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MONETARY AND CREDIT INFORMATION REVIEW

POLICY

Guidelines on Implementation of Basel III

The Reserve Bank had placed the draft guidelines on Basel III – Implementation of Capital Regulations in India on its website in December 2011 for comments/suggestions from various stakeholders. The draft guidelines provided for a roadmap for smooth implementation of Basel III capital regulations in terms of the transitional arrangements (phase-in) of capital ratios and grandfathering (phase-out) of ineligible capital instruments. The Reserve Bank also estimated, on the basis of data collected from banks, the likely impact of the proposed Basel III norms on banks' capital position and leverage. Based on the estimation exercise, as also the comments/suggestions from various stakeholders, the final guidelines on Basel III capital regulations have been issued. These guidelines would become effective from January 1, 2013 in a phased manner. The Basel III capital ratios will be fully implemented as on March 31, 2018.

The capital requirements for the implementation of Basel III guidelines may be lower during the initial periods and higher during the later years. While undertaking the capital planning exercise, banks should keep this in view.

The Reserve Bank is currently working on the operational aspects of implementation of the Countercyclical Capital Buffer. Guidance to banks on this would be issued in due course. Besides, certain other proposals viz., 'Definition of Capital Disclosure Requirements', 'Capitalisation of Bank Exposures to Central Counterparties' etc., are also engaging the attention of the Basel Committee at present. The final proposals of the Basel Committee on these aspects will be considered for implementation, to the extent applicable, in future.

For the financial year ending March 31, 2013, banks would have to disclose the capital ratios computed under the existing guidelines (Basel II) on capital adequacy as well as those computed under the Basel III capital adequacy framework.

FCNR(B) Deposits

Interest Rates

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 May 4, 2012, the interest rates on FCNR(B) deposits will be as under:

Maturity Period	Existing	Revised
1 year to less than 3 years	LIBOR/Swap plus 125 basis points	LIBOR/Swap plus 200 basis points
3 - 5 years	LIBOR/Swap plus 125 basis points	LIBOR/Swap plus 300 basis points

On floating rate deposits, interest shall be paid within the ceiling of swap rates for the respective currency/maturity plus 200 bps/300 bps as the case may be. For floating rate deposits, the interest reset period shall be six months.

Foreign currency loans out of FCNR(B) deposits may be given as pre-shipment credit in foreign currency (PCFC)/ rediscounting of export bills abroad (EBR) to exporters and other entities (including exporters who desire to avail of foreign currency term loans for creating export capability) having a natural hedge or entities having a risk management policy for managing the exchange risk.

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Utilisation of Funds for Loans to Residents

FCNR(B) funds representing deposit liabilities may 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.

This would be subject to the prudential/interest-rate norms, credit discipline and credit monitoring guidelines in force.

Export Credit in Foreign Currency

With a view to increasing the availability of funds to exporters, banks have been allowed to determine their interest rates on export credit in foreign currency from May 5, 2012.

Transfer of Borrowal Accounts

The Reserve Bank has advised banks 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.

In addition, before taking over an account, the transferee bank should obtain necessary credit information from the transferor bank. This would enable the transferee bank to be fully aware of irregularities, if any, existing in the borrower's account(s) with the transferor bank. The transferor bank, on receiving a request from the transferee bank, should share necessary credit information at the earliest.

Intra-bank Deposit Accounts Portability

The Reserve Bank has advised that in view of the fact that most bank branches are now on core banking solutions (CBS) and know your customer (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. To comply with KYC requirements of correct address of the person, fresh address proof may be obtained from him/her upon such transfer by the transferee branch. Instructions regarding periodical updation of KYC data, however, remain unchanged and banks are required to carry out the updation at prescribed intervals as also maintain records of transactions and verification of identity as prescribed.

Agency Commission

The Reserve Bank has revised the rates of agency commission (also called turnover commission) payable to agency banks for handling government business. The revised rates which will be effective from July 1, 2012 are –

Sl No.	Type of Transaction	Unit	Existing Rate	Revised Rate
1. (i)	Receipts - physical mode	Per transaction	Rs. 45	Rs. 50
(ii)	Receipts - e-mode	Per transaction	Rs. 45	Rs. 12
2.	Pension payments	Per transaction	Rs. 60	Rs. 65
3.	Payments other than pension	Per Rs. 100 turnover	9 paise	5.5 paise

'Receipts - e-mode transactions' indicated in the above table refer to those transactions involving remittance of funds from the remitter's bank account through internet banking as well as all such transactions which do not involve physical receipt of cash/instruments.

