R.No. MAHENG/2004/14130
Regd. No. MH/MR/South-30/2012-14

Monthly Subscription : ₹ 1.

Volume X ◆ Issue 1
July 2013

MONETARY AND CREDIT INFORMATION REVIEW

POLICY

Change in Cash Reserve Requirement

The minimum daily cash reserve ratio (CRR) balance required to be maintained by banks has been increased from 70 per cent to 99 per cent of their net demand and time liabilities (NDTL) effective from the first day of the fortnight beginning July 27, 2013.

Liquidity Adjustment Facility

As part of the measures announced by the Reserve Bank on July 23, 2013 to address exchange market volatility, the total quantum of funds available to a bank under the liquidity adjustment facility (LAF) has been capped at 0.50 per cent of the individual bank's net NDTL. This change in LAF has come into effect from July 24, 2013. For the purpose of arriving at an individual bank's limit, the NDTL would be the same as is being reckoned for the purpose of maintenance of CRR during a reporting fortnight. Accordingly, the Reserve Bank's earlier instructions issued on July 16, 2013 regarding cap on overall allocation of funds at Rs. 75,000 crore under LAF are withdrawn.

Maintenance of SLR - MSF

Under the marginal standing facility (MSF), currently banks avail funds from the Reserve Bank on an overnight basis against their excess statutory liquidity ratio (SLR) holdings. Additionally, they can also avail funds on an overnight basis below the stipulated SLR up to two per cent of their respective NDTL outstanding at the end of the second preceding fortnight.

With a view to enabling banks to meet the liquidity requirements of mutual funds under the Reserve Bank's Special Repo Window announced on July 17, 2013, the borrowing limit below the stipulated SLR requirement under the MSF has been raised from 2 per cent of NDTL to 2.5 per cent of NDTL. The higher MSF limit of 0.5 per cent of NDTL will be available only for the Special Repo Window. This additional limit will be available for a temporary period until further notice.

Bank loans to MFIs for on-lending

Bank credit to micro finance institutions (MFIs) for on-lending, will now be eligible for categorisation as priority sector advance if the aggregate amount of loan, extended for income generating activity, is not less than 70 per cent of the total loans given by MFIs.

Earlier, bank credit to MFIs for on-lending was eligible for categorisation as priority sector advance if the aggregate amount of loan extended for income generating activity, was not less than 75 per cent of the total loans given by MFIs.

Marginal Standing Facility Rates

As a part of the measures announced by the Reserve Bank to address the exchange rate volatility, the MSF rate has been recalibrated at 300 basis points above the policy repo rate under the LAF. Consequently, the MSF rate is 10.25 per cent from July 16, 2013.

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Bank Rate

The Bank Rate has been adjusted by 200 basis points from 8.25 per cent to 10.25 per cent from July 15, 2013.

All penal interest rates on shortfall in reserve requirements, which are specifically linked to the Bank Rate, have been revised as indicated below:

Penal Interest Rates which are linked to the Bank Rate		
Item	**Existing Rate**	**Revised Rate** (Effective from July 15, 2013)
Penal interest rates on shortfalls in reserve requirements (depending on duration of shortfalls)	Bank Rate plus 3.0 percentage points (11.25 per cent) or Bank Rate plus 5.0 percentage points (13.25 per cent)	Bank Rate plus 3.0 percentage points (13.25 per cent) or Bank Rate plus 5.0 percentage points (15.25 per cent)

Unsolicited Commercial Communications

The Reserve Bank has reiterated that banks should engage only those direct marketing agents (DMAs)/direct selling agents(DSAs)/call centres who are registered as telemarketers in terms of the guidelines issued by the Telecom Regulatory Authority of India (TRAI), from time to time, for all their promotional/telemarketing activities.

As per the "Telecom Commercial Communications Customer Preference Regulations, 2010" issued by TRAI, any person involved in sending commercial communications has to register with TRAI as a telemarketer. It has, however, been brought to the Reserve Bank's notice that many banks, financial institutions as also their franchisees are engaging telemarketers who are not registered with TRAI, for marketing their services and these unregistered telemarketers use their normal telephone connections for making commercial calls to customers registered in the National Customer Preference Register. This is resulting in a lot of customer grievance.

