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MONETARY AND CREDIT  
INFORMATION REVIEW

FOREX

RBI Liberalises Forex Rules

On a review of the current macro economic situation and in consultation with the Government of India, it has been decided to accelerate the implementation of the third phase of the recommendations of the Committee on Fuller Capital Account Convertibility (CFCAC) with regard to the foreign exchange outflows. Accordingly, the following measures have been implemented with effect from September 26, 2007.

**Remittance Limit for Resident Individuals Enhanced**

With a view to further liberalise the remittance scheme for resident individuals, the limit has been enhanced from USD 100,000 per financial year to USD 200,000 per financial year (April - March). Accordingly, AD Category – I banks may now allow remittance up to USD 200,000, per financial year, under the scheme, for any permitted current or capital account transaction or a combination of both.

**Prepayment of ECBs**

With a view to providing greater flexibility to corporates in managing their liquidity and interest costs dynamically, the limit for prepayment of external commercial borrowing (ECB) without the Reserve Bank's approval has been enhanced from USD 400 million to USD 500 million. Accordingly, AD Category - I banks may now allow prepayment of ECB up to USD 500 million subject to compliance with the minimum average maturity period as applicable to the loan.

**Limit for Overseas Direct Investment Enhanced**

The limit for total overseas investment of an Indian party in all its joint ventures (JVs) and/or wholly owned subsidiaries (WOSs) abroad has been enhanced to, not exceeding 400 per cent of its net worth. Earlier, the limit was not exceeding 300 per cent of its net worth for companies incorporated in India or bodies created under an Act of Parliament and 200 per cent of net worth in the case of registered partnership firms.

Accordingly, AD Category – I banks may allow overseas investments under the automatic route up to 400 per cent of the net worth of the Indian party, as on the date of the last audited balance sheet.

**Portfolio Investment by Listed Indian Companies**

Listed Indian companies have now been permitted to invest up to 50 per cent of their net worth as on the date of their last audited balance sheet, in the equity of listed foreign companies, which are listed on a recognised stock exchange and rated bonds/fixed income securities issued by overseas companies, under the portfolio investment scheme. Earlier, listed Indian companies could invest up to 35 per cent of their net worth in such portfolio investment.

Further, the requirement of 10 per cent reciprocal share holding in the listed Indian companies by overseas companies for the purpose of portfolio investment outside India by Indian listed companies has been dispensed with.

Accordingly, a listed Indian company can now invest up to 50 per cent of its net worth as on the date of its last audited balance sheet, in (i) shares, and (ii) rated bonds/fixed income securities, rated not below investment grade by accredited/registered credit rating agencies, issued by listed overseas companies.

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## Overseas Investment by MFs

The provisions for overseas investments by mutual funds (MFs) registered with the Securities and Exchange Board of India (SEBI) have been further liberalised as follows :

### *Aggregate Ceiling Enhanced*

The aggregate ceiling for overseas investment by MFs, registered with SEBI, has been enhanced from USD 4 billion to USD 5 billion with effect from September 26, 2007. The existing facility to allow a limited number of qualified Indian mutual funds to invest cumulatively up to USD 1 billion in overseas exchange traded funds, as may be permitted by SEBI, would, however, continue.

### *More Avenues for Overseas Investment*

MFs, registered with SEBI are presently permitted to invest in American Depository Receipts (ADRs)/Global Depository Receipts (GDRs) of Indian and foreign companies, rated debt instruments not below investment grade by accredited/registered credit rating agencies, equity of overseas companies listed on a recognised stock exchange overseas, overseas mutual funds that make nominal investments (say to the extent of 10 per cent of net asset value), unlisted overseas securities and overseas exchange traded funds that invest in securities. To enable MFs to tap a larger investible stock overseas, they are now allowed to invest in additional instruments, subject to the guidelines issued by SEBI. Accordingly, MFs registered with SEBI, can now invest in -

