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**MONETARY AND CREDIT
INFORMATION REVIEW**

Important Banking and Financial Developments in 2006

January

- With the objective of extending savings and loan facilities to the underprivileged and the unbanked population, banks advised to use the services of non-government organisations, self help groups, micro finance institutions and other civil society organisations as intermediaries in providing financial and banking services. These intermediaries to act as business facilitators/ correspondents.
- Banks prohibited from crediting proceeds of account payee cheque to the account of any person other than the payee.
- Urban co-operative banks (UCBs)/state co-operative banks (StCBs)/district central co-operative banks (DCCBs) advised to continue charging depreciation on computers on a straight-line method at the rate of 33.3 per cent per annum.
- Multi-state co-operative societies engaged in manufacturing activity permitted to raise external commercial borrowings (ECBs) under the approval route, provided the society is financially solvent, submits its up-to-date audited balance sheet and the proposal complies with all other parameters of ECB guidelines.
- A scheme for small enterprises financial centres formulated for strategic alliance between bank branches and branches of the Small Industries Development Bank of India (SIDBI) located in clusters.

February

- Guidelines on securitisation of standard assets issued to all banks (excluding RRBs) and non-banking financial companies (NBFCs).
- Banks advised to classify loans to power distribution corporations/companies emerging out of bifurcation/restructuring of state electricity boards (SEBs), as indirect finance to agriculture, subject to certain conditions.
- With a view to offering small borrowers an opportunity to settle their non-performing (NPA) accounts with UCBs and become eligible for fresh finance, chief secretaries of

states advised to consider notifying, a simplified mechanism for one-time settlement of loans where the principal amount is equal to or less than Rs.25,000 and which have become doubtful and loss assets as on September 30, 2005.

- Banks, both Indian and foreign, which fulfill certain eligibility criteria, permitted to undertake PD business departmentally.
- Banks and primary dealers (PDs) permitted to undertake intra-day short sale in central government dated securities that they do not own subject to the same being covered by outright purchase in the secondary market within the same trading day.
- Non-scheduled UCBs, having single branch-cum-head-office or having multiple branches within single district, having a deposit base of Rs.100 crore or less exempted from maintaining statutory liquidity ratio (SLR) in prescribed assets up to 15 per cent of their demand and time liabilities (DTL), provided the amount is deposited with the State Bank of India, its subsidiary banks, public sector banks or IDBI Ltd. This exemption to be in force up to March 31, 2008.
- Banks advised to initiate measures considered necessary to comply with the provisions of the Prevention of Money Laundering Act (PMLA), 2002 as also the Rules notified there under on July 1, 2005. The Rules include, maintenance of records of transactions, preservation of information and reporting to financial intelligence unit, Ministry of Finance.

March

- Risk weight and exposure norms for bills discounted under letter of credit (LC) revised.
- While appraising loan proposals involving real estate, banks advised to ensure that borrowers have obtained prior permission from the government/local governments/ other statutory authorities for the project.
- UCBs/StCBs/DCCBs advised to keep in view the advantages of hallmarked jewellery while granting

advances against jewellery and decide on the margin and rates of interest thereon.

- Currency chest facility extended to scheduled UCBs which are registered under the Multi-State Co-operative Societies Act, 2002 and under the State Acts, where the state governments concerned have assured regulatory co-ordination by entering into memorandum of understanding (MoU) with the Reserve Bank.
- Banks advised to print the Indian Financial System Code (IFSC) of their branch just above the MICR band on the cheques, preferably above the serial number of the cheque.
- With a view to making foreign exchange easily accessible to common persons and to ensure better customer service through competition, licences granted to select full-fledged money changers (FFMCs), urban co-operative banks and regional rural banks (RRBs) to undertake release/remittance of foreign exchange for certain non-trade related current account transactions. Such entities to be called Authorised Dealers – Category II.
- Banks advised to credit the interest relief of two percentage points granted on principal amount of up to Rs one lakh on crop loans for kharif and rabi 2005-06 to the farmer's account before March 31, 2006.
- UCBs advised to install dual display note counting machines at the payment counters of their branches for the use of their customers towards building confidence in the minds of the public to accept note packets secured with paper bands.
- The exemption granted to RRBs from 'mark to market' norms in respect of their investments in SLR securities extended up to the financial year 2006-07.
- The ceiling on interest rates on FCNR (B) deposits of all maturities raised by 25 basis points to 'not exceeding LIBOR/SWAP rates' from '25 basis points below the LIBOR/SWAP rates'.

April

- Guidelines issued on Revised Scheme of Underwriting Commitment and Liquidity Support for PDs and banks undertaking PD business departmentally in the wake of the coming into effect the provisions of the Fiscal Responsibility and Budget Management (FRBM) Act. Pursuant to the discontinuance of bidding commitment as one of the obligations of PDs, the methodology for calculating limits for PDs under the Reserve Bank's liquidity support scheme, also revised.
- Banks advised that principal and interest due on working capital loans sanctioned to the poultry industry as also installments and interest on term loans which have fallen due for payment on/after the onset of bird flu, *i.e.*, February 1, 2006 and remaining unpaid, should be converted into term loans.
- Authorised dealers (ADs) permitted to grant extension of time to realise export proceeds up to USD 1 million beyond the period of six months.

