



Volume VII ♦ Issue 3
September 2010

MONETARY AND CREDIT
INFORMATION REVIEW

POLICY

Interest Subvention Scheme for Short-Term Crop Loans

Pursuant to the announcement made by the Hon'ble Finance Minister in his Budget Speech for 2010-11, the Government of India will provide interest subvention of 1.5 per cent per annum to public sector banks (PSBs) in respect of short-term production credit up to Rs.3 lakh during the year 2010-11. This amount of subvention will be calculated on the crop loan amount from the date of its disbursement/drawal up to the date of actual repayment of the crop loan by the farmer or up to the due date of the loan fixed by the banks for the repayment of the loan, whichever is earlier, subject to a maximum period of one year. This subvention would be available to public sector banks provided they make available short-term production credit up to Rs. 3 lakh at ground level at 7 per cent per annum.

Accordingly, the Reserve Bank has advised banks to immediately submit their estimates of short-term production credit to farmers up to Rs. 3 lakh during the year 2010-11, to enable it to provide the Government with an estimate of the likely amount of subvention.

The Government of India will also provide additional interest subvention of 2 per cent per annum to PSBs in respect of those farmers who repay their short-term production credit within one year of disbursement/drawal of such loans. This subvention will be available to such farmers on the short-term production credit up to a maximum amount of Rs.3 lakh availed of by them during the year, from the date of disbursement/drawal of the crop loan up to the actual date of repayment by farmers or up to the due date fixed by the bank for repayment of crop loan, whichever is earlier, subject to a maximum period of one year from the date of disbursement. This additional subvention will be available to the PSBs on the condition that the effective rate of interest on short-term production credit up to Rs. 3 lakh for such farmers will now be 5 per cent per annum.

Banks have been advised to give adequate publicity to this scheme so that the farmers can avail of the benefits.

Repo and Reverse Repo Rates increased

The repo rate under the liquidity adjustment facility (LAF) and the reverse repo rate have been increased from September 16, 2010 as under -

Repo Rate - increased by 25 basis points from 5.75 per cent to 6.00 per cent.

Reverse Repo Rate – increased by 50 basis points from 4.50 per cent to 5.00 per cent.

Standing Liquidity Facilities for Banks and PDs

The standing liquidity facilities provided to banks (export credit refinance) and primary dealers (PDs) (collateralised liquidity support) from the Reserve Bank would be available at the revised repo rate, i.e., at 6.0 per cent from September 16, 2010.

Repayment of Gold Loan

Regional rural banks (RRBs) have been permitted to lay down policies with their Board's approval for sanction of gold loan with bullet repayment option subject to the conditions that-

- (i) The amount of gold loan sanctioned does not exceed Rs. 1 lakh at any point of time.
- (ii) The period of loan does not exceed 12 months from the date of sanction.
- (iii) Interest will be charged to the account at monthly rests, but will become due for payment along with repayment of principal only at the end of 12 months from the date of sanction.

CONTENTS	PAGE
POLICY	
Interest Subvention Scheme for Short-Term Crop Loans	1
Repo and Reverse Repo Rates increased	1
Standing Liquidity Facilities for Banks and PDs	1
Repayment of Gold Loan	1
Banking Services in Villages having over 2000 Population	2
No-Frills A/cs for Students availing of Scholarships	2
Delays in Credit/Return of Electronic Transactions	2
Date of Return to be indicated in Cheque Return Memo	2
RTGS/NEFT Return Transactions - Description	2
FEMA	
In-bound Cross Border Money Transfer Service	3
NBFCs	
Participation in Currency Options	3
Regulatory Framework for Core Investment Companies	3
INFORMATION	
Money Transfer Service Scheme	4
Mid-Quarter Review of Monetary Policy 2010-11	4

- (iv) The bank should prescribe a minimum margin to be maintained in case of such loans and accordingly, fix the loan limit taking into account the market value of the security (gold/gold ornament), expected price fluctuations, interest that will accrue during the tenure of the loan, etc.
- (v) Such loans will be governed by the extant income recognition, asset classification and provisioning norms which will be applicable once the principal and interest become overdue.
- (vi) The account would be classified as non-performing asset (NPA) (sub-standard category) even before the due date of repayment, if the prescribed margin is not maintained.

