

## *Regulatory and Other Measures*

May-June 2009

RBI/2008-09/469 Ref. No. UBD.CO.LS.Cir.No.  
66 /07.01.000/2008-09 dated May 6, 2009

All Primary (Urban) Cooperative Banks

### **UCBs - Extension of Area of Operation - Liberalisation**

Please refer to para 163 of the Annual Policy Statement 2009-10, in terms of which, it has been decided to permit extension of area of operation to well-functioning Primary (Urban) Cooperative Banks (UCBs) in the States that have signed MoUs with the Reserve Bank. As per the extant guidelines, extension of area of operation beyond the districts adjoining the district of registration is not permitted. The matter has since been reviewed and in order to provide avenues for organic growth to sound and well functioning uni-state Tier II UCBs, it has been decided to liberalise and modify the existing norms further.

2. RBI will henceforth consider requests for expansion of area of operation to the entire state from licensed Tier II UCBs registered in states that have entered into MoU with Reserve Bank and are classified as Grade I as per the last statutory inspection and / or conforming to the financials of a Grade I bank as per the latest audited reports. While considering such applications, RBI will give due consideration to system of internal controls prevailing in the bank and supervisory comfort.

3. In respect of Tier I UCBs, the existing norms will continue to be applicable.

4. For the purpose of classification of UCBs into Tier I and II, the following definition may be adopted hereafter for all regulatory purposes in supersession of instructions

contained in circular UBD (PCB) Cir.No.35/09.20.001/07-08 dated March 7, 2008:

(a) **Tier I banks:**

- i) Banks having deposits below Rs.100 crore operating in a single district,
- ii) Banks with deposits below Rs.100 crore operating in more than one district will be treated as Tier I provided the branches are in contiguous districts and deposits and advances of branches in one district separately constitute at least 95% of the total deposits and advances respectively of the bank, and
- iii) Banks with deposits below Rs.100 crore, whose branches were originally in a single district but subsequently, became multi-district due to reorganisation of the district may also be treated as Tier I.

(b) **Tier II banks:** All other banks.

The deposit and advances as referred to in the definition may be reckoned as on 31st March of the immediate preceding financial year.

5. UCBs desirous of extending their area of operation as above may approach the Regional Offices concerned of Reserve Bank for prior approval.

RBI/2008-09/467 Ref. No. RPCD. SME & NFS. BC.No.102/06.04.01/2008-09 dated May 4, 2009

All Scheduled Commercial Banks

### **Credit delivery to the Micro and Small Enterprises Sector**

In recognition of the problems being faced by the Micro and Small Enterprises (MSE) sector, particularly with respect to rehabilitation of potentially viable sick

units, the Reserve Bank had constituted a Working Group under the Chairmanship of Dr. K. C. Chakrabarty, Chairman & Managing Director, Punjab National Bank.

2. The aforesaid Group submitted its report to Reserve Bank of India in April 2008, covering comprehensively the entire gamut of issues and problems (credit and non-credit related) confronting the sector. The Reserve Bank placed the report on its website and invited comments from all stake holders. The responses and comments on the report have been carefully examined.

3. You are advised to consider, for speedy implementation, the recommendations made by the Working Group set out in Annex III with regard to timely and adequate flow of credit to the MSE sector.

4. The Reserve Bank has carefully considered the Group's recommendations regarding rehabilitation of potentially viable sick MSE units/enterprises, which essentially aim at timely detection of sickness and adoption of remedial measures to rehabilitate the potentially viable ones. While fully appreciating the sense of the Group's recommendations, attention of banks is invited to the guidelines issued by the Reserve Bank on MSE debt restructuring in respect of borrowal accounts that show symptoms of stickiness, vide its circulars:

- i. DBOD.BP.BC. No.34/21.04.132/2005-06 dated September 8, 2005
- ii. DBOD.BP.BC.No.37/21.04.132/2008-09 dated August 27, 2008

These guidelines, in fact, subsume the incipient sickness stage and, if implemented as intended, could significantly prevent or arrest sickness at

the initial stages. Such MSE units/enterprises, which turn sick in spite of debt re-structuring are expected to be few and would fall within the ambit of the extant guidelines on rehabilitation of potentially viable sick units/enterprises (vide circular RPCD.No.PLNFS.BC.57/06.04.01/2001-2002 dated January 16, 2002). Banks are, therefore, advised to apply the Reserve Bank's guidelines on debt restructuring optimally and in letter and spirit. This would be to their advantage as well as their MSE clients.

