Regulatory and Other Measures

February 2010

RBI/2010-11/397 RPCD.CO.Plan.BC. 51/04.09.01/2010-11 dated February 2, 2011

Classification of loans against gold jewellery

The Chairman/Managing Director/Chief Executive Officer
All scheduled commercial banks (excluding Regional Rural Banks)

Please refer to paragraph 1.3.14 of our Master Circular on lending to priority sector dated July 1, 2010.

2. It is clarified that loans sanctioned to NBFCs for on-lending to individuals or other entities against gold jewellery, are not eligible for classification under agriculture sector.

3. Similarly, investments made by banks in securitised assets originated by NBFCs, where the underlying assets are loans against gold jewellery, and purchase/assignment of gold loan portfolio from NBFCs are also not eligible for classification under agriculture sector.

4. You may please issue instructions to your controlling offices/branches for suitable necessary action in this regard.

RBI/2010-11/ 399 RPCD.SME & NFS. BC.No. 52/06.11.01/2010-2011 dated February 8, 2011

Scheme of 1 per cent interest subvention on housing loans up to ₹10 lakh

The Chairman/Managing Director
All Scheduled Commercial Banks (excluding RRBs)

Please refer to our circular RPCD.SME & NFS.BC. No. 16/06.11.01/2010-2011 dated August 09, 2010 and our letter RPCD.SME & NFS.No.4864/06.11.01/2010-2011 dated October 20, 2010 conveying, *inter alia*, instructions pertaining to procedure for reimbursement of claims under the captioned Scheme.

2. We have since received further clarifications from Government of India as under which may be noted while submitting claims for reimbursement.

a) Housing loans extended to Non Resident Indians (NRIs), for construction of farm houses and to staff members of the banks are not eligible for subsidy under the Scheme.

b) While calculating the interest subsidy, each disbursement may be treated as a separate loan and for each disbursement, subsidy claim may be made for twelve instalments. For loans fully disbursed at one stroke, subsidy will be provided upfront on the entire amount of the loan disbursed. Subsidy has to be calculated for 12 months period from the date of disbursement of the loan following the reducing balance of EMI.

c) Loans sanctioned prior to October 1, 2009 would not qualify for reimbursement under the Scheme.

d) All SCBs should use their own funds for upfront credit of subsidy till the same is reimbursed by Government of India.

e) Banks are advised to submit their claims in the prescribed format (excel) supplied by us, on a monthly basis in respect of all housing loans eligible for subsidy under the Scheme.

3. All SCBs are advised to implement the Scheme vigorously and the benefits of the Scheme may be provided to all eligible customers/beneficiaries expeditiously. Banks may also note to submit both hardcopy and soft copy of the claim format together.

RBI/2010-11/400 DBOD.No. BP.BC.80/ 21.04.018/2010-11 dated February 9, 2011

Re-opening of pension option to employees of Public Sector Banks and enhancement in gratuity limits - Prudential Regulatory Treatment

All Public Sector Banks

Consequent on the re-opening of pension option to employees of Public Sector Banks and enhancement in gratuity limits following the amendment to Payment of Gratuity Act 1972, banks and the Indian Banks' Association (IBA) have approached us for the amortisation of the enhanced expenditure resulting therefrom.

2. The additional liability on account of re-opening of pension option for existing employees who had not opted for pension earlier as well as the enhancement in gratuity limits should be fully recognised and charged to Profit and Loss Account for the financial year 2010-11.

3. However, banks have expressed that it would be difficult to absorb the large amount involved in a single year. We have examined the issues from a regulatory perspective and it has been decided that banks may take the following course of action in the matter:

a. The expenditure, as indicated in paragraph 2 above, may, if not fully charged to the Profit and Loss Account during the financial year 2010-11, be amortised over a period of five years {subject to (b) and (c) below} beginning with the financial year ending March 31, 2011 subject to a minimum of 1/5th of the total amount involved every year.

b. Consequent upon the introduction of International Financial Reporting Standards (IFRS) from April 1, 2013 for the banking industry as scheduled, the opening balance of reserves of banks will be reduced to the extent of the unamortised carry forward expenditure.

c. The unamortised expenditure carried forward as aforementioned shall not include any amounts relating to separated/retired employees.

4. Appropriate disclosures of the accounting policy followed in this regard may be made in the Notes to Accounts to the financial statements.

5. In view of the exceptional nature of the event, new pension option and enhanced gratuity related unamortised expenditure would not be reduced from Tier I capital.

