RBI PRESS RELEASES

Foreign Direct Investment : Reporting of Inflow Details to RBI Offices (November 12, 1998)

In a major drive to simplify the procedures for foreign direct investment, the Reserve Bank of India had already granted general permission to Indian companies under the Foreign Exchange Regulation Act, dispensing with the need for prior approval from the Reserve Bank either for receipt of funds or for issue of shares under automatic route of the Reserve Bank/Government (Secretariat for Industrial Approval (SIA)/Foreign Investment Promotion Board (FIPB)) route. Thus, in terms of notification No. FERA. 180/98-RB dated January 13, 1998 (as amended), general permission has been granted for issue of equity shares to foreign investors under the 'automatic route of RBI' as also to Non-Resident Indians/Overseas Corporate Bodies under 100 per cent Scheme. By issue of Notification No. FERA. 182/98-RB dated February 10, 1998, similar general permission was granted to issue shares/securities to foreign investors in accordance with the approval granted by SIA/FIPB. The Indian companies issuing shares in accordance with the general permission are, however, required to file certain documents (including FIRC in support of receipt of funds) with the concerned regional office of the Reserve Bank within 30 days from the date of issue of shares.

Although the above measures constituted a positive step towards liberalisation and deregulation, the Reserve Bank has been experiencing difficulties in capturing inflow figures in time. This is particularly due to the fact that the Indian entities receiving remittances from abroad some times issue shares after a time gap or fail to report the position in time.

To monitor and compile inflow data, the Reserve Bank has today issued necessary amendments to the earlier notifications dated January 13 and February 10, 1998, making it mandatory for the Indian companies to report the receipt of foreign remittance within a period of 30 days from the date of receipt of funds. This requirement is in addition to the submission of the prescribed documents within 30 days from the date of issue of shares. Accordingly, Indian companies receiving funds from their foreign investors in accordance with the above general permission, should immediately report (in any case, not later than 30 days from the date of receipt of remittance) the following particulars regarding investment received by a letter to the regional office of the Reserve Bank having jurisdiction over the Company :

i. Name of the foreign investor

ii. Country of residence or incorporation of the foreign investor

iii. Date of receipt of remittance and its rupee equivalent

iv. Name and address of the authorised dealer in India through whom the remittance is received

v. In case the funds are received based on SIA/FIPB approval, the number and date of such approval.

As a measure of further liberalisation, the general permission granted for issue of equity shares in terms of Notification No. FERA. 180/ 98-RB dated January 13, 1998 has been extended to :

i. issue of preference shares also to foreign investors under the 'automatic route of RBI' as also for non-resident Indians/overseas corporate bodies under 100 per cent scheme.

ii. issue of equity up to 100 per cent in respect of items [generation and transmission of electric energy through hydrothermal power plants] included in Part 'D' -Annexure III list as per Ministry of Industry Press Note No. 2 dated June 13, 1998.

Two notifications dated November 11, 1998 issued in this regard will be available on the Internet at http:// www.rbi.org.in

Permission for NRIs/OCBs for Issue of Shares under 51 Per Cent Scheme (December 2, 1998)

The Reserve Bank of India has introduced a 51 per cent Scheme for issue of shares to Non-Resident Indians (NRIs)/Overseas Corporate Bodies (OCBs) in unlisted companies, engaged in manufacturing activity, other than activities listed in Annexure III to the statement of the Industrial Policy 1991. Also general permission for the Scheme has been granted vide Notification No. FERA 190/98-RB dated December 2, 1998 for the said Scheme enabling such companies to issue and export share certificates to the NRI/OCB investors without seeking prior permission of the Reserve Bank subject to reporting requirements. Consequent to the introduction of the 51 per cent Scheme, the 40 per cent Scheme introduced earlier has been withdrawn.

Resident Permitted to Use International Credit Cards for Making Payments in India in Ruppes/Foreign Exchange (December 4, 1998)

Reserve Bank had in terms of its A.D. (M.A. Series) Circular No. 39 dated October 16, 1998, permitted residents to hold International Credit Cards and also to use them for making payments in India, subject to certain conditions. It has been brought to the notice of Reserve Bank that such credit cards are not being accepted for payments in India, from residents, on the ground that current exchange control regulations do not permit use of such cards in India by residents.

Reserve Bank reiterates that residents are permitted to hold International Credit Cards which can also be used by them for making payments in India in rupees/foreign exchange as per the choice of the cardholder.

