*Press Releases**

May 2011

Chopda People's Co-operative Bank Ltd., Jalgaon – Penalised

May 4, 2011

The Reserve Bank of India has imposed a monetary penalty of ₹1.00 lakh (Rupees one lakh only) on Chopda People's Co-operative Bank Ltd., Jalgaon, Maharashtra in exercise of powers vested in it under the provisions of Section 47(A)(1)(b) read with Section 46(4) of the Banking Regulation Act, 1949 (AACS) for violating the provision of Section 5 (ccv) of the Banking Regulation Act, 1949 (AACS) and violation of Reserve Bank of India directive on unsecured advances.

The Reserve Bank of India had issued a show cause notice to the bank, in response to which the bank submitted a written reply. Based on the reply the Reserve Bank of India came to the conclusion that the violations were substantiated and warranted imposition of the penalty.

Ahmedabad District Central Co-operative Bank Ltd., Ahmedabad – Penalised

May 5, 2011

The Reserve Bank of India has imposed a monetary penalty of ₹5.00 lakh (Rupees five lakh only) on Ahmedabad District Central Co-operative Bank Ltd., Ahmedabad, Gujarat in exercise of powers vested in it under the provisions of Section 46 read with Section 47A of the Banking Regulation Act, 1949 (AACS) for violating guidelines issued by Reserve Bank of India on Know Your Customers (KYC) norms and Anti Money Laundering (AML) standards.

The Reserve Bank of India had issued a show cause notice to the bank, in response to which the bank submitted a written reply. After considering the facts of the case, bank's reply and personal submission in the matter, the Reserve Bank came to the conclusion that the violations were substantiated and warranted imposition of the penalty.

The Limbasi Urban Co-operative Bank Limited, Limbasi, Dist. Kheda – Penalised

May 5, 2011

The Reserve Bank of India has imposed a monetary penalty of ₹1.00 lakh (Rupees one lakh only) on The Limbasi Urban Co-operative Bank Limited, Limbasi Dist. Kheda, Gujarat, in exercise of powers vested in it under the provisions of Section 47(A)(1)(b) read with Section 46(4) of the Banking Regulation Act, 1949 (AACS) for violation of Reserve Bank of India's instructions for reporting of cash transactions in excess of ₹10.00 lakh to Financial Intelligence Unit-India (FIU-IND), as required under the Anti Money Laundering (AML) guidelines.

The Reserve Bank of India had issued a show cause notice to the bank, in response to which the bank submitted a written reply. After considering the facts of the case and the bank's reply and also personal submissions in the matter, the Reserve Bank of India came to the conclusion that the violations were substantiated and warranted imposition of the penalty.

The Gandevi People's Co-operative Bank Limited, Navsari – Penalised

May 9, 2011

The Reserve Bank of India has imposed a monetary penalty of ₹1.00 lakh (Rupees one lakh only) on The Gandevi People's Co-operative Bank Limited, Navsari in exercise of powers vested in it under the provisions of Section 47(A)(1)(b) read with Section 46(4) of the Banking Regulation Act, 1949 (AACS) for not adhering to RBI instructions/directives on reporting of cash transactions above ₹10.00 lakh as required under Anti Money Laundering (AML) guidelines.

* Important Press Releases during May 2011.

The Reserve Bank of India had issued a show cause notice to the bank, in response to which the bank submitted a written reply. After considering the facts of the case, bank's reply and personal submissions in the matter, the Reserve Bank came to the conclusion that the violations were substantiated and warranted imposition of the penalty.

The Randheja Commercial Co-operative Bank Ltd., Randheja Dist., Gandhinagar – Penalised

May 9, 2011

The Reserve Bank of India has imposed a monetary penalty of ₹ 1.00 lakh (Rupees one lakh only) on The Randheja Commercial Co-operative Bank Ltd., Randheja Dist., Gandhinagar in exercise of powers vested in it under the provisions of Section 47(A)(1)(b) read with Section 46(4) of the Banking Regulation Act, 1949 (AACS) for violation of Reserve Bank of India instructions on implementation of 'Know Your Costumer' (KYC) guidelines and donation exceeding the ceiling prescribed by the Reserve Bank of India.

The Reserve Bank of India had issued a show cause notice to the bank, in response to which the bank submitted a written reply. After considering the facts of the case, bank's reply and personal submissions in the matter, the Reserve Bank came to the conclusion that the violations were substantiated and warranted imposition of the penalty.

RBI and 926 branches of Banks to accept Advance Income Tax

May 12, 2011

As many as 926 computerised branches of public and private sector banks will receive advance income tax in Mumbai and Navi Mumbai. These arrangements have been made for the convenience of the income tax assesses. Of the 926 bank branches 862 branches are public sector bank branches, 35 HDFC bank branches, 10 ICICI bank branches and 19 AXIS bank branches. The Reserve Bank of India has advised income tax assesses to take advantage of these standing arrangements made for their convenience.

