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MONETARY AND CREDIT
INFORMATION REVIEW

Important Banking and Financial Developments in 2009

January

- CRR to be maintained by scheduled banks reduced by 50 basis points from 5.5 per cent to 5.0 per cent of net demand and time liabilities (NDTL) from the fortnight beginning January 17, 2009.
- Repo rate under the liquidity adjustment facility (LAF) reduced by 100 basis points from 6.5 per cent to 5.5 per cent from January 2, 2009. [Presently 4.75 per cent].
- Reverse repo rate reduced by 100 basis points from 5.0 per cent to 4.0 per cent from January 2, 2009. [Presently 3.25 per cent].
- Special refinance facility for SCBs under Section 17(3B) of the Reserve Bank of India Act, 1934 extended up to September 30, 2009.
- Special term repo facility under LAF for the purpose of meeting the liquidity requirements of mutual funds (MFs), non-banking financial companies (NBFCs) and housing finance companies (HFCs) extended up to September 30, 2009.
- Corporates in the hotel, hospital and software sectors permitted to avail of external commercial borrowing (ECB) up to USD 100 million per financial year under the automatic route, for foreign currency and/or rupee capital expenditure for permissible end-use. The proceeds of the ECB not to be used for acquisition of land.
- Corporates engaged in the development of integrated township, permitted to avail of ECB under the approval route. The minimum area to be developed should be 100 acres.

February

- Foreign exchange swap facility extended till March 31, 2010.
- Ceiling rate on export credit in foreign currency raised from LIBOR + 100 basis points to LIBOR + 350 basis points.
- Ceiling interest rate on the lines of credit with overseas banks increased from 6-month LIBOR/EURO LIBOR/ EURIBOR + 75 basis points to 6-month LIBOR/ EURO LIBOR/ EURIBOR + 150 basis points.
- Banks allowed to apply special regulatory treatment for accounts which were standard on September 1, 2008 and taken up for restructuring up to January 31, 2009 even if these had turned non-performing during this period. Subsequently, the time schedule for taking up restructuring extended up to March 31, 2009.
- Banks advised to put in place from August 1, 2009 a system of (i) providing for additional authentication/validation based

on information not visible on the cards for all on-line 'card not present' transactions; and (ii) "online alerts" to the cardholder for all 'card not present' transactions of the value of Rs.5,000 and above.

- All NBFCs-ND with asset size of Rs.100 crore and above appraised that the Government of India had approved a scheme for providing liquidity support to eligible NBFCs-ND-SI through a special purpose vehicle (SPV) for meeting the temporary liquidity mismatches in the operations.
- Revised guidelines on placement of deposits by non-scheduled UCBs with scheduled UCBs issued.
- Firms and companies dealing in purchase/sale of rough or cut and polished diamonds/precious metal jewellery plain, minakari and/or studded with/without diamond and/or other stones, with a track record of at least 3 years in import/export of diamonds/coloured gemstones/diamond and coloured gemstones studded jewellery/plain gold jewellery, and having an average annual turnover of Rs 5 crore or above during preceding three licensing years permitted to open and maintain Diamond Dollar Accounts with AD Category I banks.

March

- Repo rate under the LAF reduced by 50 basis points from 5.5 per cent to 5.0 per cent from March 5, 2009. [Presently 4.75 per cent].
- Reverse repo rate under the LAF reduced by 50 basis points from 4.0 per cent to 3.5 per cent from March 5, 2009. [Presently 3.25 per cent].
- The facility of providing liquidity support to meet the temporary liquidity mismatches for eligible NBFCs-ND-SI, which was initially available for any paper issued up to March 31, 2009 extended for any paper issued up to June 30, 2009. Accordingly, the SPV to cease to make fresh purchases after September 30, 2009 and to recover all dues by December 31, 2009.
- Guidelines on restructuring of advances by UCBs modified.
- Interest subvention of 2 per cent on export credit extended for a further period of six months i.e. from April 1, 2009 till September 30, 2009 to specified sectors.
- As part of simplifying procedures, GR Forms made available on-line.
- The date for completing the entire procedure for buyback of foreign currency convertible bonds (FCCBs) extended from March 31, 2009 to December 31, 2009.

