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MONETARY AND CREDIT INFORMATION REVIEW

POLICY

Disclosure Requirements on Restructured Advances

The Working Group (WG) constituted by the Reserve Bank to Review the existing Prudential Guidelines on Restructuring of Advances (Chairman: Shri B. Mahapatra) had recommended that once the higher provisions and risk weights (if applicable) on restructured advances (classified as standard either abinitio or on upgradation from NPA category) revert back to the normal level on account of satisfactory performance during the prescribed period, such advances should no longer be required to be disclosed by banks as restructured accounts in the "notes on accounts" in their annual balance sheets. However, the provision for diminution in the fair value of restructured accounts on such restructured accounts should continue to be maintained by banks as per the existing instructions. The WG also recommended that banks may be required to disclose:

- Details of accounts restructured on a cumulative basis excluding the standard restructured accounts which cease to attract higher provision and risk weight (if applicable);
- Provisions made on restructured accounts under various categories; and
- Details of movement of restructured accounts.

This recommendation has been accepted by the Reserve Bank in view of the fact that in terms of present guidelines, banks are required to disclose annually all accounts restructured in their books on a cumulative basis even though many of them would have subsequently shown satisfactory performance over a sufficiently long period. As such the present position of disclosures do not take into account the fact that in many of these accounts the inherent weaknesses have disappeared and the accounts are in fact standard in all respects, but continue to be disclosed as restructured advances.

Accordingly, banks are now required to disclose in their published annual balance sheets, under "notes on accounts", information relating to number and amount of advances restructured, and the amount of diminution in the fair value of the restructured advances.

The above disclosure requirements would be effective from the financial year 2012-13.

CRR Reduced

The cash reserve ratio (CRR) of scheduled commercial banks has been reduced by 25 basis points from 4.25 per cent to 4.00 per cent of their net demand and time liabilities (NDTL) with effect from the fortnight beginning February 9, 2013. Local area banks should also maintain CRR at 3.00 per cent of their NDTL up to February 8, 2013 and 4.00 per cent of their NDTL from the fortnight beginning from February 9, 2013.

Repo Rates

The repo rate under the liquidity adjustment facility (LAF) has been reduced by 25 basis points from 8.00 per cent to 7.75 per cent from January 29, 2013. Consequent to the change in the repo rate, the reverse repo rate under the LAF and the marginal standing facility (MSF) rate stand automatically adjusted to 6.75 per cent and 8.75 per cent respectively with effect from January 29, 2013.

Standing Liquidity Facilities

The standing liquidity facilities provided to banks under export credit refinance and special export credit refinance and to primary dealers (PDs) (collateralised liquidity support) from the Reserve Bank would be available at the revised repo rate, i.e., at 7.75 per cent with effect from January 29, 2013.

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Primary Dealers

Role in Corporate Bond Market

With a view to enhance standalone PDs' role in corporate debt market, it has been decided to permit PDs:

- a sub-limit of 50 per cent of net owned funds for investment in corporate bonds within the overall permitted average fortnightly limit of 225 per cent of net owned funds (NOF) as at the end of March of the preceding financial year for call/ notice money market borrowing;
- to invest in Tier II bonds issued by other PDs, banks and financial institutions to the extent of 10 per cent of the investing PD's total capital funds.
- to borrow to the extent of 150 per cent of NOF as at the end of March of the preceding financial year through inter corporate deposits.

Transactions in Corporate Bonds

With a view to further developing the debt market in India, it has been decided to permit standalone primary dealers (PDs) to become members of the Securities and Exchange Board of India (SEBI) approved stock exchanges for the purpose of undertaking proprietary transactions in corporate bonds. While doing so, standalone PDs should comply with all the regulatory norms laid down by SEBI and all the eligibility criteria/rules of stock exchanges.

IRS Contracts

It has been decided to standardise interest rate swap (IRS) contracts in order to improve tradability and facilitate centralised clearing and settlement of IRS contracts in future.

