Regulatory and Other Measures

November 2012

RBI/2012-13/277 DBOD.No.FSD.BC. 53/24.01.001/2012-13 dated November 5, 2012

All Scheduled Commercial Banks
(excluding RRBs)

Corporate Bond Market – Permission to banks for membership in SEBI approved Stock Exchanges

With a view to developing the Corporate Bond Market in India, several initiatives have been taken. These include measures to impart liquidity by permitting repo transactions in corporate bonds, increase transparency by capturing information related to trading in corporate bonds including repo transactions through the authorised reporting platforms and mandatory settlement of all trades in corporate bonds through the clearing corporations and facilitating risk transfers by introduction of Credit Default Swaps (CDS).

2. In order to further enhance transparency, it has been decided to permit Scheduled Commercial Banks (SCBs) to become members of SEBI approved stock exchanges for the purpose of undertaking proprietary transactions in the corporate bond market. While doing so, SCBs should satisfy the membership criteria of the stock exchanges and also comply with the regulatory norms laid down by SEBI and the respective stock exchanges.

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RBI/2012-13/279 DBOD.CO.BP.BC No. 55/21.04.178/2012-13 dated November 5, 2012

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

National Telecom Policy 2012 – Migration of current version of Internet Protocol IPv4 to IPv6

As you may be aware, the Government of India has envisaged providing 'Broadband on Demand' by 2015 in the recently unveiled National Telecom Policy (NTP) – 2012 emphasising the role of Internet as catalyst for socio-economic development of the country and also as an effective medium of various citizen centric services in today's information economy. Since the current version of Internet Protocol (IPv4) has almost run out of addresses, the broadband revolution is sure to ride on next generation Internet Protocol (IPv6). The NTP – 2012 recognises the futuristic role of IPv6 and aims to achieve substantial transition to IPv6 in the country.

2. Department of Telecommunication under the Ministry of Communication and Information Technology, Government of India has undertaken the initiative of migration from IPv4 to IPv6.

3. Since migration to IPv6 is an eventuality that has to be accepted and managed proactively, government wants it to be done in a planned way rather than against time. They have expressed that the migration of all payment gateways, banks, financial institutions, insurance companies, *etc.* including their websites should be completed preferably by December 2012. You may initiate necessary action by constituting a special team to complete the migration within the stipulated time.

4. In case you need any clarifications/assistance on IPv6 implementation kindly contact Shri R. M. Agarwal, DDG (NT), DoT (Mobile number 9868133440) who is heading the team which is providing relevant support to all stakeholders.

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RBI/2012-13/283 RPCD.CO.RRB.BC. No.43/03.05.90/2012-13 dated November 6, 2012

All Regional Rural Banks

Branch Licensing Policy – Opening of branches in unbanked rural centres

The Regional Rural Banks (RRBs) are an integral part of the rural credit system and are expected to play an increasingly important role in the development of rural areas. Presently, RRBs which satisfy the stipulated conditions as provided in our circulars No. RPCD. CO.RRB.BL.BC.No. 19/03.05.90/2011-12 dated August 1, 2012 and RPCD.CO.RRB.BC.No.28/03.05.90-A/2011-12 dated November 18, 2010 are permitted to open branches in Tier 2 to Tier 6 centres (population up to 99, 999 as per Census 2001) without prior permission in each case, subject to reporting. However, opening of branches in Tier 1 centres (population of 1,00,000 and above) would require prior permission of the Reserve Bank.

2. There is a need to step up the opening of branches in unbanked rural centres in order to meet the objectives of increasing banking penetration and financial inclusion rapidly. It is also vitally important to meet the targets set out for providing banking services in all villages by opening more number of brick and mortar branches in unbanked rural centres, besides the use of Business Correspondents.

3. RRBs are, therefore, advised to 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.

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RBI/2012-13/290 RPCD.FSD.BC No.45/05.02.02/2012-13 dated November 9, 2012

The Chairman and Managing Director
All Public Sector Banks

Interest Subvention Scheme Monitoring of end-use of Crop Loans

As you are aware, the Government of India, through its budget announcement for the year 2006-07, introduced an interest subvention scheme with a view to ensure availability of short term crop loans up to ₹3.00 lakh to farmers at a reduced rate of 7 per cent per annum This scheme has continued ever since with minor variations. Currently, with 3 per cent additional subvention for timely repayment, the effective cost of short-term crop loan comes to 4 per cent for farmers. The Hon'ble Finance Minister in his budget speech for the year 2012-13 announced continuation of the Scheme for the year 2012-13.