5. The Group has also recommended that Reserve Bank of India may announce a One Time Settlement Scheme (OTS) for the MSME sector. However, any policy on settlement of non-performing loans is essentially a management function to be exercised by individual banks, based on their commercial judgment. It is necessary that the banks have their own non-discretionary OTS policy which enables their officials to make quick and judicious decisions on OTS. As such, banks are advised to put in place a suitable OTS for this sector.

6. Accordingly, in the light of the recommendations of the Group and the Banking Codes Standards Board of India's Code of Commitment for the MSE borrowers, your bank may undertake a review and put in place the following policies for the MSE sector, duly approved by the Board of Directors:

- i. Loan policy governing extension of credit facilities
- ii. Restructuring/Rehabilitation policy for revival of potentially viable sick units/enterprises.

iii. Non-discretionary One Time Settlement scheme for recovery of non-performing loans.

7. Please acknowledge receipt and forward an Action Taken Report by June 30, 2009.

### Annex III

#### Action pertaining to banks

1. The model cost of project for different sizes of commonly prevailing industry and overall viability of the activity may be assessed by a Committee comprising of 2-3 major banks of the District under the aegis of Lead Bank so as to obviate the need of any expert/professional to prepare TEV study in individual cases. The exercise may be carried out periodically after considering the price of machinery and other fixed assets required, sources of raw material, technical expertise and skilled labour availability, access to market *etc.* DIC may also be associated with the process. Small entrepreneurs may use these project profiles and not take help from professionals in preparation of time consuming and costly TEV study/viability report. Sufficient delegation of powers for sanction/rehabilitation of SMEs should be made at the field level. **(Para 3.6.1)**

Lead Banks may take necessary action.

2. Lending in case of all advances upto Rs.2 crores may be done on the basis of scoring model. Information required for scoring model should be incorporated in the application form itself. No individual risk rating is required in such cases. **(Para 3.6.3 a)**

3. Banks may start Central Registration of loan applications. The same technology may be used for online submission of loan applications as also for online tracking of loan applications. **(Para 3.6.3 b)**
4. The application forms may be so designed that all documents required to be executed by the borrower on sanction of the loan form its part. The forms should invariably have a Checklist of the documents required to be submitted by the applicant along with the application and the formalities required to be completed, post sanction. **(Para 3.6.3 c)**
5. In case of all micro enterprises, simplified application cum sanction form (which should also be printed in regional language) be introduced for loans upto Rs 1 crore and working capital under Nayak Committee norms. **(Para 3.6.3 d)**
6. Banks who have sanctioned term loan singly or jointly must also sanction WC limit singly (or jointly, in the ratio of term loan) to avoid delay in commencement of commercial production. It may be ensured that there are no cases where term loan has been sanctioned and working capital facilities are yet to be sanctioned. **(Para 3.8)**
7. Centralised Credit Processing Cells may be introduced. These Cells may be utilized for single point appraisal, sanction, documentation, renewal and enhancement. The working of Centralised Processing Cell should be reviewed by the controlling office of the bank. CPC should act as the back office of the bank. **(Para 3.9)**
8. Committee Approach may be introduced for sanction of new loans as also rehabilitation cases. This will not only improve the quality of decision as collective wisdom of the members shall be utilised, especially while taking decision on loan applications for green-field projects in the micro, small and medium enterprise sector or the rehabilitation proposals. **(Para 3.10)**
9. The banks may consider a combined level of stock and receivables and no separate sub limit for debtors may be fixed. Banks may allow CC/OD against stock and receivables under one facility. **(Para 3.14)**
10. In terms of the Nayak Committee norms, the banks are required to provide minimum 20% of the turnover to the business enterprises as bank finance and 5% is to be obtained as margin. This translates into a current ratio of 1.25. **(Para 3.15)**
11. Banks may develop appropriate Credit Appraisal and Rating Tool (CART) on the pattern of software developed by SIDBI or can take the help of such tools for processing the loan/working capital proposals of small and medium enterprises. **(Para 3.19)**
12. The banks may focus on opening more specialised micro, small and medium enterprise branches. The expansion of specialised branch network in all identified clusters and Industrial Estates may be completed in a time bound manner, say within next 3-5 years. **(Para 3.20 b)**
13. The banks may use the platform provided by the technical institutions and send their staff to such institutions on a regular basis. Training is also required to be imparted to the branch managers and their loan officers for change in their mindset away from the perceived risk in financing MSMEs. A system of incentives for good