- ADRs/GDRs issued by Indian or foreign companies.
- Equity of overseas companies listed on recognised stock exchanges overseas.
- Initial and follow on public offerings for listing at recognised stock exchanges overseas.
- Foreign debt securities in countries with fully convertible currencies, short term as well as long term debt instruments with rating not below investment grade by accredited/registered credit rating agencies.
- Money market instruments rated not below investment grade.
- Repos in the form of investment, where the counterparty is rated not below investment grade. The repos should not, however, involve any borrowing of funds by MFs.
- Government securities where the countries are rated not below investment grade.
- Derivatives traded on recognised stock exchanges overseas only for hedging and portfolio balancing with underlying as securities.
- Short term deposits with banks overseas where the issuer is rated not below investment grade.
- Units/securities issued by overseas MFs or unit trusts registered with overseas regulators and investing in (a) aforesaid securities, (b) real estate investment trusts listed in recognised stock exchanges overseas, or (c) unlisted overseas securities (not exceeding 10 per cent of their net assets).

## EEFC Account

With a view to giving an opportunity to small and medium enterprises to manage the challenges in the global markets, it has been decided to permit all exporters to earn interest on exchange earner's foreign currency (EEFC) accounts to the extent of outstanding balances of USD 1 million per exporter. This is a purely temporary measure valid up to October 31, 2008 and would be subject to further review.

EEFC account holders can now maintain outstanding balances to the extent of USD 1 million in the form of term deposits up to one year maturing on or before October 31, 2008. The rate of interest would be determined by the banks.

Earlier, EEFC accounts were permitted to be maintained in the form of non-interest bearing current accounts.

## POLICY

### Guidelines on Purchase/Sale of NPAs

The Reserve Bank has advised all commercial banks (excluding RRBs), All-India term lending and refinancing institutions and non-banking financial companies (including residuary non-banking companies) that, while selling non-performing assets (NPAs) they should work out the net present value of the estimated cash flows associated with the realisable value of the available securities net of the cost of realisation. The sale price should not generally be lower than the net present value.

The Reserve Bank has further advised that the same principle should be used in compromise settlements. As the payment of the compromise amount may be in instalments, the net present value of the settlement amount should be calculated and this amount should not generally be less than the net present value of the realisable value of securities.

Banks' boards are required to lay down policies and guidelines covering among other things, valuation procedure to be followed to ensure that the economic value of financial assets is reasonably estimated based on the assessed cash flows arising out of repayments and recovery prospects. It has, however, come to notice of the Reserve Bank that in some cases, NPAs have been sold for much less than the value of available securities and no justification has been given.

### Rupee Export Credit – Period of Interest Subvention Extended

The scheme of providing interest subvention of 2 percentage points per annum to all scheduled commercial banks in respect of rupee export credit to specified categories of exporters, has been extended by three months up to March 31, 2008. Earlier, the scheme was effective from April 01, 2007 to December 31, 2007.

The coverage of the interest subvention scheme has also been extended to include new items as follows:

- a) Jute and carpets
- b) Processed cashew, coffee and tea
- c) Solvent extracted de-oiled cake
- d) Plastics and linoleum

These items are in addition to the categories eligible for interest subvention specified in the Reserve Bank's circular of July 13, 2007.

## Unsolicited Commercial Communications

On a review and also keeping in view the fact that the guidelines for 'telemarketers' issued by Department of Telecommunication (DoT), Government of India, defines a 'telemarketer' as any person/legal entity engaged in the activity of telemarketing (transmission of any message, through telecommunication service, for the purpose of soliciting or promoting any commercial transaction in relation to goods, investments or services), it has been decided, in consultation with Telecom Regulatory Authority of India (TRAI), that in addition to DSAs/DMAAs (Direct Selling Agent / Direct Marketing Agent), banks/their Call Centres, who make solicitation calls, are also required to be registered as Telemarketers with DoT. TRAI have also clarified that banks/their Call Centres, while registering themselves as Telemarketers, will be required to give the details of the telephone numbers used for telemarketing.

