

## Press Release\*

November 2012

### **The Urban Co-operative Bank Ltd., Bhubaneswar – Penalised**

November 1, 2012

The Reserve Bank of India has imposed a monetary penalty of ₹1.00 lakh (Rupees One Lakh only) on The Urban Co-operative Bank Ltd., Bhubaneswar, in exercise of the powers vested in it under the provisions of Section 47A (1)(b) read with Section 46(4) of the Banking Regulation Act, 1949 (As applicable to Co-operative Societies), for violation of the provisions of Section 31 of the Banking Regulation Act, 1949 (AACs) relating to publication/submission of accounts and balance sheet for the year 2010-11 within the stipulated date.

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, the bank's reply and also personal submissions in the matter, RBI came to the conclusion that the violation was substantiated and warranted imposition of penalty.

### **The Prathamik Shikshak Sahakari Bank Ltd., Kolhapur (Salary Earners' Bank) – Penalised**

November 2, 2012

The Reserve Bank of India has imposed a monetary penalty of ₹1.00 lakh (Rupees One Lakh only) on The Prathamik Shikshak Sahakari Bank Ltd., Kolhapur (Salary Earners' Bank), in exercise of the powers vested in it under the provisions of Section 47A (1)(b) read with Section 46(4) of the Banking Regulation Act, 1949 (As applicable to Co-operative Societies), for violation of operational instructions relating to declaration and payment of dividend without prior permission of the Reserve Bank of India.

\* Important Press Releases during November 2012.

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, the bank's reply in the matter, the Reserve Bank came to the conclusion that the violation(s) was/were substantiated and warranted imposition of penalty.

### **The Solapur District Central Co-op. Bank Ltd.**

November 8, 2012

The Reserve Bank of India has imposed a monetary penalty of ₹5.00 lakh (Rupees Five Lakh only) on the Solapur District Central Co-op. Bank Limited, Solapur (Maharashtra) in exercise of powers vested in it under the provisions of Section 46(4) read with Section 47A(1) (b) of the Banking Regulation Act, 1949 (As Applicable to Co-operative Societies) for violating the provisions of Section 20(1)(b) of the Act *ibid* by granting unsecured loans to companies in which the directors of the Board had interest and not reporting the transactions in the relevant monthly Statement in Form II after sanctioning the loans.

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.

### **Shree Siddhivinayak Nagari Sahakari Bank Ltd., Raigad – Penalised**

November 8, 2012

The Reserve Bank of India has imposed a monetary penalty of ₹1.00 lakh (Rupees one lakh only) on Shree

Siddhivinayak Nagari Sahakari Bank Ltd., Raigad, 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 (As applicable to Co-operative Societies), for violation of Reserve Bank of India's directive/guidelines on single party credit exposure loan to directors/their relatives/firms in which they are interested, fraudulently created deposits, fictitious credits from HO accounts to loan accounts and understatement of liabilities and non-adherence to KYC norms and failure in risk categorisation of its customers.

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 in the matter, the Reserve Bank of India came to the conclusion that the violation was substantiated and warranted imposition of the penalty.

### **RBI places on its website Draft Report of the Committee to assess the Feasibility of Introducing More Long-Term Fixed Interest Rate Loan Products by banks for Public Comments**

November 9, 2012

The Reserve Bank of India has, today, placed on its website, the 'Draft Report of the Committee to assess the feasibility of introducing more long-term fixed interest rate loan products by banks' for public comments. Comments on the draft report may be forwarded, latest by November 23, 2012, to the Chief General Manager, Internal Debt Management Department, Reserve Bank of India, Central Office Building, 23rd Floor, S.B.S. Road, Fort, Mumbai-400001 or emailed.

It may be recalled that the Reserve Bank had announced in the Second Quarter Review of the Monetary Policy 2012-13 (Para 62), that the draft report of the Committee (Chairman: Shri K.K. Vohra, CGM, IDMD) would be placed on the Reserve Bank's website

by mid-November 2012 inviting views/suggestions from the public/stakeholders.