RBI’s Monetary Museum on the Web (December 12, 1998)

Dr. Bimal Jalan, Governor, Reserve Bank of India, inauguraed the Reserve Bank of India’s Monetary Museum on the RBI web-site yesterday. The museum site aims at introducing over 2000 years of India's monetary heritage to domestic as well as gobal viewers and includes representative Indian coinage from ancient times to the present, a retrospect of Indian paper money, and financial curiosities besides covering various aspects of India's financial history and indigenous banking instruments (Hundies), early GP Notes, share certificates, etc. The site marks only beginning and will be enhanced in the days to come.

The monetary museum can be accessed directly at http// www.museum.rbi.org. in or through the Reserve Bank of India's web-site at http//www.rbi.org.in

Reserve Bank Announces Changes in Deposit Norms for NBFCs and Unincorporated Bodies (December 18, 1998)

1. Reserve Bank of India (RBI) put in place a new regulatory framework in January 1998 for Non-Banking Financial Companies (NBFCs) providing therein, *inter alia*, for mandatory requirement of minimum investment grade credit rating for acceptance of public deposits and linkage of the quantum of public deposits to the level of credit rating. Reserve Bank also instituted a strong supervisory mechanism to monitor the compliance of the regulations and to ensure that these companies function on sound and healthy lines.

2. The Government and the RBI received representations from the NBFCs, their associations and the all India trade bodies, that the small and medium NBFCs engaged in equipment leasing and hire-purchase finance activities should be exempted from the requirment of credit rating. They also requested for doing away with the linkage of deposit quantum with the credit rating in order to increase the availability of resources to large sized NBFCs, more particularly, the equipment leasing and hire-purchase finance companies.

3. Government of India appointed a Task Force on NBFCs under the Chairmanship of Shri C.M. Vasudev, Special Secretary (Banking), where Reserve Bank of India was also represented, to examine the above issues besides the adequancy of the present legislative framework, to suggest improvements in the procedure for dealing with the customer complaints, and for involving the State Governments in regulating the NBFCs and unincorporated bodies. The recommendations of the Task Force have been accepted by the Government of India and the Reserve Bank of India.

4. It is proposed to give effect to the recommendations as early as possible. While certain recommendations having a bearing on the deposit acceptance norms *vis-a-vis* the stipulation of the credit rating are being implemented with immediate effect, other recommendations requiring statutory amendments to the RBI Act, 1934 will be processed for necessary action in due course. Some of the recommendations such as increasing the entry level Net Owned Fund of Rs. 25 lakh, increasing the liquid asset requirement from 15 per cent to 25 per cent, investment of 25 per cent of the reserve fund in marketable securities, revision of some of the prudential norms, etc. will be implemented over a period of time in phases. In the meanwhile, the NBFCs and unincoroporated bodies are advised to comply with all the existing directions and regulations till necessary modifications are made in the relative provisions of statute and directions/regulations.

5. Reserve Bank of India today announced modifications in the deposit acceptance norms for NBFCs and unincorporated bodies with immediate effect. The following significant modifications in the existing Directions on acceptance of public deposits and prudential norms have been announced.

NonBanking Financial Companies Entitlement of Public Deposit and Requirement of Credit Rating

(1) The deposit acceptance norms will be as under :

Net Owned Fund (NOF)	**Quantum of Public Deposits for Equipment Leasing/ Hire Purchase Finance Companies**	**Quantum of Public Deposits for Loan Companies/ Investment Companies**
Below Rs 25 lakhs with or without credit rating	Nil	Nil
Rs 25 lakh and above without credit rating	Public deposits not exceeding 1.5 times of NOF or public deposit upto Rs10 crore whichever is less provided the company has capital adequacy ratio of 15 per cent or above with immediate effect	Nil
Rs 25 lakh and above with minimum investment grade credit rating	4 times of NOF provided the company has capital adequacy ratio of 10 per cent or above as on 31.3.1998 and shall have 12 per cent or above as on 31.3.1999	Public deposits not exceeding 1.5 times of NOF provided the company has capital adequacy ratio of 15 per cent or above with immediate effect

Note: Other stipulations relating to prudential norms, ceiling on interest rates, payment of brokerage on public deposits, etc. remain unchanged.