Long queues and inconveniences can be avoided at the Reserve Bank of India counters if the assesses in Mumbai and Navi Mumbai utilise the services being made available at various designated branches of banks and deposit their income tax dues well in advance of the last date.

Revised Calendar for Auction of Government of India Treasury Bills (For the Remaining Period of the Quarter Ending June 2011 *i.e.,* from May 18, 2011 to June 30, 2011)

May 12, 2011

On a review of the cash position of the Government of India, the Reserve Bank of India, in consultation with the Government of India, has decided to modify the notified amounts for the issuance of Treasury Bills for the remaining period of the quarter ending June 2011 to meet emergent requirements of the Government of India on account of temporary mismatches in cash position, particularly, due to release of large refunds by the Central Board of Direct Taxes (CBDT). The notified amounts for the auction of the Treasury Bills for the period May 18, 2011 to June 30, 2011 are given below :

Notified amount for auction of Treasury Bills (May 18, 2011 to June 30, 2011)

(₹ crore)

Date of Auction	91 Days	182 Days	364 Days	Total
18-May-11	8,000		3,000	11,000
25-May-11	8,000	3,000		11,000
1-Jun-11	8,000		3,000	11,000
8-Jun-11	8,000	3,000		11,000
15-Jun-11	8,000		3,000	11,000
22-Jun-11	8,000	3,000		11,000
29-Jun-11	6,000		3,000	9,000

The Reserve Bank of India/Government of India will continue to have the flexibility to modify the notified amount and timing for auction of Treasury Bills keeping in view the emerging requirements of the Government, market conditions and other relevant factors. The calendar is thus subject to change, if circumstances so warrant, including for reasons, such as, intervening holidays. Such changes, if any, will be communicated through regular press releases.

The auction of Treasury Bills will be subject to the terms and conditions specified in the General Notification No. F 2(12)-W&M/97, dated March 31, 1998 issued by the Government of India, as amended from time to time.

Coins of 25 Paise and Below Will not be Legal Tender from June 30, 2011 : RBI Appeals to Public to Exchange them upto June 29, 2011 (Revised)

May 18, 2011

Coins of denomination of 25 paise and below will cease to be legal tender from June 30, 2011. These will not be accepted for exchange at bank branches and RBI Issue Offices from June 30, 2011.

The Reserve Bank of India has, therefore, appealed to the members of public to exchange these coins at the branches of banks maintaining small coin depots or at the offices of the Reserve Bank. The exchange facility at these bank branches or the Reserve Bank offices will be available till the close of business on June 29, 2011. The Reserve Bank of India has instructed the banks maintaining Small Coin Depots (list annexed) to arrange for exchange of coins of denomination of 25 paise and below for their face value at their branches.

It may be recalled that in exercise of powers conferred by Section 15A of the Coinage Act, 1906 (3 of 1906), the Government of India has decided to withdraw the coins of denomination of 25 paise and below from circulation with effect from June 30, 2011. From this date, these coins shall cease to be legal tender for payment as well as on account.

RBI Opens Sub-Office in Agartala; Inaugurates Exhibition on RBI History

May 18, 2011

The Reserve Bank of India (RBI) today opened its sub-office at Agartala. Tripura will be the second State in the North-East region to have an RBI office. The new office was inaugurated by Shri Manik Sarkar, Hon'ble Chief Minister of Tripura. Dr. D. Subba Rao, Governor, Reserve Bank of India presided over the inaugural function. The Hon'ble Finance Minister of the State, Shri Badal Choudhury and other senior officials of the State Government also attended the function.

The new RBI office is housed at Jackson Gate building in Agartala and will function under the charge of a General Manager. The office is expected to initially focus on development of banking in the State and gradually take up other central banking functions.

Earlier, the Reserve Bank of India Governor inaugurated the exhibition titled Mint Road Milestones in Agartala. The exhibition Mint Road Milestones is based on a book with the same title published by the Reserve Bank during its Platinum Jubilee last year. The book is an attempt to document the journey of the Reserve Bank down 75 years through many anecdotes, photographs, documents and interesting visuals. The narrative of the book intertwines the history of the central bank with the financial history of the country and world developments of the time. The exhibition is an attempt to bring the book closer to the common person. A large section of this exhibition is, therefore, through the news items and photographs published in newspapers. The exhibition also displays internal documents and photographs, tells the story and the context of the Reserve Bank's policy measures and gives glimpses of how the newspapers and media viewed the policies of the Reserve Bank.

The exhibition, located on the Second Floor of The Agartala Press Club, Sachin Debbarman Sarani, Agartala, West Tripura-799001, will remain open for public viewing from May 19, 2011 till May 27, 2011 from 10:00 a.m. to 5:00 p.m.