BRANCH BANKING

Direct Benefit Transfer Scheme

With a view to facilitating seamless rollout of Aadhaar based direct benefit transfer (DBT) of government benefits, including LPG subsidy, all state level bankers' committee (SLBC) convenor banks and lead banks have been advised to:

- Take steps to complete account opening and seeding Aadhaar number in all the DBT districts.
- Closely monitor the progress in seeding of Aadhaar number in bank accounts of beneficiaries.
- Put in place a system to provide acknowledgement to the beneficiary of seeding request and also send confirmation of seeding of Aadhaar number.
- Form DBT Implementation Co-ordination Committee along with the state government department concerned, at district level and review the seeding of Aadhaar number in bank accounts.
- Ensure that district and village wise names and other details of business correspondents (BCs) engaged/other arrangements made by the bank is displayed on the SLBC website.
- Set up a complaint grievance redressal mechanism in each bank and nominate a complaint redressal officer in each district, to redress the grievances relating to seeding of Aadhaar number in bank accounts.

A workshop on DBT scheme was recently held in Mysore which was *inter alia* attended by Chairman, Unique Identification Authority of India (UIDAI), finance secretaries of select states, the Reserve Bank's top management and bankers from Karnataka state. While reviewing the progress of seeding of Aadhaar number in bank accounts, it was emphasised that banks should pro-actively take steps to open a large number of bank accounts, seed these accounts with Aadhaar numbers and view it as a sustainable and scalable business opportunity. As an illustration, a reference was also made to the possibility of utilising the services of LPG distributors for opening of bank accounts and seeding Aadhaar numbers in bank accounts.

Norms for Periodical Updation of KYC Simplifed

Revising its earlier instructions on periodical updation of 'know your customer' (KYC) the Reserve Bank has advised banks that -

(a) They should continue to carry out on-going due diligence with respect to the business relationship with every client and closely examine the transactions in order to ensure that they are consistent with their knowledge of the client, his business and risk profile and, wherever necessary, the source of funds.

(b) Full KYC exercise should be done at least every two years for high risk individuals and entities.

(c) Full KYC exercise should be done at least every ten years for low risk and at least every eight years for medium risk individuals and entities.

(d) Positive confirmation (obtaining KYC related updates through e-mail/letter/telephonic conversation/forms/interviews/visits, etc.), should be completed at least every two years for medium risk and at least every three years for low risk individuals and entities.

(e) Fresh photographs should be obtained from minor customers on their becoming major.

Banks have been advised to revise their KYC policy in the light of these instructions and strictly adhere to the same.

FEMA

Import of Gold by Nominated Banks/Agencies/Entities

In consultation with the Government of India, it has been decided to rationalise the import of gold in any form/purity including import of gold coins/dore into the country. Accordingly, all nominated banks/nominated agencies have been advised that-

(a) It shall be incumbent on them to ensure that at least one fifth of every lot of import of gold (in any form/purity including import of gold coins/dore) is exclusively made available for the purpose of export. Such imports shall be linked to financing of exporters by the nominated agencies (i.e., average of last three years or any one year, whichever is higher). Further, they shall make available gold in any form for domestic use only to entities engaged in jewellery business/ bullion dealers supplying gold to jewellers.

(b) They will be required to retain 20 per cent of the imported quantity in customs bonded warehouses.

(c) They will be permitted to undertake fresh imports of gold only after the exports have taken place to the extent of at least 75 per cent of gold remaining in the customs bonded warehouse.

(d) Any import of gold under any type of scheme, shall follow the 20/80 principle set out above. The extant instructions, regarding import of gold on consignment basis, L/C restrictions, etc., have been withdrawn.

Entities/units in special economic zones (SEZs) and export oriented units (EoUs), premier and star trading houses are permitted to import gold exclusively for the purpose of exports only.

AD category I banks have been advised to strictly ensure that foreign exchange transactions effected by/for their constituents are compliant with these instructions. Head offices of nominated agencies/international banking divisions of banks would be responsible for monitoring operations of the revised scheme taking into account transactions put through different centres.

The Government of India will be issuing separate instructions, if any, to the customs authorities/Directorate General of Foreign Trade (DGFT) to operationalise and monitor these import restrictions.

External Commercial Borrowings

On a review, it has been decided to extend the benefit of USD 10 billion scheme to Indian companies in the manufacturing, infrastructure and hotel sectors which have established joint venture (JV)/wholly owned subsidiary (WOS)/have acquired assets overseas in compliance with extant regulations under FEMA, 1999 subject to the following conditions:

(a) ECB can be availed of for repayment of all term loans having average residual maturity of 5 years and above/credit facilities availed of by Indian companies from domestic banks for overseas investment in JV/WOS, in addition to ‘capital expenditure’.

