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MONETARY AND CREDIT INFORMATION REVIEW

POLICY

Prudential Norms on Unsecured Advances

In order to enhance transparency and ensure correct reflection of the unsecured advances in Schedule 9 of banks' balance sheet, banks have been advised that -

a) For determining the amount of unsecured advances for reflecting in schedule 9 of the published balance sheet, the rights, licenses, authorisations, etc., charged to banks as collateral in respect of projects (including infrastructure projects) financed by them, should not be reckoned as tangible security. Such advances should hence, be reckoned as unsecured.

b) Banks should also disclose the total amount of advances for which intangible securities, such as, charge over the rights, licenses, authority, etc., has been taken as also the estimated value of such intangible collateral. The disclosure may be made under a separate head in "Notes to Accounts". This would differentiate such loans from other entirely unsecured loans.

These instructions would be applicable from the financial year 2009-10 onwards.

Banks permitted to issue Guarantees beyond Ten Years

In view of the changing scenario in the banking industry where banks extend long term loans for periods longer than 10 years for various projects, the Reserve Bank has now permitted banks to issue guarantees for periods beyond 10 years. While issuing such guarantees, however, banks should take into account the impact of very long duration guarantees on their asset liability management. Further, banks may evolve a policy on issuance of guarantees beyond 10 years, as considered appropriate, with the approval of their board of directors.

Standing Liquidity Facilities for Banks/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 4.75 per cent from April 21, 2009.

RTGS Transactions

Reiterating its earlier instructions on the security aspects of RTGS transactions, the Reserve Bank has advised all banks participating in RTGS that –

- A robust security environment with strong internal controls should be put in place.
- For data entry, maker-checker facility should be in place.
- To put in place adequate checks and balances to prevent any slackening of the two tier security system inherent in the architecture of RTGS.
- Staff accountability should be fixed for any lapses.
- All transactions put through the RTGS system should be digitally signed and encrypted.

Any breach in the internal control system resulting in fraud/ attempted fraud would be viewed seriously by the Reserve Bank and may also lead to termination or suspension of RTGS membership as prescribed in Section 14 of RTGS (Membership) Regulations, 2004. In addition, the Reserve Bank may also consider imposing fines under Section 30 of the Payment and Settlement Systems Act, 2007 (51 of 2007).

Further, banks participating in RTGS have also been advised to provide -

a) a bank customer receiving RTGS credit with the name of the remitter in his account statements/pass book, and

b) a bank customer sending a RTGS remittance with the name of the beneficiary in his account statements/pass book.

Banks are free to provide any additional information as they deem necessary/useful.

CONTENTS

FEMA

ECB Policy - Issue of Guarantee for Operating Lease

AD Category – I banks have been permitted to convey 'no objection' from the Foreign Exchange Management Act (FEMA), 1999 angle for issue of corporate guarantee in favour of the overseas lessor, for operating lease in respect of import of aircraft/aircraft engine/helicopter.

The 'no objection' to the Indian importer for issue of corporate guarantee under FEMA, 1999 may be conveyed after -

(i) obtaining board resolution for issue of corporate guarantee from the company issuing such guarantees, specifying the names of the officials authorised to execute such guarantees on behalf of the company; and

(ii) ensuring that the period of such corporate guarantee is co-terminus with the lease period.

AD Category – I banks may invariably specify that the 'no objection' is issued only from the foreign exchange angle under the provisions of FEMA, 1999 and should not be construed as an approval by any other statutory authority or government or any other laws/regulations. If further approval or permission is required from any other regulatory/statutory authority or government under the relevant laws/regulations, the applicant should take the approval of the authority concerned before undertaking the transaction. Further, the 'no objection' should not be construed as regularising or validating any irregularities, contravention or other lapses, if any, under the provisions of FEMA or any other laws or regulations.

RRBs

Valuation of investment in SLR/Approved Securities

The exemption granted to regional rural banks (RRBs) up to the financial year 2007-08 from 'mark to market' norms in respect of their investments in statutory liquidity ratio (SLR) securities has been extended by one more year i.e., for the financial year 2008-09. Accordingly, RRBs would have the freedom to classify their entire investment portfolio of SLR securities under 'held to maturity' for the financial year 2008-09 with valuation on book value basis and amortisation of premium, if any, over the remaining life of the securities.