- ADs permitted to allow remittances towards initial and recurring expenses of branch offices of Indian entities up to 10 per cent and 5 per cent of the average annual sales/income or turnover during the last two accounting years, respectively.
- RRBs permitted to open/shift offices after obtaining clearance from the empowered committees.
- State level bankers' committee (SLBC) convenors in all states/union territories to identify at least one district in their area for achieving 100 per cent financial inclusion by providing a 'no-frills' account and a general purpose credit card.
- Banks advised to display and update, in their offices/branches as also on their websites, the details of various service charges.
- Well-managed scheduled and non-scheduled UCBs permitted to set up select off-site/on-site ATMs.
- The ceiling on interest rates on non-resident (external) rupee deposits for one to three years maturity raised by 25 basis points to LIBOR/SWAP rates plus 100 basis points for US dollar of corresponding maturity.
- The ceiling interest rate on export credit in foreign currency raised by 25 basis points to LIBOR plus 100 basis points from LIBOR plus 75 basis points.

May

- Banks advised to calculate the interest subvention related to relief measures to specific categories of poultry industry, at four percentage points on the term loans and working capital loans outstanding as on March 31, 2006.
- Risk weight on exposure of banks to commercial real estate increased to 150 per cent from 125 per cent.
- Banks advised that their total exposure to venture capital funds would form a part of their capital market exposure and a higher risk weight of 150 per cent would be assigned to these exposures.
- The general provisioning requirement for banks on standard advances in specific sectors, *i.e.*, personal loans, loans and advances qualifying as capital market exposures, residential housing loans beyond Rs.20 lakh and commercial real estate loans increased to 1.0 per cent from the earlier level of 0.40 per cent.
- Guidelines issued permitting NDS-OM members to enter into 'When Issued' transactions in central government securities that have been notified for issuance but not actually issued.
- Agency commission rates for government business revised. Receipts and pension payments at the rate of Rs.45 and Rs.60 respectively per transaction. Non-pension payments at 9 paise per Rs.100 turnover.

June

- In pursuance with the announcement in the Union Budget, 2006-07, the government to provide interest subvention of two per cent per annum to public sector banks and RRBs in respect of short-term production credit up to Rs.3 lakh extended to farmers.

- Banks (excluding RRBs) advised not to enter into swap transactions involving conversion of fixed rate rupee liabilities in respect of innovative Tier I/Tier II bonds into floating rate foreign currency liabilities.
- Reverse repo rate under the liquidity adjustment facility (LAF) increased by 25 basis points to 5.75 per cent from 5.50 per cent.
- Repo rate under the LAF increased by 25 basis points to 6.75 per cent from 6.50 per cent.
- The standing liquidity facilities provided to banks (export credit eligible for refinance) and primary dealers (collateralised liquidity support) from the Reserve Bank to be available at repo rate i.e., 6.75 per cent from June 9, 2006.
- Consequent upon the enactment of the Reserve Bank of India (Amendment) Bill, 2006, the Reserve Bank having regard to the needs of securing monetary stability in the country, can prescribe the cash reserve ratio (CRR) for scheduled banks without any floor rate or ceiling rate. The statutory minimum CRR requirement of 3 per cent of total demand and time liabilities no longer exists from June 22, 2006. Accordingly, the Reserve Bank will not pay any interest on the CRR balances maintained by banks from the fortnight beginning June 24, 2006.
- Banks to be charged penal interest from the fortnight beginning June 24, 2006, by the Reserve Bank, if they default in maintaining the daily CRR requirement.
- Revised norms issued to banks on utilisation, creation, accounting and disclosures of floating provision, i.e., provisions which are not made in respect of specific non-performing assets or are made in excess of regulatory requirement for provisions for standard assets.

July

- Investments made by UCBs on or after April 1, 2007 in the bonds issued by NHB/HUDCO would not be eligible for classification under priority sector lending.
- Banks advised not to associate themselves with internet based electronic purse schemes which are in the nature of acceptance of deposits that can be withdrawn on demand.
- Stand-alone PDs permitted to diversify their activities in addition to existing business of government securities.
- Banks advised to provide a complaint form along with the name of the nodal officer for complaint redressal, on the homepage of their website to facilitate submission of complaints by customers.
- The fixed reverse repo rate under the LAF increased by 25 basis points from the second LAF of July 25, 2006 to 6.00 per cent from 5.75 per cent.
- The fixed repo rate under LAF revised to 7.00 per cent from the second LAF of July 25, 2006.
- The standing liquidity facilities provided to banks (export credit eligible for refinance) and PDs (collateralised liquidity support) from the Reserve Bank to be available at repo rate i.e., 7.00 per cent.

August

- To further improve customer service for outstation investors, banks advised to pay half-yearly interest/principal of relief/savings bonds to investors at a place of their choice, either by issue of a demand draft, free of cost, or an 'at par' cheque payable at all branches of the bank.
- Prudential framework governing banks' exposure to venture capital funds revised.
- Banks permitted to offer Internet based foreign exchange services, for permitted underlying transactions, in addition to the local currency products already allowed to be offered on Internet based platforms.
- Additional guidelines issued on relief measures to be extended by banks in areas affected by natural calamities.