It is clarified that crop loans sanctioned against the collateral security of gold/gold ornaments would continue to be governed by the extant income recognition, asset classification and provisioning norms for such loans.

Banking Services in Villages having over 2000 Population

Pursuant to the announcement made by the Hon'ble Finance Minister in the Union Budget for 2010-2011 that it has been decided to provide appropriate banking facilities to habitations having population in excess of 2000 by March 2012, the Reserve Bank has advised banks that the date of providing banking services through a banking outlet in every village having a population of over 2000 has now been revised to March 2012. March 2011 may, however, be considered as an intermediate target.

It may be recalled that on November 27, 2009, the Reserve Bank had advised all SLBC convenor banks to constitute a Sub-Committee of the District Consultative Committees (DCCs) to draw up a roadmap by March 2010 to provide banking services through a banking outlet in every village having a population of over 2000, by March 2011. Such banking services may not necessarily be extended through a brick and mortar branch but can be provided through any of the various forms of ICT- based models, including through business correspondents.

No-Frills A/cs for Students availing of Scholarships

The Reserve Bank has advised all banks to ensure that they open no-frills accounts or other accounts for students from minority communities or other disadvantaged groups, who wish to avail of the scholarships being awarded by the Ministry through the state/UT governments. While opening such accounts, however, 'know your customer' (KYC) norms as appropriate should be followed.

Delays in Credit/Return of Electronic Transactions

Reiterating its earlier instructions on the procedure to be followed for national electronic funds transfer (NEFT)/national electronic clearing service (NECS)/electronic clearing service (ECS) transactions, the Reserve Bank has advised banks to afford credits to beneficiary accounts or return transactions (uncredited for whatever reason) to the originating/sponsor bank within the prescribed timeline. Any delays in doing so would attract penal provisions.

With a view to ensuring standardisation of the benchmark rate used and bringing in uniformity in penal provisions across the retail payment products, the Reserve Bank has made the following modifications -

NECS/ECS-Credit

The destination bank would be liable to pay penal interest at the current LAF repo rate plus two per cent from the due date of credit till the date of actual credit for any delayed credit to the beneficiary's account. The penal interest should be credited to the beneficiary's account even if no claim is lodged.

NEFT

In the event of any delay or loss on account of error, negligence or fraud on the part of an employee of the destination bank in the completion of funds transfer pursuant to receipt of payment instruction by the destination bank leading to delayed payment to the beneficiary, the destination bank should pay compensation at the current LAF repo rate plus two per cent for the period of delay. In the event of delay in return of the funds transfer instruction for any reason whatsoever, the destination bank should refund the amount together with interest at the current LAF repo rate plus two per cent till the date of refund.

During the NEFT operating hours, originating banks should endeavour to put through the requests for NEFT transactions received by them, either online or across the counters, preferably in the next available batch but, in any case, not exceeding two hours from the time of receipt of the requests. In the likelihood of any delay/possible delay in adhering to this requirement, the originators/customers should be informed of the delay/possible delay and the reasons for the same.

Date of Return to be indicated in Cheque Return Memo

As the 'Cheque Return Memo' that accompanies a cheque dishonoured/returned for any reason is a critical document, more so in case recourse to legal action is necessitated, the Reserve Bank has advised banks to indicate the 'date of return' in the cheque return memo without fail.

It may be recalled that Rule 6 of the Uniform Regulations and Rules for Bankers' Clearing Houses prescribes that instruments returned unpaid should have a signed/initialed objection slip on which a definite and valid reason for refusing payment must be stated.

RTGS/NEFT Return Transactions - Description

The Reserve Bank has advised all RTGS and NEFT member banks to provide the following description in the account statement of customers for RTGS and NEFT Return transactions:

RTGS/NEFT	Description to be Provided
RTGS Return transactions	RTGS-RETURN
NEFT Return transactions	NEFT-RETURN

All RTGS and NEFT participants have been advised to implement these instructions latest by October 1, 2010.

