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MONETARY AND CREDIT INFORMATION REVIEW

FEMA

Import of Gold by Nominated Banks/Agencies/Entities

In consultation with the Government of India, the Reserve Bank of India has clarified/modified its instructions of July 22, 2013 on import of gold, as indicated below:

- Import of gold in the form of coins and medallions is now prohibited.
- It is incumbent on all nominated banks/nominated agencies and other entities to ensure that at least one-fifth, i.e., 20 per cent of every lot of gold imported into the country is exclusively made available for the purpose of exports and the balance for domestic use. Operations of the 20/80 scheme envisaged in terms of the present instructions shall be monitored by the customs authorities, and will be implemented port-wise only.
- Nominated banks/nominated agencies and other entities shall make available gold for domestic use only to entities engaged in jewellery business/bullion dealers and to banks authorised to administer the Gold Deposit Scheme against full upfront payment. In other words, supply of gold in any form to domestic users other than against full payment upfront shall not be permitted.
- Nominated banks/agencies/refineries and other entities shall ensure that there is no front loading of imports, particularly in the first and second lots of imports. Such imports shall be linked to normal quantities of gold supplied to exporters by the nominated banks/agencies and shall not exceed the highest quantity supplied during any one year out of last three years. The quantity thus arrived at, however, will not be imported in one or two lots only. As a thumb rule, imports of more than a maximum of two months of requirements of exporters in a lot would be considered unusual. Illustratively, if gold supplied to exporters by a bank during the last three years is say, 30 tonnes, 40 tonnes and 60 tonnes respectively, imports shall be based on highest of the three i.e., 60 tonnes. Further, import of 50 tonnes (two months export of 10 tonnes for exports and 4 times the amount for domestic use, totalling 50 tonnes) will be considered unusual. Nominated banks not having a previous record of having supplied gold to exporters would need to seek the Reserve Bank's prior approval before placing orders for import of gold for the first lot under the 20/80 scheme.

- The 20/80 principle would also apply for gold imported henceforth, in any form/purity, including gold dore, whereby 20 per cent of the gold imported shall be provided to exporters. This will be administered and monitored at the refinery level for each consignment at the time of such imports. This will also be monitored by the customs authorities. The refinery shall make available for domestic use, only to entities engaged in jewellery business/bullion dealers and to banks authorised to administer the Gold Deposit Scheme against full upfront payment; and sale of gold against any other form of payment shall not be permitted. Further, the import of gold dore is permitted only against a licence issued by the Directorate General of Foreign Trade (DGFT).
- Any authorisation, such as, advance authorisation/duty free import authorisation is to be utilised for import of gold meant for export purposes only and no diversion for domestic use shall be permitted.

CONTENTS	PAGE
FEMA	
Import of Gold by Nominated Banks/Agencies/Entities	1
Limit under LRS Reduced	2
Overseas Direct Investments	2
Foreign Investments in ARCs	2
POLICY	
Deregulation of Interest Rates on NRE Deposits	3
Interest Rates on FCNR (B) Deposits	3
FCNR (B)/NRE Deposits - Exempt from CRR/SLR	3
PAYMENT SYSTEM	
ATM Transactions	3
Uniform Holiday Calendar under CTS	4
Migration of PDC/EMI Cheques to ECS - Debit	4
Customer Service	
Acknowledgement by Banks of Form 15-G/15-H	4
PM Releases Fourth Volume of RBI History	2
Dr. Raghuram Rajan appointed next Governor of RBI	3
RBI Transfers Surplus Profit to Government of India	4

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

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. In respect of gold released for the purpose of exports, AD Category-I banks should put in place a special mechanism to monitor realisation of export proceeds as per the extant regulations and any contraventions/unusual developments in this regard should be reported forthwith to the Reserve Bank's regional office concerned.

