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MONETARY AND CREDIT INFORMATION REVIEW

Branch Banking

RBI liberalises Forex Facilities for Individuals

The Reserve Bank of India has further liberalised foreign exchange facilities for individuals under the Foreign Exchange Management Act, (FEMA) 1999. The facilities are:

1) **NRIs can be Joint Holders in Resident's SB/EEFC/RFC Accounts**

Individual residents in India are now permitted to include non-resident close relative(s) as joint holder(s) in their resident bank accounts as also in Exporter Earners' Foreign Currency (EEFC) and Residents' Foreign Currency (RFC) accounts on 'former or survivor' basis. Non-resident Indian close relative(s), however, would not be eligible to operate the account during the life time of the resident account holder.

2) **Residents can be Joint Holders in NRE/FCNR Accounts**

Non-Resident Indians(NRIs), are now permitted to open Non-Resident (External) Rupee Account Scheme/Foreign Currency (Non-Resident) Account (Banks) Scheme (B) accounts with their resident close relative(s) on 'former or survivor' basis. The resident close relative would be eligible to operate the account as Power of Attorney holder in accordance with existing instructions during the life time of the Non-Resident Indian/ Persons Indian Origin account holder.

3) **Residents can gift Shares/Debentures upto USD 50,000 Value**

A person resident in India can now give to a person resident outside India, by way of gift, any security/shares/ debentures of upto USD 50,000 in value per financial year without approval of the Reserve Bank of India. Earlier, a person resident in India could give to a person resident outside India, by way of gift, any security/shares/debentures of upto USD 25,000.

4) **Sale Proceeds of FDIs can be credited to NRE/FCNR (B) Account**

Sale proceeds of Foreign Direct Investment (FDI) are now permitted to be credited to Non-Resident (External) Rupee (NRE) Account Scheme/Foreign Currency (Non-Resident) Account FCNR (Banks) Scheme (B) accounts. The Non-resident Indians/Persons of Indian Origin should, however, have purchased the consideration out of inward remittance or funds held in their NRE/FCNR (B) accounts. Earlier, the facility was allowed only for investments in India. Further, the facility is available subject to applicable taxes.

5) **Gifts to NRIs can be credited to NRO Accounts in Rupees**

Resident individuals are now permitted to make a rupee gift to a NRI/PIO who is a close relative by way of crossed cheque/electronic transfer to the Non-Resident (Ordinary) Rupee Account (NRO) of the NRI/PIO. The gift amount would have to be within the overall limit of USD 200,000 per financial year as permitted under the Liberalised Remittance Scheme (LRS) for a resident individual. It would be the responsibility of the resident donor to ensure that the gift amount being remitted is under the LRS and all the remittances under the LRS during the financial year including the gift amount do not exceed the limit prescribed.

6) **Loans to NRI Close Relatives can be given in Rupees**

Resident individuals are now permitted to lend to a Non Resident Indian (NRI)/ Person of Indian Origin (PIO) close relative by way of crossed cheque/electronic transfer, subject to the following conditions:

(i) The loan should be free of interest and the minimum maturity of the loan should be one year;

(ii) The loan amount should be within the overall limit under the Liberalised Remittance Scheme of USD 200,000 per financial year available for a resident

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individual. It would be the responsibility of the lender to ensure that the amount of loan is within the Liberalised Remittance Scheme limit of USD 200,000 during the financial year;

(iii) The loan would have to be utilised for meeting the borrower's personal requirements or for his own business purposes in India;

(iv) The loan should not be utilised, either singly or in association with other person, for any of the activities in which investment by persons resident outside India is prohibited, namely,

(a) the business of chit fund, or

(b) Nidhi Company, or

(c) Agricultural or plantation activities or in real estate business (excluding development of townships, construction of residential / commercial premises, roads or bridges) or construction of farm houses, or

(d) Trading in Transferable Development Rights (TDRs).

(v) The loan amount would have to be credited to the NRO account of the NRI/PIO;

(vi) The loan amount should not be remitted outside India; and

(vii) The loan should be repaid by way of inward remittances through normal banking channels or by debit to the Non-resident Ordinary (NRO) / Non-resident External (NRE) / Foreign Currency Non-resident (FCNR) account of the borrower or out of the sale proceeds of the shares or securities or immovable property against which such loan was granted.