The Kheralu Nagarik Sahakari Bank Ltd., Kheralu, Dist. Mehsana (Gujarat) – Penalised

May 19, 2011

The Reserve Bank of India has imposed a monetary penalty of ₹ 1.00 lakh (Rupees one lakh only) on The Kheralu Nagarik Sahakari Bank Ltd., Kheralu, Dist. Mehsana (Gujarat), in exercise of powers vested in it under the provisions of Section 47(A)(1)(b) read with Section 46(4) of the Banking Regulation Act, 1949 (AACS) by sanctioning hypothecation loans in violation of operational instructions issued by Reserve Bank of India and non-adherence to 'Know Your Costumer' (KYC) norms in large number of accounts.

The Reserve Bank of India had issued a show cause notice to the bank, in response to which the bank submitted a written reply. After considering the facts of the case, bank's reply and personal submissions in the matter, the Reserve Bank came to the conclusion that the violations were substantiated and warranted imposition of the penalty.

Second LAF on Reporting Fridays

May 19, 2011

In the light of modified operating procedure of monetary policy introduced from May 3, 2011 and introduction of the marginal standing facility (MSF), it has been decided to discontinue the second liquidity adjustment facility (SLAF) on reporting Fridays effective May 20, 2011.

RBI Central Board meets at Agartala; Governor meets State Government and Bankers

May 19, 2011

The Central Board of Directors of the Reserve Bank of India met at Agartala. Dr. D. Subbarao, Governor, Reserve Bank of India chaired the meeting. The Central Board members present in the meeting were: Shri Y. H. Malegam, Prof U.R. Rao, Shri Lakshmi Chand, Shri H.P. Ranina, Dr. A. Vaidyanathan, Dr. M. M. Sharma, Shri Sanjay Labroo and Smt. Shashi Rajagopalan as also Deputy Governors of the Reserve Bank Smt. Shyamala Gopinath, Dr. K.C. Chakrabarty, Dr. Subir Gokarn and Shri Anand Sinha. The meeting reviewed key economic, monetary and financial developments in the country.

The Central Board meets at least once every quarter. Apart from holding meetings in Mumbai, Chennai, Kolkata and one in New Delhi after the Union Budget and addressed by the Finance Minister - the rest of the meetings are held in other state capitals by rotation. The main function of the Central Board of Directors of the Reserve Bank is to provide overall direction to the Reserve Bank's affairs.

The Reserve Bank opened a sub-office in Agartala on the eve of its Board meeting. Shri Manik Sarkar, Hon'ble Chief Minister of Tripura inaugurated the sub- office along with Reserve Bank Governor Dr. D. Subbarao. Shri Badal Chaudhary, Hon'ble Finance Minister of Tripura and senior officers of the state, banks and RBI were present. While opening the new office of the Reserve Bank of India in Agartala, the Chief Minister stated that the State government had been and would cooperate in every manner to ensure that banking access is made available to the people in the State. He, however, lamented at the low credit/deposit ratio of banks, low credit flow to agriculture, low number of bank branches and inadequate manpower in these branches in the State.

The Governor in his remarks pointed out that the Reserve Bank was sensitive to all the three issues and was taking appropriate steps to bring improvement in all the three areas. It had already decided to open its offices in all the North-Eastern States, he said and added that opening of an office in Agartala was a step in that direction. The Reserve Bank was also making efforts to enhance credit flow to the North-Eastern States. In the past few years, for instance, the Reserve Bank of India had announced a subvention scheme for opening branches in the North-East. Of the five branches which were agreed to be opened in Tripura, two branches were already opened and three more had been approved and would be opened as soon as security issues were resolved. He hoped that the issue would be resolved soon with the cooperation of the State government.

The Governor pointed out that for faster development of the region, it was equally important to increase its credit absorptive capacity. For this purpose, it was equally necessary to introduce bankable schemes and open financial literacy and credit counselling centres in the region. He added that educating the population about banking facilities would also help generate demand for bank services and products. He urged the State Government to include finance in school curriculum to enhance financial literacy in the state. He stated that the

Reserve Bank had developed material for this purpose which it would willingly share with the State government.

Earlier, Dr. D. Subbarao, inaugurated the Electronic Clearing System (ECS) by putting through the first transaction at the Clearing House maintained by State Bank of India, Agartala. ECS is an efficient, secure and fast payment system that enables quick movement of payments and receipts and is especially beneficial for bulk payments like salary, pension, Government benefit payments like NREGA and utility payments. Shri A. Krishna Kumar, Managing Director, State Bank of India was present at the launch.

At the special State Level Bankers Committee (SLBC) meeting held today, the following decisions were taken:

- banks will strive to achieve 40 per cent credit deposit ratio during the current financial year;
- to improve access to banking services in the North-East, banks will open at least 26 (of the over 400 branches to be opened) in brick and mortar form;
- banks will organise a Financial Literacy Day before March 2012 to enhance financial literacy and awareness among the people of the state; and
- the progress of these action points would be reviewed before October 2011.

RBI releases Report of the Working Group on Introduction of Financial Holding Company Structure in India

May 23, 2011

The Reserve Bank of India today placed on its website the Report of the Working Group on Introduction of Financial Holding Company Structure in India (Chairperson: Smt. Shyamala Gopinath). Comments on the Report may please be emailed or forwarded by end-June 2011 to the Chief General Manager-in-Charge, Department of Banking Operations and Development, Reserve Bank of India, Central Office, Mumbai 400 001.