April

- Repo rate under the LAF reduced by 25 basis points from 5.0 per cent to 4.75 per cent from April 21, 2009.
- Reverse repo rate under the LAF reduced by 25 basis points from 3.5 per cent to 3.25 per cent from April 21, 2009.
- FCCBs buyback policy further liberalised.
- Special refinance facility and term repo facility and increased limit for export credit refinance for banks extended up to March 31, 2010.
- AD Category – I banks allowed to convey 'no objection' under the Foreign Exchange Management Act (FEMA), 1999 for issue of corporate guarantee in favour of the overseas lessor, for operating lease in respect of import of aircraft/ aircraft engine/helicopter.
- The total amount of permissible buyback of FCCBs, out of internal accruals, increased from USD 50 million of the redemption value per company to USD 100 million under the approval route, subject to conditions.
- The cap of Rs. 20 lakh enhanced to Rs. 100 lakh on loans against security of funds held in NR (E) RA and FCNR (B) deposits either to the depositors or third parties.
- All banks participating in real time gross settlement (RTGS) system informed that a bank customer receiving RTGS credit to be provided with the name of the remitter in his account statement/pass book and similarly a bank customer sending a RTGS remittance to be provided with the name of the beneficiary in his account statements/pass book.
- Guidelines issued to all banks to facilitate access of bank branches/ATMs to persons with disabilities.
- Banks allowed to issue guarantees for periods beyond 10 years. Banks, however, to take into account the impact of very long duration guarantees on their asset liability management while issuing such guarantees.
- Banks advised to calculate the payment of interest on savings bank accounts on a daily product basis from April 1, 2010.

May

- Pursuant to the recommendations of the Working Group on Rehabilitation of Sick SMEs, banks advised to undertake a review and put in place policies relating to extension of credit facilities, restructuring/rehabilitation policy for revival of potentially viable sick units/enterprises in the micro and small enterprise (MSE) sector and non-discretionary one time settlement scheme for recovery of non-performing loans, with the due approval of their Board of Directors.
- The Reserve Bank to consider requests for expansion of area of operation to the entire state from licensed Tier II primary urban co-operative banks (UCBs) registered in states that have entered into MoU with the Reserve Bank and are classified as Grade I as per the last statutory inspection and/or conforming to the financials of a Grade I bank as per the latest audited reports.
- The prudential guidelines on restructuring of advances, earlier made applicable to SCBs, extended to select all India financial institutions.
- RRBs advised to strictly comply with the provisions of the Banking Regulation Act, 1949 and the Banking Companies (Nomination) Rules, 1985 and devise a proper system of acknowledging the receipt of duly completed form of nomination, cancellation and/or variation of the nomination. RRBs instructed to give an acknowledgement to all customers irrespective of whether it is demanded by the customers.

- State and central co-operative banks advised to desist from financing the commercial real estate sector. As regards the credit facilities already extended to this sector, these banks to ensure that such exposures are well secured and adequate provisioning made, wherever required, as per the existing prudential guidelines. Further, these banks also advised not to renew the credit facilities.
- Timeline for increase of CRAR of 12 per cent and 15 per cent for NBFCs-ND-SI deferred to March 31, 2010 and March 31, 2011 respectively.
- Norms for capital adequacy treatment of banks' various types of credit risk exposures to central counterparties (CCPs) revised. Accordingly, the exposures to CCPs on account of derivatives trading and securities financing transactions (e.g. CBLOs, repos) outstanding against them, to be assigned zero exposure value for counterparty credit risk. Deposits/collaterals kept by banks with the CCPs to attract risk weights appropriate to the nature of the CCP. In the case of CCIL, the risk weight to be 20 per cent and for other CCPs, to be according to the ratings assigned to these entities as per the new capital adequacy framework.