performance in financing to MSMEs may be implemented, which could be by way of special mention in the Performance Appraisal, special training etc. **(Para 3.20 a)**

14. Banks may consider introduction of Factoring Services, particularly for MSMEs. **(Para 3.21 b)**

15. Intervention of technology may be adopted for correct identification and reporting of sick micro, small and medium enterprises **(Para 9.19)**

RBI/2008-09/470 Ref. No. UBD.PCB.Cir.No. 65/09.16.900/2008-09 dated May 06, 2009

The Chief Executive Officer  
Primary (Urban) Cooperative Banks

### **Financial restructuring of Urban Cooperative Banks**

Please refer to our circular UBD.PCB.Cir.No. 39/09.16.900/2008-09 dated January 23, 2009 on the captioned subject. It was prescribed vide Para 3 (vii) therein that post-restructuring, the management of the bank should be in the hands of a Board of Administrators consisting of representatives of individual depositors as well as professional bankers to ensure proper implementation of the reconstruction scheme including recovery of NPAs.

2. The matter has been reviewed and it has been decided to dispense with the above prerequisite while considering financial restructuring proposals of UCBs. Accordingly, management aspects will be considered on a case to case basis while considering the financial restructuring proposals of UCBs.

3. Please acknowledge receipt to the Regional Office concerned.

RBI/2008-09/471 Ref. No. DBOD.No.FID.FIC 6/01.02.00/2008-09 dated May 7, 2009

### **Prudential Guidelines on Restructuring of Advances by Select all-India Financial Institutions**

*The CEOs of select all-India Term Lending and Refinancing Institutions (Exim Bank, NABARD, NHB & SIDBI)*

In continuation of our circular DBOD.No.FID.FIC.5/01.02.00/2008-09 dated February 26, 2009 on the above subject, please find enclosed a copy of Circular DBOD.No. BP.BC. 121/21.04.132/2008-09 dated April 9, 2009. In this connection, it is advised that the above guidelines, issued to banks, shall also apply to the select all-India Financial Institutions (FIs).

RBI/2008-09/477 Ref. No. RPCD.CO.RRB. BC.No.103/03.05.28-A/2008-09 dated May 13, 2009

All Regional Rural Banks

### **RRBs - Acknowledgement of Nomination/indicating Nominee Name in Pass Books/Fixed Deposit Receipts**

It has been brought to our notice that some Regional Rural Banks (RRBs) do not have the system of acknowledging the receipt of the duly completed form of nomination, cancellation and /or variation of the nomination. Further, it is also understood that in some RRBs, although there is a system of acknowledgement of nomination as provided in the Savings Bank

account opening form, such acknowledgements are actually not given to the customers. In this connection, you may be aware that in terms of Rules 2 (9), 3 (8) and 4 (9) of the Banking Companies Nomination (Rules), 1985, they are required to acknowledge in writing to the depositor(s) / locker hirers (s) the filing of the relevant duly completed Form of nomination, cancellation and / or variation of the nomination.

2. Regional Rural Banks are therefore advised to strictly comply with the provisions of Banking Regulation Act, 1949 and Banking Companies (Nomination) Rules, 1985 and devise a proper system of acknowledging the receipt of the duly completed form of nomination, cancellation and / or variation of the nomination. Such acknowledgement should be given to all the customers irrespective of whether the same is demanded by the customers or not.