TRAI have advised that the pace of registration of DSAs/DMAAs engaged by banks with DoT is very slow. Banks are therefore advised to ensure that all DSAs/DMAAs engaged by them register themselves with DoT as telemarketers at the earliest.

On the issue of Unsolicited Commercial Communications banks were advised in July 2007 (i) not to engage Telemarketers (DSAs/DMAAs) who do not have any valid registration certificate from DoT, Govt of India, as telemarketers, (ii) to furnish the list of Telemarketers (DSAs/DMAAs) engaged by them along with the registered telephone numbers being used by them for making telemarketing calls to IBA to enable IBA to forward the same to TRAI and (iii) to ensure that all Telemarketers (DSAs/DMAAs) presently engaged by them register themselves with DoT as telemarketers.

## Anti-Money Laundering Guidelines

In view of the difficulties expressed by the Money Changers Association in implementing some of the guidelines on anti-money laundering, the Reserve Bank has advised all authorised persons dealing in foreign exchange that -

- ★ Requests for payment in cash by foreign visitors/non-resident Indians may be acceded to the extent of USD 3000 or its equivalent. (Earlier, the limit was USD 2000).
- ★ For establishing a relationship with a business entity like a company/firm, PAN Card may also be accepted as a suitable document in addition to other documents obtained to verify the name, address and business activity of the company/firm.

## Housing Loans - Orders of the Delhi High Court

The Monitoring Committee of Hon'ble Delhi High Court has reiterated the order dated October 12, 2006 in the case of Kalyan Sanstha Welfare Organisation against Union of India and others, as follows:-

'We hereby direct that henceforth banks will check whether the loan sought for is for authorised structure or an unauthorised structure and the banks will obtain an undertaking on an affidavit from the parties seeking such loans that the building is constructed as per sanctioned building plans. Banks shall also ensure that the sanctioned building plans are attached with the undertaking. Let necessary directions be issued in this regard either by the concerned Ministry of Banking or the Reserve Bank of India.'

The Reserve Bank of India accordingly advised banks to ensure that all the branches of banks meticulously adhere to the instructions contained in their circular of November 17, 2006 on the subject.

## RBI Sets Up Committee on Customer Services

The Reserve Bank has set up a Committee on Customer Services to look into customer services provided by the Reserve Bank directly or through banks/institutions with a view to maximise satisfaction to the general public. The Committee, which was set up on September 24, 2007, is headed by Shri H. Prabhakar Rao, former Controller General of Accounts, Government of India and includes Smt. Vani J. Sharma, former Regional Director, Reserve Bank of India and Shri Girish Pai K, Chartered Accountant as members.

The terms of reference of the committee are -

- a) To evaluate the efforts for improving public services to individuals undertaken by the Reserve Bank directly or through banks/institutions, since adoption of Committee on Procedures and Performance Audit on Public Services (CPPAPS) recommendation and to advise the Bank on improving the quality of such services.
- b) To review existing policies and procedures with a view to their rationalisation, keeping in view the technological and other developments since CPPAPS recommendation.
- c) To interact with various fora/associations concerned with customers' interest to the extent it impinges on the services provided by the Reserve Bank.
- d) To tender advice on any other issue relevant to the

Committee's work as also any specific issues referred to it by the Reserve Bank.

The Committee is based in the Reserve Bank's, Regional Office at Bangalore. Among the various aspects which will be looked into by the committee are the following:

- Problems faced by individuals relating to availability of coins and notes and exchange of soiled/mutilated notes at the Reserve Bank's offices and bank branches.
- Banking services relating to foreign exchange transactions of individuals, including encashment of currency/travellers' cheques, acquisition of foreign exchange for various permitted purposes, operation of non-resident accounts and foreign currency accounts of residents, etc.
- Matters relating to government transactions, including payment of pensions through banks, payment of taxes by individuals at the Reserve Bank/bank branches and any other related receipts/payment matters.
- Matters relating to servicing and redemption of Government of India Bonds (relief bonds, savings bonds) sold through the Reserve Bank and banks.