CUSTOMER SERVICE

Bank Branches/ATMs to be made Disabled Persons Friendly

The Reserve Bank has advised banks to take necessary steps to provide all existing automated teller machines (ATMs)/ future ATMs with ramps so that wheel chair users/persons with disabilities can easily access them. Banks should also ensure that the height of the ATM machine is adjusted in such a manner that it facilitates easy access to persons using wheelchairs. Banks should also take appropriate steps to provide ramps at the entrance of their branches to enable persons with disabilities/wheel chair users to enter the branches and conduct business without difficulty.

Further, banks should ensure that speaking software with Braille keypads is installed in at least one third of new ATMs commissioned. Such ATMs should be strategically placed in consultation with other banks to ensure that at least one such ATM is generally available in each locality for catering to the needs of visually impaired persons. The locations of such ATMs with speaking software and Braille keypad, should be brought to the notice of the visually impaired customers.

Nomination Rules

The Reserve Bank has advised state/central co-operative banks (StCBs/DCCBs) to strictly comply with the provisions of the Banking Regulation Act, 1949 (AACS) and Co-operative Banks (Nomination) Rules, 1985 in terms of which they are required to acknowledge in writing to the depositor(s)/locker hirer(s) the receipt of the duly completed form of nomination, cancellation and/or variation of the nomination. Such acknowledgement should be given to all customers irrespective of whether it is demanded by the customers or not.

When a bank account holder has availed of nomination facility, it should be indicated on the passbook so that, in case of death of the account holder, the relatives can know from the pass book that the nomination facility has been availed of by the deceased depositor and take suitable action. Banks should introduce the practice of recording on the face of the passbook the position regarding availment of nomination facility with the legend "Nomination Registered". The same practice should also be followed in the case of term deposit receipts.

Banks have further been advised to indicate the nominee's name in the pass book/statement of accounts/fixed deposit receipt, in case the customer is agreeable to the same, as this would be helpful to the customers/nominees.

NBFCs

Framework for addressing the Liquidity Constraints

The Government of India had announced an arrangement for providing liquidity support to meet the temporary liquidity mismatches for eligible non-banking financial companies-non-deposit taking-systemically important (NBFC-ND-SI) through the Industrial Development Bank of India Stressed Asset Stabilisation Fund (IDBI SASF) Trust, which has been notified as special purpose vehicle (SPV) for undertaking this operation.

The facility is currently available for any paper issued by NBFCs up to March 31, 2009. The facility has now been extended for any paper issued up to June 30, 2009. The SPV would cease to make fresh purchases after September 30, 2009 and would recover all dues by December 31, 2009. All other terms and conditions remain unchanged.

RBI enters its Platinum Jubilee Year

The Reserve Bank of India, established on April 1, 1934 celebrates the year 2009-2010 as its Platinum Jubilee Year. Dr. D Subbarao, Governor, Reserve Bank of India, has released a special logo on the occasion. The logo uses colours of the national flag indicating the strong linkage that the Reserve Bank has with the country's economy. The logo also has Mahatma Gandhi in it taken from the currency note which is the link between the Reserve Bank and the common person. In sum, the logo represents the continuation of the Reserve Bank's commitment to be a more responsive, relevant, professional and effective public policy institution. The logo will be used throughout the Platinum Jubilee year in all RBI communication.The Reserve Bank of India will soon announce a detailed plan for marking its Platinum Jubilee.

Recommendations of the G-20 Working Group on Enhancing Sound Regulation and Strengthening Transparency

The G20 Leaders had tasked the Working Group on Enhancing Sound Regulation and Strengthening Transparency with reviewing work underway and making recommendations that will strengthen international regulatory standards, enhance transparency in global financial markets and ensure that all financial markets, products and participants are appropriately regulated or subject to oversight, depending on their circumstances.

The Working Group submitted its Final Report on March 25, 2009. The recommendations contained in the Report are a response to the causes of the current crisis, and are intended to prevent future ones from occurring. They are consistent with the recognition that robust regulation in each country, based on effective global standards, is vital to future financial stability. The recommendations of the Group and the status with regard to the relevant items for India are set out below.