7) Loans given to NRI Close Relatives can be repaid

Resident individuals are now granted general permission to repay loans availed of from banks in Rupees in India by their NRI close relatives. Loans would have to be repaid by resident close relative of the Non-Resident Indian by crediting the borrower's loan account through the bank account of such relative. Earlier, repayment of loans by close relative in respect of Rupee loan availed by NRIs was restricted only to housing loans.

8) Residents can bear Medical Expenses of NRIs

Residents will now be allowed to bear the medical expenses of visiting NRIs/PIOs close relatives. Earlier, residents were allowed to make payment in rupees towards meeting expenses on account of boarding, lodging and services related to it or travel to and from and within India of a person resident outside India and who is on a visit to India.

Rupee / Foreign Currency Vostro Accounts

It has been decided to extend the Rupee Drawing Arrangements (RDAs) only under the Speed Remittance procedures to Exchange Houses situated in Malaysia. In terms of the Memorandum of instructions for Opening and Maintenance of Rupee/ Foreign Currency Vostro accounts of Non-resident Exchange Houses, under the Rupee Drawing Arrangements (RDAs), inward remittances for permissible purposes are currently received in India through Exchange Houses situated in Gulf countries, Hong Kong and Singapore, with prior approval of the Reserve Bank.

ECB Procedures simplified

Powers have been delegated to designated AD Category-I banks to approve the request from ECB borrowers with respect to change in the recognised lender when the original lender is an international bank or a multilateral financial institution (such as IFC, ADB, CDC, etc.) or a regional financial institution or a Government owned development financial institution or an export credit agency or supplier of equipment and the new lender also belongs to any one of the above mentioned categories. The AD must however, ensure the following conditions are met:

i. the new lender is a recognised lender as per the extant ECB norms;

ii. there is no change in the other terms and conditions of the ECB; and

iii. ECB is in compliance with the extant guidelines.

The changes in the recognised lender should be promptly reported to the Department of Statistics and Information Management, Reserve Bank of India in Form 83. However, changes in the recognised lender in case of foreign equity holder and foreign collaborator will continue to be examined by RBI.

Contingency Plan for Bank ATMs

As a customer service initiative, Reserve Bank has allowed banks to replenish cash at their ATMs by withdrawing cash from RBI. Banks can avail of this facility on the days of strike / natural calamity and for this purpose, they will be required to:

(i) Enter into an agreement with the designated outsourcing agency subject to compliance with the Guidelines on Managing Risks and Code of Conduct in Outsourcing of Financial Services by Banks.

(ii) Authorise RBI in the form of a standing instruction to debit their current accounts maintained with it for handing over the cash to the outsourced agency appointed by them.

(iii) Submit on every such occasion, a bearer cheque signed by the authorised signatory payable to “Ourselves” with the signature of the recipient attested on the obverse of the cheque.

POLICY

Mid-Quarter Monetary Policy Review September 2011

The Reserve Bank announced its mid-quarter review of the Monetary Policy for 2011-12 on September 16, 2011. Highlights:

Monetary Measures

- Repo rate under the Liquidity Adjestment Facility (LAF) increased by 25 basis points from 8.00 per cent to **8.25** per cent.
- Reverse repo rate under the LAF automatically adjusted to **7.25** per cent from 7.00 per cent and Marginal Standing Facility (MSF) rate to **9.25** per cent from 9.00 per cent.

Expected Outcome

The policy action in this Review is expected to:

- reinforce the impact of past policy actions to contain inflation and anchor inflationary expectations.

(iv) Submit a letter stating that the bank desires to withdraw cash from their current account with RBI on that day as a special case.

(v) The ceiling for withdrawal of cash under this contingency will be Rs.10 crore at a time, i.e., per transaction. However, depending upon the need for cash to be replenished in the ATMs, a bank may avail of this withdrawal facility more than once during the working hours on a particular day.

(vi) The Regional Director of RBI for the respective State will be the final authority to decide whether there is an emergency and the facility can be made available.