### **RBI signs Memorandum of Understanding with the State Bank of Vietnam**

November 19, 2012

On November 16, 2012, the Reserve Bank of India and the State Bank of Vietnam (SBV) concluded a Memorandum of Understanding (MoU) to promote greater co-operation and sharing of supervisory information between the two supervisors. The MoU was signed at SBV Headquarters, Hanoi, Vietnam, by Shri G. Jaganmohan Rao, Chief General Manager-In-Charge, Department of Banking Supervision, Reserve Bank of India and Shri Nguyen Huu Nghia, Chief Inspector, Banking Supervision Agency, SBV. The occasion was graced by Shri Dang Thanh Binh, Deputy Governor, SBV and Shri Ranjit Rae, Indian Ambassador to Hanoi.

### **Reserve Bank Cancels the Licence of Ghaziabad Urban Co-operative Bank Ltd., Ghaziabad (UP)**

November 19, 2012

In view of the fact that Ghaziabad Urban Co-operative Bank Ltd., Ghaziabad (UP) had ceased to be solvent and with all efforts to revive it having failed and the depositors were being inconvenienced by continued uncertainty, the Reserve Bank of India delivered the order cancelling its licence to the bank on November 16, 2012. The Commissioner of Co-operation and Registrar of Co-operative Societies (RCS), Government of Uttar Pradesh, 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 the Reserve Bank on April 21, 1997 to conduct banking business under section 22 of the Banking Regulation Act, 1949 (As Applicable to Co-operative Societies).

The statutory inspection of the bank conducted by the Reserve Bank under section 35 of the Act with reference to its financial position as on March 31, 2001 revealed net-worth erosion at (-) ₹1035.91 lakh and deposit erosion to the extent of 20.8 per cent leading to non compliance with the provisions of section 11(1), and 22(3) (a) of the Act. As the operation of the bank was detrimental to the interest of the depositors the Board was superseded by the RCS on June 20, 2002.

The statutory inspection conducted with reference to March 31, 2002 revealed further deterioration in the net-worth of the bank which was assessed at (-) ₹1878.35 lakh leading to deposit erosion to the extent of 32.6 per cent. In order to protect the present and future interest of the depositors, the bank was placed under directions in terms of section 35A of the Act from May 18, 2002 which were modified with effect from June 16, 2004 restricting acceptance of fresh deposit as also allowing withdrawals from the existing deposits in excess of ₹1000/- per depositor.

The statutory inspection as on June 30, 2004 revealed that the bank was not complying with the provisions of section 11(1) and 22(3)(a) of the Act as its net-worth had further eroded to (-) ₹3411.99 lakh and deposit erosion reached an alarming level of 74.7 per cent. The bank had violated section 5ccv (3) of the Act by admitting some co-operative societies as its members A show cause notice (SCN) was issued to the bank on January 19, 2005 to show cause as to why the banking licence granted to it under section 22 of the Act should not be cancelled. The bank however requested some time for improvement in the financial condition which was allowed.

Based on the statutory inspection as on March 31, 2005 which reported deposit erosion at 70.5 per cent, another SCN was issued to the bank on October 31, 2006, to show cause as to why the banking licence

granted to it should not be cancelled. The bank again sought time for improvement and was granted time.

The statutory inspection as on March 31, 2007, 2008, 2009 and 2010 also indicated no improvement and the bank continued to function in violation of the provisions of sections 11 (1) and 22(3) (a) of the Act.

The statutory inspection as on March 31, 2011 revealed no improvement in the financial position of the bank. The assessed net worth of the bank was at (-) ₹3,388.89 lakh with deposit erosion at 69.4 per cent and hence the bank continued to violate section 11(1) & section 22(3) (a) of the Act. Advances portfolio had almost fully turned NPA (99.5 per cent). The bank had defaulted in the maintenance of SLR and cash reserve ratio (CRR) on many occasions during the period under review and thereby violated sections 18 and 24 of the Act.

From the facts and circumstances mentioned above it is observed that:

- i. The bank does not comply with the provisions of sections 11(1), 18 and 24 of BR Act 1949 (AACS).
- ii. The bank is not in a position to pay its present and future depositors and as such does not comply with section 22(3) (a) of the Act.
- iii. The affairs of the bank were and are being conducted in a manner detrimental to the interests of the present and future depositors which implies non compliance with section 22(3) (b) of the Act.
- iv. The financial position of the bank leaves little scope for its revival.
- v. Public interest would be adversely affected if the bank is allowed to carry on its business any further.