3. When a bank account holder has availed himself/herself of nomination facility, the same may be indicated on the passbook so that in case of death of the account holder, the relatives can know from the pass book that the nomination facility has been availed of by the deceased depositor and take suitable action. RRBs may, accordingly, introduce the practice of recording on the face of the passbook the position regarding availment of nomination facility with the legend "Nomination Registered". This may be done in the case of term deposit receipts also.

4. In addition, RRBs are also advised to indicate the name of the Nominee in the

Pass Book/ Statement of Accounts/ FDRs, in case the customer is agreeable to the same, as this would be helpful to the customers/ nominees.

RBI/2008-09/478 Ref. No. RPCD.CO.RRB.BC. No.105 /03.05.33 /2008-09 dated May 15, 2009

All Regional Rural Banks

### **Levy of service charges for electronic payment products and outstation cheque collection and Standardisation of charges for transfer of surplus clearing funds**

We enclose copies of circulars DPSS. CO. No. 1001 / 03.01.02 / 2007-08 dated January 8, 2008, DPSS. CO. No. 2092 / 03.01.02(P) / 2008-09 dated June 20, 2008 and DPSS. CO. No. 611 / 03.01.03(P) / 2008-09 dated October 8, 2008 issued by our Department of Payment and Settlement Systems (DPSS), Central Office, advising the framework of charges to be levied by banks for offering various electronic payment products, for outstation cheque collection services and transfer of surplus clearing funds, for your information and necessary action.

2. The framework of charges to be levied by banks for various electronic payment products (RTGS / NEFT / ECS) has been prescribed vide circular dated October 8, 2008 referred to above. These charges are also applicable to all inter-bank transfers using the electronic mode. It is clarified that these charges are applicable for transfer of surplus clearing funds under Remittance Facilities Scheme (RFS), 2007 also.

RBI/2008-09/481 Ref. No. RPCD.CO.RRB.BC.  
No.108 /03.05.33/2008-09 dated May 22,  
2009

All Regional Rural Banks

### **RRBs - Unclaimed Deposits and Inoperative/Dormant Accounts**

In view of the increase in the amount of the unclaimed deposits with banks year after year and the inherent risk associated with such deposits, it is felt that banks should play a more pro-active role in finding the whereabouts of the account holders whose accounts have remained inoperative. Further, several complaints have been received in respect of difficulties faced by the customers on account of their accounts having been classified as inoperative. Moreover, there is a feeling that banks are undeservedly enjoying the unclaimed deposits, while paying no interest on it. Keeping these factors in view, it is advised that Regional Rural Banks (RRBs) may follow the instructions detailed below while dealing with inoperative / dormant accounts:

- (i) RRBs should make an annual review of accounts in which there are no operations (*i.e.* no credit or debit other than crediting of periodic interest or debiting of service charges) for more than one year. The RRBs may approach the customers and inform them in writing that there has been no operation in their accounts and ascertain the reasons for the same. In case the non-operation in the account is due to shifting of the customers from the locality, they may be asked to provide the details of the new bank accounts to which the balance in the existing account could be transferred.
- (ii) If the letters are returned undelivered, they may immediately be put on enquiry to find out the whereabouts of customers or their legal heirs in case they are deceased.
- (iii) In case the whereabouts of the customers are not traceable, RRBs should consider contacting the persons who had introduced the account holder. They could also consider contacting the employer / or any other person whose details are available with them. They could also consider contacting the account holder telephonically in case his telephone number / Cell number has been furnished to the RRB. In case of Non Resident accounts, the RRB may also contact the account holders through email and obtain their confirmation of the details of the account.
- (iv) A savings as well as current account should be treated as inoperative / dormant if there are no transactions in the account for over a period of two years. The accounts which have not been operated upon over a period of two years should be segregated and maintained in separate ledgers.
- (v) In case any reply is given by the account holder giving the reasons for not operating the account, RRBs should continue classifying the same as an operative account for one more year within which period the account holder may be requested to operate the account. However, in case the account holder still does not operate the same during the extended period, RRBs should classify the same as inoperative

account after the expiry of the extended period.

