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

Monthly Subscription : ₹ 1.

Volume IX ◆ Issue 6
December 2012

MONETARY AND CREDIT INFORMATION REVIEW

Important Banking and Financial Developments in 2012

January

- Cash reserve ratio (CRR) of scheduled commercial banks reduced by 50 basis points from 6.00 per cent to 5.50 per cent of their net demand and time liabilities (NDTL) from the fortnight beginning January 28, 2012.
- Foreign direct investment (FDI) up to 100 per cent permitted in single brand product trading under the government route subject to terms and conditions.
- Guidelines on compensation of whole time directors/chief executive officers/risk takers and control function staff of private sector and foreign banks finalised. The guidelines to be implemented by private sector and foreign banks from the financial year 2012-13.

February

- Banks advised that for deciding the value of the house property while sanctioning housing loans, the stamp duty, registration and other documentation charges should not be included in the cost of the house property.
- Bank rate realigned, from the close of business on February 13, 2012, with the marginal standing facility (MSF) rate, which in turn is linked to the policy repo rate under the liquidity adjustment facility (LAF). Henceforth, whenever there is an adjustment of the MSF rate, the Reserve Bank would consider and align the bank rate with the revised MSF rate. All penal interest rates on shortfall in reserve requirements, which are specifically linked to the bank rate, also revised.
- The limit for foreign exchange remittance towards imports without any documentation formalities, raised from USD 500 or its equivalent to USD 5000 or its equivalent from February 21, 2012.
- Draft guidelines on liquidity risk management and Basel III framework on liquidity standards released on the Reserve Bank's website on February 21, 2012 for comments and feedback.

March

- The average CRR required to be maintained by every scheduled commercial bank reduced by 75 basis points from 5.50 per cent to 4.75 per cent of its NDTL from the fortnight beginning March 10, 2012.
- All NBFCs advised to (i) maintain a loan-to-value (LTV) ratio not exceeding 60 per cent for loans granted against the collateral of gold jewellery; and (ii) disclose in their balance sheet the percentage of such loans to their total assets.
- The implementation of asset classification and provisioning norms for non-banking financial company-micro finance institutions (NBFC-MFIs) deferred to April 1, 2013.
- AD Category-I banks advised to allow repayment of loans taken by individual residents in India from their close relatives outside India, by credit to the non-resident (external) rupee (NRE)/ foreign currency non-resident (banks) [FCNR(B)] account of the lender concerned, subject to conditions.
- Registered foreign institutional investors (FIIs) and non-resident Indians (NRIs) allowed to purchase/sell shares and convertible debentures of an Indian company (through registered brokers) on recognised stock exchanges in India subject to, inter-alia, an aggregate investment limit of 24 per cent and 10 per cent, respectively, of the paid up equity capital or value of each series of convertible debentures of the Indian company.

April

- Repo rate under the LAF reduced by 50 basis points from 8.50 per cent to 8.00 per cent.
- Reverse repo rate under the LAF automatically adjusted to 7.00 per cent
- Marginal standing facility rate automatically adjusted to 9.00 per cent.
- Borrowing limit of scheduled commercial banks under the MSF raised from one per cent to two per cent of their NDTL outstanding at the end of the second preceding fortnight from April 17, 2012.
- Bank rate adjusted by 50 basis points from 9.50 per cent to 9.00 per cent from April 17, 2012. All penal interest rates on shortfall in reserve requirements, which are specifically linked to the Bank Rate, also revised.
- Agency banks advised to compensate an investor in relief/ savings bonds, for the financial loss due to late receipt/delayed credit of interest warrants/maturity value, at a fixed rate of 8 per cent per annum.
- The following documents included in the indicative list of required documents for opening accounts of proprietary concerns (i) complete income tax return (not just the acknowledgement) in the name of the sole proprietor where the firm's income is reflected, duly authenticated/acknowledged by the income tax authorities; and (ii) utility bills, such as, electricity, water, and landline telephone bills in the name of the proprietary concern.
- Banks advised to allow customers to also choose NEFT as one of the electronic modes of making payment towards equated monthly instalments (EMIs)/repayments of loans, etc.
- Authorised dealers category-II (AD Category-II) permitted to issue forex pre-paid cards to residents travelling on private/ business visits abroad, subject to adherence to know your customer/anti-money laundering/combating financing of terrorism requirements.