In view of the above the licence granted to the bank to conduct banking business deserved to be cancelled. Accordingly the licence dated April 21, 1997 granted to the Ghaziabad Urban Co-operative Bank Ltd., Ghaziabad (UP) to conduct banking business in India

under Section 22 of the Act has been cancelled. With the cancellation of licence and commencement of liquidation proceedings, the process of paying the depositors of the Ghaziabad Urban Co-operative Bank Ltd., Ghaziabad (UP) will be set in motion subject to the terms and conditions of the Deposit Insurance Scheme.

Consequent to the cancellation of its licence, Ghaziabad Urban Co-operative Bank Ltd., Ghaziabad (UP) is prohibited from carrying on 'banking business' as defined in Section 5(b) of the Banking Regulation Act, 1949 (AACS) including acceptance and repayment of deposits.

For any clarifications, depositors may approach Shri R.P. Pandey, Deputy General Manager, Urban Banks Department, Reserve Bank of India, Lucknow. His contact details are as below:

Postal Address: The Deputy General Manager, Urban Banks Department, Reserve Bank of India, 8-9 Vipin Khand, Gomti Nagar, Lucknow -226010; Telephone No. 0522-2304878;. FAX No.0522-2393584. Email: ubdlucknow@rbi.org.in

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**RBI – ADB Conference on Managing Capital Flows: Management of capital flows a concern for both source as well as recipient countries; Merit in acting in coordinated manner in the event of excess capital flow volatility to maximise welfare**

November 20, 2012

The Reserve Bank of India (RBI) and the Asian Development Bank (ADB) co-hosted an international conference on 'Managing Capital Flows' in Mumbai during November 19-20, 2012. Central bankers, international institutions, academics and analysts from Asia, Europe, Latin America and the US participated in the conference and deliberated on key issues relating to 'Managing Capital Flows'. Views broadly converged around the opinion that management of capital flows should be a concern for both source as well as recipient

countries, and to maximise welfare there is merit in acting in concert and in a coordinated manner in the event of excess capital flow volatility.

Shri Deepak Mohanty, Executive Director, Reserve Bank of India welcomed the participants and underscored the relevance of the topic particularly in the present context of uncertain global economic and financial conditions. He drew an interesting anecdotal parallel between Mundell's impossible trinity and the Hindu belief of impossible co-existence of deities of Brahma, Vishnu and Mahesh under the same roof and indicated that these conflicts are better managed in the country specific situation.

Mr. Iwan Azis, ADB in his opening remarks underscored the importance of capital account management and the need to learn from country experiences in this regard. He noted that Asia had gone through a dramatic turn-around from excess investment during pre-1997 to excess savings during post-1997 even though the region has huge deficit in social and physical infrastructure.

Dr. Subir Gokarn, Deputy Governor, Reserve Bank of India in his keynote address set the tone for the conference. He underscored the importance of multilateral coordination, complementarity between capital controls and macroeconomic policy options and need to distinguish strategic and tactical controls for managing capital flows.

The conference deliberated on the subject in three technical sessions: (i) compositional shift and volatility of capital flows, (ii) challenges of capital account management, and (iii) select country experiences – objectives of capital flows management, instruments and their effectiveness. This was followed by two panel discussions comprising senior officials of central banks. The discussions revolved around: (i) capital controls and instruments of capital flow management, and (ii) adequacy of reserves, volatility in capital flows and international financial architecture. In the summing up, Mr. Bruno Carrasco captured the essence of the proceedings of the conference.