- (vi) For the purpose of classifying an account as 'inoperative' both the type of transactions *i.e.* debit as well as credit transactions induced at the instance of customers as well as third party should be considered. However, the service charges levied by the RRB or interest credited by the bank should not be considered.
- (vii) Further, the segregation of the inoperative accounts is from the point of view of reducing risk of frauds *etc.* However, the customer should not be inconvenienced in any way, just because his account has been rendered inoperative. The classification is there only to bring to the attention of dealing staff, the increased risk in the account. The transaction may be monitored at a higher level both from the point of view of preventing fraud and making a Suspicious Transactions Report. However, the entire process should remain un-noticeable by the customer.
- (viii) Operation in such accounts may be allowed after due diligence as per risk category of the customer. Due diligence would mean ensuring genuineness of the transaction, verification of the signature and identity, *etc.* However, it has to be ensured that the customer is not inconvenienced as a result of extra care taken by the RRB.
- (ix) There should not be any charge for activation of inoperative account.
- (x) RRBs are also advised to ensure that the amounts lying in inoperative accounts

ledger are properly audited by the internal auditors / statutory auditors of the bank.

- (xi) Interest on savings bank accounts should be credited on regular basis whether the account is operative or not. If a Fixed Deposit Receipt matures and proceeds are unpaid, the amount left unclaimed with the RRB will attract savings bank rate of interest.

2. RRBs may also consider launching a special drive for finding the whereabouts of the customers / legal heirs in respect of existing accounts which have already been transferred to the separate ledger of 'inoperative accounts'.

RBI/2008-09/485 Ref. No. DBOD.BP.BC. No.134/21.06.001/2008-09 dated May 26, 2009

The Chairman and Managing Directors/  
Chief Executive Officers  
All Scheduled Commercial Banks  
(Excluding RRBs and LABs)

### **Capital Adequacy Norms for Banks' Exposures to Central Counterparties(CCPs)**

Please refer to our Master Circular – Prudential Guidelines on Capital Adequacy and Market Discipline – Implementation of New Capital Adequacy Framework No. RBI/2008-09/68.DBOD.No. BP.BC. 11/21.06.001/2008-09 dated July 1, 2008.

2. Banks have been exposed to CCPs attached to stock exchanges while settling contracts like currency futures and interest rate futures. The Clearing Corporation of India Limited (CCIL) has also been acting as



a Central Counter Party (CCP) for banks in various segments of the financial markets. In terms of para 5.15.3 (iv) (b) of the Master Circular, the instruments traded on futures and options exchanges which are subject to daily mark-to-market and margin payments are exempted from the capital requirements

3. As indicated in paragraph 146 of the Annual Policy Statement for the year 2009-10, released on April 21, 2009, the revised norms for capital adequacy treatment of banks' various types of credit risk exposures to the CCPs will be as under:

- i) The exposures to CCPs on account of derivatives trading and securities financing transactions (*e.g.* CBLs, Repos) outstanding against them, will be assigned zero exposure value for counterparty credit risk, as it is presumed that the CCPs' exposures to their counterparties are fully collateralised on a daily basis, thereby providing protection for the CCP's credit risk exposures;
- ii) The deposits/collaterals kept by banks with the CCPs will attract risk weights appropriate to the nature of the CCP. In the case of CCIL, the risk weight will be 20 per cent and for other CCPs, it will be according to the ratings assigned to these entities as per the New Capital Adequacy Framework.

4. The above prescriptions about the adequacy of margin, quality of collateral and risk management systems of the clearing house/CCP will be reviewed after one year.

5. All existing exposure limits, such as gap limits for forex exposures, PV01 limits for interest rate risk exposures which are

applicable for OTC derivatives exposures of banks will continue to apply for exchange traded transactions as well.

