Regulatory and Other Measures

December 2007

RBI/2007-2008/203 RPCD.CO.RF.BC.40/ 07.38.03/2007-08 dated December 4, 2007

The Chairman / Managing Director of All State and Central Co-operative Banks

Mid-Term Review of Annual Policy Satament for the year 2007-08–Application of Capital Adequacy Norms to State and Central Co-operative Banks.

Please refer to Paragraph 149 of the Mid-Term Review of Annual Policy Statement for the year 2007-08. At present, State and Central Co-operative Banks are outside the Capital to Risk weighted Assets Ratio (CRAR) framework. In order to assess the capital structure of the State and Central Co-operative Banks, in the context of financial stability of the whole system, it is proposed that they should disclose the level of CRAR as on March 31, 2008 in their Balance Sheets.

2. Accordingly, all State and Central Co-operative Banks are advised to disclose their CRAR as on March 31, 2008 and thereafter every year as 'Notes on Accounts' to their Balance Sheets. The roadmap for achieving the desired level of CRAR norms would be communicated in due course.

3. Under the proposed CRAR framework, the Balance Sheet assets and non-funded / off-balance sheet items will be assigned weights and banks have

to compute the ratio of their capital funds to the aggregate of risk weighted assets and other off-balance sheet exposures[1].

4. Additionally, banks should furnish an annual return to RBI's Regional Office / NABARD Regional office, indicating capital funds and risk assets ratio, in the format given in Annex 2. The return should be signed by two officials who are authorised to sign the statutory returns submitted to the Reserve Bank. The statement as per the format[2] indicating the position as on March 31, 2008 may please be furnished to the Regional Office of RPCD / NABARD under whose jurisdiction the bank is located, as soon as the annual accounts are finalised.

RBI.No.2007-08/210 DBOD. Dir. BC. 57/ 13.03.00/2007-2008 dated December 14, 2007

To all Scheduled Commercial Banks (excluding RRBs)

Banks' Exposure to Capital Market–Loans extended by banks to Mutual Funds and issue of Irrevocable Payment Commitments (IPCs)

As banks are aware, the extant instructions on banks' exposure to the Capital Market have been consolidated in RBI's Master Circular No. DBOD. Dir. BC. 11 / 13.03.00/ 2007-08 dated July 2, 2007 on Exposure Norms. In terms of paragraph 5.6 of the above Master Circular, banks may grant loans and advances to individuals against units of Mutual Funds. However, there are no explicit guidelines for grant of loans and advances to Mutual Funds.

2. The Annual Financial Inspection reports of certain banks and an analysis of the Consolidated Prudential Return (CPR) of some banks have revealed that these banks have extended large loans to various Mutual Funds and have also issued Irrevocable Payment Commitments (IPCs) to stock exchanges (BSE & NSE) on behalf of Mutual Funds/FIIs. These exposures have, however, not been included by the banks for computation of their Capital Market Exposure.

3. The matter has been examined by the Reserve Bank and advises all Scheduled Commercial Banks (excluding RRBs) as under:

i. Loans extended by banks to Mutual Funds

In terms of paragraph 44(2) of the SEBI (Mutual Funds) Regulations, 1996, a mutual fund shall not borrow except to meet temporary liquidity needs of the mutual funds for the purpose of repurchase, redemption of units or payment of interest or dividend to the unit holders and, further, the mutual fund shall not borrow more than 20% of the net asset of the scheme and for a duration not exceeding six months.

[1] The details of the framework and other procedural guidelines are indicated in the 'Memorandum of Instructions', which is available at http://www.rbi.org.in/ under the Notifications section. Kindly refer to them for the purpose of such computation.

[2] Annex 2 of the Notification which is available at http://www.rbi.org.in/ under the Notifications section.

The SEBI guidelines imply that Mutual Funds should normally meet their repurchase/redemption commitments from their own resources and resort to borrowing only to meet temporary liquidity needs. In view of the above, banks are advised to be judicious in extending finance to Mutual Funds and grant loans and advances to Mutual Funds only to meet their temporary liquidity needs for the purpose of repurchase/redemption of units within the ceiling of 20% of the net asset of the scheme and for a period not exceeding 6 months. Such finance, if extended to equity-oriented Mutual Funds, will form part of banks' capital market exposure.

(ii) Irrevocable Payment Commitments (IPCs) issued to various stock exchanges at the request of MFs for their secondary market purchases

Banks issue Irrevocable Payment Commitments (IPCs) in favour of stock exchanges on behalf of Mutual Funds to facilitate the transactions done by these clients. We advise that IPCs are in the nature of non-fund based credit facility for purchase of shares and are to be treated at par with guarantees issued for the purpose of capital market operations. Such exposure of banks will, therefore, form part of their Capital Market Exposure. Banks are also advised that entities such as FIIs are not permitted to avail of fund or non-fund based facilities such as IPCs from banks (cf. Schedule 2 of Notification No. FEMA.20/2000-RB dated May 3, 2000).

4. A transition period of 6 months from the date of this circular is being provided to enable banks to comply with the above requirements.

RBI/2007- 2008/218 RPCD.CO.RRB.No. BC.44 /05.03.095/2007-08 dated December 28, 2007

Chairmen of all Regional Rural Banks

Mid-Term Review of Annual Policy Satament for the year 2007-08–Application of Capital Adequacy Norms to Regional Rural Banks.

Please refer to Paragraph 149 of the Mid-Term Review of Annual Policy Statement for the year 2007-08. At present, Regional Rural Banks (RRBs) are outside the Capital to Risk weighted Assets Ratio (CRAR) framework. In order to assess the capital structure of the RRBs, in the context of financial stability of the whole system, it is proposed that they should disclose the level of CRAR as on March 31, 2008 in their Balance Sheets.

2. Accordingly, all Regional Rural Banks are advised to disclose their CRAR as on March 31, 2008 and thereafter every year as 'Notes on Accounts' to their Balance Sheets. The roadmap for achieving the desired level of CRAR norms would be communicated in due course.

3. Under the proposed CRAR framework, the Balance Sheet assets and non-funded / off-balance sheet items will be assigned weights and banks have to compute the ratio of their capital funds to the aggregate of

risk weighted assets and other off-balance sheet exposures[3].

4. Additionally, banks should furnish an annual return to RBI's Regional Office / NABARD Regional Office, indicating capital funds and risk assets ratio, in the format[4] given in Annex 2. The return should be signed by two officials who are authorised to sign the statutory returns submitted to the Reserve Bank. The statement as per the format indicating the position as on March 31, 2008 may please be furnished to the Regional Office of RPCD / NABARD under whose jurisdiction the bank is located, as soon as the annual accounts are finalised.

[3] The details of the framework and other procedural guidelines are indicated in the 'Memorandum of Instructions', which is available at http://www.rbi.org.in/ under the Notifications section. Kindly refer to them for the purpose of such computation.

[4] Annex 2 of the Notification which is available at http://www.rbi.org.in/ under the Notifications section.