RBI Press Release

Multiple Price Method for LAF Auctions to Continue
(June 4, 2001)

It has been decided, in consultation with market participants, to continue with the procedures of Liquidity Adjustment Facility (LAF) operationalised on May 8, 2001 except that the Reserve Bank of India will no longer announce the rate at which the back-stop facility would be made available to banks and primary dealers. Those who wish to avail of this facility will have to directly approach the Deposit Accounts Department of the Reserve Bank of India, Mumbai Office to ascertain the rate applicable for the facility.

It may be recalled that the Monetary and Credit Policy for 2001-2002 had announced several changes in the operating procedures of LAF. The changed procedures came into effect from May 8, 2001. It was stated then that a new multiple price auction in place of existing uniform price auction had been introduced on an experimental basis for one month period during May 2001. The policy stated that the system will be evaluated on the basis of experience. The experience was evaluated by the Reserve Bank in consultation with the market participants and was found to be satisfactory.

The LAF will now continue with the following features :

(a) The system of multiple price method of repo and reverse repo auctions will continue until further notice.

(b) As announced in the Monetary and Credit Policy 2001-2002, the Reserve Bank will have an option to switch over to fixed rate repos on overnight basis once in a while as and when considered necessary. The Reserve Bank will also have the discretion to introduce longer-term repos up to 14 - day period as and when required.

(c) As pointed out in the Monetary and Credit Policy 2001-2002, the standing liquidity facilities available to banks and PDs have been split into two parts, *viz.*, (i) normal facility and (ii) backstop facility. Of the total limits of liquidity support, the normal facility will constitute about two-thirds and the back-stop facility about one-third.

Currently, the back-stop rate is being announced daily along with LAF results. The experience has been that the back-stop facility, as was intended, is being used sparingly.

The back-stop facility will be provided at the

variable daily rate and fixed as detailed below :

(i) The rate will be 1.0 percentage point over reverse repo cut-off rate at which funds were injected earlier during the day in the regular LAF auctions.

(ii) Where no reverse repo bid was accepted as part of LAF auction, the rate will be 2.0 to 3.0 percentage points over repo cut-off rate of the day emerged in LAF as may be decided by the Reserve Bank, the exact mark up depending upon the assessment of the liquidity conditions.

(iii) The rate for back-stop facility will be between 1.0 to 3.0 percentage points over NSE-MIBOR, as may be decided by RBI, on Saturdays and on other days when no bids for repo or reverse repo auctions have been received / accepted.

In this case also, the exact mark up will depend upon the assessment of liquidity conditions.

RBI modifies NBFCs Regulations for Commercial Papers

(June 27, 2001)

The Reserve Bank of India today announced rationalisation of some of regulations and other measures as applicable to Non-Banking Financial Companies (NBFCs) and Residuary Non-Banking Companies (RNBCs). The changes made are -

(i) The extant provisions of NBFC

Directions on public deposits apply to Commercial Papers (CPs) also. In view of the fact that the issue of CPs by NBFCs would be governed by the guidelines issued by IECD vide Circular IECD.3/08.15.01 / 2000-01 dated October 10, 2000 and in order to facilitate raising of monies by NBFCs through this instrument, it has been decided to exempt from the purview of public deposits the monies received by NBFCs by issue of CP in accordance with the above guidelines;

(ii) The procedure of accounting for repossessed assets has been clarified and suitable guidelines have been issued; (iii) To ensure adoption of a uniform practice by companies for computing the net amount of outstanding public deposit liabilities, it is clarified that **NBFCs** may maintain liquid assets on deposit liabilities as netted off in respect of TDS **actually** deducted and remitted to Government;

(iv) In order to improve the accountability of the management of the company to its shareholders, statutory auditors of NBFCs are advised that their observations on contravention of the RBI Act/ Directions should also form part of the reports submitted by them to the shareholders of the company under Section 227 (2) of the Companies Act, 1956, besides directly reporting such contravention to RBI;

(v) It is observed that some of the NBFCs which have accepted and held public deposits have since repaid entire public deposits or placed necessary amount in escrow accounts thus becoming non-public deposit taking companies. They do not submit the periodical returns to the Bank under the impression that they need not submit such returns since they are not holding public deposits any longer. It is clarified that companies having Certificate of Registration with authorisation to accept public deposits, though they may no longer hold public deposit, are required to continue to furnish quarterly return on liquid assets, half-yearly return on prudential norms, annual return on deposit, etc., in tems of Directions. However, in order to give some operational freedom, it has been decided to give an option to these NBFCs to either submit periodic returns or apply for conversion into a non-public deposit taking Company.

(vi) The Reserve Bank has also made necessary amendments in the Directions to reflect the change in the name of credit rating agency *viz.*, Duff & Phelps Credit Rating India Pvt. Ltd.

(DCR India) to FITCH Ratings India Pvt. Ltd., City of Calcutta to Kolkata and extension of jurisdiction of Regional Offices of Patna, Bhopal and Kanpur to cover the newly created States of Jharkand, Chattisgarh and Uttaranchal, respectively.

(vii) The Reserve Bank has further advised shifting of its Regional Office of Department of Non-Banking Supervision earlier located at Lucknow Office of RBI to Kanpur Office of RBI.

Asset-Liability Management System for NBFCs

(June 27, 2001)

RBI today announced Asset-Liability Management (ALM) guidelines for non-banking financial companies (NBFCs) as a part of the overall system for effective risk management in their various portfolios. The ALM system should be put in place by such NBFCs which have asset size of Rs.100 crore and above or public deposits of Rs. 20 crore and above as per their balance sheet as on March 31, 2001. The Reserve Bank has advised the companies that it would be desirable to constitute an Asset Liability Management Committee under the charge of Chief Executive Officer or other Senior Executive with other specialist members for carrying out the spadework for formalising ALM system in the institution. The ALM system is required to be implemented by the year ending March 31, 2002 asnd the first ALM return comprising of statements on structural liquidity, short-term dynamic liquidity and interest rate sensitivity as on September 30, 2002 should be submitted to the Reserve Bank by October 31, 2002 by companies holding public deposits. In the case of companies not accepting / holding public deposits but having assets of Rs.100 core and above, separate supervisory arrangements are being contemplated which would be advised in due course of time. The companies have been advised to conduct trial runs during the period ending September 30, 2001 and half-year beginning October 1, 2001, and report and operational difficulties in implementation of the system for necessary corrections. Chit Funds and Nidhis have been presently kept out of the purview of these guidelines. NBFCs not presently covered by the guidelines have also been recommended to put in place and ALM system as it is the endeavour of the Bank to extend these guidelines to all NBFCs in due course.