(2) The loan/investment companies including those having CRAR below 15 per cent as on date which are rated AAA and are having public deposits *exceeding* 1.5 times the NOF, may accept or renew public deposits upto the deposit level outstanding as at the close of business on December 18, 1998 or 1.5 times of the NOF whichever is more. They should, however, reduce the excess public deposits to 1.5 times the NOF by December 31, 2001. Those of the companies, which have credit rating of A/AA as on date but do not have capital adequacy ratio of 15 per cent as on date, may accept or renew public deposits as per the existing provisions of Directions i.e., 0.5/1.0 time of their NOF. All those companies which are rated A/AA/ AAA and are holding public deposits but whose CRAR is below 15 per cent as on date, should attain the minimum capital adequacy ratio of 15 per cent on or before March 31, 2000 as per their audited balance sheet.

(3) The equipment leasing and hire-purchase finance companies having minimum

investments grade credit rating shall be entitled to receive public deposit upto four times of their NOF subject to their -

(i) having capital adequacy ratio of not less than 10 and 12 per cent from 31.3.1998 and 31.3.1999, respectively, and

(ii) complying with all other prudential norms.

The Bank intends to increase the CRAR for all NBFCs to 15 per cent over a period of time. The NBFCs should, therefore, endeavour to increase their CRAR to 15 per cent as early as possible.

Unrated and Underrated NBFCs

(4) The unrated and those having rating below the minimum investment grade credit rating (underrated) equipment leasing and hire-purchase finance companies have been allowed to accept public deposits upto 1.5 times of their NOF or Rs. 10 crore whichever is less, provided that their CRAR is not less than 15 per cent as per their last audited balance sheet. However, the unrated and underrated loan and investment companies are not entitled to receive public deposits irrespective of their CRAR.

Disclosure of Unrated Status in the Advertisement

(5) The underrated equipment leasing and hire purchase finance companies accepting public deposits as per the new dispensation shall disclose that the company is unrated or the latest rating of the company including when it has been rated below the minimum investment grade, as the case may be, so that the depositors can take an informed decision. Further all the NBFCs shall also disclose their exposure to the subsidiaries, companies in the same group, other entities and the business ventures in which the NBFC as well as its directors have substantial interest.

Holding of Excess Public Deposits - Regularisation

(6) The excess public deposits arising out of the downgrading in the credit rating as also the regulatory ceilings should be regularised by repayment at the time of maturity of such deposits. During the interregnum, the companies should not accept fresh public deposits untill the quantum of such deposits held by them is within the ceiling permissible as per the new directions. They may, however, renew the maturing public deposits in such a manner that in case of downgrading of credit rating, the excess deposits are repaid within three years of such downgrading and in case of excess arising out of regulator/ceiling by December 31, 2001. Further, the maturing public deposits should be renewed only with the express consent and at the sole volition of the depositors.

Safe Custody of Securities - Stock Holding Corporation of India Ltd. Approved

(7) Apart from the scheduled commercial banks, the NBFCs have been permitted to keep

their liquid asset securities with the Stock Holding Corporation of India Ltd. for compliance with the requirement of NBFC Directions. This facility is expected to provide operational convenience to the NBFCs.

Investments in Land and Building and Unquoted Shares

(8) As a part of prudential norms, the NBFCs have been advised that they should not invest, except for their own use, more than 10 per cent of their owned fund in land and building. The ceiling on investment in unquoted shares of other than their group/subsidiary companies has been fixed at 10 per cent of their own fund for equipment leasing and hire purchase finance companies and 20 per cent of the owned fund for the loan and investment companies. A time period of three years has been given to them to dispose off the excess of such assets including the assets acquired in staisfaction of their debts, in case the company surpasses the above ceiling.

Unincorporated Bodies

(9) The unincorporated bodies engaged in the business of a non-banking financial institution are not allowed to accept deposits except from the relatives specified and the manner prescribed in the provisions of section 45-S of the RBI Act. However, as per recommendations of the Task Force on NBFCs, such entities could be allowed to access loans from bodies with a corporate identity, including NBFCs. Accordingly, the deposits from (a) the companies incorporated under the Companies Act; (b) corporations established under any Statute; and (c) the co-operative societies registered under any State law have been exempted from the definition of 'deposit' under the RBI Act. Individuals, firms, associations of persons, Hindu Undivided Families and partnership firms may accept deposits from the above mentioned corporate entities also for the purpose of their financial business.