Apart from Dr. Subir Gokarn, Deputy Governor of the Reserve Bank of India and Mr. Iwan Azis, Head, Office of Regional Economic Integration, Asian Development Bank, several eminent central bankers, academicians, policy makers, financial regulators and supervisors participated in the conference to share their experience and thoughts. Some of the eminent participants included Deputy Governors/Deputy Head/Senior officials of central banks/monetary authorities of Brazil (Mr. Luiz Awazu Pereira), Chile (Mr. Manuel Marfan), India (Shri H.R. Khan) Indonesia (Mr. Hartadi A Sarwono), Korea (Mr. Sangdai Ryoo), Maldives (Mr. Aishath Zahira), Philippines (Ms Wilhelmina Manalac), Singapore (Mr. Choy K. Meng), Switzerland (Mr. Thomas Moser), Sri Lanka (BDWA Silva); Professors such as Kristin Forbes, Massachusetts Institute of Technology, Joseph E Gagnon, Peterson Institute for International Economics, Michael Klein, Fletcher School, Tufts University; and Mr. Jonathan Ostry, International Monetary Fund, Mr. Hun Kim, ADB, Mr. Ashok Lahiri, Executive Director for India, ADB. Apart from these, representatives of major commercial banks, financial and research institutions from India also participated. Professor Shankar N. Acharya, Indian Council for Research on International Economic Relations (ICRIER) moderated the panel discussions.

Major takeaways from the conference were:

- With more open capital account and financial innovations, growth of hedge funds and mushrooming of new breed of financial institutions and investors, cross-border capital flows have become highly volatile particularly after the 2008 crisis.
- Capital flows are seldom consistent with the precise needs of the individual economies and therefore have implications for exchange rate management, domestic monetary and liquidity conditions and overall macroeconomic and financial stability.
- Capital flows are driven by both pull (economic fundamentals of recipients) and push (policy stance of source countries) factors. Monetary and prudential regulation policies in source countries may exacerbate the level and riskiness of capital flows in recipient countries. Thus, adjustment in the wake of volatile capital flows should not be the exclusive responsibility of receiving country. Both recipient and source economies need to act in coordination and the burden of adjustment should be shared between them.
- Free flow of capital may not always ensure efficient global outcome as individuals fail to recognise the domestic economy's collateral constraint. Thus, the importance of capital controls as legitimate tool for protecting the domestic financial markets under certain circumstances is well recognised. However, use of capital controls to keep the currency undervalued to gain competitive advantage need to be avoided.
- It is important that controls should not be perceived as a substitute to prudent macroeconomic policies and well regulated financial system. A sound and well developed financial system makes absorption and intermediation of foreign flows smoother for Emerging Market Economies. Macro-prudential instruments supplemented to monetary policy may help in achieving control over inflation and ensure financial stability in the wake of excess global liquidity.
- Capital account management needs to be viewed in terms of a distinction between 'strategic' and 'tactical' controls. Strategic controls spell out the pecking order and accompanying controls and assure the stake holders that no further restrictions will be imposed. Tactical controls, on the contrary, are essentially emergency responses to intense pressure and will largely depend on the country circumstances and appetite for risk.
- Within the ambit of prevailing international financial architecture, reserves are first line of

defense against the backdrop of volatile capital flows. This is particularly true for current account deficit economies. While assessing adequacy of reserves, a distinction needs to be made between surplus and deficit economies. Deficit economies are far more vulnerable and need to build sufficiently large reserves to maintain confidence of the investors.

- There is a need to discourage excessive reliance on only few reserve currencies as the main reserve asset. Development of SDR bond market may reduce the need to borrow in foreign currencies thereby decreasing the currency mismatches and exposure to developments in the US and euro-area economies. Development of local currency bond market can also help in this direction.
- The country experiences presented in the conference showed that countries have generally tried to balance the benefits and costs associated with capital flows using a mix of capital controls (CFMs) and macro-prudential measures. These *inter alia* include: flexibility in exchange rate, sterilised foreign exchange intervention and careful articulation of macroeconomic policies. Apart from managing volatility in exchange rate and the systemic liquidity, these measures are generally intended to direct the flows towards long-term investments, equity instruments, and growth promoting sectors. Apart from various capital controls used across countries, Brazil, in particular, also used tax on certain categories of capital inflows to deal with their implications for economy.
- Finally, an important message that emerged from country experiences has been that in the face of volatile capital flows, flexibility and pragmatism are needed in exchange rate policy rather than adherence to strict theoretical rules. Central banks need to strike a fine

balance between alternative and often conflicting objectives while ensuring that negative externalities of capital flows are minimised on the society at large.

### **Minutes of the October 23, 2012 Meeting of the Technical Advisory Committee on Monetary Policy**

November 21, 2012

The thirtieth meeting of the Technical Advisory Committee on Monetary Policy (TAC) was held on October 23, 2012 in the run-up to the Second Quarter Review of Monetary Policy 2012-13 on October 30, 2012. The main points of discussion in the meeting are set out below.

