RBI Press Release

Y2K Status on January 3, 2000 (January 3, 2000)

On January 3, 2000, the first full working day of the year, the Reserve Bank of India, banks and financial institutions have been found to be working satisfactorily on the basis of the reports received.

Reserve Bank of India

The MICR Cheque processing centre at Mumbai using the state-of-the-art Mainframe has completed processing of at par items clearing successfully today. MICR cheque processing at National Clearing Centres of the RBI at Mumbai, New Delhi, Chennai and Calcutta have commenced the processing work of MICR cheques in the late afternoon today as per the established procedure. These systems were already succesfully tested in live environment during the rollover and on January 1, 2000. The computerized clearing operations based on Magnetic Media Based Clearing System (MMBCS) at all Regional Offices of the Reserve Bank have worked smoothly. The processing of Electronic Services transactions (both debit and credit) and Electronic Funds Transfer was also carried out.

The Banking Departments of the Reserve Bank of India maintaining the accounts of banks, financial institutions and Governments at its Regional Offices succesfully booked all the transactions today. The Central Accounts Section, Nagpur confirmed that they completed government accounts at the close of business on December 31, 1999 by 02.00 hours on January 1, 2000. Today they have started processing the inter government and agency bank transactions.

The processing of the reports received from currency chests maintained by the banks on behalf of the Reserve Bank has been succesfully done by the Issue Offices of the banks.

The cross border inward and outward communications have started moving on SWIFT in the Department of External Investments and Operations (DEIO) of the Reserve Bank.

Banks and other financial entities

All banks and financial institutions have reported normal functioning during the forenoon of today without any problem. Those bank branches, which were open to public transactions on Sunday, January 2, 2000, have also reported normal operations. In the case of State Bank of India, 103 such branches (open on Sunday) reported normal operations, after succesfully processing 18,000 transactions. All the computerised branches working on Sunday of Punjab National Bank. State Bank of Mysore and ANZ Grindlays Bank have reported normal functioning.

A couple of banks reported minor glitches in a few software which were quickly set right without any impact on business continuity.

All the ATMs have been reported to have functioned normally.

All the Indian banks having operations at international centres also reported normal functioning.

All the scheduled urban co-operative banks and major financial institutions have reported normal functioning in respect of their computerised operations.

No Extension of Time Limit for NBFCs: Says RBI (January 18, 2000)

The Reserve Bank of India has advised all non-banking financial companies (NBFCs), which had applied to Reserve Bank for grant of Certificate of Registration under section 45-IA of Reserve Bank of India Act, 1934 on or before July 9, 1997 but had not attained the minimum statutory net owned funds (NOF) of Rs 25 lakh as on January 9, 2000 that it has not extended the deadline for NBFCs to attain the minimum NOF limit.

The Reserve Bank has further advised that the NBFCs which have attained the minimum statutory NOF of Rs. 25 lakh as on January 9, 2000 should report to the Reserve Bank immediately, but not later than April 10, 2000 (April 9, 2000 being a Sunday).

It may be recalled that the Reserve Bank of India Act, 1934 as amended in 1997 allowed three years to NBFCs which did not have NOF of Rs 25 lakh to attain the same. The three year period expired on January 9, 2000.

The Reserve Bank has advised that such NBFCs which have not attained NOF of Rs 25 lakh as on January 9, 2000 should immediately discontinue their business of NBFC and inform the Reserve Bank of its discontinuance. Such NBFCs are not allowed to accept or renew public deposits and they should repay the deposits already accepted as per the terms and conditions of acceptance. They should continue to comply with the provisions of Chapter III-B of the Reserve Bank of India Act and the Directions issued under it till all the depositors are repaid.

Reiterating its earlier advice to NBFCs depositors, the Reserve Bank has also stated that it does not guarantee the repayment of deposit by any NBFC including those which have obtained Certificate of Registration under Section 45-IA of the Reserve Bank of India Act.

RBI gives General Permission for Issue of ADRs/GDRs (January 20, 2000)

In order to further simplify the procedure, the Reserve Bank of India has today granted general permissions under the Foreign Exchange Regulation Act (FERA)-1973 to Indian companies to make an international offering of Rupee denominated equity shares of the company by way of issue of American Depository Receipts/Global Depository Receipts (ADRs/GDRs). Besides, the necessary permission under FERA-1973 for issue and export of ADRs/GDRs by the Indian company and acquisition of ADRs/GDRs by foreign investors have also been granted. Various other permissions necessary for launching an ADR/GDR issue have also been granted to the issuing companies.