June

- SCBs allowed, for limited statistical/reporting purposes, to close those fraud cases involving amounts up to Rs.25 lakh, where (a) the investigation is on or challan/charge sheet not filed in the Court for more than three years from the date of filing of first information report (FIR) by the CBI/police; or (b) the trial in the courts, after filing of charge sheet/challan by CBI/police has not started, or is in progress subject to certain conditions.
- SCBs permitted to install off-site automated teller machines (ATMs) at centres/places identified by them, without the Reserve Bank's permission in each case, subject to certain conditions.
- UCBs advised that they may declare dividend without the Reserve Bank's prior permission subject to compliance with the condition that (a) CRAR norms are as prescribed by the Reserve Bank; and (b) net NPA are less than 10 per cent after making all necessary provisions as per the assessment made by the Reserve Bank in its last inspection report.
- SCBs granted extension of transition period up to December 31, 2009 to comply with the Reserve Bank's guidelines on loans extended by them to mutual funds as also regarding the irrevocable payment commitments (IPCs).
- Guidelines regarding the prudential treatment of different types of provisions in respect of loan portfolios of UCBs laid down. UCBs advised that they may voluntarily make specific provisions for NPAs at rates which are higher than the rates prescribed under existing regulations if such higher rates are based on a policy approved by their board of directors to provide for estimated actual loss in collectible amount and the policy is consistently adopted from year to year or if provided in the respective State Cooperative Societies Acts/Multi-State Cooperative Societies Act 2002.
- On review, the period of realisation and repatriation to India of the amount representing the full export value of goods and software exported extended up to June 30, 2010.
- The permission to corporates engaged in the development of integrated township, to avail of ECB under the approval route, extended up to December 31, 2009.
- Special economic zone (SEZ) developers permitted to avail of ECB under the approval route for providing infrastructure

facilities, as defined in the ECB policy, within the SEZ. ECB, however not permissible for development of integrated township and commercial real estate within the SEZ.

July

- The facility of providing liquidity support to meet the temporary liquidity mismatches for eligible NBFCs-ND-SI further extended for any paper issued by NBFCs up to September 30, 2009. Accordingly, the SPV to cease to make fresh purchases after December 31, 2009 and to recover all dues by March 31, 2010.
- The time schedule for introduction of advanced approaches of Basel II framework in India announced. Accordingly, the earliest date of making application by banks to the Reserve Bank for adoption of 'internal models approach for market risk' and 'the standardised approach for operational risk' set at April 1, 2010. The time schedule for adoption of 'advanced measurement approach for operational risk' and 'internal ratings-based approach for credit risk' set at April 1, 2012. The likely dates for approval by Reserve Bank for adoption of these approaches also specified.
- Guidelines regarding time line of reconciliation of transactions of ATM failures reviewed. Accordingly, all SCBs including RRBs, UCBs, state co-operative banks (StCBs) and central co-operative banks (DCCBs) advised to reimburse to customers, the amount wrongfully debited on account of failed ATM transactions within a maximum period of 12 days from the date of receipt of customer complaint. Failure to re-credit the customer account within the stipulated time frame to attract a compensation of Rs.100 per day to the aggrieved customer.
- All SCBs advised to prominently display at their branches, the names of officials who can be contacted for redressal of complaints, together with their direct telephone number, fax number, complete address and e-mail address, etc. SCBs also to prominently display the name and other details of the concerned nodal officer appointed under the Banking Ombudsman Scheme.
- Cash withdrawals at point-of-sale (POS) terminals permitted. To start with, this facility to be available for all debit cards issued in India, up to Rs.1000 per day.

