

Regulatory and Other Measures

August 2011

RBI/2011-12/135 DBOD.BP.BC. No. 26/21.01.001/2011-12 dated August 1, 2011

Misuse of Banking Channels – Issue and Payment of Demand Drafts for ₹50,000/- and above

The Chairmen/Chief Executives of
All Scheduled Commercial Banks
(excluding RRBs)

Please refer to our circular DBOD.BP.BC.No.114/C.469(81) - 91 dated April 19, 1991 in terms of which demand drafts, mail transfers, telegraphic transfers and travellers cheques for ₹50,000 and above should be issued by banks only by debit to the customer's account or against cheques or other instruments tendered by the purchaser and not against cash payment. These instructions were extended to retail sale of gold/silver/platinum vide our circular DBOD.No.IBS.1816/23.67.001/98-99 dated February 4, 1999.

2. It has been brought to our notice that some banks have recently issued demand drafts of ₹50,000 and above on deposit of cash and not against debit to the customer's account or against cheques or other instruments tendered by the customer.

3. In the current scenario where the integrity of the financial system in general and the banking channels in particular is of paramount importance, breach of these guidelines is a matter of serious regulatory concern in view of the wide ranging ramifications.

4. In the above context, we reiterate that the instructions conveyed vide our circular dated April 19, 1991 referred to above may be strictly complied with by banks. Any violation of these instructions will be viewed seriously.

RBI/2011-12/143 RPCD.SME & NFS. BC. No.14/06.02.31/2011-12 dated August 3, 2011

Substitution of Term Micro and Small Enterprises in place of SSI in the Documents

The Chairman/Managing Director/
Chief Executive Officer
All Scheduled Commercial Banks
(excluding Regional Rural Banks)

Copies of the notification No.S.O.1642 (E) dated September 29, 2006 issued by the Ministry of Small Scale Industries and S.O.563 (E) dated February 27, 2009 issued by Ministry of Commerce and Industry regarding substitution of term 'Micro and Small Enterprises' in place of the term 'Small Scale Industries' are enclosed. Kindly ensure that your internal guidelines/instructions are compliant with these notifications.

2. You are requested to issue suitable instructions to your branches/controlling offices.

RBI/2011-12/144 DPSS.CO.PD.No. 225/02.14.006/2011-12 dated August 4, 2011

Policy Guidelines for Issuance and Operation of Prepaid Payment Instruments in India

All System Providers, System Participants and all other prospective prepaid payment instrument issuers

A reference is invited to our circular RBI/2010-11/261DPSS.CO.No. 1041/02.14.006/2010-2011 dated November 04, 2010, containing the guidelines for enabling additional category of prepaid payment instruments that could be issued by banks/NBFCs and non-banks.

2. It is advised that it has been decided to permit banks to issue prepaid payment instruments to

corporates for onward issuance to their employees, subject to the following conditions:-

- a. Pre-paid payment instruments can be issued only to corporate entities listed in any of the stock exchanges in India;
 - b. Verification of the identity of the employee shall be the responsibility of the concerned corporate. The bank should put in place proper systems to capture and maintain details of the employees to whom the cards are issued by the corporate along with copies of photograph and identity proof of such employees. The corporate is also required to make available details of bank accounts (if any) of the employees to the bank;
 - c. Banks may ensure that the list of authorised signatories approved by the Board of the corporate entity is taken on record and requests from such authorized persons are only accepted for the purpose of loading/activating the prepaid payment instruments;
 - d. These prepaid payment instruments shall be loaded only by debit to the bank account, which are subject to full KYC, maintained by the corporate with the same bank. Reloading of these instruments shall also be carried out only by debit to this account;
 - e. The maximum value outstanding on individual prepaid payment instruments at any point of time shall not exceed ₹50,000;
 - f. Banks shall facilitate transfer of funds from such prepaid payment instruments to a regular bank account of the concerned employee, if requested for;
 - g. The banks shall be responsible for all customer service aspects related to these instruments;
3. This directive is issued under section 18, of the Payment and Settlement Systems Act 2007, (Act 51 of 2007).

RBI/2011-12/145 DPSS.PD.CO. No.223/02.14.003/2011-2012 dated August 4, 2011

Security Issues and Risk Mitigation Measures related to Card Not Present (CNP) Transactions.