The key recommendations of the Working Group are:

- The financial holding company (FHC) model should be pursued as a preferred model for the financial sector in India.
- The FHC model can be extended to all large financial groups – irrespective of whether they contain a bank or not. Therefore, there can be banking FHCs controlling a bank and non-banking FHCs which do not contain a bank in the group.
- There should be a separate regulatory framework for financial holding companies.
- A separate new Act for regulation of financial holding companies should be enacted.
- Amendments should also be simultaneously made to other statutes/Acts governing public sector banks, Companies Act and others, wherever necessary. Alternatively, in order to avoid separate legislation for amending all individual Acts, the provisions of the new Act for FHCs should have the effect of amending all the relevant provisions of individual Acts and have over-riding powers over other Acts in case of any conflict.
- The Reserve Bank should be designated as the regulator for financial holding companies.
- The function of FHC regulation should be undertaken by a separate unit within the Reserve Bank with staff drawn from both the Reserve Bank as well as other regulators.
- The new FHC regulatory framework should also formalise a consolidated supervision mechanism through Memorandum of Understanding between regulators.
- Intermediate holding companies within the FHC should not be permitted due to their contribution to the opacity and complexity in the organiational structure.
- The FHC should primarily be a non-operating entity and should be permitted only limited leverage as stipulated by the reserve Bank. However, it could carry out activities which are incidental to its functioning as an FHC.

- The FHCs should be permitted to carry out all financial activities through subsidiaries. The activities in which the FHCs should not engage or should engage only upto a limit, *e.g.*, commercial activities, should be stipulated by the Reserve Bank.
- The FHC should be well diversified and subject to strict ownership and governance norms. The ownership restrictions could be applied either at the level of their FHCs or at the entity level, depending upon whether the promoters intend to maintain majority control in the subsidiaries wherever it is permissible as per law.
- Appropriate limits should be fixed on cross-holding between different FHCs. There should also be limits on cross holding between FHCs on one hand and banks, NBFCs, and other financial institutions outside the group. The cross holding among the entities within the FHC group may be subjected to intra-group transactions and exposure norms.
- It would be necessary to put in place some limit on the expansion of non-banking business after the existing financial groups dominated by the banks migrate to holding company structure (Banking FHCs) so that the banking business continues to remain the dominant activity of the group and growth of banking is not compromised by these groups in favour of growth of non-banking business. Presently, the banks' total investment in its subsidiaries is capped at 20 per cent of their net worth. Under the FHC structure, the allocation of equity capital by Banking FHCs to non-banking subsidiaries should also be capped at a limit as deemed appropriate by the Reserve Bank to ensure that banking continues to be a dominant activity of the group.
- If the holding company is to function as an anchor for capital support for all its subsidiaries, requisite space would need to be provided to the holding company for capital raising for its subsidiaries. In this context, it is possible to envisage to have either a listed holding company with all its subsidiaries being unlisted or both the holding company with all or some of its subsidiaries being listed depending on the objectives and strategy of the financial group and the prevailing laws and regulations on investment limits. Given the circumstances prevailing in India, listing can be allowed both at the FHC level as well as the subsidiary level subject to suitable safeguards and governance/ownership norms prescribed by the regulator/s from time to time.
- Suitable amendments to various taxation provisions may be made to make the transition from bank-subsidiary model to FHC model tax and stamp duty neutral.
- Dividends paid by subsidiaries to the FHC may be exempt from the Dividend Distribution Tax (DDT) to the extent these dividends are used by the FHC for investment in other subsidiaries.
- The FHC model may have to be phased in gradually over a period taking into account the specific challenges. Accordingly, the following operational scheme is recommended:
- Pending enactment of a separate Act, the FHC model may be operationalised under the provisions contained in the Reserve Bank of India Act. The FHC, accordingly, will be registered as an NBFC with the Reserve Bank which will frame a suitable regulatory framework, as detailed in the report, for FHCs in consultation with other regulators.
- All identified financial conglomerates having a bank within the group will need to convert to FHC model in a time bound manner, once the pre-requisites necessary to make the transition tax neutral are in place.
- In case the above conglomerates do not want to convert to FHCs, they should be required to confine only to those activities which the banks are presently permitted by the Reserve Bank to undertake departmentally. This would mean that such conglomerates should eventually divest their holding in their subsidiaries.
- For all other banking groups, conversion to the FHC model may be optional till the enactment of the FHC Act.

- All non-banking financial conglomerates may have the option to convert to the FHC model. Those having insurance companies and do not adopt the FHC model should comply with the extant regulations regarding promoters stipulated by Insurance Regulatory and Development Authority (IRDA).
- All new banks and insurance companies, as and when licensed, will mandatorily need to operate under the FHC framework.
- Amendments to various taxation provisions to make the transition from Bank-Subsidiary model to FHC model tax neutral would be a binding condition for operationalising this framework.

