

## **Credit Control and Other Measures - January 1999**

**Selected circulars issued by the Reserve Bank of India during January 1999 are reproduced below.**

Ref. UBD. No.BSD.I/PCB/15/ 12.05.00/98-99 dated January 6, 1999

### **All Primary (Urban) Co-operative Banks**

#### **Acquisition of Government and other Approved Securities - Broken Period Interest - Accounting Procedure**

It is observed that some banks capitalise the Broken Period Interest (interest accrued on the securities purchased upto the time of acquisition) included in the cost price, on the ground that such accrued interest paid to the seller at the time of purchase is not recognised as a Revenue Expenditure for tax purposes.

The matter has been examined and with a view to bringing about uniformity in the accounting treatment of Broken Period Interest on Government Securities paid at the time of acquisition and also complying with the Accounting Standards prescribed by the Institute of Chartered Accountants of India, it has been decided that banks should not capitalise the Broken period Interest paid to seller as part of cost, but treat it as an item of expenditure under profit and Loss Account.

It may please be noted that the accounting treatment explained above does not take into account taxation implications and hence banks will have to comply with the requirements of Income Tax Authorities in the manner prescribed by them.

Ref. UBD No. DS.PCB. Cir./16/ 13.05.00/98-99 dated January 6, 1999

### **All Primary Co-operative Banks**

#### **Dematerialisation of Securities held as Collaterals**

Securities and Exchange Board of India (SEBI) has announced, that commencing from January 4, 1999 mandatory trading by all of 12 securities would be in only demat form on major stock exchanges as per list enclosed (Annexure I). Further, commencing from February 15, 1999, another 19 securities will be included in the compulsory demat list (Annexure II). After the commencement of mandatory trading in demat form, the banks will not be able to sell the shares of the companies listed in Annexure I and II if held in physical form.

2. It is possible that some banks would have given advances to their clients against physical shares of companies listed in the annexures. In the event of such borrowers defaulting on the repayment, the banks will not be able to sell them and the collaterals may turn to be of nil value. Banks are therefore, advised to take immediate steps to get them dematerialised well before the dates announced by SEBI regarding compulsory trading in demat form.

3. Banks are also advised to watch for any SEBI announcements mandating trade in demat form in other scrips also so that necessary actions are taken for safeguarding the security well in advance.

**Annexure I**  
**SEBI mandated list of securities for**  
**compulsory trading by all from**  
**January 4, 1999**

1. Bank of India
2. Bharat Petroleum Corporation Ltd, (BPCL)
3. BSES Ltd.
4. Housing Development Finance Corporation Ltd. (HDFC)
5. ICICI Ltd.
6. IndusInd Bank Ltd.
7. Industrial Development Bank of India
8. Infosys Technologies Ltd.
9. Larsen and Toubro (L&T)
10. State Bank of India (SBI)
11. Videsh Sanchar Nigam Ltd. (VSNL)
12. Wipro Ltd.

**Annexure II**  
**SEBI mandated list of securities for**  
**compulsory trading by all from**  
**February 15, 1999**

1. Asea Brown Boveri Ltd. (ABB)
2. Asian Paints Ltd.
3. Associated Cement Company Ltd. (ACC)
4. Bajaj Auto Ltd.
5. Birla Global Finance Ltd. (BGFL)
6. Castrol India Ltd.
7. Cochin Refinerise Ltd.
8. Dr. Reddy's Laboratories Ltd.
9. Gas Authority of India Ltd. (GAIL)
10. Gujarat Ambuja Cements Ltd.
11. Hero Honda Motors Ltd.
12. Hindustan Petroleum Corporation Ltd. (HPCL)
13. Madras Refineries Ltd. (MRL)
14. Mahindra and Mahindra Ltd. (M&M)
15. NIIT Ltd.
16. Ranbaxy Laboratories Ltd.

17. Tata Tea Ltd.
18. Thermax Ltd.
19. TVS Suzuki Ltd.

Ref. UBD No./Plan/17/09.09.01/98-99 dated January 30, 1999

**All Primary (Urban) Co-operative Banks**

**Priority Sector lending by Primary (Urban) Co-operative Banks - Retail Trade**

Please refer to our circular UBD.No. Plan 68/09.09.01/93-94 dated May 9, 1994 on the captioned subject.

2. In view of the escalation in the cost of goods and products being sold by Retail Traders, it has been decided to increase the present ceiling of bank advances under priority sector to 'other private retail traders' from Rs. 2 lakh to Rs. 5 lakh.