- Regulations pertaining to opening/holding/maintaining a foreign currency account (FCA) by an Indian party outside India liberalised. An Indian party can now open, hold and maintain FCA abroad for the purpose of overseas direct investments, subject to conditions.
- Indian companies in the power sector allowed to utilise 40 per cent of the fresh External Commercial Borrowings raised towards refinancing of Rupee loan/s availed by them from the domestic banking system, under the approval route, provided that at least 60 per cent of the fresh ECB proposed to be raised is utilised for fresh capital expenditure for infrastructure project(s).
- ECBs allowed for capital expenditure under the automatic route for the purpose of maintenance and operations of toll systems for roads and highways provided they form part of the original project.
- Borrowers desirous of refinancing an existing ECB permitted to raise fresh ECB at a higher all-in-cost/reschedule an existing ECB at a higher all-in-cost under the approval route provided, the enhanced all-in-cost does not exceed the all-in-cost ceiling.

May

- Final guidelines on Basel III capital regulations issued. These guidelines to become effective from January 1, 2013 in a phased manner. The Basel III capital ratios will be fully implemented as on March 31, 2018.
- Interest rates on FCNR(B) deposits revised from the close of business in India as on May 4, 2012. For deposits with 1 year to less than 3 years maturity, interest rates revised to LIBOR/swap plus 200 basis points and for deposits with 3-5 years maturity, interest rates revised to LIBOR/swap plus 300 basis points.
- FCNR(B) funds representing deposit liabilities permitted to be utilised for making loans to resident constituents for meeting (i) their foreign exchange requirements, or (ii) for the rupee working capital/capital expenditure needs of exporters/ corporates who have a natural hedge or a risk management policy for managing the exchange risk.
- With a view to increasing the availability of funds to exporters, banks allowed to determine their interest rates on export credit in foreign currency from May 5, 2012.
- Banks advised to put in place a Board approved policy with regard to take-over of accounts from another bank. The policy should include norms relating to the nature of the accounts that may be taken over, authority levels for sanction of takeover, reporting of takeover to higher authorities, monitoring mechanism of taken over accounts, credit audit of taken over accounts, examination of staff accountability, especially in case of quick mortality of such cases after takeover, periodic review of taken over accounts at board/board committee level, top management level, etc.
- Banks advised that as most bank branches are on core banking solutions (CBS) and KYC records of a particular customer can be accessed by any branch of a bank, the full KYC of an account done by one branch of a bank, is valid for transferring the customer's account from one branch to another branch of the same bank.
- Rates of agency commission (also called turnover commission) payable to agency banks for handling government business revised.
- Non-resident Indians (NRIs) as defined in the Foreign Exchange Management (Deposit) Regulations, 2000, as amended from time to time, now eligible to transfer funds from non-resident ordinary (NRO) account to non-resident external (NRE) account within the overall ceiling of USD one million per financial year subject to payment of applicable tax.
- The limit for foreign exchange remittance for miscellaneous purposes without documentation formalities, raised from USD 5000 to USD 25000 from May 7, 2012.
- Guidelines to be observed by banks at places where there is no clearing house, issued.
- Banks which have fixed their service charges for outstation/ speed clearing for instruments valuing above Rs. 1 lakh as percentage to the value of instruments advised to review the same and fix the charges on a cost-plus basis.
- Banks advised to ensure that collection charges fixed for instruments valuing above Rs. 1 lakh is lower under speed clearing vis-a-vis out-station cheque collection.
- Banks advised to (i) reduce their regulatory exposure ceiling on a single NBFC, having gold loans to the extent of 50 per cent or more of its total financial assets, from the existing 10 per cent to 7.5 per cent of banks' capital funds. This exposure ceiling may, however, go up by 5 per cent, i.e., up to 12.5 per cent of banks' capital funds if the additional exposure is on account of funds on-lent by NBFCs to the infrastructure sector, and (ii) have an internal sub-limit on their aggregate exposure to all such NBFCs, having gold loans to the extent of 50 per cent or more of their total financial assets, taken together.