Recommendation 1

As a supplement to their core mandate, the mandates of all national financial regulators, central banks, and oversight authorities, and of all international financial bodies and standard setters (IASB, BCBS, IAIS and IOSCO) should take account of financial system stability.

- Over the last few years, financial stability has emerged as a key objective of the Reserve Bank's policy. Accordingly, several measures have been taken in recent years to promote financial stability. As recommended by the Committee on Financial Sector Assessment (CFSA), a Financial Stability Unit is being set up.

Recommendation 2

Within each country, there should be an effective mechanism for appropriate domestic financial sector authorities to jointly assess the systemic risks across the financial system and to co-ordinate the domestic policy response to limit the build-up in systemic risk. The structure of this coordinating mechanism should be transparent, with clear assignments of roles, responsibilities and accountability for each authority.

- In India, the High Level Co-ordination Committee on Financial Markets (HLCCFM) provides a co-ordination mechanism among financial sector regulators, *viz.,* Reserve Bank of India (RBI), Securities and Exchange Board of India (SEBI), Insurance Regulatory and Development Authority (IRDA) and Provident Fund Regulatory and Development Authority (PFRDA). It is supported by other technical committees/sub-committees, which examine issues relating to entities under various regulators that have cross-sector implications.
- There are separate technical committees for RBI regulated entities, SEBI regulated entities and IRDA regulated entities. These committees review capital market related developments and based on an early warning system attempt to identify any unusual developments that may require co-ordinated action. Exchange-traded currency futures and interest rate futures, financial conglomerate monitoring framework, crisis management group and a corporate bond and securitisation advisory committee have been introduced through co-ordination of inter-regulatory agencies.

Recommendation 3

Financial sector authorities should have suitable macroprudential tools to address systemic vulnerabilities.

- The Reserve Bank has been using various macro-prudential tools to address banking system risks. For instance, during the expansionary phase of 2004-07, the Reserve Bank took various measures to restrict unbridled growth of credit. These included increased provisioning for standard advances and increased risk weights in respect of certain asset classes. However, subsequently, during slow credit growth phase beginning November 2008, those counter-cyclical measures were reversed. The Reserve Bank will continue to make efforts to develop and use further macro-prudential tools and would also consider using any tools that may be developed or recommended by international standard setting bodies.

Recommendation 4

The expanded FSF, together with the IMF, should create an effective mechanism for key financial authorities in each country to regularly come together around an international table to jointly assess the systemic risks across the global financial system and to coordinate policy responses.

- The G-20 has redesignated the Financial Stability Forum (FSF) to Financial Stability Board (FSB) and its membership has, *inter alia,* been enlarged to include, all G-20 member countries, including India. The Reserve Bank, the Government of India and the SEBI look forward to contributing actively and effectively to the work and initiatives of the FSB and the BCBS.

Recommendation 5

All systemically important financial institutions, markets and instruments should be subject to an appropriate degree of regulation and oversight, consistently applied and proportionate to their local and global systemic importance. Non-systemically important financial institutions, markets and instruments could also be subject to some form of registration requirement or oversight, depending on the type and degree of risk posed, for example for the integrity or efficiency of markets.

National authorities should have the authority to expand the perimeter of regulation in a timely way, recognising that it may vary across countries and through time.

- Banks, which form the largest segment of the Indian financial system, are closely regulated by the Reserve Bank. In recent years, the Reserve Bank has extended its detailed prudential regulation to systemically important non-deposit taking NBFCs (NBFCs-ND-SI) also. The Reserve Bank oversees the payment and settlement systems, regulates money markets, foreign exchange market and government securities market.
- Issues relating to expansion of the perimeter of regulation to those institutions which are not prudentially regulated and are systemically important could be deliberated in the HLCCFM.

