Regulatory and Other Measures

July 2011

RBI/2011-12/106 DBOD.No.BP.BC. 23/21.04.141/2011-12 dated July 5, 2011

Investment By Banks in Liquid/Short Term Debt Schemes of Mutual Funds

The Chairmen & Managing Directors/
Chief Executive Officers of
All Scheduled Commercial Banks
(excluding Regional Rural Banks)

Please refer to paragraph 112 of the Monetary Policy Statement 2011-12 (extract enclosed) wherein it has been indicated that banks' investments in liquid schemes of mutual funds have grown manifold. The liquid schemes continue to rely heavily on institutional investors such as commercial banks whose redemption requirements are likely to be large and simultaneous; on the other hand, they are large lenders in the over-night markets such as collateralised borrowing and lending obligation (CBLO) and market repo, where banks are large borrowers. The various schemes of mutual funds also invest heavily in certificates of deposit (CDs) of banks. Such circular flow of funds between banks and mutual funds could lead to systemic risk in times of stress/liquidity crunch. Thus, banks could potentially face a large liquidity risk. It is, therefore, felt prudent to place certain limits on banks' investments in liquid/short term debt schemes of mutual funds.

2. Accordingly, it has been decided that the total investment by banks in liquid/short-term debt schemes (by whatever name called) of mutual funds with weighted average maturity of portfolio of not more than 1 year, will be subject to a prudential cap of 10 per cent of their net worth as on March 31 of the previous year. The weighted average maturity would be calculated as average of the remaining period of maturity of securities weighted by the sums invested.

3. With a view to ensuring a smooth transition, banks which are already having investments in these schemes of mutual funds in excess of the 10 per cent limit, are allowed to comply with this requirement at the earliest but not later than six months from the date of this circular.

RBI/2011-12/113 DBOD.No.BL.BC. 24/22.01.001/2011-12 dated July 15, 2011

Branch Authorisation Policy – Opening of branches in unbanked rural centres

All Scheduled Commercial Banks (excluding RRBs)

Please refer to paragraphs 97& 98 of the Monetary Policy Statement 2011-12 on the above subject (extract enclosed). As stated therein, there is a need to step up the opening of branches in rural areas so as to meet the objectives of increasing banking penetration and financial inclusion rapidly and meet the targets set out for providing banking services in villages with population over 2,000. Keeping in view the goal of bringing banking services to identified 72,800 villages with population above 2,000 by March 2012, and thereafter progressively to all villages over a period of time, there is a need for opening more number of brick and mortar branches in rural centres, besides the use of Business Correspondents.

2. Banks are, therefore, advised that while preparing their Annual Branch Expansion Plan (ABEP), they should allocate at least 25 percent of the total number of branches proposed to be opened during a year in unbanked rural (Tier 5 and Tier 6) centres. An unbanked rural centre would mean a rural (Tier 5 and Tier 6) centre that does not have a brick and mortar structure of any scheduled commercial bank for customer based banking transactions.

3. Presently, as advised in circular DBOD.No.BL. BC. 65/22.01.001/2009-10 dated December 1, 2009, domestic scheduled commercial banks (excluding RRBs) are permitted to open branches in Tier 3 to Tier 6 centres (population up to 49, 999 as per Census 2001) without prior permission from the Reserve

Bank in each case, subject to reporting. However, opening of branches in Tier 1 and Tier 2 centres (population of 50,000 and above) would require prior permission of the Reserve Bank, except in case of North Eastern States and Sikkim where the general permission would also cover semi-urban and urban centres. Authorisation is given by the Reserve Bank for opening branches in Tier 1 and Tier 2 centres which would generally not exceed the total number of branches proposed to be opened in Tier 3 to Tier 6 centres as well as in North Eastern States and Sikkim. While issuing such authorisation, Reserve Bank would factor in whether at least one third of the total number of branches proposed to be opened in Tier 3 to Tier 6 centres are in underbanked districts of underbanked States as also upon regulatory and supervisory comfort and critical assessment of bank's performance in financial inclusion, priority sector lending and customer service, *etc.*

4. In view of the requirement for opening at least 25 per cent of the branches under ABEP in unbanked rural centres, it would now not be mandatory to open at least one third of the total number of branches proposed to be opened in Tier 3 to Tier 6 centres in underbanked districts of underbanked States. Accordingly, authorisation for branches in Tier 1 and Tier 2 centres will now factor in whether at least 25 percent of the total number of branches to be opened during a year are proposed to be opened in unbanked rural centres in place of the requirement that at least a third of branches to be opened in Tier 3 to Tier 6 centres are in underbanked districts of underbanked States.