June

- Final guidelines on white label automated teller machines in India released on June 20, 2012.
- Banks advised not to charge foreclosure charges/pre-payment penalties on home loans on floating interest rate basis from June 5, 2012.
- The interest subvention scheme of 2 per cent on rupee export credit extended from April 1, 2012 to March 31, 2013 on the same terms and conditions as earlier, to the following sectors - handicrafts, carpets, handlooms, small and medium enterprises (SMEs), readymade garments, processed agriculture products, sports goods and toys.
- The eligible limit of the export credit refinance (ECR) facility for scheduled banks (excluding RRBs) enhanced from 15 per cent of the outstanding export credit eligible for refinance to 50 per cent, from the fortnight beginning June 30, 2012.
- Banks advised to initiate steps to allot a unique customer identification code number to all their customers while entering into new relationships with individual customers. Similarly, existing individual customers also to be allotted unique customer identification code by end-April 2013.
- Banks advised to put in place a Board approved policy on classification of unclaimed deposits, grievance redressal mechanism for quick resolution of complaints, record keeping, and periodic review of such accounts.
- State level bankers' committees (SLBCs) mandated to prepare a roadmap covering all unbanked villages of population less than 2000 and notionally allot these villages to banks for providing banking services, in a time-bound manner. While preparing the roadmap for providing banking services in all unbanked villages with population of less than 2000 through a combination of banking correspondent (BC) and branches, it should be ensured that there is a brick and mortar branch to provide support to a cluster of BC units, i.e., about 8-10 BC units, at a reasonable distance of 3-4 kilometres.

July

- Guidelines on priority sector lending - targets and classification - revised and became operational from July 20, 2012.

- Banks advised not to allow the benefit of additional interest rate on any type of deposits of non-residents. Accordingly, the discretion given to banks to allow the benefit of additional interest rate of one per cent per annum to their own staff, on deposits under non-resident (external) (NRE)/non-resident (ordinary) (NRO)/FCNR(B) accounts withdrawn.
- The merchant discount rate (MDR) for transactions undertaken with debit cards to be capped from September 1, 2012. For value up to Rs 2000/- the MDR to be 'not exceeding 0.75 per cent of the transaction amount'. For value above Rs. 2000/- the MDR to be 'not exceeding 1 per cent of the transaction amount'.
- Customer charges levied by banks for NEFT transactions rationalised.
- Criteria for primary urban co-operative banks (UCBs) declaring dividend without the Reserve Bank's prior permission revised. UCBs to henceforth, declare dividend subject to compliance with certain parameters.

August

- Banks advised to offer a ‘Basic Savings Bank Deposit Account’ to all their customers with the following minimum common facilities : (i) no requirement of minimum balance; (ii) deposit and withdrawal of cash at bank branch as well as at ATMs; (iii) receipt/credit of money through electronic payment channels or by means of deposit/collection of cheques drawn by central/state government agencies and departments; (iv) no limit on the number of deposits that can be made in a month; (v) maximum of four withdrawals in a month, including ATM withdrawals; and (vi) ATM card or ATM-cum-debit card facility.
- Banks advised to put in place a board approved transparent policy on pricing of liabilities and also to ensure that the variation in interest rates on single term deposits of Rs.15 lakh and above and other term deposits (i.e., deposits of less than Rs.15 lakh) is minimal for corresponding maturities.
- The Reserve Bank reiterated that in case of term deposits with “either or survivor” or “former or survivor” mandate, banks are permitted to allow premature withdrawal of term/fixed deposit by the surviving joint depositor on the death of the other, only if there is a joint mandate from the joint depositors to this effect. Banks also advised once again to incorporate a clause in the account opening form itself to the effect that in the event of death of the depositor, premature termination of term deposits would be allowed subject to conditions, which may be specified therein.
- Banks advised to reframe their cheque collection policies (CCPs) to include compensation payable for the delayed period in the case of collection of local cheques. In case, no rate is specified in the CCP for delay in realisation of local cheques, compensation at savings bank interest rate should be paid for the corresponding period of delay.
- Statutory liquidity ratio (SLR) for scheduled commercial banks reduced from 24 per cent of their NDTL to 23 per cent from the fortnight beginning August 11, 2012.
- Taking into consideration the availability of processing infrastructure for clearing outstation cheques at all clearing locations across the country and to bring about further efficiency in cheque clearing, all CBS enabled banks advised to issue only “payable at par”/“multicity” CTS 2010 standard cheques to all eligible customers.
- With a view to enhancing the penetration of banking services in Tier 2 centres, regional rural banks (RRBs) allowed to open branches in Tier 2 centres on par with the existing policy for Tier 3 to 6 centres. Accordingly, RRBs can open branches in Tier 2 centres (with population of 50,000 to 99,999 as per Census 2001) without taking the Reserve Bank’s permission in each case, subject to certain conditions.
- Erstwhile stipulation of allowing credit of 100 per cent foreign exchange earnings to exchange earners' foreign currency account (EEFC) accounts restored, subject to the condition that, the sum total of the accruals in the account during a calendar month should be converted into rupees on or before the last day of the succeeding calendar month after adjusting for utilisation of the balances for approved purposes or forward commitments.
- Exporters allowed to cancel and rebook forward contracts to the extent of 25 per cent of the total contracts booked for hedging their exposure.