Limit under LRS Reduced

The existing limit under the liberalised remittance scheme (LRS) for resident individuals has been reduced from USD 200,000 per financial year to USD 75,000 per financial year (April - March) with effect from August 14, 2013. Accordingly, AD Category-I banks may now allow remittance up to USD 75,000 per financial year, under the scheme, for any permitted current or capital account transaction or a combination of both. Certain changes/clarifications regarding remittances under LRS are:

- (i) The scheme should no longer be used for acquisition of immovable property, directly or indirectly, outside India. Therefore, AD Category-I banks may henceforth, not allow any remittances under the LRS Scheme for acquisition of immovable property outside India.
- (ii) The scheme should not be used for making remittances for any prohibited or illegal activities such as margin trading, lottery etc.
- (iii) Resident individuals have now been allowed to set up joint ventures (JVs)/wholly owned subsidiaries (WOSs) outside India for bonafide business activities outside India within the limit of USD 75,000 with effect from August 5, 2013 and subject to the terms and conditions stipulated in Notification No.FEMA 263/RB-2013 dated August 5, 2013.

Further, the limit for gift/loan in Rupees by resident individuals to NRI close relatives stands modified to USD 75,000 per financial year.

Overseas Direct Investments

On a review, it has been decided to rationalise the regulations governing overseas direct investments (ODI) as under:

- The total ODI limit of an Indian party in all its JVs and/or WOSs abroad, engaged in any bonafide business activity, has been reduced from 400 per cent of its net worth as on the date of the last audited balance sheet, to 100 per cent of its net worth under the automatic route.
- The limit of an Indian company, investing in overseas unincorporated entities in the energy and natural resources

sectors, under the automatic route, has been reduced from 400 per cent to 100 per cent of its net worth as on the date of last audited balance sheet. Any ODI in excess of 100 per cent of the net worth would be considered by the Reserve Bank under the approval route.

In respect of Navaratna Public Sector Undertakings (PSUs), ONGC Videsh Limited (OVL) and Oil India Ltd (OIL), the extant provision for investing in overseas unincorporated entities and overseas incorporated entities in the oil sector (i.e., for exploration and drilling for oil and natural gas, etc.), which are duly approved by the Government of India, without any limits under the automatic route would, however, continue as hitherto.

The above provisions would apply to all fresh ODI proposals on a prospective basis but would not apply to the existing JVs/WOSs set up under the extant regulations.

Foreign Investments in ARCs

The Reserve Bank has advised that -

- (i) The ceiling for foreign direct investment (FDI) in asset reconstruction companies (ARCs) has been increased from 49 per cent to 74 per cent subject to the condition that, no sponsor should hold more than 50 per cent of the shareholding in an ARC either by way of FDI or by routing through a foreign institutional investor (FII). Foreign investment in ARCs should comply with the FDI policy pertaining to entry route conditionality and sectoral caps.
- (ii) The foreign investment limit of 74 per cent in ARC would be a combined limit of FDI and FII. Hence, the prohibition on investment by FIIs in ARCs is removed. The total

PM Releases Fourth Volume of RBI History

Dr. Manmohan Singh, the Hon'ble Prime Minister, released the fourth volume of the Reserve Bank of India's history at a function held in New Delhi on August 17, 2013. Jointly published by the Reserve Bank and the Academic Foundation, the volume covers the momentous 16-year period from 1981 to 1997. With this volume, the Reserve Bank of India has now updated its history up to 1997. The Reserve Bank had initiated the process of preparation of this volume in 2009 under the guidance of an Advisory Committee chaired by Dr. Bimal Jalan, former Governor of the Reserve Bank.

The volume documents the institutional history of the Reserve Bank based on official records, publications and discussions with persons closely associated with the functioning of the Reserve Bank during the period. Published in two parts, Part A and Part B, Volume 4 covers transformation of the Indian economy from restrictions to progressive liberalisation and captures the implementation of structural and financial sector reforms. It thus envelopes the tenures of six Governors - part of Dr. I.G. Patel's tenure to begin with, and covering Dr. Manmohan Singh, Shri A. Ghosh, Shri R.N. Malhotra, Shri S. Venkitaramanan and ending with the tenure of Dr. C. Rangarajan. Interestingly, it includes both, the period between 1982 and 1985 when the Hon'ble Prime Minister himself was the Governor of the Reserve Bank as well as 1991 to 1996 when he was India's Finance Minister.

shareholding of an individual FII should not exceed 10 per cent of the total paid-up capital.

- (iii) The limit of FII investment in security receipts (SRs) is enhanced from 49 per cent to 74 per cent of the paid up value of each tranche of scheme of SRs issued by ARCs. The individual limit of 10 per cent for investment of a single FII in each tranche of SRs issued by ARCs has been dispensed with. Such investment should be within the FII limit on corporate bonds prescribed from time to time, and sectoral caps under the extant FDI regulations should be complied with.