Background

The Reserve Bank of India (RBI) constituted the Working Group in June 2010 to examine the feasibility of introducing a Financial Holding Company Structure in India under the chairpersonship of Smt. Shyamala Gopinath, Deputy Governor. Members of the Working Group were drawn from the Ministry of Finance, Securities and Exchange Board of India, IRDA, Indian Banks' Association, banks and the Reserve Bank.

The Working Group was assigned the following terms of reference:

- To study the different Holding Company structures internationally in the financial sector;
- To examine these structures including Financial Holding Company (FHC) structure, their advantages and suitability from the regulatory/ supervisory perspective in the Indian context compared to the existing structures in India;
- To recommend a suitable Holding Company framework for India and the required regulatory and supervisory framework;
- To lay a roadmap for adoption of the recommended Holding Company framework;
- To examine the legal and taxation issues involved and suggest enactment of statues/amendment to the existing statutes; and
- To examine any other relevant issues.

Certificate of Registration of M/s. Supra Portfolio Limited – Cancelled

May 23, 2011

The Reserve Bank of India has on January 4, 2011 cancelled the certificate of registration No.B-14.02377 granted on August 13,, 2001 to M/s. Supra Portfolio Limited having its registered office at 803, Manjusha, Nehru Place, New Delhi-110019 for carrying on the business of a non-banking financial institution. Following cancellation of the registration certificate the company cannot transact the business of a non-banking financial institution.

By the powers conferred under Section 45-IA (6) of the Reserve Bank of India Act, 1934, the Reserve Bank can cancel the registration certificate of a non-banking financial company. The business of a non-banking financial institution is defined in clause (a) of Section 45-I of the Reserve Bank of India Act, 1934.

The Commercial Co-operative Bank Ltd., Jamnagar – Penalised

May 24, 2011

The Reserve Bank of India has imposed a monetary penalty of ₹ 2.00 lakh (Rupees two lakh only) on The Commercial Co-operative Bank Ltd., Jamnagar in exercise of powers vested in it under the provisions of Section 47(A)(1)(b) read with Section 46(4) of the Banking Regulation Act, 1949 (AACS) for not displaying its name properly in all stationery and advertisements, for making donation beyond prescribed limit and for not implementing Know Your Costumer (KYC) norms.

The Reserve Bank of India had issued a show cause notice to the bank, in response to which the bank submitted a written reply. After considering the facts of the case, bank's reply and personal submissions in the matter, the Reserve Bank came to the conclusion that the violations were substantiated and warranted imposition of the penalty.

FSDC Sub-Committee meets

May 24, 2011

The second meeting of the Sub-Committee of the Financial Stability Development Council (FSDC) was held today in the Reserve Bank of India, Mumbai. Dr. D. Subbarao, Governor, Reserve Bank of India, chaired the meeting. Shri R. Gopalan, Secretary, Department of Economic Affairs, Shri Shashi Kant Sharma, Secretary, Department of Financial Services, Dr. Kaushik Basu, Chief Economic Adviser, Ministry of Finance, Shri U. K. Sinha, Chairman, Securities and Exchange Board of India, Shri J. Hari Narayan, Chairman, Insurance Regulatory and Development Authority, Shri Yogesh Agrawal, Chairman, Pension Fund Regulatory and Development Authority and Deputy Governors of the Reserve Bank Smt. Shyamala Gopinath, Dr. Subir Gokarn and Shri Anand Sinha and other officials also attended the meeting.

The Sub-Committee reviewed the recent macroeconomic and financial sector developments, focussing on issues related to systemic risk. It also deliberated upon concerns arising out of regulatory gaps in the non-banking finance companies (NBFC) sector and regulation of government sponsored NBFCs. The Sub-Committee agreed to strengthen regulatory framework for wealth management activities, to formalise an institutional mechanism for supervision of financial conglomerates and to put in place a robust reporting platform for over-the-counter (OTC) derivatives market. The Sub-Committee was also briefed about the implementation status regarding the budget announcements on investment in mutual funds by non-resident investors and setting up of infrastructure debt funds.

States Important Stakeholders in Inflation Management: RBI Governor addresses Finance Secretaries

May 24, 2011

States are important stakeholders in inflation management as their contribution is important in addressing the supply side constraints. They could, for instance, help better management of public distribution system, improve productivity in agriculture and allied activities, reform the Agriculture Produce Marketing Committee (APMC) Acts and improve the infrastructure, such as, storage facilities, Dr. D. Subbarao, Governor, Reserve Bank of India, told the State Finance Secretaries today while inaugurating a conference held in Mumbai.