FOREX

EEFC Accounts

On a review of the exchange earner's foreign currency (EEFC) scheme, the Reserve Bank has decided that -

a) 50 per cent of the balances in EEFC accounts should be converted forthwith into rupee balances and credited to the rupee accounts as per the directions of the account holder. This process is to be completed within a fortnight from May 10, 2012. The conversion of the EEFC balances into rupee balances will only be applicable to available balances in the EEFC account which may be arrived at by netting off earmarked amounts on account of outstanding forward/option contracts booked before May 10, 2012.

b) In respect of all future forex earnings, an exchange earner is eligible to retain 50 per cent (as against the previous limit of 100 per cent) in non-interest bearing EEFC accounts. The balance 50 per cent should be surrendered for conversion to rupee balances.

c) The facility of EEFC scheme is intended to enable exchange earners to save on conversion/transaction costs while undertaking forex transactions in future. This facility is not intended to enable exchange earners to maintain assets in foreign currency, as India is still not fully convertible on capital account. Accordingly, EEFC account holders henceforth, would be permitted to access the forex market for purchasing foreign exchange only after utilising fully the available balances in their EEFC accounts. ADs should, accordingly, obtain a declaration while selling foreign exchange to their constituents.

Utilisation of ECB Proceeds

As per the extant guidelines, external commercial borrowing (ECB) proceeds can be utilised for permissible foreign currency expenditure and rupee expenditure. On a review, it has been decided that at the time of availing loan registration number (LRN) from the Reserve Bank, borrowers should provide bifurcation of the utilisation of ECB proceeds towards foreign currency and rupee expenditure in Form-83.

The primary responsibility to ensure that ECB proceeds meant for rupee expenditure in India are repatriated to India for credit to their rupee accounts with AD Category- I banks in India is that of the borrowers and any contravention of the ECB guidelines would be viewed seriously and would invite penal action under the Foreign Exchange Management Act (FEMA), 1999. The designated AD bank is also required to ensure that the ECB proceeds meant for rupee expenditure are repatriated to India immediately after drawdown.

These modifications to the ECB policy have come into force from May 7, 2012 and are subject to review. All other aspects of the ECB policy remain unchanged.

Transfer of Funds from NRO Account to NRE Account

On a review, it has been decided that henceforth non-resident Indians (NRIs) as defined in Foreign Exchange Management (Deposit) Regulations, 2000, as amended from time to time, would be 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.

Daylight Limit/Net Overnight Open Position Limit of ADs

In view of the recent developments in the foreign exchange market, until further review, it has been decided that -

- The intra-day open position/daylight limit of ADs has been fixed at five times the 'net overnight open position limit' (NOOPL) available to them or the existing 'intra-day open position limit' as approved by the Reserve Bank, whichever is higher, for positions involving rupee as one of the currencies.
- The current NOOPL of banks as applicable to the positions involving rupee as one of the currencies shall not include the positions undertaken in the currency futures/options segment in the exchanges.
    - The positions in the exchanges (both futures and options) cannot be netted/offset by undertaking positions in the OTC market and vice-versa. The positions initiated in the exchanges shall be liquidated/ closed in the exchanges only.
    - The position limit for the trading member AD Category-I bank in the exchanges for trading currency futures and options shall be US$ 100 million or 15 per cent of the outstanding open interest, whichever is lower.

AD Category- I banks have been advised to bring down their positions to the above limits within June 30, 2012.

Release of Forex for Miscellaneous Remittances

With a view to further liberalising the documentation requirements, the limit for foreign exchange remittance for miscellaneous purposes without documentation formalities, has been raised from USD 5000 to USD 25000 from May 7, 2012.

It is clarified that authorised dealers need not obtain any document, including Form A-2, except a simple letter from the applicant containing basic information, viz., name and address of the applicant and the beneficiary, amount to be remitted and the purpose of remittance, as long as the foreign exchange is being purchased for a current account transaction (not included in Schedules I and II of Government Notification on Current Account Transactions), and the amount does not exceed USD 25000 or its equivalent and the payment is made by a cheque drawn on the applicant's bank account or by a demand draft.