POLICY

Deregulation of Interest Rates on NRE Deposits

The Reserve Bank has directed that banks are free to offer interest rates without any ceiling on non-resident (external) rupee (NRE) deposits with maturity of 3 years and above. The extant ceiling on non-resident ordinary (NRO) accounts would continue. These instructions would be valid up to November 30, 2013, subject to review.

Interest Rates on FCNR (B) Deposits

In view of the prevailing market conditions, it has been decided that until further notice and with effect from the close of business in India as on August 14, 2013, the interest rate ceiling on foreign currency non-resident (bank) {FCNR (B)} deposits will be as under:

Maturity Period	Existing	Revised
1 year to less than 3 years	LIBOR/swap plus 200 basis points	No change
3 - 5 years	LIBOR/swap plus 300 basis points	LIBOR/swap plus 400 basis points

On floating rate deposits, interest shall be paid within the ceiling of swap rates for the respective currency/maturity plus 200 bps/400 bps as the case may be. For floating rate deposits, the interest re-set period shall be six months.

These instructions will be valid up to November 30, 2013, subject to review.

FCNR (B)/NRE Deposits - Exempt from CRR/SLR

The Reserve Bank has advised that from the fortnight beginning August 24, 2013, incremental FCNR (B) and NRE deposits with reference base date of July 26, 2013, and having maturity of three years and above, mobilised by banks would be exempt from maintenance of cash reserve ratio (CRR) and statutory liquidity ratio (SLR). To amplify, if a bank had a total FCNR (B) deposit base of say USD 100 as on the base date, and mobilises an incremental deposit of say USD 20, that portion of USD 20 which has a maturity of 3 years and above will not be part of NDTL and will qualify for CRR and SLR exemption. The same principle will apply for calculation of NRE deposits for exemption from maintenance of CRR/SLR requirements. Any transfer from non-resident (ordinary) (NRO) accounts to NRE accounts would, however, not qualify for such exemptions.

Further, advances extended in India against incremental FCNR (B)/NRE deposits qualifying for exemption from CRR/SLR requirements as above, will also be excluded from adjusted net bank credit (ANBC) for computation of priority sector lending targets.

Earlier, banks were required to include all FCNR (B) and NRE deposit liabilities for computation of net demand and time liabilities (NDTL) and for maintenance of CRR and SLR.

PAYMENT SYSTEM

ATM Transactions

With a view to further improving customer service through enhancement of efficiency in ATM operations, banks have been advised to initiate action as below:

- The message regarding non-availability of cash in ATMs should be displayed before the transaction is initiated by the customer. Banks may display such notices either on the screen or in some other way.
- The ATM ID may be displayed clearly in the ATM premises to enable a customer to quote it while making a complaint/suggestion.
- Forms for lodging ATM complaints should be made available within the ATM premises and the name and phone number of the officials with whom the complaint can be lodged should be displayed.
- Sufficient toll-free phone numbers for lodging complaints/reporting and blocking lost cards should be made available to avoid delays and such requests should be attended to on a priority basis. Local helpline numbers (city-wise/centre wise) should also be increased and prominently displayed in the ATM premises/bank's web-site.
- Mobile numbers/e-mail IDs of their customers should be proactively registered for sending alerts and customers should be educated to intimate changes, if any. A time-bound programme for updation of mobile number and or e-mail of all existing accounts may be drawn up. These details should be updated periodically along with 'know your customer' (KYC) details.

To prevent fraudulent withdrawal at ATMs, the Reserve Bank had mandated requirement of PIN entry for each and every transaction, including balance enquiry transactions. Banks already have in place time limits for completion of transactions at ATMs. As an additional safety measure, however, it is advised that time-

Dr. Raghuram Rajan appointed next Governor of RBI

Dr. Raghuram Rajan, Chief Economic Adviser, Ministry of Finance, has been appointed as the next Governor of the Reserve Bank of India for a term of three years *vice* Dr. D. Subbarao upon completion of his tenure.