The standardisation of IRS contracts shall be achieved in terms of minimum notional principal amount, tenors, trading hours, settlement calculations etc., which will be prescribed by the Fixed Income Money Market and Derivatives Association of India (FIMMDA) in consultation with the market participants. To begin with, standardisation shall be mandatory for INR Mumbai Inter Bank Offer Rate (MIBOR) -overnight index swap (OIS) contracts. The standardisation requirement shall be mandatory for all IRS contracts other than client trades.

All new INR MIBOR-OIS contracts executed from April 1, 2013 onwards shall be standardised.

Retail issue of Subordinated Debt for raising Tier II Capital

With a view to deepening the corporate bond market in India through enhanced retail participation, banks, while issuing subordinated debt for raising Tier II capital, are encouraged to consider the option of raising such funds through public issue to retail investors. While doing so,however,banks have been advised to adhere to the conditions prescribed in the Reserve Bank's circular of January 13, 2010, so as to ensure that the investor is aware of the risk characteristics of regulatory capital instruments.

BRANCH BANKING

Rupee Term Deposits

The Reserve Bank has reviewed its instructions on interest rates on and premature withdrawal of rupee term deposits and advised banks that –

Interest Rates

The permission to offer differential rates of interest for deposits of the same maturity will now be applicable to bulk deposits of Rs. 1 crore and above. For deposits below Rs.1 crore, the same rate will apply for deposits of the same maturity. Rupee term deposits will include domestic term deposits as well as term deposits under NRO and NRE accounts. Banks have been advised to disclose in advance the schedule of interest rates payable on deposits, including deposits on which differential interest will be paid. Interest paid by banks should be as per the schedule and not be subject to negotiation between the depositor and the bank.

Earlier, banks were permitted to offer, at their discretion, differential rates of interest on single term deposits of same maturity of Rs.15 lakh and above, subject to certain conditions.

Premature Withdrawal

Banks would now have the discretion to disallow premature withdrawal of a term deposit in respect of bulk deposits of Rs.1 crore and above of all depositors, including deposits of individuals and hindu undivided families (HUFs). Banks should, however, notify such depositors of their policy of disallowing premature withdrawal in advance, i.e., at the time of accepting such deposits. On request from a depositor, banks may allow withdrawal of a rupee term deposit of less than Rs.1 crore, before completion of the period of the deposit agreed upon at the time of making the deposit. Banks will have the freedom to determine their own penal interest rates for premature withdrawal of term deposits. Banks should, however, ensure that their depositors are made aware of the applicable penal rates along with the deposit rates.

Earlier, banks were permitted to allow, on request from the depositor, withdrawal of a term deposit before completion of the period of the deposit agreed upon at the time of making the deposit. The bank, at its discretion, could disallow premature withdrawal of large deposits held by entities other than individuals and HUFs.

Bulk Deposits

Henceforth, the expression "bulk deposit" would be used for single rupee term deposits of Rs.1 crore and above.

Earlier, deposits of Rs.15 lakh or any higher threshold approved by the boards of banks were termed "wholesale deposits". The term "bulk deposit", though not specifically defined, was inter-changeably used with wholesale deposits and was occasionally used in the context of asset liability management (ALM) guidelines.

These revised guidelines will be applicable with effect from April 1, 2013.

Gold Deposit Scheme

The Reserve Bank had formulated guidelines for gold deposit scheme to enable banks authorised to deal in gold to prepare their own gold deposit schemes.

The Reserve Bank's guidelines enclosed with its circular dated October 5, 1999 for operation of the gold deposit scheme have been modified as under:

(i) The gold certificate would also mean the final receipt, in dematerialised form or otherwise, issued to a subscriber of the scheme after the gold tendered by him has been assayed and accepted as deposit by the bank. The gold deposit certificate shall be transferable by endorsement and delivery, as hitherto. In case of certificates issued in dematerialised form, however, the depository rules for transfer would apply.