1. Three Members were of the view that the global macroeconomic outlook is gloomy. They saw evidence of clear slowdown in the global economy with the European Union in recession, Japan slowing down, and sluggish growth in the US with the danger of fiscal cliff persisting. Members noted that the IMF has revised its growth projections downward. Two other Members were more sanguine about the global situation. They expected a turnaround to take place in the US as retail sales have increased, housing starts have picked up and treasury yields have fallen. There are chances of growth in Japan two quarters from now. According to these members, in China, the slowdown is expected to have bottomed out and there is likelihood of a turnaround in Europe as well. Notwithstanding the inflationary concerns in China and Singapore, the Members generally felt that despite significant loosening of monetary policy at the global level, global inflation is low, and there is evidence of softening of commodity prices.
2. On the domestic front, Members were of the view that we are passing through a very challenging time. Aggregate demand is weakening, and credit and money supply growth are below the Reserve

Bank's projections. Industrial growth has been more or less stagnant for nearly three quarters, capacity utilisation is low, capital goods production has fallen significantly, investment intentions show no signs of revival and the economy seems to be operating significantly below potential. The weak corporate sector was adversely affecting the health of commercial banks in terms of growing non-performing assets. Overall, there is significant slowdown in the Indian economy.

3. Some Members felt that though inflation is sticky, there does not seem to be any evidence of excess demand conditions in any part of the economy. They were of the view that given the global conditions, commodity prices might not harden further and some softening of food inflation could also be expected because of late revival of the south-west monsoon. These Members felt that inflation might soften next year. On the other hand, some Members felt that inflationary expectations are high. There are demand side pressures since not only are wages increasing, but also the increase in managerial salaries and salaries of the organised sector is very sharp. They suspected that wage inflation might go up further and this is the last chance for the Reserve Bank to anchor inflation expectations.
4. On the fiscal front, Members welcomed the moves by the government: some improvement in the projected fiscal deficit; renewed attention to better implementation of infrastructure projects; and further liberalisation of foreign investment. However, the effectiveness of these measures remains to be seen and will be dependent on the continued determination of the Government to persevere with essential measures. At the present juncture, the tax collections are low, subsidy bill is elevated and despite some relief due on spectrum auctions, the likelihood of a fiscal slippage is high. Thus fiscal pressures will continue to contribute to fragility of the economy, Members felt.
5. Members were of the opinion that the external sector continued to remain vulnerable to adverse shocks. Although there is some improvement, the current account deficit (CAD) remains well above comfort levels. Whereas there has been some recovery in capital flows, these flows must be seen as uncertain, given the fragile state of the world economy. The persistently high CAD might be driven by specific relative prices rather than aggregate demand. Some members felt there is room for the real exchange rate to depreciate and every opportunity should be taken to build up forex reserves, which are now below what they were three years ago. Another Member was of the view that imports are not responsive to exchange rate changes and there is little reason to expect much export buoyancy even with more depreciation. As such, the Reserve Bank should leave the exchange rate to be determined by the market as at present, and not intervene to depreciate it further.
6. On monetary policy and liquidity measures, five of the six external Members suggested that the Reserve Bank should reduce the policy rate. They felt that even though inflation is sticky, there are no demand pressures and there is a need to revive investments. One member felt that higher growth would help in reducing the fiscal deficit. Of these five Members, three recommended a reduction in repo rate by 25 basis points, while the other two suggested a sharper reduction of 50 basis points. Among the Members who recommended a repo rate cut by 25 basis points, one Member also recommended a cut in CRR by 25 basis points to help banks bring down lending rates without reducing deposit rates. One of the six Members was of the view that the decline in the growth rate was largely due to fiscal factors; since inflation expectations are elevated, no change in the monetary policy stance is necessary.
7. The meeting was chaired by Dr. D. Subbarao, Governor. Other internal Members present were: Dr. Subir Gokarn, Vice-Chairman, Deputy

Governors, Dr. K.C. Chakrabarty and Shri Anand Sinha; and external Members, Shri Y.H. Malegam, Prof. Indira Rajaraman, Prof. Sudipto Mundle, Prof. Errol D'Souza and Prof. Ashima Goyal. Dr. Rakesh Mohan and Dr. Shankar Acharya could not attend the meeting. Dr. Mohan submitted his written views. RBI officials, Shri Deepak Mohanty, Dr. Michael D. Patra, Dr. B.K. Bhoi, Shri B.M. Misra and Shri Pardeep Maria were in attendance.