FEMA**In-bound Cross Border Money Transfer Service**

The Reserve Bank has advised that -

- (i) overseas entities authorised by the Reserve Bank under the Payment and Settlement Systems Act, 2007, to operate in-bound cross border money transfer services through agents appointed in India should not enter into any arrangement with any entity regulated by the Reserve Bank, appointed as agent, incorporating any kind of "exclusivity" clause in the contracts which restrict or prohibit the agent from entering into agency relationship with other overseas entities operating in-bound cross border money transfer services;
- (ii) agents appointed by the overseas entities should also not enter into any arrangement with any entity regulated by the Reserve Bank, to function as sub-agents, incorporating any kind of "exclusivity" clause in the contracts; and
- (iii) agents appointed by the overseas entities can enter into agreements with "exclusivity" clause with entities not regulated by the Reserve Bank, only through mutual consent.

The Reserve Bank has further advised that these directions should be complied by December 31, 2010 and all new agreements and renewal of existing agreements executed from September 17, 2010 should not contain the "exclusivity" clause.

NBFCs**Participation in Currency Options**

Non-deposit taking non-banking financial companies (NBFCs) with asset size of Rs. 100 crore and above (NBFCs-ND-SI) have now been permitted to participate in the designated currency options exchanges recognised by the Securities and Exchange Board of India (SEBI) as clients, subject to the guidelines issued by the Reserve Bank's Foreign Exchange Department, only for the purpose of hedging their underlying forex exposures. Such NBFCs should, however, make appropriate disclosures regarding transactions undertaken in their balance sheet.

Regulatory Framework for Core Investment Companies

The Reserve Bank had on April 21, 2010, placed on its website, the proposed guidelines for regulatory framework for core investment companies (CICs) for comments/suggestions. Taking into consideration the feedback received from the market participants, the regulatory framework for core investment companies has been framed as indicated below -

- (i) It is proposed to exempt core investment companies with an asset size of less than Rs.100 crores from the requirements of registration with the Reserve Bank. For this purpose all CICs belonging to a Group will be aggregated.
- (ii) CICs with an asset size of Rs 100 crores or more will be considered as systemically important core investment companies (CICs-ND-SI) and would be required to obtain a certificate of registration (COR) from the Reserve Bank

under Section 45-IA of the Reserve Bank of India Act, 1934 even if they have been advised in the past that registration was not required.

- (iii) *Capital Requirements:* Every CIC-ND-SI should ensure that at all times it maintains a minimum capital ratio whereby its adjusted net worth is not less than 30 per cent of its aggregate risk weighted assets on balance sheet and risk adjusted value of off-balance sheet items as on the date of the last audited balance sheet as at the end of the financial year.
- (iv) *Leverage Ratio:* Every CIC-ND-SI should ensure that its outside liabilities at all times do not exceed 2.5 times its adjusted net worth as on the date of the last audited balance sheet as at the end of the financial year.
- (v) *Exemptions:* A CIC-ND-SI which adheres to the requirements regarding capital requirements and leverage ratio as specified above, may to the extent necessary, be exempted from compliance with:
 - maintenance of statutory minimum net owned fund (NoF); and
 - requirements of "Non-Banking Financial (Non-Deposit Accepting or holding) Companies Prudential Norms (Reserve Bank) Directions, 2007" including requirements of capital adequacy and exposure norms.

Transition Period

- (i) All CICs-ND-SI, irrespective of whether they were specifically exempted in the past from registration with the Reserve Bank or not, should apply to the Reserve Bank for obtaining the CoR within a period of six months from the date of the Notification.
- (ii) In order to operationalise the above dispensation in a non-disruptive manner, companies which apply for CoR within the stipulated time of six months may continue to carry on the existing business till the disposal of their application by the Reserve Bank.
- (iii) Companies which fail to apply within the stipulated period of six months would be regarded as contravening the provisions of Section 45IA of the Reserve Bank of India Act, 1934 if they are regarded as carrying on the business of Core Investment Companies-ND-SI.
- (iv) Companies which presently have an asset size of less than Rs. 100 crore would be required to apply to the Reserve Bank for COR within three months of the date of achieving a balance sheet size of Rs. 100 crore.

Action plan to Comply with Conditions

- (i) CICs-ND-SI applying for COR who do not meet the above conditions, may approach the Reserve Bank's Regional Office in whose jurisdiction they are registered, with an action plan for compliance with these conditions, in order to avail the exemptions stated above.
- (ii) The Reserve Bank may examine the action plan of such CICs-ND-SI that have applied for COR and impose such conditions and restrictions as it deems fit.