(ii) Exception from fire assay / destructive assay will be provided for physical gold tendered by mutual funds/ gold exchange traded funds approved by Securities and Exchange Board of India (SEBI) and complying with the good delivery norms of the London Bullion Market Association having a fineness of 995.0 parts per thousand accompanied by a certificate acceptable to the designated bank.

(iii) A trust including mutual funds/exchange traded funds registered under SEBI (Mutual Fund) Regulations may deposit under the scheme.

(iv) The maturity period of gold deposits, ranging from six months to seven years, has been changed.

(v) Authorised banks would not be required to obtain prior approval of the Reserve Bank for introducing the scheme. Banks should, however, inform the details of the scheme including names of branches operating the scheme to the Reserve Bank. Banks would be required to report the gold mobilised under the scheme by all branches in a consolidated manner on a monthly basis.

Other guidelines, as amended from time to time, will remain unchanged.

PAYMENT SYSTEM

NEFT - Credit Messages

It has been decided to implement the feature of continuous release of credit messages in the national electronic funds transfer (NEFT) system from March 9, 2013. The required changes in the NEFT processing software at the National Clearing Centre, Mumbai will be implemented after the end of day on March 8, 2013. Any change requirement in the SFMS/NEFT setup at banks' end will be communicated in due course to all the member banks by the Institute for Development and Research in Banking Technology (IDRBT).

The feature of continuous release of credit messages has been introduced with the objective of providing maximum time to beneficiary/destination banks to process the inward NEFT transactions, thereby facilitating more efficient handling of growing transaction volumes in the system. Further, the feature also envisages the optimum use of network resources and processing capacity by spreading the release of messages throughout the one hour time window between the two batch settlements.

Banks are advised to carefully monitor very high value transactions originated from their end as also the availability of funds in their settlement accounts. As clearly indicated in the NEFT Procedural Guidelines messages once sent by the originating bank are irrevocable.

FEMA

EEFC/DDA/RFC Domestic Account

As per the existing instructions, all foreign exchange earners are permitted to retain their foreign exchange earnings in exchange earner's foreign currency (EEFC) account, subject to certain conditions, with an authorised dealer category - I bank in India.

Keeping in view the operational difficulties faced by the account holders and the authorised dealer banks, it has been decided, as a measure of rationalisation, to dispense with the stipulation that EEFC account holders can access the forex market for purchasing foreign exchange only after utilising fully the available balances in their EEFC accounts.

These instructions would also apply to resident foreign currency (RFC) (domestic) and diamond dollar accounts.

NBFCs

Guidelines on Fair Practices Code for NBFCs

The Reserve Bank had issued revised guidelines on Fair Practices Code to be adopted by all non-banking financial companies (NBFCs) while doing lending business. The guidelines were reviewed in view of the creation of a new category of NBFCs viz; NBFC-MFIs and also rapid growth in NBFCs' lending against gold jewellery.

These guidelines, inter alia, also require that the board of directors of NBFCs should lay down appropriate grievance redressal mechanism within the organisation to resolve disputes between the company and its customers and the mechanism should ensure that all disputes arising out of the decisions of lending institutions' functionaries are heard and disposed of at least at the next higher level.

At the operational level, all NBFCs are required to display prominently, for the benefit of their customers, at their branches/ places where business is transacted, the details of the grievance redressal officer belonging to their company as also that of the local office of the Reserve Bank.

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INFORMATION

Financial Literacy Material

The Reserve Bank has prepared a comprehensive Financial Literacy Guide containing Guidance Note for Trainers, Operational Guidelines for conduct of Financial Literacy Camps & Financial Literacy Material as also a Financial Diary and a set of 16 posters. To start with, the entire material has been prepared in Hindi and English. It will also be translated in other Indian languages in due course of time.

The Financial Literacy Guide contains operational guidelines which clearly spell out the manner in which financial literacy camps should be conducted so as to synchronise it with providing financial access and thus linking the financially excluded section with the banking system. The objective of the financial literacy material is to aid creating financial awareness and educate common people on management of money, importance of savings, advantages of saving with banks, other facilities provided by banks and benefits of borrowing from banks. This guide is a ready reckoner for trainers involved in financial literacy and financial inclusion.