(b) ECB can be availed of within the scheme based on the higher of 75 per cent of the average foreign exchange earnings realised during the past three financial years and/or 75 per cent of the assessment made about the average of foreign exchange earnings potential for the next three financial years of the Indian companies from the JV/WOS/assets abroad as certified by statutory auditor/chartered accountant/certified public accountant/category I merchant banker registered with the Securities and Exchange Board of India (SEBI)/ an investment banker outside India registered with the appropriate regulatory authority in the host country; and

(c) ECB availed of under the scheme will have to be repaid out of forex earnings from the overseas JV/WOS/assets.

Past earnings in the form of dividend/repatriated profit/other forex inflows like royalty, technical know-how, fee, etc., from overseas JV/WOS/assets will be reckoned as foreign exchange earnings for the purpose of the US$ 10 billion scheme.

NBFC - AFCs permitted to avail of ECBs

Non-banking financial companies (NBFCs) categorised as asset finance companies (AFCs) by the Reserve Bank and complying with the norms prescribed in its circular of December 6, 2006, as amended from time to time, are now allowed to avail of ECB subject to the following conditions:

- NBFC-AFCs are allowed to avail of ECB under the automatic route from all recognised lenders as per the extant ECB guidelines with minimum average maturity period of five years in order to finance the import of infrastructure equipment for leasing to infrastructure projects.
- In cases where NBFC-AFCs avail of ECB in the form of foreign currency bonds from international capital markets, such ECBs will be permitted to be raised only from those international capital markets that are subject to regulations prescribed by the host country regulator in a financial action task force (FATF) member country compliant with FATF guidelines.
- Such ECBs (including outstanding ECBs) under the automatic route can be availed of up to 75 per cent of the NBFC-AFC's owned funds, subject to a maximum of USD 200 million or its equivalent per financial year.
- ECBs by NBFC-AFCs above 75 per cent of their owned funds will be considered by the Reserve Bank under the approval route.
- The currency risk of such ECBs is required to be hedged in full.

PAYMENT SYSTEM

Migrating to CTS 2010 Standards

On a review of the progress made by banks towards migration to CTS-2010, it has been noticed that while banks have begun to issue fresh cheques in the CTS-2010 format there is still a large volume of non-CTS-2010 format cheques being presented in image-based clearing. It has, therefore, been decided to put in place the following arrangements for clearing of residual non-CTS-2010 standard cheques:

(a) Separate clearing session will be introduced in the three CTS centres (Mumbai, Chennai and New Delhi) for clearing of such residual non-CTS 2010 instruments (including PDC and EMI cheques) with effect from January 1, 2014. This separate clearing session will initially operate thrice a week (Monday, Wednesday and Friday) up to April 30, 2014. Thereafter, the frequency of such separate sessions will be reduced to twice a week up to October 31, 2014 (Monday and Friday) and further to once a week (every Monday) from November 1, 2014 onwards. If the identified day for clearing non-CTS-2010 instruments falls on a holiday under the Negotiable Instruments Act, 1881, the presentation session on such occasions will be conducted on the previous working day. Operational instructions in this regard will be issued separately by the CTS centres.

(b) Upon the commencement of special session for non-CTS-2010 standard instruments, drawee banks will return the non-CTS-2010 instruments, if any, presented in the regular CTS clearing, under the reason code '37- present in proper zone'. Such returned instruments will have to be re-presented by the collecting bank in the immediate next special clearing session for non-CTS-2010 instruments.

Published on 26th day of the month Posted at MUMBAI PATRIKA CHANNEL SORTING OFFICE - on last two working days of every month. **Regd. No. MH/MR/South-30/2012-14**

(c) Banks may educate and notify their customers of the likely delay in realisation of non-CTS-2010 standard instruments in view of the proposed arrangement for clearing of such instruments at less frequent intervals. Banks may also suitably modify their cheque collection policies (CCPs) to reflect this change. Banks should also put in place appropriate arrangement for handling customer complaints, if any, arising out of this new arrangement.

(d) Banks can continue to present such non-CTS-2010 instruments in 'express cheque clearing system' (ECCS) centres and MICR cheque processing centres (CPCs) till such time the CPCs are in operation.