5. Since there is a continuing need for opening more branches in underbanked districts of underbanked States for ensuring more uniform spatial distribution, banks would be provided incentive for opening such branches. Accordingly, for each branch proposed to be opened in Tier 3 to Tier 6 centres of underbanked districts of underbanked States, excluding such of the rural branches proposed to be opened in unbanked centres that may be located in the underbanked districts of underbanked States in compliance with the requirement as indicated in paragraph 2 above, authorisation will be given for opening of a branch in a Tier 1 centre. This will be in addition to the authorisation given for branches in Tier 1 and Tier 2 centres based on the considerations stated in paragraph 3 above.

RBI/2011-2012/126 FMD.MOAG. No.61/01.01.01/2011-12 dated July 26, 2011

Liquidity Adjustment Facility – Repo and Reverse Repo and Marginal Standing Facility Rates

All Scheduled Commercial Banks (excluding RRBs) and Primary Dealers

As announced in the First Quarter Review of Monetary Policy 2011-12, it has been decided to increase the repo rate under the Liquidity Adjustment Facility (LAF) by 50 basis points from 7.50 per cent to 8.00 per cent with immediate effect.

2. Consequent to the above increase in the repo rate, the reverse repo rate under the LAF will stand automatically adjusted to 7.00 per cent and the Marginal Standing Facility (MSF) rate to 9.00 per cent with immediate effect.

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

RBI/2011-12/129 DCM(FNVD) No. 502/16.01.05/2011-12 dated July 27, 2011

Detection of Counterfeit Banknotes – Revised Procedure

The Chairman/Managing Director,
Commercial Banks,Cooperative Banks, RRBs/
Private Banks,Foreign Banks and
Director of Treasuries of all States

Please refer to the Master Circular DCM (FNVD) No. G-5/16.01.05/2011-12 dated July 1, 2011 on the above subject. In terms of Para 4 of the circular, among other things, FIRs are required to be filed in respect of all cases of counterfeit banknotes.

2. The matter has been reviewed in consultation with the Government of India, and in order to ensure

that all cases of detection of counterfeit notes at the bank branches/treasuries are promptly reported to the police authorities, it has been decided to revise the procedure to be followed on detection of counterfeit banknotes at bank branches, treasuries and sub treasuries. Accordingly, the following procedure should be adopted with immediate effect:

i. For cases of detection of counterfeit notes upto 4 pieces, in a single transaction, a consolidated report as per the format prescribed in the annex should be sent to the police authorities at the end of the month.

ii. For cases of detection of counterfeit notes of 5 or more pieces, in a single transaction, FIRs should be lodged with the Nodal Police Station/Police Authorities as per jurisdiction, in terms of our Master Circular ibid.

3. Other instructions in the above Master Circular will remain unchanged.

4. Problems, if any, in implementation, may be resolved in consultation with the Regional Director, Reserve Bank of India, of the State concerned.

5. Progress in the area of reporting should be discussed in the meetings of State Level Bankers' Committee, Standing Committee on Currency Management and State Level Security Committee held in various States.

6. Banks may please bring the contents of the circular to the notice of their branches and ensure that the above instructions are being followed both in letter and spirit.

RBI/2011-12/132 DBOD.No.BP.BC. 25/21.04.012/2011-12 dated July 28, 2011

Relaxation to Trade and Industry in the State of Jammu & Kashmir

The Chairmen & Managing Directors/
Chief Executive Officers of
All Scheduled Commercial Banks
(excluding Regional Rural Banks)

Please refer to our circular DBOD.No.BP.BC.100/ 21.04.012/2009-10 dated April 29, 2010 extending the period of concessions/credit relaxations to borrowers/ customers in Jammu & Kashmir up to 31 March 2011. It has been decided that the concessions/credit relaxations to borrowers/customers in the State of Jammu & Kashmir, as laid down in our Circular No. DBOD.No.BP.BC.77/21.04.012/2003-2004 dated April 21, 2004, will continue to be operative for a further period of one year, *i.e.*, up to March 31, 2012.

2. Suitable instructions may please be issued to your controlling/branch offices in this regard.