September

- Banks advised to ensure that within the overall target for priority sector lending and the sub-target of 10 per cent for the weaker sections, the minority communities also receive an equitable portion of the credit.
- In order to improve the quality of service available to customers in branches, banks advised to ensure that the full address/telephone number of the branch is invariably mentioned in the pass books/statement of accounts issued to account holders.
- Banks advised that the Reserve Bank's instructions on moratorium, maximum repayment period, additional collateral for restructured loans and asset classification in respect of fresh finance are applicable to all affected restructured borrowal accounts, including accounts of industries, trade and agriculture.
- Banks' exposure to entities setting up special economic zones (SEZs) or acquiring units in SEZs which includes real estate, to be treated as exposure to commercial real estate sector. Banks to make provisions as also assign appropriate risk weights for such exposures.
- Broad guidelines issued on fair practices to be adopted by all non-banking financial companies (including residuary non-banking companies). NBFCs advised to frame a fair practices code based on these guidelines and get it approved by their board of directors.

October

- Banks advised to invariably offer pass book facilities to all their savings bank account holders (individuals). In case the bank offers the facility of sending the statement of account and the customer chooses to get statement of account, the bank must issue monthly statement of accounts.
- Operational guidelines issued for banks undertaking/proposing to undertake primary dealer business.
- Banks advised that it would not be mandatory to put a clause in the guarantee issued by them, regarding an obligation on the part of the beneficiary of the guarantee to seek confirmation of the controlling office/head office.

- Repo rate increased to 7.25 per cent from 7.0 per cent.
- The standing liquidity facilities provided to PDs by the Reserve Bank to be available at repo rate, i.e., 7.25 per cent.
- Prior public notice about change in control/management to be given by NBFCs and also by the transferor or the transferee or jointly by the parties concerned.

November

- Guidelines on outsourcing of financial services by banks announced.
- The aggregate ceiling on overseas investments by mutual funds registered with the Securities and Exchange Board of India (SEBI) increased from USD 2 billion to USD 3 billion.
- Prudential limit on credit and non-credit facilities to Indian joint ventures/wholly owned subsidiaries abroad enhanced to 20 per cent of unimpaired capital funds.
- Foreign exchange earners allowed to credit up to 100 per cent of their foreign exchange earnings to their exchange earner's foreign currency (EEFC) account.
- Prepayment of ECB up to USD 300 million permitted without the Reserve Bank's approval.
- AD banks permitted to issue guarantees for import of services up to USD 100,000 for securing a direct contractual liability arising out of a contract between a resident and a non-resident provided, the bonafides of the transaction are satisfactory and the documentary evidence for import of services is submitted.
- The lock-in period of 10 years for remittance of sale proceeds of immovable property dispensed with. AD Category - I banks to allow remittances out of balances in NRO accounts including sale proceeds of immovable property provided the amount does not exceed USD one million per financial year.
- Financially sound UCBs registered in states which have signed MoU and those registered under the Multi-State Cooperative Societies Act, 2002 allowed to convert existing extension counters into full-fledged branches.
- 'When issued' trading extended to fresh issues of central government securities on a selective basis.

December

- Importers permitted to book forward contracts for their customs duty component of imports.
- Banks advised to invariably display on the cheque drop-box that 'customers can also tender the cheques at the counter and obtain acknowledgment on the pay-in-slips'. The message to be displayed in English, Hindi and the concerned regional language of the state.
- Forward contracts booked on the basis of declaration of exposures by importers/exporters and based on past performances in excess of 50 per cent of the eligible limit to be on a deliverable basis and cannot be cancelled.
- The CRR maintained by scheduled banks increased by one-half of one percentage point of their net demand and time liabilities (NDTL) in two stages. From the fortnight beginning December 23, 2006, CRR to be increased to 5.25 per cent and from the fortnight beginning January 6, 2007, CRR to be enhanced to 5.50 per cent.
 - Pursuant to the re-classification of NBFCs, companies financing real/physical assets for productive/economic activity to be classified as asset finance company (AFC). The remaining companies continue to be classified as loan/investment companies.
- Corporates permitted to avail ECB of an additional amount of USD 250 million with average maturity of more than 10 years under the approval route, over and above the existing limit of USD 500 million under the automatic route, during a financial year.
- Resident individuals permitted to remit up to USD 50,000 per financial year for any current or capital account transactions or a combination of both, as against the earlier limit of USD 25,000.
- NBFCs permitted to issue co-branded credit cards with banks without risk sharing and to market and distribute mutual fund products for an initial period of two years. .
- Foreign investment in infrastructure companies in securities markets, viz., stock exchanges, depositories and clearing corporations allowed in compliance with SEBI regulations and subject to (i) foreign investment being up to 49 per cent, with foreign direct investment (FDI) cap of 26 per cent and foreign institutional investment cap of 23 per cent; (ii) FDI being approved by FIPB; and FII only through purchases in the secondary market.