September

- Pursuant to the Government of India extending the scheme of 1 per cent interest subvention to housing loans up to Rs.15 lakh where the cost of the house does not exceed Rs.25 lakh, banks advised to implement the scheme vigorously, submit their claims to the National Housing Bank expeditiously and extend the benefits of the scheme to all eligible borrowers/beneficiaries.
- CRR required to be maintained by scheduled commercial banks reduced by 25 basis points from 4.75 per cent to 4.50 per cent of their NDTL from the fortnight beginning September 22, 2012.
- Banks permitted to extend financial assistance to support the factoring business of factoring companies.
- With a view to improving banks’ ability to manage their non-performing assets (NPAs) and restructured accounts in an effective manner and considering that almost all branches of banks have been fully computerised, the Reserve Bank advised banks to review their existing IT and MIS framework and put in place a robust MIS mechanism for early detection of signs of distress at individual account level as well as at segment level.
- To ensure time-bound migration to CTS-2010 standard cheque formats, all banks advised to (i) issue only multi-city/payable at par CTS-2010 standard cheques not later than September 30, 2012; (ii) withdraw the non-CTS-2010 standard cheques in circulation before December 31, 2012 by creating awareness among customers; and (iii) replace the post-dated equated monthly instalment (EMI) non-CTS-2010 standard cheques (received either on their own behalf or on behalf of their NBFC clients), with CTS-2010 standard cheques before December 31, 2012.
- Foreign direct investment permitted up to (a) 100 per cent in single-brand product retail trading by only one non-resident entity, whether owner of the brand or otherwise, under the government route; (b) 51 per cent in multi-brand retail trading under the government route; (c) 49 per cent by foreign airlines in the capital of Indian companies in civil aviation sector, operating scheduled and non-scheduled air transport, under the automatic/government route; and (d) 49 per cent in power exchanges registered under the Central Electricity Regulatory Commission (Power Market) Regulations, 2010, under the government route.
- Companies in the infrastructure sector, where “infrastructure” is as defined under the extant guidelines on external commercial borrowings (ECBs), allowed to avail of trade credit up to a maximum period of five years for import of capital goods, subject to conditions.
- The maximum permissible limit of ECB that can be availed of by an individual company enhanced to 75 per cent of the average foreign exchange earnings realised during the immediate past three financial years or 50 per cent of the highest foreign exchange earnings realised in any of the immediate past three financial years, whichever is higher.
- Qualified foreign investors allowed to hedge their currency risk on account of their permissible investments (in equity and debt instruments).

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

- The Reserve Bank clarified that permission to establish offices in India by foreign non-government organisations/non-profit organisations/foreign government bodies/departments, by whatever name called, are under the government route. Accordingly, such entities are required to apply to the Reserve Bank for prior permission to establish an office in India, whether project office or otherwise.