The 24th Conference of the State Finance Secretaries was held in the Reserve Bank of India at Mumbai today. Finance Secretaries of 18 States participated. Dr. D.Subbarao, Governor, Reserve Bank of India inaugurated the Conference. Smt. Sudha Pillai, Member Secretary, Planning Commission; Shri R. Gopalan, Secretary (Economic Affairs); Shri Sumit Bose, Secretary (Disinvestment) and Officer on Special Duty (Expenditure); Dr. Kaushik Basu, Chief Economic Adviser; Shri C.R.Sundaramurti, Controller General of Accounts (CGA); and Smt. Shyamala Gopinath, Dr. Subir Gokarn and Shri Anand Sinha, Deputy Governors and other senior officials of the Ministry of Finance, Comptroller and Auditor General of India (CAG) and the Reserve Bank attended the Conference.

The Governor in his inaugural remarks referred to the market borrowings of the States and emphasised that there was a need to improve efficiency in terms of better planning, robust cash management and adherence to the Fiscal Responsibility Legislation (FRL). Besides improving revenue collections through tax reforms, the States should also focus on expenditure management, he said.

He referred to implementation of Malegam Committee Report in the context of regulating micro finance institutions (MFIs) and said that going forward, the unincorporated MFIs would be regulated by the proposed central legislation uniformly across the states and the incorporated MFIs by the Reserve Bank. This was necessary to avoid regulatory arbitrage, he added. The Governor also emphasised the need to improve the effectiveness of the State Level Bankers Committee (SLBC) and stated that one of the important items on its agenda should be financial inclusion and financial literacy. Here, the attempt should be to move from a target driven approach to more meaningful financial inclusion. He urged the State Governments to play a proactive role in the field of financial literacy and financial inclusion in collaboration with the Reserve

Bank, Central Government and the banks. He also underlined that the State Governments should caution the public against entities that raise funds from gullible public through dubious schemes.

Other issues discussed in today's deliberations were management of cash balances and market borrowings of the State Governments for 2011-12, repayment/exchange rate risk in States' borrowing and building of sinking funds to meet these obligations, risks to State finances on account of power sector utilities, issues concerning regulation of MFIs, financial inclusion through business correspondents, roadmap for regulation of State Government owned NBFCs, switch over to electronic mode of payment and receipt for Government's banking business and proposed classification structure of Union and State Governments' accounts.

RBI releases the Report of the Working Group on Reporting of OTC Interest Rate and Forex Derivatives

May 25, 2011

The Reserve Bank of India today placed on its website the Report of the Working Group on Reporting of over-the-counter (OTC) Interest Rate and Forex Derivatives

(Chairman: Shri P Krishnamurthy). Comments on the Report may please be emailed or forwarded, before June 30, 2011, to the Chief General Manager, Financial Markets Department, 23rd Floor, Reserve Bank of India, Central Office, Mumbai 400 001.

The Working Group has observed that non-transparency of the OTC market results in build-up of risks in the system which is widely believed to be one of the contributory causes of the recent financial crisis. Unlike in most jurisdictions, India has had arrangements for reporting of various derivative transactions ranging from summary information to transaction level data. There is, however, a need for consolidation of reporting arrangement with a view to improving the transparency of the market, facilitating its comprehensive monitoring by the regulator and improving the efficiency of post trade processing infrastructure.

The key recommendations of the Working Group are:

- In view of economy of scale and scope as well as by virtue of its experience, Clearing Corporation of India Limited (CCIL) may be the designated repository of interest rate and forex derivative transactions. The repository services may, however, in due course, be housed in a separate entity under its ownership subject to economic viability. This would help segregate the repository activity from clearing and settlement activity and ensure better governance, compliance with standards, *etc.*
- All interbank forex forward transactions may be reported, under the Reserve Bank of India mandate to CCIL which already has a platform for this purpose.
- It may be made mandatory to report forward transactions and swaps between banks and their clients beyond some threshold, say, US$ 100,000, to CCIL with adequate safeguards with regard to confidentiality.
- All interbank forex options contracts, including cross currency, may be reported to CCIL. Option contracts between banks and their clients beyond a threshold may also be reported to CCIL with necessary safeguards.
- The present system of reporting interbank Interest Rate Swaps (IRS) and Forward Rate Agreement (FRA) transactions to CCIL may be formalised as reporting to a Trade Repository (TR). Reporting of client trades in FRA and IRS to CCIL may also be mandated with necessary safeguards.
- CCIL as the TR may offer post-trade processing services, such as, valuation, Management Information System, lifecycle event management, trade compression, *etc.*, with regulatory approval.
- CCIL may disseminate summary trade data with regulatory approval.
- Once the TR becomes functional, the regulatory reporting of the products covered by the TR may be streamlined so that there is no burden of

duplicate reporting on the market participants. Similarly, there should also be seamless data flow between the TR and the central counter party (CCP) and a commitment to this effect should be mandated by the Reserve Bank.

- The Report has covered the OTC derivative products currently permitted in the Indian market. As the market develops, more products are likely to be introduced and the reporting framework proposed can be extended with appropriate modifications, wherever necessary, to these products as well.