8. Since February 2011, the Reserve Bank has been placing the main points of discussions of the TAC on Monetary Policy meetings in the public domain with a lag of roughly four weeks after the meeting.

### **Dr. Subir Vithal Gokarn re-appointed as RBI Deputy Governor till December 31, 2012**

November 21 2012

The Government of India today re-appointed Dr. Subir Vithal Gokarn as the Deputy Governor of the Reserve Bank of India for a further period till December 31, 2012 or till a regular appointment is made or until further orders, whichever is earlier.

Dr. Subir Vithal Gokarn was appointed as Deputy Governor in November 2009 for a period of three years from the date of his taking charge or until further orders, whichever was earlier. Dr. Subir Vithal Gokarn took charge as Deputy Governor of the Reserve Bank of India on November 24, 2009.

### **Bharathiya Sahakara Bank Niyamitha, Chamarajanagar, Karnataka – Penalised**

November 26 2012

The Reserve Bank of India has imposed a monetary penalty of ₹1.00 lakh (Rupees one Lakh only) on Bharathiya Sahakara Bank Niyamitha, Chamarajanagar, Karnataka, in exercise of powers vested in it under the provisions of Section 47A(1)(b) read with Section 46(4) of the Banking Regulation Act, 1949 (As Applicable to

Co-operative Societies) for violation of the Reserve Bank of India's instructions on Know Your Customer (KYC) guidelines contained in Circular UBD.PCB. Cir.30/09.161.00/2004-05 dated December 15, 2004.

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 bank's reply as also personal submission in the matter, the Reserve Bank came to the conclusion that the violation was substantiated and warranted imposition of the penalty.

### **CKP Co-operative Bank Ltd., Mumbai, Maharashtra – Penalised**

November 27, 2012

The Reserve Bank of India has imposed a monetary penalty of ₹5.00 lakh (Rupees five Lakh only) on CKP Co-operative Bank Ltd., Mumbai, Maharashtra, in exercise of powers vested in it under the provisions of Section 47A(1)(b) read with Section 46(4) of the Banking Regulation Act, 1949 (As Applicable to Co-operative Societies) for violation of the Reserve Bank of India's directive/guidelines on opening of on-site ATMs, extending finance to borrowers outside area of operations, exceeding exposure to housing and real estate, single party exposure limit, loans to directors, issuing bank guarantee to an entity not banking with them, non-filing of Suspicious Transaction Report (STR) report to Financial Intelligence Unit-India (FIU-IND), exceeding individual limit of unsecured advances, sanctioning overdraft against third party FDs to one of its directors.

The Reserve Bank of India had issued a show cause notice to the bank, in response to which the bank submitted a written reply. On careful examination of the reply and the action taken by the bank in this regard, the Reserve Bank came to the conclusion that the violation was substantiated and warranted imposition of the penalty and accordingly, the penalty was imposed on the bank.



## RBI sets up Technical Committee to review Presentation of its Accounts

November 29, 2012

The Reserve Bank of India (RBI) has constituted a Technical Committee to review the form of presentation of its Balance Sheet and Profit and Loss Account. The Committee will also review the style and content of the management commentaries on financial statements and notes to the accounts, and make recommendations to effect changes, if necessary, by appropriate legislative/regulatory modifications.

Several changes have been brought about over the years in the presentation and the explanatory notes to RBI accounts with a view to improving the disclosure, transparency and information content. The existing format of the Balance Sheet and Profit and Loss Account is being reviewed in order to keep pace with the changing times and meet the market expectations for bringing in more clarity and lucidity for the wider readership, while aligning with the best international practices.

The terms of reference, in brief, of the Committee are:

- i) Whether the existing presentation of two separate Balance Sheets of Issue and Banking Departments needs to be merged into a single Balance Sheet of the RBI;
- ii) Whether it is necessary to have separate Profit and Loss Accounts for the Issue and Banking Departments or whether the present form of a combined Profit and Loss Account will continue;
- iii) Whether the disclosures presently made in the Balance Sheet and Profit and Loss Account and the notes to accounts are adequate or can be elaborated/improved.