Recently, the Government of India has made certain changes in the guidelines for ADR/GDR issues by the Indian companies in terms of which Indian companies issuing ADRs/GDRs need not approach Ministry of Finance, Government of India for prior approval, subject to the Reserve Bank India's (RBI) approval under FERA-1973. These changes seek to further liberalise the operational procedures by dispensing with the track record scrutiny process and the two-stage approval by the Ministry of Finance, Department of Economic Affairs for ADR/GDR issues.

Issuing companies may now enter into agreements in respect of or ancillary to the offer including but not limited to the Subscription Agreements and Deposit Agreement and to provide the necessary warranties and indemnities in accordance with international practices.

Depositors may remit the dividends by purchasing foreign currency at the prevailing market rates through an Authorised Dealer in foreign exchange.

RBI Prescribes Prudential Norms for Takeout Finance by Financial Institutions (January 24, 2000)

The Reserve Bank of India has prescribed certain prudential norms to be followed by both, the lending and taking-over financial institutions, in the case of takeout finance. In a circular issued to all financial institutions earlier this month, the Reserve Bank has stated that it has examined the issue pertaining to the criteria for assigning risk weights and applying other prudential norms in respect of takeout finance by banks and financial institutions. It has advised the financial institutions to assign risk weights and apply income recognition and provision norms in the case of takeout finance as under:

Risk Weight

Type of Takeover	**Credit Conversion Factor**	**Risk Weight**
Unconditional Takeover		
(i) Lending institution		
(a) Where the full credit Risk is assumed by the taking over institution.	Not applicable since it is no an off balance sheet item	20 per cent
(b) Where only partial credit risk is assumed by taking over institution.	-do-	20 per cent on the amount to be taken over; 100 per cent on the amount not to be taken over.

(ii)	Taking over institution	100 per cent	100 per cent on the amount to be taken over.
Conditional Takeover			
(i)	Lending institution	Not applicable since it will not be off balance sheet item.	100 per cent.
(ii)	Taking over institution	50 per cent.	100 per cent.

Note : In the above cases where the counter party risk is guaranteed by Government, the risk weight will be zero.

Income Recognition and Provisioning

Where the credit facility becomes a non-performing asset before takeover by the taking over institution:

Lending institution

(i) Should be classifieds as NPA
(ii) Income not to be recognised on accrual basis.
(iii) Provision to be made appropriate to the asset classification.
(iv) As and when the asset is taken over by the taking over institution, the corresponding provision could be reversed.

Taking over institution

(i) No obligations would arise till the asset is actually taken over.
(ii) On taking over such assets should make provisions treating the account as NPA from the actual date of it becoming NPA even though the account was not in its book on that date.

In its circular, the Reserve Bank has stated that prescribing of prudential norms for financial institutions entering into takeout finance arrangements had become necessary as in order to meet the financing requirements of infrastructure projects, financial institutions/banks have been increasingly taking recourse to the new product of takeout finance.

Under a takeout finance arrangement, the financial institution/bank financing an infrastructure project (lending institution) transfers the outstanding of such financing to the books of another financial institution (taking over institution) on a predetermined basis. Takeout finance helps the banks in asset-liabilities management since they finance infrastructure which requires long term funds out of their resources which are short-term. There are several variants of takeout finance but basically they are either in the nature of unconditionally takeout finance or conditional takeout finance, though it may involve taking over institutions assuming full credit risk or a part of it. Takeout finance involves three parties, viz., project company, lending bank/financial institution and the taking over institution. The company recognises the takeout finance arrangement by way of an intercreditor agreement.

RBI Revises Shut Period for SGL Accounts/ Stock Certificates in Government Securities (January 31, 2000)

The Reserve Bank of India has revised the 'shut' period for Subsidiary General Ledger (SGL) accounts as well as Stock Certificates in government securities with effect from February 1, 2000. The shut period for SGL Accounts will now be three working days as against the earlier seven working days; and the shut period for stock certificates will now be two weeks as against the earlier one month. The revision in the shut period for government securities came in the wake of the demand from market players who felt that long shut periods for government securities impedes expeditious completion of secondary market deals. SGL accounts are dematerialised way of holding government securities.