest relief claimed (branch-wise) at their head office for audit purpose and inspection by the Reserve Bank. For audit purposes all claims should be certified by the statutory auditors and certificates submitted before June 30, 2006 to the Reserve Bank.

Contributions to Prime Minister's National Relief Fund

The Prime Minister's Office (PMO) has advised that branches of nine more banks have been designated for collecting contributions to the Prime Minister's National Relief Fund (PMNRF), in addition to the branches of twelve banks designated earlier.

1. Canara Bank, DDU Marg, New Delhi
2. UCO Bank, 5, Parliament Street, New Delhi
3. Bank of Baroda, 16, Parliament Street, New Delhi
4. HDFC Bank, B-6/3, Safdarjung Enclave, DDA Commercial Complex, New Delhi
5. Standard Chartered Bank, H-2, Connaught Circus, New Delhi-1
6. HSBC Bank, JMD Regent Square, DLF Phase-II, Gurgaon Mehrauli Road, Gurgaon-122 002
7. UTI Bank, New Delhi Main Branch, Statesman House, 148, Barakhamba Road, New Delhi-1
8. Vijaya Bank, Vijaya Building, 17, Barakhamba Road Branch, New Delhi-1

9. ICICI Bank, 13, Community Centre, New Friends Colony, New Delhi-65

Printing IFSC on Cheques

Pursuant to the Institute for Development and Research in Banking Technology (IDRBT) having issued a circular advising banks to allot Indian Financial System Code (IFSC) to all their branches, the Reserve Bank has exhorted banks to expedite the process. Banks have also been advised to print the IFSC of their branch just above the MICR band on the cheques preferably above the serial number of the cheque. The MICR code line would, however, continue to be used for cheque processing.

It may be recalled that the IFSC is a unique code for a branch which is used as the addressing code in user-to-user message transmission through structured financial messaging system (SFMS). Various payment system applications like real time gross settlement (RTGS), national electronic fund transfer (NEFT), etc., also use the IFSC for routing purposes.

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Sd/-

Alpana Killawala

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COMMITTEE

Towards Fuller Capital Account Convertibility

In consultation with the Government of India, the Reserve Bank has appointed a committee to set out a roadmap towards fuller capital account convertibility. The Committee comprises of Shri S.S Tarapore as Chairman and Dr. Surjit S. Bhalla, Shri M.G Bhide, Dr. R.H. Patil, Shri A.V Rajwade and Dr. Ajit Ranade as Members.

The terms of reference of the Committee are :

- (i) To review the experience of various measures of capital account liberalisation in India.
- (ii) To examine implications of fuller capital account convertibility on monetary and exchange rate management, financial markets and the financial system.
- (iii) To study the implications of dollarisation in India of domestic assets and liabilities and internationalisation of the Indian rupee.
- (iv) To provide a comprehensive medium-term operational framework, with sequencing and timing, for fuller capital account convertibility taking into account the above implications and progress in revenue and fiscal deficit of both centre and states.
- (v) To survey regulatory framework in countries which have advanced towards fuller capital account convertibility.
- (vi) To suggest appropriate policy measures and prudential safeguards to ensure monetary and financial stability.
- (vii) To make such other recommendations as the Committee may deem relevant to the subject.

The Committee would commence its work from May 1, 2006 and it is expected to submit its report by July 31, 2006.

FOREX

New Classification of Persons Authorised to deal in Forex

With a view to making foreign exchange easily accessible to common persons and to ensure better customer service through competition, the Reserve Bank has decided to grant licences to select full-fledged money changers (FFMCs), urban co-operative banks (UCBs), and regional rural banks (RRBs) to undertake release/remittance of foreign exchange for certain non-trade related current account transactions. Such entities would be called Authorised Dealers-Category II (ADs – Category II).