The Committee will comprise Shri Y. H. Malegam, Director on the Central Board of the RBI as Chairman. Ms. Indira Rajaraman, Director on the Central Board of the RBI, Shri B. Mahapatra, Executive Director, RBI, Shri P. R. Ramesh, Chairman, Deloitte Haskins and Sells,

and Shri V. Venkataramanan, Partner, KPMG, are the other Members. Shri S. Ganeshkumar, Chief General Manager, Department of Government and Bank Accounts, RBI is the Member-Secretary.

Comments/views of all interested stakeholders on the terms of reference of the Committee may please be e-mailed by January 10, 2013.

## Directions under Section 35A of the Banking Regulation Act, 1949 (AACS) – The Bhuj Mercantile Co-operative Bank Ltd., Ahmedabad, (Gujarat)

November 30, 2012

The Reserve Bank of India has issued in exercise of powers vested in it under sub-section (1) of Section 35A of Banking Regulation Act, 1949 (AACS) read with Section 56 of the Banking Regulation Act, 1949, certain Directions to the Bhuj Mercantile Co-operative Bank Ltd., Ahmedabad (Gujarat), whereby as from the close of business as on April 02, 2012, the aforesaid bank shall not, without prior approval in writing from the Reserve Bank of India, grant or renew any loans and advances, make any investment, incur any liability including borrowal of funds and acceptance of fresh deposits, disburse or agree to disburse any payment whether in discharge of its liabilities and obligations or otherwise, enter into any compromise or arrangement and sell, transfer or otherwise dispose of any of its properties or assets except to the extent and in the manner as notified in the RBI Directions dated April 02, 2012. The bank was permitted to allow withdrawal in deposit accounts up to a sum of ₹10000/- (rupees ten thousand only) which was raised up to a sum of ₹30000/- vide directive dated May 18, 2012 *ibid*. The validity of directions have been extended up to April 2, 2013 vide directive dated September 21, 2012. RBI has vide its directive dated November 19, 2012 amended the item (i) of the directive dated April 2, 2012 and modified vide directive dated May 18, 2012 permitting the bank to allow each depositor to withdraw a sum not exceeding ₹70,000/- (Rupees Seventy Thousand

only) (including ₹30000/- already allowed) by whatever name called provided that wherever such depositor is having liability to the bank in any manner, *i.e.* either as a borrower or surety, the amount may be adjusted first to the relevant borrowal account/s. Other terms and conditions of directive dated April 2, 2012 remains the same. A copy of the directive dated November 19, 2012 is displayed on the bank's premises for perusal by interested members of the public.

These directions shall remain in force up to April 2, 2013 and are subject to review.

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### **The Town Co-operative Bank Ltd., Hoskote, Karnataka – Penalised**

November 30, 2012

The Reserve Bank of India has imposed a monetary penalty of ₹5.00 lakh (Rupees five Lakh only) on The Town Co-operative Bank Ltd., Hoskote, Karnataka, in exercise of powers vested in it under the provisions of Section 47A(1)(b) read with Section 46(4) of the Banking Regulation Act, 1949 (As Applicable to Co-operative

Societies) for acquiring and using non-banking asset in violation of Sections 6 and 9 of the Banking Regulation Act, 1949 (As Applicable to Co-operative Societies), for violation of Reserve Bank's directives on loans and advances to directors, their relatives and firms/concerns in which the directors are interested, contained in Reserve Bank Circular UBD.BPD.Cir.50/13.05.00/2002-03 dated April 29, 2003 and Directive UBD.BPD.Dir.5/13.05.00/2002-03 dated April 29, 2003 read with Circular UBD.No.BPD.CIR.54/13.05.00/2002-03 dated June 24, 2003 and declaring and paying dividend in violation of Reserve Bank's instructions contained in RBI Circular UBD.CO.BDP.(PCB) Cir.No.70/12.05.001/2008-09 dated June 15, 2009.

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 bank's reply as also personal submission in the matter, the Reserve Bank came to the conclusion that the violation was substantiated and warranted imposition of the penalty.