(e) During the transition period (i.e., up to December 31, 2013), the existing clearing arrangements will continue and all cheque issuing banks should make efforts to withdraw the non-CTS-2010 standard cheques in circulation.

The volume of instruments processed in the three CTS centres in all clearing sessions will be monitored with respect to the non-CTS-2010 instruments presented by banks. The Reserve Bank may consider levying penalty on drawee banks (and presenting banks where necessary) which violate these instructions issued under the Payment and Settlement Systems Act, 2007.

NBFCs

Payment of Interest on Overdue Public Deposits

NBFCs are at times required to freeze the term deposits of customers based on the orders of the enforcement authorities or the deposit receipts are seized by the enforcement authorities. As doubts have been raised on the payment of interest on such deposits which have either been seized by the government authorities, and/or have been frozen till further clearance is received by the government authorities concerned, NBFCs have been advised to follow the below mentioned procedure:

(i) A request letter may be obtained from the customer on maturity. While obtaining the request letter from the depositor for renewal, NBFCs should also advise him to indicate the term for which the deposit is to be renewed. In case the depositor does not exercise his option of choosing the term for renewal, NBFCs may renew the deposit for a term equal to the original term.

(ii) No new receipt is required to be issued. A suitable note may, however, be made regarding renewal, in the deposit ledger.

(iii) Renewal of deposit may be advised by registered letter/speed post/courier service to the government department concerned under advice to the depositor. In the advice to the depositor, the rate of interest at which the deposit is renewed should also be mentioned.

(iv) If the overdue period does not exceed 14 days on the date of receipt of the request letter, renewal may be done from the date of maturity. If it exceeds 14 days, NBFCs may pay interest for the overdue period as per the policy adopted by them, and keep it in a separate interest free sub-account which should be released when the original fixed deposit is released.

NBFCs should make the final repayment of the principal and the interest accrued only after obtaining clearance from the respective government agencies.

CUSTOMER SERVICE

Basic Savings Bank Deposit Account

Banks have been advised to offer a 'Basic Savings Bank Deposit Account' which should offer the following minimum common facilities to all their customers:

- The 'Basic Savings Bank Deposit Account' should be considered as a normal banking service available to all.
- This account should not have the requirement of any minimum balance.
- The services available in the account will include deposit and withdrawal of cash at bank branch as well as ATMs; receipt/credit of money through electronic payment channels or by means of deposit/collection of cheques drawn by central/state government agencies and departments.
- While there will be no limit on the number of deposits that can be made in a month, account holders will be allowed a maximum of four withdrawals in a month, including ATM withdrawals.
- Facility of ATM card or ATM-cum-debit card should be provided.
- The above facilities should be provided without any charges. Further, no charge should be levied for non-operation/activation of in-operative 'Basic Savings Bank Deposit Account'.
- Banks would be free to evolve other requirements including, pricing structure for additional value-added services beyond the stipulated basic minimum services on reasonable and transparent basis and applied in a non-discriminatory manner.
- The 'Basic Savings Bank Deposit Account' would be subject to the Reserve Bank's instructions on know your customer (KYC)/anti-money laundering (AML) for opening of bank accounts issued from time to time. If such an account is opened on the basis of simplified KYC norms, the account would additionally be treated as a 'small account' and would be subject to the conditions stipulated for such accounts in the Reserve Bank's Master Circular on KYC Norms/AML Standards/Combating of Financing of Terrorism (CFT)/Obligation of Banks under PMLA, 2002 dated July 02, 2012.
- Holders of 'Basic Savings Bank Deposit Account' will not be eligible for opening any other savings bank deposit account in that bank. If a customer has any other existing savings bank deposit account in that bank, he/she will be required to close it within 30 days from the date of opening a 'Basic Savings Bank Deposit Account'.
- The existing basic banking 'no-frills' accounts should be converted to 'Basic Savings Bank Deposit Account'.

Edited and published by **Alpana Killawala** for the **Reserve Bank of India,** Department of Communication, Central Office, Shahid Bhagat Singh Marg, Mumbai - 400 001 and printed by her at **Onlooker Press,** 16, Sassoon Dock, Colaba, Mumbai - 400 005.
For renewal and change of address please write to the Chief General Manager, Department of Communication, Reserve Bank of India, Central Office Building, 12th floor, Fort, Mumbai - 400 001 without enclosing DD/cheque. MCIR is also available on Internet at www.mcir.rbi.org.in