Dr. Raghuram Rajan has also been appointed as Officer on Special Duty in the Reserve Bank of India for a period of three weeks prior to his taking over as Governor, Reserve Bank of India on September 5, 2013 to provide for an overlap with the present Governor.

out sessions should be enabled for all screens/stages of ATM transaction keeping in view the time required for such functions in normal course. Banks should ensure that no time extensions are allowed beyond a reasonable limit at any stage of the transaction.

To create awareness about electronic banking products and to make customers aware of their rights and responsibilities, banks, in collaboration with the Indian Banks' Association, may run advertisement campaigns in both, print and electronic media at regular intervals.

Uniform Holiday Calendar under CTS

Grid-based cheque truncation system (CTS) has been launched in Chennai and Mumbai covering several states/union territories with the objective of streamlining the procedures in cheque clearing system. All the states/union territories covered by the above grid follow different schedule of holidays declared under the Negotiable Instruments Act 1881 by the respective governments. As local clearing houses are gradually being subsumed into the CTS, it has been decided to put in place a uniform holiday arrangement at the three CTS locations with effect from October 7, 2013.

Under grid-based CTS clearing, all cheques drawn on bank branches falling in the grid jurisdiction are treated and cleared as local cheques on T+1 basis. As such, the uniform holiday arrangement will further enhance customer service in banks through faster realisation of cheques even on holidays in respective states. Accordingly it is advised that -

- CTS centres in New Delhi, Chennai and Mumbai will adopt RTGS holidays as uniform holidays for the respective grid.
- Additionally, CTS operations will be closed on such days when all the participating states in the grid are observing holidays, even though RTGS is working on such days.
- The President of the respective CTS location will notify the list of such uniform holidays well in advance to enable the participating banks to put in place inward clearing processing infrastructure at the grid location.

Under CTS, inward clearing is generally processed in a centralised manner by banks at the CTS location. In exceptional cases, where the reference to base branch is required and the base branch is closed on account of local holiday, the drawee bank at the grid location may return the instrument to the presenting bank under return reason code 88 as enumerated in annexure D of Uniform Regulations and Rules for Bankers' Clearing Houses with the description "need reference to the drawee branch which is closed on account of local holidays/issues".

On occasions when banks are unable to process the inward clearing pertaining to specific locations due to exceptional circumstances, banks can approach the President of the clearing house at CTS location for extension of return/blocking the presentation drawn on such locations.

Migration of PDC/EMI Cheques to ECS - Debit

Reiterating its earlier instructions, the Reserve Bank has advised banks that -

- No fresh/additional post-dated cheques (PDC)/equated monthly instalment (EMI) cheques (either in old format or new CTS-2010 format) should be accepted in locations where the facility of electronic credit service (ECS)/regional electronic clearing service (RECS) (Debit) is available. The existing PDCs/EMI cheques in such locations may be converted into ECS/RECS (Debit) by obtaining fresh ECS (Debit) mandates.
- As Section 25 of the Payment and Settlement Systems Act, 2007 accords the same rights and remedies to the payee (beneficiary) against dishonour of electronic funds transfer instructions under insufficiency of funds as are available under Section 138 of the Negotiable Instruments Act, 1881, there is no need for banks to take additional cheques, if any, from customers in addition to ECS (Debit) mandates.
- Cheques complying with CTS-2010 standard formats should only be obtained in locations where the facility of ECS/RECS is not available.

CUSTOMER SERVICE

Acknowledgement of receipt of Form 15-G/15-H

Banks are not required to deduct tax deducted at source (TDS) from depositors who submit a declaration in Form 15-G/15-H under Income Tax Rules, 1962. However, it has been brought to the Reserve Bank's notice that banks are deducting tax at source despite customers submitting Form 15-G/15-H. This causes inconvenience to customers and also results in a number of complaints. Such instances arise because either the forms are misplaced or a track is not kept of forms received in the branches.

The matter was examined by the Reserve Bank in consultation with the Indian Banks' Association (IBA). With a view to protecting depositors' interest and for rendering better customer service, banks have been advised to give an acknowledgment at the time of receipt of Form 15-G/15-H. This will help in building a system of accountability and customers will not be put to inconvenience due to any omission on the part of banks.

RBI Transfers Surplus Profit to Government of India

The Reserve Bank's Central Board has approved the transfer of surplus profit to the Government of India amounting to Rs. 330.10 billion for the year ended June 30, 2013 as against Rs. 160.10 billion for the year ended June 30, 2012.