October

- Certain additions and amendments made to the guidelines on priority sector lending issued on July 20, 2012.
- FIIs allowed to approach any AD Category I bank for hedging their currency risk on the market value of entire investment in equity and/or debt in India as on a particular date, subject to conditions.
- Banks permitted to grant loans against non-resident (external) rupee accounts [NR(E)RA] and foreign currency non-resident (bank) [FCNR(B)] deposits either to the depositors or third parties.
- The Reserve Bank to consider financial restructuring proposals submitted by UCBs involving conversion of deposits into equity/IPDI, even if the net worth of the bank does not become positive after such conversion of deposits, provided the depositors agree voluntarily for such conversion.
- UCBs advised to initiate steps for allotting unique customer identification code to all their customers while entering into any new relationships with individual customers. Similarly, existing individual customers also to be allotted unique customer identification code by end-May 2013.
- CRR of scheduled banks reduced by 25 basis points from 4.50 per cent to 4.25 per cent of their NDTL from the fortnight beginning November 3, 2012.

November

- With a view to further increasing the operational flexibility of banks, domestic scheduled commercial banks (other than RRBs) permitted to open offices exclusively performing administrative and controlling functions (regional offices/zonal offices) in Tier 1 centres without obtaining the Reserve Bank's prior permission in each case, subject to reporting.
- The Reserve Bank reiterated that banks should strictly adhere to the policy and operational guidelines formulated by their board of directors for hiring of premises on lease/rental basis in metropolitan, urban, semi-urban and rural areas. While acquiring premises for opening a branch, banks also to ensure that the location of the branch complies with the local norms/laws of the municipal corporation/nagar palika/town area authority/village panchayat or any other competent authority.
- Definition of 'infrastructure lending for the purpose of financing of infrastructure by banks and financial institutions' harmonised with that of the master list of infrastructure sub-sectors notified by the Government of India on March 27, 2012. The revised definition of 'infrastructure lending' to be effective from November 20, 2012. The exposure of banks to projects under sub-sectors which were included under the previous definition of infrastructure, but not included under the revised definition, to continue to get the benefits under 'infrastructure lending' for such exposures till the completion of the projects. Fresh lending to those sub-sectors from November 20, 2012 not to qualify as 'infrastructure lending'.
- Banks advised to strictly adhere to the instructions regarding sharing of information relating to credit, derivatives and unhedged foreign currency exposures among themselves and put in place an effective mechanism for information sharing by end-December 2012. Sanction of fresh loans/ad hoc loans/renewal of loans to new/existing borrowers from January 1, 2013 to be done only after obtaining/sharing necessary information.
- Banks advised not to grant any advances for purchase of gold in any form, including primary gold, gold bullion, gold jewellery, gold coins, units of gold exchange traded funds and units of gold mutual funds.
- Banks advised to put in place a proper mechanism to rigorously evaluate the risks arising out of unhedged foreign currency exposure of corporates and price them in the credit risk premium. Banks also advised to consider stipulating a limit on the unhedged position of corporates on the basis of the policy approved by their board.
- Banks advised to ensure that all crop loans against which interest subvention is claimed, satisfy the following criteria: (i) the borrower is an agriculturist; (ii) rate of interest charged does not exceed the rate stipulated by the Government of India; (iii) amount of loan is fixed according to the prescribed scale of finance for agricultural loans and the loan is used for the stated purpose; and (iv) seasonality is observed in regard to both disbursement and recovery.
- RRBs advised to allocate at least 25 per cent of the total number of branches proposed to be opened during a year in unbanked rural (Tier 5 and Tier 6) centres. An unbanked rural centre would mean a rural (Tier 5 and Tier 6) centre that does not have a brick and mortar structure of any scheduled commercial bank for customer based banking transactions.

MONETARY AND CREDIT INFORMATION REVIEW

Wishes its Readers

A Happy and

Prosperous New Year

December

- General permission granted to banks to issue rupee denominated co-branded pre-paid cards in India, subject to terms and conditions.
- Banks permitted to issue debit cards, including co-branded debit cards, without seeking the Reserve Bank's prior approval.
- The time limit for banks to ensure withdrawal of non-CTS 2010 standard cheques and replace them with CTS-2010 standard cheques, extended up to March 31, 2013.
- ECB allowed for low cost affordable housing projects as a permissible end-use, under the approval route. ECB can be availed of by developers/builders for low cost affordable housing projects. Housing finance companies (HFCs)/NHB can also avail of ECB for financing prospective owners of low cost affordable housing units.

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