The Chairman and Managing Director/Chief Executive Officers

All Scheduled Commercial Banks including RRBs/ Urban Co-operative Banks/State Co-operative Banks/ District Central Co-operative Banks/Authorised Card Payment Networks

Please refer to our circular RBI/DPSS No. 1501/02.14.003/2008-2009 dated February 18, 2009 wherein a directive was issued making it mandatory for banks to put in place additional authentication/validation based on information not visible on the cards for all on-line card not present(CNP) transactions except IVR transactions from August 01, 2009. This mandate was extended to cover all IVR transactions with effect from February 01, 2011 vide our circular RBI/DPSS No. 1503/02.14.003/2010-2011 dated December 31, 2010.

2. Banks had been advised vide para 4 of the directions contained in RBI/DPSS No. 1503/02.14.003/2010-2011 dated December 31, 2010 to revert on the introduction of additional factor of authentication for certain category of CNP transactions detailed therein. The matter was discussed in a meeting of banks with the Reserve Bank of India on June 22, 2011 wherein it was emphasized by the Reserve Bank that while it was not advocating any specific solution in this regard, it is imperative that all CNP transactions are brought within the ambit of additional factor of authentication without further delay. To this end, banks were advised to evaluate possible alternatives at the earliest. Based on the feedback from the stakeholders and keeping in view the interest of card holders the following directions are issued:

- i. It is mandatory to put in place additional factor of authentication for all CNP transactions indicated in para 4 of our directions dated December 31, 2010 with effect from May 1, 2012.
- ii. In case of customer complaint regarding issues, if any, arising out of transactions

effected **without the additional factor of authentication after the stipulated date**, the issuer bank shall reimburse the loss to the customer further without demur.

3. The directive is issued under section 18 of Payment and Settlement Systems Act 2007, (Act 51 of 2007).

RBI/2011-12/147 RPCD.CO RRB.AML.BC.No.15/03.05.33(E)/2011-12 dated August 8, 2011

Opening of 'Small Account'

The Chairmen

All Regional Rural Banks (RRBs)

Please find enclosed a copy of the Government of India, Notification No.14/2010/F.No.6/2/2007-E.S. dated December 16, 2010, amending the Prevention of Money-laundering (Maintenance of Records of the Nature and Value of Transactions, the Procedure and Manner of Maintaining and Time for Furnishing Information and Verification and Maintenance of Records of the Identity of the Clients of the Banking Companies, Financial Institutions and Intermediaries) Rules, 2005.

A. Small Accounts

2. In terms of Rule 2 clause (fb) of the Notification 'small account' means a savings account in a banking company where -

- (i) the aggregate of all credits in a financial year does not exceed rupees one lakh;
- (ii) the aggregate of all withdrawals and transfers in a month does not exceed rupees ten thousand; and
- (iii) the balance at any point of time does not exceed rupees fifty thousand.

3. Rule (2A) of the Notification lays down the detailed procedure for opening 'small accounts'. RRBs are advised to ensure adherence to the procedure provided in the Rules for opening of small accounts.

B. Officially Valid Documents

4. The Notification has also expanded the definition of 'officially valid document' as contained in clause (d) of Rule 2(1) of the PML Rules to include

job card issued by MNREGA duly signed by an officer of the State Government or the letters issued by the Unique Identification Authority of India containing details of name, address and Aadhaar number.

5. It is further advised that where a bank has relied exclusively on any of these two documents, *viz.* MNREGA job card or Aadhaar letter, as complete KYC document for opening of an account (ref. Annex-II to the Guidelines on 'Know Your Customer' Norms and Anti-Money Laundering Measures' enclosed to our circular RPCD.No.RRB.BC.81/03.05.33(E)/2004-05 dated February 18, 2005) the bank account so opened will also be subjected to all conditions and limitations prescribed for small account in the Notification.

6. Accordingly, all accounts opened in terms of procedure prescribed in Rule 2A of the Notification enclosed and all other accounts opened ONLY on the basis of NREGA card or Aadhaar letter should be treated as 'small accounts' subject to the conditions stipulated in clause (i) to (v) of the sub-rule (2A) of Rule 9.

RBI/2011-2012/149 FMD.MOAG. No.62/01.01.01/2011-12 dated August 9, 2011

Reverse Repo Window under Liquidity Adjustment Facility and Marginal Standing Facility – Change of Timing

All Scheduled Commercial Banks (excluding RRBs) and Primary Dealers

Presently, Repo and Reverse Repo auctions under Liquidity Adjustment Facility (LAF) are conducted between 9.30 am and 10.30 am and the Marginal Standing Facility (MSF) is available between 3.30 pm and 4.30 pm on all working days in Mumbai, except Saturdays.