2. It has, however, come to our notice that the banks, in various regions, have failed to ensure end-use of funds disbursed ostensibly as crop loans. As a consequence, the expenditure incurred by the Government of India with an intention to help small and marginal farmers has not, to a significant extent, reached the intended beneficiaries. There have been some reports that the 'borrowers' of these 'crop loans' have diverted the funds and are, to some extent, using the scheme as an arbitrage opportunity by borrowing at a lower rate of interest owing to the subvention available and investing them in fixed deposits and/or in other investment avenues at higher rate(s) of interest.

3. Banks are, therefore, advised to ensure that all crop loans against which they are claiming interest subvention should satisfy, inter alia, the following criteria:

i) The borrower should be an agriculturist.

ii) The rate of interest charged should not exceed the rate stipulated by the Govt. of India.

iii) The amount of loan is fixed according to the prescribed scale of finance for agricultural loans and the loan is used for stated purpose.

iv) Seasonality is observed in regard to both disbursement and recovery.

4. Banks are, therefore, advised to strengthen their systems for pre-sanction scrutiny and post-disbursement supervision and also consider carrying out post-disbursement audits to ensure that all crop loans for which interest subvention is being claimed are being used for the stated purpose and that there is no diversion of funds. Banks should not claim any interest subvention for loans not meeting the above criteria as these will not be treated as 'agricultural' loans.

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RBI 2012-13/293 DBS.FrMC.BC.No. 04/23.04.001/ 2012-13 dated November 15, 2012

The Chairmen & Chief Executive Officers of all Scheduled Commercial Banks (excluding RRBs) and All India Select Financial Institutions

Frauds – Classification and Reporting

Please refer to our circular DBS. FrMC. BC. No.1/23.04.001/2012-13 dated July 02, 2012 *i.e.*, the Master Circular on 'Frauds – Classification and Reporting'.

2. As per para 3.4 of the above mentioned circular, cases of attempted fraud, where the likely loss would have been ₹10.00 million or more had the fraud taken place, should be reported by the banks to the Fraud Monitoring Cell, Department of Banking Supervision, Reserve Bank of India, Central Office, Mumbai within two weeks of the banks coming to know that the attempt to defraud the bank had failed or was foiled.

3. On a review and as a part of rationalisation of process and procedures, it has been decided to amend para 3.4 of Master Circular DBS. FrMC. BC. No. 1/23.04.001/2012-13 dated July 02, 2012 on 'Frauds – Classification and Reporting'. Accordingly, the practice of reporting attempted fraud cases of ₹10 million and above to Reserve Bank of India, Fraud Monitoring Cell, Department of Banking Supervision, Central office may be discontinued from the date of the circular.

4. However, the banks should continue to place the individual cases involving ₹10 million and above before the Audit Committee of its Board as hitherto as per the instructions contained in above mentioned Master Circular. The report containing attempted frauds which is to be placed before the Audit committee of the Board should cover the following *viz.,*

- The modus operandi of the attempted fraud.
- How the attempt did not materialise in the fraud or how the attempt failed/was foiled.
- The measures taken by the bank to strengthen the existing systems and controls.
- New systems and controls put in place in the area where fraud was attempted.
- In addition, yearly consolidated review of such cases detected during the year containing information such area of operations where such attempts were made, effectiveness of new process and procedures put in place during the year, trend of such cases during the last three years, need for further change in process and procedures, if any, *etc.* as on March 31 every year starting from the year ending March 31, 2013 within three months of the end of the relative year.

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RBI/2012-13/296 DBOD.No.Dir.BC.57/13.03.00/2012-13 November 19, 2012

All Scheduled Commercial Banks (excluding RRBs)

Bank finance for purchase of gold

Please refer to the paragraphs 102 and 103 of the Second Quarter Review of Monetary Policy 2012-13 announced on October 30, 2012, proposing that other than working capital finance, banks are not permitted to finance purchase of gold in any form.

