Press Releases

February 2009

Memorandum of Understanding for Amending the Market Stabilisation Scheme

February 27, 2009

The Government of India and the Reserve Bank of India have formally signed a Memorandum of Understanding (MoU) on February 26, 2009 to amend the MoU dated March 25, 2004 on the Market Stabilisation Scheme (MSS).

The amendment to the MoU enables, on mutual agreement between the Government of India and the Reserve Bank, the transfer of a part of the amount in the MSS cash account to the normal cash account as part of the Government's market borrowing programme for meeting Government's approved expenditure.

Following the signing of the amendment, an amount of Rs.45,000 crore will be transferred in installments from the MSS cash account to the normal cash account of the Government of India by March 31, 2009. An equivalent amount of Government securities issued under the MSS would now form part of the normal market borrowing of the Government of India.

It may be recalled that the MoU dated March 25, 2004 permits issuance of Government securities (Treasury Bills and/ or dated securities) under MSS so as to sterilise excess liquidity arising from the Reserve Bank's intervention in the foreign exchange market to contain excessive exchange rate volatility in the context of large capital inflows. The amounts raised under MSS are held in a separate identifiable cash account, titled MSS cash account, with the Reserve Bank. The amount in the MSS cash account cannot be appropriated for expenditure other than redemption or buyback of the Treasury Bills and/or dated securities under the MSS.

The situation has reversed in the recent period primarily on account of change in the external accounts resulting in attendant draining of primary liquidity reflecting the impact of Reserve Bank's operations in the foreign exchange market. Consequently, the sterilised liquidity in the MSS cash account can be reversed by transferring the amount to the normal cash account of the Government.

Framework for addressing the Liquidity Constraints of NBFCs

February 18, 2009

The Government of India has announced an arrangement for providing liquidity support to meet the temporary liquidity mismatches for eligible Non-Banking Financial Companies-Non-Deposit Taking-Systemically Important (NBFC-ND-SI) through a Special Purpose Vehicle (SPV). The scheme has been finalised and Industrial Development Bank of India Stressed Asset Stabilisation Fund (IDBI SASF) Trust has been notified as Special Purpose Vehicle for undertaking this operation.

The Reserve Bank of India will purchase securities issued by the SPV guaranteed by the Government of India for aggregated amount of Rs.20,000 crore. The SPV will purchase the short term paper from the issuing NBFCs directly. The short term instruments will be Commercial Papers and Non-convertible Debentures, with residual maturity not more than 90 days and rated as investment grade. The facility would not be available for any paper issued after March 31, 2009. Eligible NBFCs-ND-SI may approach the SPV- IDBI SASF Trust for considering their request for purchase of short term paper.

RBI amends Banking Ombudsman Scheme: Includes complaints Relating to Internet Banking and Non-adherence to BCSBI Code

February 05, 2009

The Reserve Bank of India has widened the scope of its Banking Ombudsman Scheme 2006, to include deficiencies arising out of internet banking. Under the amended Scheme, a customer would also be able to lodge a complaint against the bank for its non-adherence to the provisions of the fair practices code for lenders or the Code of Bank's Commitment to Customers issued by the Banking Codes and Standards Board of India (BCSBI). The BCSBI is an independent and autonomous watchdog set up by the Reserve Bank to monitor and ensure that the codes and standards adopted by the banks for rendering banking services are adhered to in true spirit.

As per the amended Scheme, the Banking Ombudsman can award compensation not exceeding Rupees one lakh to the complainant in the case of complaints arising out of credit card operations, taking into account the loss of the complainant's time, expenses incurred by him as also, harassment and mental anguish suffered. Further, non-observance of the Reserve Bank's guidelines on engagement of recovery agents by banks has also been brought specifically under the purview of the Scheme.

Any customer who has a grievance against a bank can complain to the Banking Ombudsman in whose jurisdiction the branch of the bank complained against is located. Some banks have centralised certain transactions, like housing loans, credit cards, *etc.* If there are complaints regarding such transactions, complaints would have to be made to the Banking Ombudsman in the State in which the bank customer receives the bill.

In addition, the Reserve Bank has simplified the format for lodging complaint to the Banking Ombudsman. Though the complainant need not lodge his complaint in a specific format, the Scheme now provides for an easy-to-fill format for lodging complaints, in case complainants prefer to use it. The jurisdictions of the Banking Ombudsman at Kanpur, New Delhi, Chandigarh, Chennai and Thiruvananthapuram have been rationalised to include/exclude certain areas taking into account the geographical proximity of those areas to the Office of the Banking Ombudsman.

The amended Scheme however, does not include certain banking transactions, such as, failure to honour bank guarantee or letter of credit, *etc.* Complaints on these areas of banking services are insignificant in number.

For wider dissemination, the Reserve Bank has asked all banks to place a copy of the Banking Ombudsman Scheme on their website. The amended Scheme is also available on the Reserve Bank's website at www.bankingombudsman.rbi.org.in.