Ref. No. DPSS.CO. (CHD) No. 873 / 03.09.01/ 2008-09 dated November 24, 2008

The Chairman & Managing Director /  
Chief Executive Officer  
All Scheduled Commercial Banks

### **Delays in Cheque Clearing - Case No. 82 of 2006 before National Consumer Disputes Redressal Commission**

As you may be aware, during August 2006, a case was filed before National Consumer Disputes Redressal Commission, New Delhi (the Commission) under the Consumer Protection Act, 1986, inviting attention to the delays in cheque clearing and, specifically, to the issue of float in local and inter-city clearing. Admitted in public interest as Case No. 82 of 2006, the complaint had named Reserve Bank of India (the Bank) and all Scheduled Commercial Banks (the banks) as respondents and sought adequate compensation by way of interest for delay in collection.

A number of affidavits were filed by the Bank and by the banks at various points of time and the case was finally disposed off by the Commission on August 27, 2008, with the Commission observing that the Bank with its wide range of powers under the Payment & Settlement Systems Act, 2007 would try to control the float, if any, arising due to delay in collection of outstation cheques. During the course of hearings, orders were passed by the Commission culminating in the final order on 'timeframe for collection of outstation cheques' which

is available @ <http://www.ncdrc.nic.in/CC820605.htm>. We are sure action as contemplated under the orders of the Commission has already been initiated by your bank (as earlier advised, vide, our letter DPSS.CO.No.517 / 03.01.02(P) / 2008-09 dated September 22, 2008).

Many circular instructions have also been issued by the Bank, during the interregnum, on the contents of Cheque Collection Policies (CCPs) framed by banks as also regarding publicity to be given thereto in the interest of better information dissemination and service to customers.

Notwithstanding the above, in the interest of better clarity as also to ensure compliance with the orders of the Commission, we reiterate the following: -

- (i) Banks shall reframe their CCPs covering local and outstation cheque collection as per the timeframe prescribed by the Commission.
- (ii) For local cheques credit and debit shall be given on the same day or at the most the next day of their presentation in clearing. Ideally, in respect of local clearing, banks shall permit usage of the shadow credit afforded to the customer accounts immediately after closure of relative return clearing and in any case withdrawal shall be allowed on the same day or maximum within an hour of commencement of business on the next working day, subject to usual safeguards.
- (iii) Timeframe for collection of cheques drawn on state capitals / major cities / other locations to be 7/10/14 days

respectively. If there is any delay in collection beyond this period, interest at the rate specified in the CCP of the bank, shall be paid. In case the rate is not specified in the CCP, the applicable rate shall be the interest rate on Fixed Deposits for the corresponding maturity. The timeframe for collection specified by the Commission shall be treated as outer limit and credit shall be afforded if the process gets completed earlier. As advised vide directions issued by the Bank dated October 8, 2008 (DPSS.CO.No.611 / 03.01.03 (P) /2008-09) 'banks shall not decline to accept outstation cheques deposited by its customers for collection'.

- (iv) Banks shall give wide publicity to the CCP by prominently displaying salient features thereof in bold and visible letters on the notice board at its branches.
- (v) A copy of the complete CCP shall be made available by the branch manager, if the customers require so.
- (vi) The Bank has placed on its website the link to CCPs of banks on their respective websites. Please ensure that no change in the location thereof is effected without prior intimation to this Department to enable updation of the links at our end.

The Bank shall be monitoring the directions issued by it as also those passed by the Commission for compliance. Please treat the matter as urgent and advise us the action taken within a month's time from the date of this letter.

RBI/2008-09/493 Ref. No. DGBA.CDD.H-10566/15.15.001/2008-09 dated June 5, 2009

### **The General Manager**

Government Accounts / Business Department  
State Bank of India / State Bank of Indore/  
State Bank of Patiala

State Bank of Bikaner & Jaipur /State Bank  
of Travancore

State Bank of Hyderabad / State Bank of  
Mysore /Allahabad Bank

Bank of Baroda / Bank of India / Bank of  
Maharashtra

Canara Bank/Central Bank of India /  
Corporation Bank Dena Bank / Indian Bank

Indian Overseas Bank / Punjab National  
Bank / Syndicate Bank / UCO Bank  
Union Bank of India / United Bank of India  
ICICI Bank Ltd / Vijaya Bank/IDBI Ltd

### **Senior Citizens Savings Scheme, 2004 - Acceptance of Form 15-G from the Nominees**

As you are aware, investors under Senior Citizens Savings Scheme, 2004 (SCSS) are eligible to file Form 15-G and 15-H to claim exemption from TDS on the interest payable on the deposits under the said scheme.