2. It has been decided to conduct Reverse Repo auctions under LAF and MSF operations between 4.30 pm and 5.00 pm on all working days in Mumbai (excluding Saturdays) with effect from August 16, 2011. Repo auctions under LAF will continue to be conducted between 9.30 am and 10.30 am.

3. All other terms and conditions of the current LAF and MSF Schemes will remain unchanged.

RBI/2011-12/151 DBOD.No.BP.BC. 28/21.04.157/2011-12 dated August 11, 2011

Prudential Norms for Off-balance Sheet Exposures of Banks

The Chairman and Managing Directors/Chief Executive Officers of All Scheduled Commercial Banks (excluding RRBs and LABs) & All India Term-Lending & Refinancing Institutions

In terms of our circular DBOD.No.BP.BC.57/21.4.157/2008-09 dated October 13, 2008, the overdue receivables representing positive mark to market value of a derivative contract would be treated as a non-performing asset (NPA), if these remain unpaid for 90 days or more. In that case, all other funded facilities granted to the client should also be classified as NPA following the principle of borrower-wise classification as per the existing asset classification norms. As the overdue receivables would represent unrealised income already booked by the bank on accrual basis in the 'Profit and Loss Account', such amount should be reversed after 90 days of overdue period, and held in a '*Suspense Account-Crystalised Receivables*' in the same manner as done in the case of overdue advances.

2. It is further clarified that in cases where the derivative contracts provides for more settlements in future, the MTM value will comprise of (a) crystallised receivables and (b) positive or negative MTM in respect of future receivables. If the derivative contract is not terminated on the overdue receivable remaining unpaid for 90 days, in addition to reversing the crystallised receivable from Profit and Loss Account as stipulated in para 1 above, the positive MTM pertaining to future receivables may also be reversed from Profit and Loss Account to another account styled as '*Suspense Account – Positive MTM*'. The subsequent positive changes in the MTM value may be credited to the '*Suspense Account – Positive MTM*', not to P&L Account. The subsequent decline in MTM value may be adjusted against the balance in '*Suspense Account – Positive MTM*'. If the balance in this account is not sufficient, the remaining amount may be debited to the P&L Account. On payment of the overdues in cash, the balance in the '*Suspense Account-Crystalised*

Receivables' may be transferred to the 'Profit and Loss Account', to the extent payment is received.

3. If the bank has other derivative exposures on the borrower, it follows that the MTMs of other derivative exposures should also be dealt with/ accounted for in the manner as described in para 2 above, subsequent to the crystallised/settlement amount in respect of a particular derivative transaction being treated as NPA.

4. Since the legal position regarding bilateral netting is not unambiguously clear, receivables and payables from/to the same counterparty including that relating to a single derivative contract should not be netted.

5. Similarly, in case a fund-based credit facility extended to a borrower is classified as NPA, the MTMs of all the derivative exposures should be treated in the manner discussed above.

6. These instructions will be applicable to both outstanding derivatives contracts and the derivatives transactions undertaken from the date of this circular.

RBI/2011-12/153 RPCD.CO.BC.FID.No. 16/12.01.019/2011-12 dated August 12, 2011

The Chairman/CMD/CEO of all scheduled commercial banks

Operational Guidelines on implementation of Electronic Benefit Transfer (EBT) and its Convergence with Financial Inclusion Plan (FIP)

As you are aware, Electronic Benefit Transfer (EBT) for servicing low value accounts and extending banking infrastructure to underserved low income areas has been implemented in the states of Andhra Pradesh, Haryana, Karnataka, Orissa, Chhattisgarh, Himachal Pradesh, Uttarakhand, Bihar, Punjab, etc. on pilot basis in select districts under the 'One District – One Bank' Model. Difficulties have been expressed by stake holders in scaling the model.

2. The experience gained so far suggests that the 'One District – One Bank' Model has not been able to achieve the objective of financial inclusion. Allocation

of villages amongst banks under the Financial Inclusion Plan (FIP), *i.e.* Roadmap for providing banking services to villages with population above 2000, has been generally on the basis of the Service Area Approach. This has led to a situation wherein the designated bank for EBT and FIP in the same village differed. This issue has been raised in various fora by the State Governments and banks. For clearer conceptual understanding and based on detailed consultative meetings and interface with stake holders, 'Operational guidelines on implementation of Electronic Benefit Transfer and its convergence with Financial Inclusion Plan' has been formulated. These guidelines are expected to give a fillip to financial inclusion efforts and lead to a scalable and sustainable financial inclusion model.