(vii) Banks will have to keep RBI informed about any change of outsourcing agency in this regard.

Special Dispensation to NSTFDC

The National Scheduled Tribes Finance and Development Corporation (NSTFDC) under the Ministry of Tribal Affairs extends financial assistance at concessional rates of interest for viable income generating activities to eligible beneficiaries belonging to Scheduled Tribes. Under the Micro Credit Scheme of NSTFDC,banks have been permitted to extend subsidised loans to eligible beneficiaries/SHGs for undertaking self employment ventures/activities at interest rates not exceeding six per cent/eight per cent where refinance at three per cent/five per cent from NSTFDC is available. Banks have also been permitted to extend subsidised loans to eligible beneficiaries under various schemes of National Handicapped Finance and Development Corporation (NHFDC) at interest rates prescribed where refinance from NHFDC is available. Banks can charge interest at the rates prescribed under the schemes of NSTFDC / NHFDC to the extent refinance is available. Such lending, even if below the Base Rate, would not be considered as violation of the Base Rate Guidelines. The interest rate charged on the part not covered under refinance should, however, not be below the Base Rate.

Service Charges introduced for RTGS

RBI has decided to introduce service charges for all outward transactions of RTGS members with effect from October 1, 2011 in order to recover operational costs and to bring in further efficiency in operations and liquidity flows in the RTGS system.

The RTGS service charges will have three components: (i) membership fee, (ii) transaction fee and (iii) time-varying tariff.

(i) Membership fees

Type of Membership	Type of entities	Monthly Membership Fee (in Rs.)
A	Banks other than co-operative banks	4000
	co-operative banks	2000
B	Primary dealers	2000
D & E	Clearing entities and special/other entities	2000

(ii) Transaction fee (per transaction)

Band	Monthly Volume		Charge per transaction (in Rs.)
	From	To	
1	1	25000	0.50
2	25001	50000	0.40
3	50001	100000	0.30
4	100001	and above	0.10

(iii) Time varying tariff

Block	Time of settlement at the RBI			Charge per transaction (in Rs.)
	From		To	
1	9:00 hrs	-	12:00 hrs	Nil
2	12:00 hrs	-	15:30 hrs	1.00
3	15:30 hrs	-	17:30 hrs	5.00
4	17:30 hrs			10.00

RBI will calculate service charges on a monthly basis for each member and the amount would be debited from the current account of the respective member maintained with Deposit Accounts Department, Reserve Bank of India, Mumbai at the end of the month.

RTGS members desirous of passing on the time varying tariff to their customers should ensure that the charges so levied do not exceed the time varying tariff that RBI collects from the RTGS member. RTGS member should also follow the same time band (prescribed by RBI) while levying the time varying tariff from their customers. Members are therefore advised to time-stamp all customer initiated payment transfers to avoid any customer claims and disputes in future. RBI has also stated that membership fees and transaction fees should not be passed on to customers. The maximum customer charges inclusive of the time varying tariff that can be recovered by a member from its customers (if it so desires) would be :

RTGS Transaction	Maximum customer charges
Inward transactions	Free
Outward transactions	
Rs. 2 lakh to Rs. 5 lakh	Rs. 25+ applicable time varying tariff subject to a maximum of Rs. 30.
Above Rs. 5 lakh	Rs. 50+ applicable time varying tariff subject to a maximum of Rs. 55.

Submission of Credit Information to CICs

Banks and FIs have been advised to submit quarterly list of suit-filed accounts of Rs. One crore and above, classified as doubtful or loss, to Credit Information Bureau (India) Limited (CIBIL) and/or any other credit information company which has obtained Certificate of Registration (CoR) from RBI and of which that bank is a member. CoR has been issued to three Credit Information Companies (CICs), viz., M/s Experian Credit Information Company of India Pvt. Ltd, M/s Equifax Credit Information Services Pvt. Ltd and M/s High Mark Credit Information Services Pvt. Ltd to commence the business of credit information under the Credit Information

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Companies (Regulation) Act, 2005. Banks / FIs have already been advised to submit the list of suit-filed accounts of wilful defaulters of Rs 25 lakh and above as at end-March, June, September and December every year to CIBIL and / or any other credit information company which has obtained CoR from RBI and of which that bank is a member. The CICs have been advised to disseminate credit information covering data supplied by banks / FIs on such suit-filed accounts on their respective websites.