2. In terms of extant guidelines issued vide circular DBOD.No.Leg.BC.74/C.124(P)-78 dated June 1, 1978, no advances should be granted by banks against gold bullion to dealers/traders in gold if, in their assessment, such advances are likely to be utilised for purposes of financing gold purchase at auctions and/or speculative holding of stocks and bullion. In this context, the significant rise in imports of gold in recent years is a cause for concern as direct bank financing for purchase of gold in any form *viz.,* bullion/primary gold/jewellery/ gold coin *etc.* could lead to fuelling of demand for gold. Accordingly, it is advised that no advances should be granted by banks for purchase of gold in any form, including primary gold, gold bullion, gold jewellery, gold coins, units of gold Exchange Traded Funds (ETF)

and units of gold Mutual Funds. However, banks can provide finance for genuine working capital requirements of jewellers. The scheme of Gold (Metal) Loan detailed vide our circular DBOD.No.IBS. BC/1519/23.67.001/1998-99 dated December 31,1998, as amended from time to time, will continue to be in force.

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RBI/2012-13/304 DBOD.BP.BC.No. 62/21.04.103/2012-13 dated November 21, 2012

All Scheduled Commercial Banks
(excluding RRBs)

Second Quarter Review of Monetary Policy 2012-13 – Non-Performing Assets (NPAs) and Restructuring of Advances

Please refer to the paragraphs 93 and 94 of the Second Quarter Review of Monetary Policy 2012-13 announced on October 30, 2012 on 'Non-Performing Assets (NPAs) and Restructuring of Advances'.

2. In terms of our circular No. DBOD.No.BP. BC.46/08.12.001/2008-09 dated September 19, 2008 on 'Lending under Consortium Arrangement/Multiple Banking Arrangements' banks were advised to strengthen their information back-up about the borrowers enjoying credit facilities from multiple banks by obtaining declaration from the borrowers about the credit facilities already enjoyed by them from other banks. Banks were also advised to exchange information about the conduct of borrowers' accounts with other banks in the specified format at least at quarterly intervals. The format specified in the circular was finalised in consultation with Indian Banks' Association. Banks were further advised vide our circular No. DBOD. BP.BC.94/08.12.001/2008-2009 dated December 8, 2008 on 'Lending under Consortium Arrangement/Multiple Banking Arrangements', that the information exchange should also, *inter alia*, cover information relating to borrowers' derivative transactions and unhedged foreign currency exposures.

3. It has been observed that of late the NPAs and restructured loans of banks have been increasing significantly. A major reason for deterioration in the asset quality of banks is the lack of effective information sharing among banks regarding their credit, derivatives and unhedged foreign currency exposures. Further, lack of effective and timely information exchange among banks may also result in occurrence of frauds.

4. We, therefore, advise that banks should strictly adhere to the instructions regarding sharing of information relating to credit, derivatives and unhedged foreign currency exposures among themselves and put in place an effective mechanism for information sharing by end-December 2012. Any sanction of fresh loans/*ad hoc* loans/renewal of loans to new/existing borrowers with effect from January 1, 2013 should be done only after obtaining/sharing necessary information.

5. Non-adherence to the above instructions by banks would be viewed seriously by the Reserve Bank and they would be liable to action, including imposition of penalty, wherever considered appropriate.

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RBI/2012-13/313 UBD.BPD (PCB) Cir.No. 25/13.01.000//2012-13 dated December 3, 2012

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

The Co-operative Banks (Nomination) Rules, 1985 – Clarifications

As you are aware, the Co-operative Banks (Nomination) Rules, 1985 have been framed in exercise of powers conferred under Section 52, read with Sections 45-ZA, 45-ZC, 45-ZE and 56 of the Banking Regulation Act, 1949 (10 of 1949). The nomination forms for bank deposits (Form No.DA1, DA2, and DA3), articles in safe custody (Form No.SC1, SC2, SC3) and safety lockers (Form No. SL1, SL1A, SL2, SL3 and SL3A) have also been prescribed in the Nomination Rules. These forms, inter alia prescribe that the thumb impression of the account holder is required to be attested by two witnesses.

2. In this regard, certain queries were received from some banks and we clarify that for the various Forms (DA1, DA2, and DA3 for Bank Deposits, Forms SC1, SC2 and SC3 for articles in safe custody and Forms SL1, SL1A, SL2, SL3 and SL3A for Safety Lockers) prescribed under the Co-operative Banks (Nomination) Rules, 1985 only Thumb-impression(s) shall be attested by two witnesses. The signatures of the account holders need not be attested by witnesses.

3. Banks are advised to ensure strict compliance of the instructions as per the clarification given above.

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