The Financial Diary has been prepared for distribution to the target audience with the objective of enabling them to keep a record of their income and expenses leading to better financial planning and understanding of how they spend.

The posters with simple and appealing slogans, communicate the messages of money management, savings, borrowings and basic banking products pictorially, and may be displayed prominently before, during and after the financial literacy camps.

Keeping in view the extent of exclusion, banks need to conduct these financial literacy camps in a mission mode, with the ultimate objective of making financial inclusion a viable business model by capturing the untapped business opportunities. In accordance with the objectives stated above, it is necessary to evaluate the effectiveness of financial literacy efforts in linking the excluded segment to the banking system. State level bankers' committee (SLBC)/district consultative committee (DCC) would review the financial literacy efforts undertaken by financial literacy centres (FLCs) and rural branches under their jurisdiction, as a regular agenda item in their meetings. The details of FLCs along with contact details should be published on the respective SLBC website. Similarly banks' head offices would review the effectiveness of financial literacy efforts undertaken by their FLCs and rural branches. A structured monitoring mechanism both for FLCs and rural branches would be put in place shortly.

Banks' top management, including CMDs, should ensure that all the rural branches and FLCs prepare a calendar for conduct of financial literacy camps in the beginning of the year. They should give wide publicity to the financial literacy drive by attending some of the financial literacy camps conducted by rural branches and FLCs during their outreach visits. In order to ensure consistency in the messages reaching the target audience of financially excluded people during the financial literacy camps, it is necessary for banks to use the Financial Literacy Guide as a standard curriculum to impart basic conceptual understanding of financial products and services. They may also consider converting the contents of this guide into plays, skits, videos, films etc, for use in the financial literacy camps. If necessary, they may get the material published in vernacular languages as well.

The Reserve Bank had earlier issued revised guidelines on financial literacy centres on June 6, 2012, wherein it was advised that FLCs and all the rural branches of scheduled commercial banks should scale up financial literacy efforts through conduct of outdoor financial literacy camps at least once a month, to facilitate financial inclusion through provision of two essentials i.e., 'financial literacy' and easy 'financial access'.

Third Quarter Review of Monetary Policy 2012-13

Dr. D. Subbarao, Governor, Reserve Bank of India, in a meeting with chief executives of major commercial banks presented the Third Quarter Review of Monetary Policy for the year 2012-13 on January 29, 2013. The highlights of the Review are:

Projections

- Baseline projection of GDP growth for 2012-13 revised downwards from 5.8 per cent to 5.5 per cent.
- WPI inflation for March 2013 revised downwards from 7.5 per cent to 6.8 per cent.
- M3 growth for 2012-13 projected at 13 per cent.

Stance

- To provide an appropriate interest rate environment to support growth as inflation risks moderate;
- To contain inflation and anchor inflation expectations; and
- To continue to manage liquidity to ensure adequate flow of credit to the productive sectors of the economy.

Monetary Measures

- Bank Rate adjusted to 8.75 per cent.
- Cash reserve ratio (CRR) of scheduled banks reduced by 25 basis points from 4.25 per cent to 4.00 per cent of their NDTL.
- Repo rate under the liquidity adjustment facility (LAF) reduced from 8.0 per cent to 7.75 per cent.
- Reverse repo rate under the LAF, determined with a spread of 100 basis points below the repo rate, adjusted to 6.75 per cent.
- Marginal standing facility (MSF) rate, determined with a spread of 100 basis points above the repo rate, adjusted to 8.75 per cent.

Expected Outcomes

The policy actions and the guidance are expected to:

- support growth by encouraging investment;
- continue to anchor medium-term inflation expectations on the basis of a credible commitment to low and stable inflation; and
- improve liquidity conditions to support credit flow.

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