Background

In the Annual Policy statement for the year 2010-11, it was announced that a Working Group would be set up comprising officials of the Reserve Bank, representatives from the Clearing Corporation of India Limited (CCIL) and market participants to work out the modalities for an efficient single point reporting mechanism for all OTC interest rate and forex derivative transactions. Accordingly, a Working Group on reporting of OTC derivative transactions was set up under Chairmanship of Shri P Krishnamurthy, the then Chief General Manager, Financial Markets Department (FMD), Reserve Bank of India.

The Working Group was assigned the following terms of reference:

- To review the structure of OTC derivatives market in India and availability of information for regulators and market participants.
- To review the international efforts and experience in relation to reporting of OTC trades and setting up of trade repository.
- To examine the reporting format for inter-institution transactions and the transactions of institutions with their clients.
- To recommend modalities for an efficient single point reporting mechanism for all OTC interest rate and forex derivative transactions.

The Unava Nagarik Sahakari Bank Ltd., Unava – Penalised

May 26, 2011

The Reserve Bank of India has imposed a monetary penalty of ₹ 1.00 lakh (Rupees one lakh only) on The Unava Nagarik Sahakari Bank Ltd., Unava, Dist. Mehsana, Gujarat in exercise of powers vested in it under the provisions of Section 46 read with Section 47A of the Banking Regulation Act, 1949 (AACS) for violation of Reserve Bank of India instructions by non-adherence to Anti Money Laundering (AML) guidelines.

The Reserve Bank of India had issued a show cause notice to the bank, in response to which the bank submitted a written reply. After considering the facts of the case, bank's reply and personal submission in the matter, the Reserve Bank came to the conclusion that the violations were substantiated and warranted imposition of the penalty.

Minutes of the April 27, 2011 Meeting of the Technical Advisory Committee on Monetary Policy

May 30, 2011

The Reserve Bank of India today released on its site the minutes of the twenty-fourth meeting of the Technical Advisory Committee (TAC) on Monetary Policy. The meeting was held on April 27, 2011 in the run up to the annual Monetary Policy Statement 2011-12 announced on May 3, 2011. The main points of discussion of this meeting are set out below.

The Committee reviewed the global and domestic macroeconomic developments. It felt that the global recovery was on the track. However, several weaknesses, such as high unemployment rate in the US and euro area, weak US housing market and sovereign debt problems in the euro area, continued to persist. The Committee noted with concern the rising inflationary pressures in advanced economies and emerging market economies (EMEs). The Committee, in particular, expressed concerns over rising global commodity prices, especially crude, and felt that elevated level of global commodity prices was a major risk to both global growth and global inflation.

Dwelling on the domestic macroeconomic developments, the Committee noted with satisfaction the real GDP growth of 8.6 per cent estimated by the Central Statistical Organisation (CSO) for 2010-11. However, it also felt that there were some signs of investment demand slowing down and that the growth in 2011-12 could be lower than that estimated for 2010-11. According to the Committee, inflation continued to be a major challenge for the Reserve Bank. A sharp rise in inflation, especially non-food manufacturing, in March 2011 was a cause of serious concern. Inflationary expectations were at an elevated level and it needed to be ensured that they did not get entrenched. According to the Committee, inflation would continue to be at an elevated level in the first half of 2011-12, before moderating. Going forward, inflation was a major risk to growth. It was, therefore, necessary to contain inflation and anchor inflation expectations so that long-term growth prospects of the economy were not harmed. All members of the Committee, therefore, suggested that the Reserve Bank should continue with the anti-inflationary stance of monetary policy, although views differed over the extent of monetary tightening the Reserve Bank needed to undertake in its May 3, 2011 Policy.

Some members felt that the fiscal deficit budgeted in the Union Budget 2011-12 was likely to exceed and that demand management efforts of the Reserve Bank would needed to be supplemented by the Government.

While four members of the Committee were of the view that the repo and reverse repo rates be raised by 25 basis points each, two members suggested 50 basis points increase each in the repo rate and the reverse repo rate. In addition to increase in the policy rates by 25 basis points each, one member was of the view that the statutory liquidity ratio (SLR) could be increased by 100 basis points and the repo facility of the Reserve Bank be limited up to 2 per cent of excess SLR securities held by banks. A member also felt that the Reserve Bank could consider certain controls, if capital inflows became excessive.

Dr. D. Subbarao, Governor and Chairman of the TAC chaired the meeting. Other members present were: Dr. Subir Gokarn, Vice-Chairman, Smt. Shyamala Gopinath, Dr. K.C. Chakrabarty, Shri Anand Sinha, Shri Y.H. Malegam, Shri Sanjay Labroo, Prof. Dilip M. Nachane, Dr. A. Vasudevan and Prof. Sudipto Mundle. Prof. Samir K. Barua could not attend the meeting but submitted his written views. Dr. Shankar Acharya could not attend the meeting. Shri Deepak Mohanty, Dr. Janak Raj, Shri B.M. Misra, Shri Pardeep Maria and Shri Amitava Sardar were in attendance.