(to be continued in the next issue)

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Annual Policy Statement for 2009-10

Dr D. Subbarao, Governor, Reserve Bank of India, in a meeting with chief executives of major commercial banks presented the Annual Policy Statement for 2009-10 on April 21, 2009. The highlights are :

Projections

- GDP growth for 2009-10 placed at 6.0 per cent.
- WPI inflation projected at around 4.0 per cent by end-March 2010
- Money supply (M_3) growth for 2009-10 is placed at 17.0 per cent.
- Aggregate deposits of scheduled commercial banks projected to grow by 18.0 per cent.
- Growth in adjusted non-food credit, including investment in bonds/debentures/shares of public sector undertakings and private corporate sector and CPs placed at 20.0 per cent.

Challenges

- The immediate challenges facing the economy are (a) supporting the drivers of aggregate demand to enable the economy to return to its high growth path; (b) boosting the flow of credit to all productive sectors of the economy; (c) managing the large government borrowing programme in 2009-10 in a non-disruptive manner; (d) restoring the fiscal consolidation process; (e) ensuring an orderly withdrawal of the large liquidity injected in the system since September 2008 by the Reserve Bank to support the economy's productive requirements; and (f) preserving the stability of the financial system drawing from the lesson of the global crisis.

Stance

On the basis of the overall assessment, the stance of monetary policy in 2009-10 will broadly be:

- To ensure a policy regime that will enable credit expansion at viable rates while preserving credit quality so as to support the return of the economy to a high growth path.
- To continuously monitor the global and domestic conditions and respond swiftly and effectively through policy adjustments as warranted so as to minimise the impact of adverse developments and reinforce the impact of positive developments.
- To maintain a monetary and interest rate regime supportive of price stability and financial stability taking into account the emerging lessons of the global financial crisis.

Monetary Measures

- Repo rate under the LAF reduced by 25 basis points from 5.0 per cent to 4.75 per cent.
- Reverse repo rate under the LAF reduced by 25 basis points from 3.5 per cent to 3.25 per cent.
- CRR kept unchanged at 5.0 per cent of net demand and time liabilities (NDTL).
- Bank rate kept unchanged at 6.0 per cent.
- The Reserve Bank retains the option to conduct overnight or longer term repo/reverse repo under the LAF depending on market conditions and other relevant factors. The Reserve Bank would continue to use this flexibility including the right to accept or reject tender(s) under the LAF wholly or partially, if deemed fit, so as to make efficient use of the LAF in daily liquidity management.

Developmental and Regulatory Issues

- A Working Group to be constituted to review the present BPLR system and suggest changes to make credit pricing more transparent.
- Payment of interest on savings bank accounts to be calculated by scheduled commercial banks on a daily product basis from April 1, 2010.
- FCCBs buyback policy further liberalised.
- The relaxation on the all-in-cost ceilings for ECBs extended up to December 31, 2009.
- Special refinance facility and term repo facility extended up to March 31, 2010.
- The increased limit for export credit refinance for banks extended up to March 31, 2010.
- The issuance structure of floating rate bonds revised.
- The cap of Rs. 20 lakh on loans granted against the security of funds held in NR(E)RA and FCNR(B) deposits enhanced to Rs. 1 crore.
- Guidelines to be issued to banks on rehabilitation of sick SMEs.
- Phased introduction of capital to risk-weighted asset ratio (CRAR) for regional rural banks (RRBs).
- A non-disruptive roadmap to ensure that only banks with licence operate in the co-operative space by 2012.
- Scheduled commercial banks (SCBs) allowed to set up off-site ATMs without prior approval subject to reporting.
- Norms for capital adequacy treatment of exposures of banks to central counterparties to be laid down.
- A minimum lock-in-period and minimum retention criteria to be prescribed for securitising the loans originated and purchased by banks.
- The maximum distance criterion for business correspondent for rural, semi-urban and urban areas to be increased from 15 kms. to 30 kms. for deeper penetration of banking services.
- To continue, for the time being, with the current policy and procedures governing the presence of foreign banks in India.
- Eligible SCBs permitted to issue all categories of pre-paid payment instruments.
- Eligible non-bank entities, including NBFCs, permitted to issue semi-closed instruments.
- Permit extension of area of operation of Tier II urban co-operative banks (UCBs) in Grade I to the entire State of registration.
- To apply capital charge for market risks in respect of large-sized and systemically important UCBs from April 1, 2010.

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