August

- Amending its guidelines on issuance and operation of prepaid payment instruments in India, the Reserve Bank permitted 'other persons' to issue mobile phone based semi-closed system pre-paid payment instruments.
- The maximum quantum of housing loan to be granted to an individual borrower by a StCB)/CCB revised to Rs. 20 lakh. In case the bank's net worth is Rs.100 crore and above, the limit to be Rs. 30 lakh.
- Policy for opening new place of business by StCBs revised.
- RRBs permitted to issue inter-bank participation certificate (IBPC) of a tenor of 180 days on risk sharing basis to SCBs against their priority sector advances in excess of 60 per cent of their outstanding advances.
- The Government of India, in consultation with the Reserve Bank decided to issue a new short-term instrument called Cash Management Bill to meet the temporary cash flow mismatches of the government. The Cash Management Bills will be non-standard, discounted instruments issued for maturities of less than 91 days.

September

- The Reserve Bank finalised the guidelines on classification of commercial real estate (CRE) exposures. The guidelines came into effect from September 9, 2009.

- Loans granted by banks for certain activities under micro and small (service) enterprises to be included within the priority sector provided, such enterprises satisfy the definition of micro and small (service) enterprises in respect of investment in equipment (i.e., original cost excluding land and building, furniture, fittings and other items not directly related to the service rendered or as may be notified under the MSMED Act, 2006 should not exceed Rs. 10 lakh and Rs. 2 crore respectively).
- While granting finance to specific housing/development projects, banks advised to stipulate, as part of the terms and conditions that, the builder/developer/company should (i) disclose in the pamphlets/brochures etc., the name(s) of the bank(s) to which the property is mortgaged; (ii) append the information relating to mortgage while publishing advertisement of a particular scheme in newspapers/magazines etc.; and (iii) indicate in their pamphlets/brochures that they would provide no objection certificate (NOC)/permission of the mortgagee bank for sale of flats/property, if required.
- Banks permitted to issue subordinated debt as Tier II capital with call and step-up options.
- The minimum net owned fund (NOF) for stand-alone primary dealers (PDs) enhanced to Rs. 150 crore from the earlier amount of Rs. 50 crore. The revised NOF requirement for stand-alone PDs, which intend to undertake other permissible activities, enhanced to Rs.250 crore from the earlier level of Rs. 100 crore.
- The limit on borrowing by PDs from the call/notice money market, on an average in a reporting fortnight increased to 225 per cent of their NOF from the earlier ceiling of 200 per cent of NOF, as at end March of the preceding financial year.
- Diplomatic missions permitted to credit the visa fees collected in India in Indian rupees, by way of transfer from the rupee account, to their foreign currency account.
- NBFCs permitted to participate in designated interest rate futures exchanges recognised by Securities and Exchange Board of India (SEBI), as clients, subject to the Reserve Bank/SEBI guidelines in this regard, for the purpose of hedging their underlying exposures.

October

- AD Category-I banks allowed to issue guarantee for an amount not exceeding USD 500,000 or its equivalent, in favour of a non-resident service provider, on behalf of a resident customer who is a service importer, subject to conditions.
- RRBs advised to take membership of at least one credit information company and provide credit data (positive as well as negative) to the credit information company in the format prescribed by it.
- Banks advised to include readymade garments along with textiles under the rupee export credit interest rates subvention scheme from December 1, 2008 to March 31, 2010.
- Statutory liquidity ratio (SLR) for scheduled commercial banks (excluding RRBs) increased to 25 per cent of their NDTL from the fortnight beginning November 7, 2009.
- Special term repo facility for SCBs for funding MFs, NBFCs and HFCs discontinued from October 27, 2009. The outstanding liabilities of SCBs under this facility not to be rolled-over on maturity.
- The special refinance facility under Section 17(3B) of the Reserve Bank of India Act, 1934 discontinued from October

27, 2009. Accordingly, banks cannot avail fresh refinance from the Reserve Bank under the facility. Banks to repay outstandings under this facility, if any, within the stipulated time of 90 days from the first day of utilisation.