2. Central Board of Direct Taxes have now clarified, vide their Office Memorandum F.No.275/36/2009-IT(B) dated May 14, 2009, that nominee of the investors of SCSS can also produce 15-G form (declaration of non-deduction of tax from the amount of interest payable) at the time of payment after the death of the depositor.

3. The contents of this circular may be brought to the notice of the designated branches of your bank for information and compliance.

RBI/2008-09/496 Ref. No. DBOD.No. BL.BC.137/22.01.001/2008-09 dated June 12, 2009

### **All Scheduled Commercial Banks (excluding RRBs)**

### **Relaxations in Branch Authorisation Policy - Off Site ATMs**

#### *Section 23 of Banking Regulation Act, 1949 - Relaxations in Branch Authorisation Policy - Off Site ATMs*

In terms of the extant guidelines as contained in paragraph 1 of the Master Circular DBOD.No. BL.BC.21/22.01.001/2008-09 dated July 1, 2008, banks are required to obtain the prior approval of Reserve Bank of India before opening a new branch/office, including an Off-site ATM. Further, banks are required to include all such proposals for opening new branches/Off-site ATMs in their Annual Branch Expansion Plans.

2. In this connection, a reference is invited to regarding setting up of Off-site ATMs by Scheduled Commercial Banks. Accordingly, Reserve Bank of India hereby permits Scheduled Commercial Banks to install Off-site ATMs at centres/places identified by them, without having the need to take permission from the Reserve Bank in each case. This would, however, be subject to any direction which the Reserve Bank may issue, including for closure/shifting of any such Off-site ATMs, wherever so considered necessary by the Reserve Bank. The banks should report full details of the Off-site ATMs installed by them in terms of the above general permission to the Regional Office concerned of Department of Banking Supervision/ DBOD, CO (in respect of Off-Site ATMs in Maharashtra and Goa) immediately after operationalisation and in

any case not later than two weeks, as per prescribed format.

3. Banks which have been providing the facility of cash deposit to the customers at their ATMs, should put in place adequate safeguards / procedures (like access through PIN / password *etc.*), so as to ensure identification of depositor in case notes deposited are found to be forged / defective.

4. As indicated in paragraph 18 of the Master Circular on Branch Authorisation dated July 1, 2008 referred to above, the details of shifting/closure *etc.*, of Off-site ATMs should also continue to be reported to the Regional Office concerned of Department of Banking Supervision/ DBOD, CO (in respect of Off -site ATMs in Maharashtra & Goa) immediately after such shifting/closure and in any case not later than two weeks.

5. Incidentally, as banks are aware, as per the extant instructions, permission of the Reserve Bank of India is not required for installation of **On-site ATMs** [ATMs which are located at the branches and Extension Counters (ECs) for which banks hold authorizations issued by the Reserve Bank under Section 23 of the Banking Regulation Act, 1949].

RBI/2008-09/501 Ref. No. UBD.BPD.No. 71/09.09.001/2008-09 dated June 16, 2009

Chief Executive Officer  
Primary (Urban) Cooperative Banks

### Credit delivery to the Micro and Small Enterprises Sector

In recognition of the problems being faced by the Micro and Small Enterprises (MSE) sector, particularly with respect to

rehabilitation of potentially viable sick units, the Reserve Bank had constituted a Working Group under the Chairmanship of Dr. K. C. Chakrabarty, Chairman & Managing Director, Punjab National Bank.

2. The aforesaid Group submitted its report to Reserve Bank of India in April 2008, covering comprehensively the entire gamut of issues and problems (credit and non-credit related) confronting the sector. The Reserve Bank placed the report on its website and invited comments from all stake holders. The responses and comments on the report have been carefully examined.