Enhanced Activities permitted to ADs - Category II

Transactions for which ADs-Category II would be permitted to release/remit foreign exchange are :

- (a) Private visits.
- (b) Remittance by tour operators/travel agents to overseas agents/principals/ hotels.
- (c) Business travel.
- (d) Fee for participation in global conferences and specialized training,
- (e) Remittance for participation in international events/ competitions (towards training, sponsorship and prize money).
- (f) Film shooting.
- (g) Medical treatment abroad.
- (h) Disbursement of crew wages.
- (i) Overseas education.
- (j) Remittance under educational tie up arrangements with universities abroad.
- (k) Remittance towards fees for examinations held in India and abroad and additional score sheets for GRE, TOEFL, etc.
- (l) Employment and processing, assessment fees for overseas job applications.
- (m) Emigration and emigration consultancy fees.
- (n) Skills/credential assessment fees for intending migrants.
- (o) Visa fees.
- (p) Processing fees for registration of documents as required by the Portuguese/other governments.
- (q) Registration/subscription/membership fees to international organisations.

ADs - Category II would also be permitted to undertake additional activities as decided by the Reserve Bank, on case by case basis.

Grant of AD Category II Licence

Eligibility Criteria

The eligibility criteria would primarily depend on strong financials, good governance, regulatory/prudential comfort and adequate internal control mechanism. Existing FFCs, UCBs and RRBs could be considered for grant of AD-Category II licence .

Existing FFCs

The criteria for upgradation of existing FFCs to AD-Category II include minimum net owned funds of Rs. 10 crore, satisfactory functioning as FFC for at least two years and satisfactory credit report from their bankers.

UCBs

The Reserve Bank would consider grant of license as AD-Category II to UCBs which fulfill the eligibility criteria, on a case by case basis.

RRBs

In view of the wide branch network of RRBs and with a view to providing foreign exchange services at the doorstep of the common person, RRBs which fulfill the eligibility criteria would be considered for grant of licence as AD-Category II.

Opening NOSTRO Account Abroad

The entities proposed to be licensed as AD-Category II would be permitted to undertake transactions that involve conversion of one currency into another. Such transactions may not necessarily require opening and maintaining foreign currency denominated (NOSTRO) account with a bank outside India. To facilitate issuance of foreign currency draft, etc., for such transactions, AD-Category II may, however, enter into arrangements with banks authorised to deal in foreign exchange in India.

Reporting

The AD-Category II would be required to submit monthly statements of transactions as follows :

- (i) Category-wise statement of transactions where the amount exceeds USD 5,000 per transaction initially, so that a review of the threshold could be made in six months and a firmer threshold could be arrived at.
- (ii) Category-wise, transaction-wise statement where the amount exceeds USD 25,000 per transaction.

Inspection/Audit

For AD-Category II, an auditor's certificate confirming compliance with the rules/regulations/directions would be adequate. The Reserve Bank, however, reserves the right to inspect ADs-Category II when considered necessary. The Reserve Bank may also require a special audit of the ADs-Category II depending on the nature of the transactions, by an auditor from the approved list of the Reserve Bank/Institute of Chartered Accountants of India.

KYC/AML Norms

Know your customer (KYC) and anti-money laundering (AML) norms prescribed for FFCs would be applicable to ADs-Category II also.

Classification of Persons Authorised to deal in Foreign Exchange

Present Category	Entities	Revised Category	Major Activities
Authorised Dealer	<ul style="list-style-type: none">Commercial banksState co-operative banksUCBs	Authorised Dealer - Category - I	All current and capital account transactions according to the Reserve Bank's directions issued from time-to-time. (No change).
—	<ul style="list-style-type: none">Upgraded FFCsCo-operative banksRRBsOthers	Authorised Dealer - Category - II	Specified non-trade related current account transactions as also all the activities permitted to full fledged money changers. Any other activity as decided by the Reserve Bank.
—	<ul style="list-style-type: none">Select financial and other institutions	Authorised Dealer - Category - III	Transactions incidental to the foreign exchange activities undertaken by these institutions. (No change)
FFCs	<ul style="list-style-type: none">Department of PostsUCBsOther FFCs	FFCs	Purchase of foreign exchange and sale for private and business visits abroad. (No change)

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