- The eligible limit of export credit refinance (ECR) facility reduced from the earlier level of 50 per cent of the outstanding rupee export credit eligible for refinance as at the end of the second preceding fortnight to 15 per cent from October 27, 2009.
- The Reserve Bank implemented Online Returns Filing System (ORFS) for banks to submit information electronically. Keeping in line with the emerging global standards in the area of financial reporting, the Reserve Bank adopted eXtensible Business Reporting Language (XBRL) taxonomies for reporting the regulatory returns (RCA2) developed as per Basel II guidelines.

November

- SCBs (excluding RRBs) advised that the liabilities arising out of transactions in collateralised borrowing and lending obligations (CBLO) with the Clearing Corporation of India Ltd. (CCIL) would be subject to maintenance of CRR from the fortnight beginning November 21, 2009.
- The provisioning requirement for advances to the commercial real estate sector classified as 'standard assets' increased from 0.40 per cent to 1.00 per cent.
- With a view to ensuring adequate availability of genuine and clean notes to the members of public, banks maintaining currency chests advised to entrust the responsibility of currency management to a functionary not less than the level of General Manager. The official would be the nodal point of contact for the Reserve Bank and would be accountable for the obligations cast upon currency chests by the Reserve Bank.
- Banks marketing/referring mutual fund/insurance products advised to disclose to their customers, details of all the commissions/other fees (in any form) received, if any, from various mutual fund/insurance/other financial companies for marketing/referring their products.
- Banks advised to ensure that bank notes in denominations of Rs. 100 and above are processed through machines for checking their authenticity/genuineness and fitness before re-issuing them over their counters or through ATMs.
- Directions for opening and operation of accounts and settlement of payments for electronic payment transactions involving intermediaries, issued.
- Lead banks advised 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

2,000 by March 2011. Such banking services may not necessarily be extended through a brick and mortar branch but could be provided through any of the various forms of ICT- based models, including through business correspondents (BCs).

- Banks permitted to appoint (i) individual kirana/medical/fair price shop owners; (ii) individual public call office (PCO) operators; (iii) agents of small savings schemes of Government of India/insurance companies; (iv) individuals who own petrol pumps; (v) retired teachers; and (vi) authorised functionaries of well run self help groups (SHGs) linked to banks as BCs, in addition to the entities already permitted.

December

- With a view to improving the provisioning cover and enhancing the soundness of individual banks, banks advised to augment their provisioning cushions consisting of specific provisions against non-performing assets (NPAs) as well as floating provisions, and ensure that their total provisioning coverage ratio, including floating provisions, is not less than 70 per cent. Banks to achieve this norm not later than end-September 2010.

• Pursuant to the recommendations of the Working Group constituted by the Reserve Bank to review the extant Branch Authorisation Policy, domestic scheduled commercial banks (other than RRBs) permitted to open branches in (i) Tier 3 to Tier 6 centres (with population up to 49,999 as per Census 2001); and (ii) rural, semi-urban and urban centres in North Eastern

States and Sikkim without obtaining the Reserve Bank's prior permission in each case, subject to reporting. Banks also given the freedom to convert their general banking branches into specialised branches subject to the condition that the bank would continue to serve the existing customers of the general banking branches, which are being converted into specialised branches.

- Banks advised to link the tenor of loans granted by them to housing finance companies (HFCs) in line with the average portfolio maturity of housing loans, up to Rs. 20 lakh, granted by the HFCs to individual borrowers. Banks further advised that if the tenor of such loans granted by them to HFCs is not co-terminus with the on-lending of HFCs, they would not be eligible for classification under priority sector. Banks also to ensure that the end use of the funds is strictly as per the guidelines on lending to priority sector.
- Banks advised to prominently display at the ATM locations (i) information that complaints should be lodged at the branches where customers maintain account to which the ATM card is linked; and (ii) telephone numbers of help desk/contact persons of the ATM owning bank to lodge complaint/seek assistance.