Guidelines for Rehabilitation of Sick SME Units

The Reserve Bank of India has withdrawn the norms of relief and concessions to viable/potentially viable sick units under rehabilitation prescribed earlier. The withdrawal comes in the wake of certain developments. All scheduled commercial banks, for instance, have been advised to put in place their own restructuring/rehabilitation policy for revival of viable/potentially viable sick MSE units/enterprises duly approved by their board of directors. With all the banks having migrated to the Base Rate regime, references to PLR/BPLR are no more meaningful. As per extant guidelines on interest rates, banks are not allowed to lend below Base Rate. However, in case of restructured loans if some of the working capital term loan, funded interest term loan, etc., needs to be granted below the Base Rate for the purposes of viability, such lending by scheduled commercial banks are not be construed to be violation of Base Rate guidelines. Norms for grant of relief and concessions by banks to potentially viable sick small scale industrial units for rehabilitation were earlier furnished by RBI.

Authorisation Guidelines for PDs revised

With a view to putting in place equitable and transparent regulatory guidelines for authorisation of Primary Dealers (PDs) and ensuring that the new PDs are adequately equipped to participate meaningfully in all auctions of Government securities (G-Sec), including an underwriting commitment and play an active role in the G-Sec market in the emerging circumstances, the existing authorisation guidelines for PDs have been revised.

The eligibility criteria for an entity are

Eligible Institutions - I

a. Subsidiary of scheduled commercial bank/s and All India Financial Institutions,

b. Subsidiaries/ joint ventures set up in India by entities incorporated abroad,

c. Company incorporated under the Companies Act, 1956 and does not fall under (a) or (b).

Eligibility conditions - I

- Should be registered as an NBFC under Section 45-IA of the RBI Act, 1934 for at least one year prior to the submission of application.
- Should have minimum net owned funds (NOF) of Rs. 150 crore / Rs. 250 crore or as prescribed in the Master Circular on operational guidelines to PDs.
- Should have exposure in the securities business and in particular to the G-Sec market for at least one year prior to the submission of application. Exposure for this purpose would be as under:
    i. Applicant's turnover in the G-Sec business during the year preceding the year of application for PD authorisation should be at least equal to 15 per cent of its total turnover.
    ii. The Assets in G-Sec during the year preceding the year of application should be at least equal to 15 per cent of its total assets.
- Applicant entity should submit an annual target along with plan of action for turnover to be achieved on behalf of mid-segment and retail investors at the time of submission of their application for PD authorisation. The annual turnover target on behalf of mid-segment and retail investors should not be less than 75 per cent of minimum NOF for PDs prescribed from time to time.
- In case of subsidiaries/joint ventures set up by entities incorporated abroad, in addition to conditions given above, the following may be adhered to:
    i. The applicant entity should have approval of the Foreign Investment Promotion Board (FIPB).
    ii. The parent foreign company directly or through its subsidiaries should have been in PD business for three years or more in active markets.
    iii. Such entity should suitably ring fence its system from its parent and associates so as to ensure sanctity of its data and avoid any undue spill over of risk to its own operations.

Eligible Institutions - II

Banks which do not have a partly or wholly owned subsidiary for undertaking PD business and intend to undertake PD business departmentally.

Eligibility conditions - II

- Minimum net owned funds (NOF) of Rs. 1,000 crore
- Minimum Capital to Risk Weighted Assets Ratio (CRAR) of 9 per cent
- Net non-performing assets of less than 3 per cent and a profit making record for last three years
- The applicant bank should have approval of Department of Banking Operations and Development, Central Office, Reserve Bank of India, Mumbai
- Applicant bank should submit an annual target along with plan of action for turnover to be achieved on behalf of mid-segment and retail investors at the time of submission of their application for PD authorisation. The annual turnover target to be achieved on behalf of mid-segment and retail investors should not be less than 75 per cent of minimum NOF for bank PDs prescribed from time to time.

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