It may be recalled that the Reserve Bank had decided to place the main points of discussion of the Technical Advisory Committee (TAC) on Monetary Policy meeting in public domain with a lag of roughly four weeks after its meeting. This was started with placing the minutes of the twenty-third Technical Advisory Committee (TAC) meeting held on January 19, 2011 which were placed in public domain on February 22, 2011.

Reserve Bank Cancels the Licence of Chopda Urban Co-operative Bank Ltd., Jalgaon (Maharashtra)

May 31, 2011

In view of the fact that Chopda Urban Co-operative Bank Ltd, Jalgaon, Maharashtra had ceased to be solvent, all efforts to revive it in close consultation with the Government of Maharashtra had failed and the depositors were being inconvenienced by continued uncertainty, the Reserve Bank of India delivered the order cancelling its licence to the bank before commencement of business on May 24, 2011. The Registrar of Co-operative Societies, Maharashtra has also been requested to issue an order for winding up the bank and appoint a liquidator for the bank. It may be highlighted that on liquidation, every depositor is entitled to repayment of his/her deposits up to a monetary ceiling of ₹ 1,00,000/- (Rupees One lakh only) from the Deposit Insurance and Credit Guarantee Corporation (DICGC) under usual terms and conditions.

The bank was granted a licence by Reserve Bank on October 30, 1999 to commence banking business. The statutory inspection of the bank with reference to its financial position as on March 31, 2009 assessed the CRAR at (-) 14.4 per cent, negative networth of (-) ₹184.43 lakh and erosion in deposits to the extent of

13.1 per cent. The Gross NPAs were 75.4 per cent of its total loans and advances on that date.

The bank's financial position further deteriorated with reference to its financial position as on March 31, 2010. The erosion in assets had not only wiped off the owned funds of the bank but also eroded its deposits to the extent of 25.4 per cent. The CRAR of the bank was (-) 22.8 per cent as against the prescribed minimum of 9 per cent. The losses were assessed at ₹567.04 lakh for the financial year ended March 31, 2010. The bank had sanctioned large loan limits titled as personal surety and cash credit and the loan amount was credited in savings account, which was subsequently allowed to be transferred to societies which were related to the Chairman/Directors of the bank. The bank had defaulted in the maintenance of SLR.

Due to its precarious financial position and irregularities/violations observed, the bank was placed under directions under Section 35 A of the Banking Regulation Act, 1949 (AACS) vide Directive UBD CO BSD-I No. D- 10/12.22.467/2010-11 dated September 6, 2010.

Serious deficiencies as mentioned above revealed that the affairs of the bank were being conducted in a manner detrimental to the interests of the depositors. The bank did not comply with the provisions of Sections 11(1), 22(3)(a) & (b) and 24 of the Banking Regulation Act, 1949 (As Applicable to Co-operative Societies). The Registrar of Co-operative Societies vide his order dated September 16, 2010 superseded the Board of the bank and appointed Board of Administrators. The bank vide its letter dated September 27, 2010 represented to the Reserve Bank stating that during the last three months the bank had made substantial improvements by recovering non performing loans and augmenting share capital. The bank further stated that the CRAR and net worth have become positive with no erosion in deposits and there is no default in CRR and SLR. In view of the claims made by the bank regarding improvement in its financials, a scrutiny was carried out during the period from October 26th to 28th, 2010 to verify the claims made by the bank. It was observed during the scrutiny that the financial position of the bank had further deteriorated.

Pursuant to the aforesaid serious deficiencies/ irregularities and the deteriorating financial position of the bank, it was issued a notice vide letter dated March 1, 2011 to show cause (SCN) as to why the licence granted to the bank on October 30, 1999 to conduct banking business should not be cancelled. The bank submitted its reply to the SCN vide its letter dated March 31, 2011. The reply to the SCN was considered and examined but not found satisfactory. Further, no concrete proposal was received from the bank for merger or any viable revival/restructuring plan.

Therefore, Reserve Bank of India took the extreme measure of cancelling licence of the bank in the interest of bank's depositors. With the cancellation of licence and commencement of liquidation proceedings, the process of paying the depositors of the Chopda Urban Co-operative Bank Ltd, Jalgaon, Maharashtra, the amount insured as per the DICGC Act, will be set in motion subject to the terms and conditions of the Deposit Insurance Scheme.

Consequent to the cancellation of its licence, Chopda Urban Co-operative Bank Ltd, Jalgaon, Maharashtra is prohibited from carrying on 'banking business' as defined in Section 5(b) of the Banking Regulation Act, 1949 (as applicable to co-operative societies).

For any clarifications, depositors may approach Shri R.L.Das, General Manager, Urban Banks Department, Mumbai Regional Office, Reserve Bank of India, Mumbai, whose contact details are as below:

Postal Address: Urban Banks Department, Mumbai Regional Office, Reserve Bank of India, 2nd Floor, Garment House, Dr. A.B. Road, Worli, Mumbai – 400 018 Tel. No: (022) 24928052, Fax No. (022) 24935495