Payment Systems

Cheque Clearing

The Reserve Bank has issued guidelines to be observed by banks at places where there is no clearing house. The guidelines are -

- Banks, through mutual discussions, should put in place arrangements to ensure that the instruments drawn on other banks are delivered/exchanged at a mutually decided place and time every working day.
- It should be ensured that the fate of the cheque is known on the same day and the return instruments are re-exchanged at a mutually decided place and time.
- Arrangements for settling the realisation proceeds through cash, transfer etc., should be put in place.
- The presenting bank should afford shadow credit to the presenting customer's account on the same day of settlement and allow the customer to make use of the clearing credit as per the bank's cheque collection policy.

Service Charges for Cheque Collection

Banks which have fixed their service charges for out-station/speed clearing for instruments valuing above Rs. 1 lakh as percentage to the value of instruments have been advised to review the same and fix the charges on a cost-plus basis.

The Reserve Bank has advised banks 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, as advised in the Reserve Bank's circular of January 19, 2011, so as to encourage the use of speed clearing.

Banks have been further advised to incorporate the updated service charge structure in their cheque collection

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policy and notify the customers accordingly. The revised rates should also be placed on the bank's web site and a copy should be submitted to the Reserve Bank.

COOPERATIVE BANKING

Exposure to Housing/Commercial Real Estate

At present, urban co-operative banks (UCBs) are permitted to assume aggregate exposure on real estate, commercial real estate and housing loans up to a maximum of 10 per cent of their total assets with an additional limit of 5 per cent of their total assets for housing loans up to Rs. 15 lakh. In order to facilitate enhanced priority sector lending, it has been decided to permit UCBs to utilise the additional limit of 5 per cent of their total assets for granting housing loans up to Rs. 25 lakh, which is covered under the priority sector.

NBFCs

Bank Finance to NBFCs

The rapid expansion of non-banking finance companies (NBFCs) predominantly engaged in lending against collateral of gold jewellery has led to their increased dependence on public funds, including bank finance. In order to supplement the prudential norms prescribed for NBFCs earlier, banks have been advised to:

- 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. The above 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. Banks which are currently having exposure to such NBFCs in excess of this regulatory ceiling should reduce their exposure within the prescribed limit at the earliest, but not later than six months from May 18, 2012; and
- 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. The sub-limits should be within the internal limit fixed by banks for their aggregate exposure to all NBFCs put together.

INFORMATION

Credit Cards

In June 26, 2006 the Reserve Bank had issued a circular on skimming of ATM/credit cards advising banks to take various preventive measures to combat frauds relating to skimming or duplicating of credit cards. The preventive measures include educating customers through hoardings, advertisements, handouts and also posting cautionary messages in the website of card issuing banks. Banks were also advised to inform customers not to reveal the PIN in response to requests received through e-mail, to periodically verify the transaction history to ensure its correctness and to inform the bank if any unauthorised transaction is observed and whenever the card is lost or stolen.

Further, the Working Group set up in the RBI on "Information Security, Electronic Banking, Technology Risk Management and Tracking Cyber Frauds", among its various recommendations, had suggested that chip based cards may be used as an alternative to magnetic strip cards as a measure to counter the risks of skimming of ATM cards. Based on the recommendations of the Group, suitable guidelines were issued on April 29, 2011 by the Reserve Bank to all scheduled commercial banks.

In addition to this, banks have also been advised to set up internal control systems to combat frauds and to take pro-active fraud control and enforcement measures. They were also advised to ensure that credit card operations are run on sound, prudent and profitable lines as also fulfill 'know your customer' requirements, assess credit risk of customers, specify terms and conditions in clear and simple language, ensure prompt dispatch of bills, maintain customer confidentiality, etc.

As per the data submitted by scheduled commercial banks, the incidents of credit card frauds have decreased during the calendar years 2009 to 2011 as under :

Sr.No.	Calendar Year	Total Cases Reported	Amount Involved (Rs. in lakhs)
1.	2009	20806	6130.26
2.	2010	12511	2478.81
3.	2011	7305	2179.98

Source: Parliament Questions

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