**RRBs**

**Opening of Currency Chests - RRBs**

Regional Rural Banks (RRBs) desirous of opening a currency chest may apply to the regional office concerned of the Reserve Bank's Rural Planning and Credit Department. The RRB should, however, have -

- i) a minimum networth of Rs. 50 crore as per the latest inspection report of National Bank for Agriculture and Rural Development (NABARD);
- ii) earned net profit for the last three years and should not have accumulated losses;
- iii) gross NPA of not more than 10 per cent;
- iv) no cash reserve ratio (CRR)/statutory liquidity ratio (SLR) violations during the previous and current years with reference to the date of application;
- v) not violated any prudential norms including individual and group exposure norms fixed by the Reserve Bank/NABARD; and
- vi) complied with the instructions issued by the Reserve Bank/NABARD on loans and advances to directors, their relatives/firms, etc.

**Opening of Controlling Offices**

The Reserve Bank has advised that the Empowered Committee may, taking into account the local conditions and the financials of a bank, permit a RRB, to open a controlling office, even if it does not have 75 branches.

**8% Savings (Taxable) Bonds, 2003 - Income Tax Act. 1961 - TDS**

RBI has given the clarifications given by Government of India on certain issues relating to tax deduction at source on the interest payable on the bonds issued under captioned scheme, in continuation of the circular of May 31, 2007.

Issue		Comments
(i)	Whether tax will be deducted on existing bond holders or only those who invest after 1.4.2007?	TDS on 8% Savings (Taxable) Bonds, 2003 is effective from 1.6.2007. Any interest credited or paid on 8% Savings (Taxable) Bonds, 2003 on or after 1.6.2007 would attract TDS if the amount of interest exceeds Rs. 10,000 for the financial year. Therefore, date of investment is not a relevant factor. TDS would, thus, apply to existing bond holders also.
(ii)	If tax is to be deducted on interest payable from 1.7.2007 (relating to the period 1.1.2007 to 30.6.2007), will the depositor who has opted for cumulative interest will be issued Form 16A with details of interest accrued and tax deducted thereon for the period 1.1.2007 to 30.6.2007?	Yes. Wherever TDS on interest has been made, Form 16A has to be issued to the depositor.  Tax is to be deducted on interest payable from 1.6.2007 and not from 1.7.2007 as stated in the question.
(iii)	If tax is to be deducted only on maturity for those who have opted for cumulative scheme, what is the position of those who are adopting mercantile system of accounting and offered interest on accrual basis in the past years?	Tax deduction does not have to wait until maturity but is to be made, whenever the interest is credited or paid, whichever is earlier provided the amount of interest credited or paid during the financial year exceeds the threshold limit of Rs. 10,000/-

Banks may issue suitable instructions to designated branches operating the scheme.

**CUSTOMER SERVICE**

**Cheque Collection Policy**

Instructions were issued to banks through the Indian Banks' Association's circular of May 6, 2005, to incorporate the following in the cheque collection policy formulated by them -

- (i) In respect of cheques lost in transit or in the clearing process or at the paying bank's branch, banks should immediately bring it to the notice of the account holder so that the account holder can inform the drawer to record stop payment and can also take care that other cheques issued by him are not dishonoured due to non-credit of the amount of lost cheque/instrument.
- (ii) The onus of such loss lies with the collecting banker and not with the account holder.
- (iii) The bank should reimburse the account holder related expenses for obtaining duplicate cheques and also interest for reasonable delays occurred in obtaining the duplicate cheques.
- (iv) If the cheque/instrument has been lost at the paying bank's branch, the collecting banker should have a right to recover the amount reimbursed to the customer for loss of the cheque from the paying bankers.

Banks were also advised that they cannot make cash payment of account payee cheques as they are crossed cheques. As per banking practice, cash payment of an account payee cheque can be made only if the cross is opened by the drawer of the cheque.

source: Parliament Questions