RBI/2011-12/154 RPCD.CO.RRB.BC.No.17/03.05.33/2011-12 dated August 16, 2011

Misuse of Banking Channels - Issue and Payment of Demand Drafts for ₹50,000 and above

The Chairman
All Regional Rural Banks

Please refer to our circular RPCD.No.NB.BC.124/RRB.16/90-91 dated May 29, 1991 in terms of which demand drafts, mail transfers, telegraphic transfers and travellers cheques for ₹50,000 and above should be issued by banks only by debit to the customer's account or against cheques or other instruments tendered by the purchaser and not against cash payment.

2. It has been brought to our notice that some banks have recently issued demand drafts of ₹50,000 and above on deposit of cash and not against debit to the customer's account or against cheques or other instruments tendered by the customer.

3. In the current scenario where the integrity of the financial system in general and the banking channels in particular is of paramount importance, breach of these guidelines is a matter of serious regulatory concern in view of the wide ranging ramifications.

4. In the above context, we reiterate that the instructions conveyed vide our circular dated May 29,

1991 referred to above may be strictly complied with by banks. Any violation of these instructions will be viewed seriously.

RBI/2011-12/159 Circular No. 30 DGBA. Accts. (AP). No./1337/57.02.001/2011-12 dated August 25, 2011

Contingency plan during strikes in banks/natural calamity – Arrangements for feeding of ATMs

The Chairman and Managing Director
All Commercial Banks

The need for replenishing cash in the ATMs of banks, especially in times of strikes in banks/natural calamity so as to mitigate hardships caused to bank customers, was examined by RBI. As a first step in this direction, the use of other bank's ATMs for cash withdrawals was made free of charge with effect from April 1, 2008 vide our circular DPSS No. 2007-2008/260 dated March 10, 2008. However, this measure would not suffice when there is an industry-wide strike call/other emergency and the ATMs of banks run out of cash.

2. It has now been decided that as a customer service initiative, RBI will allow the banks to replenish cash at their ATMs by withdrawing cash from RBI in the event of strike in the entire Banking Sector excepting RBI or in the event of any natural calamity in the region/country. Banks may avail of this facility on the days of strike/natural calamity and for this purpose, they will be required to:

- (i) Enter into an agreement with the designated outsourcing agency subject to compliance with the Guidelines on Managing Risks and Code of Conduct in Outsourcing of Financial Services by Banks issued vide DBOD Circular B.P. 40/21.04.158/2006-07 dated November 3, 2006.
- (ii) Authorise RBI in the form of a standing instruction (as per enclosed 'Letter of Authorisation') to debit their current accounts with RBI for handing over the cash to the outsourced agency appointed by them.

- (iii) Submit on every such occasion, a bearer cheque signed by the authorised signatory payable to 'Ourselves' with the signature of the recipient attested on the obverse of the cheque.
 - (iv) Submit a letter stating that the bank desires to withdraw cash from their current account with RBI on that day as a special case.
 - (v) The ceiling for withdrawal of cash under this contingency will be ₹ ten crore at a time, *i.e.*, per transaction. However, depending upon the need for cash to be replenished in the ATMs, a bank may avail of this withdrawal facility more than once during the working hours on a particular day.
 - (vi) The Regional Director of RBI for the respective State will be the final authority for deciding on whether there is an emergency and the facility can be made available.
 - (vii) Banks will have to keep the Reserve Bank informed about any change of outsourcing agency in this regard.
3. Banks may approach the Deposit Accounts Department of RBI where their current account is maintained for working out the modalities on the above lines.
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- RBI/2011-12/163 Ref: DBOD.No.Ret. BC.29/12.06.130/2011-12 dated August 30, 2011

Inclusion in the Second Schedule to the Reserve Bank of India Act, 1934 – Australia and New Zealand Banking Group Limited

All Scheduled Commercial Banks

We advise that the name of '**Australia and New Zealand Banking Group Limited**' has been included in the Second Schedule to the Reserve Bank of India Act, 1934 by Notification DBOD.IBD.No.19042/23.03.024/2010-11 dated June 07, 2011, published in the Gazette of India (Part III – Section 4) dated July 09, 2011.