6. Banks should keep in view 3(b) above while planning their capital augmentation, suitably factoring in Basel III requirements also (a separate circular would be issued on Basel III).

RBI/2010-11/408DNBS.PD/CC.No.211 /03.02.002/2010-11 dated February 17, 2011

All Deposit Taking NBFCs - CRAR Fifteen percent w.e.f March 31, 2012

All deposit taking NBFCs

In terms of paragraph 16 of Non Banking Financial (Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007, every deposit taking NBFC shall maintain a minimum capital ratio consisting of Tier I and Tier II capital, which shall not be less than 12 per cent of its aggregate risk weighted assets on balance sheet and of risk adjusted value of off-balance sheet items. However, in terms of paragraph 16 of Non Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007, dated February 22, 2007, every systemically important non-deposit taking NBFC(NBFC-ND-SI) has to maintain a minimum capital ratio consisting of Tier I and Tier II capital, which shall not be less than 15 per cent of its aggregate risk weighted assets on balance sheet and of risk adjusted value of off-balance sheet items by March 31, 2011.

2. It has been decided to align the minimum capital ratio of all deposit taking as well as systemically important non-deposit taking NBFCs to 15 per cent. Accordingly, all deposit taking NBFCs shall maintain a minimum capital ratio consisting of Tier I and Tier II capital, which shall not be less than 15 per cent of its aggregate risk weighted assets on balance sheet and

risk adjusted value of off-balance sheet items w.e.f. March 31, 2012.

Notification No. DNBS.224/CGM(US)-2011 dated February 17, 2011

The Reserve Bank of India, having considered it necessary in public interest and being satisfied that, for the purpose of enabling the Bank to regulate the credit system to the advantage of the country, it is necessary to amend the Non-Banking Financial (Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007, contained in Notification No.DNBS. 192/DG(VL)-2007 dated February 22, 2007 , in exercise of the powers conferred by section 45JA of the Reserve Bank of India Act, 1934 (2 of 1934) and of all the powers enabling it in this behalf, hereby directs that the said Directions shall be amended with immediate effect as follows, namely -

Amendment of paragraph 16 -

In sub-paragraph (1) of paragraph 16, the following sentence shall be inserted at the end of the sub-paragraph –

"[Such ratio shall not be less than fifteen percent by March 31, 2012.]"

RBI/2010-11/409 UCB (PCB) BPD Cir.No. 36/16.20.000/ 2010-11 dated February 18, 2011

Prudential norms on investment in Zero Coupon Bonds

The Chief Executive Officers of
All Primary (Urban) Co-operative Banks

Please refer to paragraph 2 (iii) (c) of circular UBD(PCB) BPD Cir No.46/16.20.000/2008-09 dated January 30, 2009 on investments in Non-SLR securities by Primary (Urban) Co-operative Banks.

2. It is observed that banks are investing in long-term Zero Coupon Bonds (ZCBs) issued by corporates including those issued by Non-Banking Financial Companies (NBFCs). As the issuers of ZCBs are not required to pay any interest or installments till the maturity of bonds, credit risk in such investments would go unrecognized till the maturity of bonds and this risk could especially be significant in the case of long term ZCBs. Such issuances and investments if done on a large scale could pose systemic problems.

3. In view of the above, it has been decided that banks should not, henceforth invest in ZCBs unless the issuer builds up a sinking fund for all accrued interest and keeps it invested in liquid investments/ securities (Government bonds). The other instructions contained in paragraph 2 (iii)(c) of circular dated January 30, 2009 remain unchanged.

RBI/2010-11/411 DBOD.Dir.BC. 81/13.03.00/2010-11 dated February 21, 2011

Guidelines on Base Rate

All Scheduled Commercial Banks
(excluding RRBs)

Please refer to our circular No. DBOD.Dir.BC.88/ 13.07.001/2009-10 dated April 9, 2010 and our letter DBOD.Dir.No. 21957/13.07.001/2009- 10 dated June 24, 2010 addressed to IBA on the subject.

2. Government of India, Ministry of New and Renewable Energy (MNRE) has formulated a scheme on financing of Off-Grid and Decentralised Solar (Photovoltaic and Thermal) applications as part of the Jawaharlal Nehru National Solar Mission (JNNSM). Under the scheme, banks may extend subsidised loans to entrepreneurs at interest rates not exceeding five per cent where refinance of two per cent from Government of India is available. In this context, we advise that such lending at interest rates not exceeding five percent per annum where refinance of Government of India is available, would not be considered to be a violation of our Base Rate Guidelines.