Statutory Auditor's Certificate

CICs-ND-SI would be required to submit an annual certificate from their statutory auditors regarding compliance with these guidelines within one month from the date of finalisation of the balance-sheet.

Definition

A core investment company means a NBFC carrying on the business of acquisition of shares and securities which satisfies the following conditions:

- (i) it holds not less than 90 per cent of its total assets in the form of investment in equity shares, preference shares, debt or loans in group companies;
- (ii) its investments in the equity shares (including instruments compulsorily convertible into equity shares within a period not exceeding 10 years from the date of issue) in group companies constitutes not less than 60 per cent of its total assets;
- (iii) it does not trade in its investments in shares, debt or loans in group companies except through block sale for the purpose of dilution or disinvestment; and
- (iv) it does not carry on any other financial activity referred to in Section 45I (c) and 45I (f) of the RBI Act, 1934 except investment in bank deposits, money market instruments, government securities, loans to and investments in debt issuances of group companies or guarantees issued on behalf of group companies.

INFORMATION

Money Transfer Service Scheme

Money transfer service scheme (MTSS) is a quick and easy way of transferring personal remittances from abroad to beneficiaries in India. Only personal remittances, such as, remittances towards family maintenance and remittances favouring foreign tourists visiting India are permissible. The system envisages a tie-up between reputed money transfer companies abroad and agents in India who would disburse the funds to the beneficiaries at ongoing exchange rates. The system does not envisage the repatriation of such inward remittances. The Indian agent is also not allowed to remit any amount on account of exchange loss to the overseas principal.

Legal Provisions

- In terms of Section 4(1) of the Payment and Settlements Systems Act, 2007, no person other than the Reserve Bank shall commence or operate a payment system except under and in accordance with an authorisation issued by the Reserve Bank under the provisions of the said Act. In terms of explanation to Section 2(1)(i) of the Act, a payment system includes money transfer operations.
- In terms of Section 3(c) of the Foreign Exchange Management Act (FEMA), 1999, save as otherwise provided in the said Act, rules or regulations made thereunder, or with the general or special permission of the Reserve

Bank, no person shall receive otherwise (than) through an authorised person, any payment by order or on behalf of any person resident outside India in any manner.

Indian Agents

- Under MTSS, the Indian agent should be an authorised dealer category I, authorised dealer category II, full fledged money changer, registered non-banking financial company or an IATA approved travel agent (having minimum net worth of Rs. 25 lakhs). If the agent is a NBFC, they should incorporate a clause in the Memorandum and Articles of Association that it can undertake money transfer activities. Such agents are required to take the Reserve Bank's prior approval under the provisions of FEMA, 1999 to enter into an arrangement with an overseas principal for receiving cross border personal inward remittances in India. The overseas principals are authorised by the Reserve Bank under Section 4(1) of the Payment and Settlement Systems Act, 2007.
- The Reserve Bank has so far given permission to 25 Indian agents to route cross-border inward personal remittances into India under MTSS.
- While according permission to Indian agents for entering into tie-ups with overseas principals under MTSS, it is ensured that the overseas principals are regulated entities, having sound financials, good credit rating and complying with know your customer (KYC)/anti-money laundering (AML)/combating financing of terrorism (CFT) guidelines as applicable in their home countries. Necessary KYC/AML/CFT guidelines have been prescribed by the Reserve Bank for the Indian agents under MTSS for money transfer activities. Further, collateral equivalent to 3 days' average drawings or USD 50,000 whichever is higher, is kept by the overseas principal with the Indian agents for mitigating credit exposures.

Source : *Paliament Questions*

Mid-Quarter Review of Monetary Policy 2010-11

The Reserve Bank announced the mid-quarter review of the Monetary Policy for 2010-11 on September 16, 2010. The mid-quarter review was announced through a press release. The highlights are :

Monetary Measures

- Repo rate under the LAF increased by 25 basis points from 5.75 per cent to 6.0 per cent.
- Reverse repo rate under the LAF increased by 50 basis points from 4.5 per cent to 5.0 per cent.

Expected Outcome

The measures undertaken in this review are expected to:

- contain inflation and anchor inflationary expectations without disrupting growth.
- reduce the volatility in overnight call money rates, thereby strengthening the monetary transmission mechanism.
- continue the process of normalisation of the monetary policy instruments.