3. You are advised to consider, for speedy implementation, the recommendations made by the Working Group set out in **Annex III** with regard to timely and adequate flow of credit to the MSE sector.

4. The Reserve Bank has carefully considered the Group's recommendations regarding rehabilitation of potentially viable sick MSE units/enterprises, which essentially aim at timely detection of sickness and adoption of remedial measures to rehabilitate the potentially viable ones. While fully appreciating the sense of the Group's recommendations, attention of banks is invited to the guidelines issued on MSE debt restructuring in respect of borrowal accounts that show symptoms of stickiness, vide circulars:

- i. UBD.BPD.Cir.No. 36/09.09.001/2005-06 dated March 9, 2006
- ii. UBD.PCB.BPD.No. 53/13.05.000/2008-09 dated March 6, 2009

These guidelines, in fact, subsume the incipient sickness stage and, if implemented as intended, could

significantly prevent or arrest sickness at the initial stages. Such MSE units/enterprises, which turn sick in spite of debt re-structuring are expected to be few and would fall within the ambit of the extant guidelines on rehabilitation of potentially viable sick units / enterprises (issued vide circular UBD. No. PCB. POT. 01 / 09.09.01 / 2002-03 dated July 19, 2002). Banks are, therefore, advised to apply the guidelines on debt restructuring optimally and in letter and spirit. This would be to their advantage as well as their MSE clients.

5. Accordingly, in the light of the recommendations of the Group and the Banking Codes Standards Board of India's Code of Commitment for the MSE borrowers, your bank may undertake a review and put in place the following policies for the MSE sector, duly approved by the Board of Directors:

- i. Loan policy governing extension of credit facilities
- ii. Restructuring / Rehabilitation policy for revival of potentially viable sick units / enterprises.

6. Please acknowledge receipt and forward an Action Taken Report to concerned Regional Office by July 31, 2009.

### **ANNEX-III: Same as that issued to all Scheduled Commercial Banks in May 04, 2009**

RBI/2008-09/508 Ref. No. DBS CO.FrMC BC No.8/23.04.001/2008-09 dated June 24, 2009

The Chairman / Chief Executives of All Scheduled Commercial Banks (excluding RRBs)

### **Frauds in borrowal accounts having multiple banking arrangements**

It has come to our notice that certain unscrupulous borrowers enjoying credit facilities under "multiple banking arrangement" have, after defrauding one of the financing banks, continued to enjoy the facilities with other financing banks and in some cases availed even higher limits at those banks. In certain cases the borrowers used the accounts maintained at other financing banks to siphon off funds fraudulently diverted from the bank on which the fraud was perpetrated. This could be possible due to lack of a formal arrangement for exchange of information among various lending banks. While the affected bank was engaged in recovery / criminal action at its end, the borrowers went about perpetrating fraud in their accounts with the other financing banks. In some of the fraud cases reported by banks, it was revealed at a later stage that the securities offered by the borrowers to different banks were the same.

2. In this connection, we invite your attention to circular DBOD No BP BC 46 / 08.12.001/2008-09 dated September 19, 2008 issued by our Department of Banking Operations and Development (DBOD) advising banks to strengthen the sharing of information about the status of borrowers enjoying credit facilities under multiple banking arrangement. The circular prescribes a system of obtaining declaration from borrowers, exchange of information among banks on regular intervals and obtaining regular certification by a professional regarding compliance of

various statutory prescriptions. Therefore, as part of ongoing compliance with the instructions contained in the above circular, the banks which have financed a borrower under multiple banking arrangement are also required to exchange information on multilateral basis regarding incidents of fraud, legal actions taken and covert activities / operations of the borrower after the fraud, *etc.*

3. Therefore, it is imperative on the part of banks to have a consolidated view of frauds committed by a borrower on different banks so as to ascertain the quantum of frauds, loss caused by the frauds, perceived ramifications thereof *etc.* As such, all the banks which have financed a borrower under 'multiple banking' arrangement should take co-ordinated action, based on commonly agreed strategy, for legal / criminal actions, follow up for recovery, exchange of details on modus operandi, achieving consistency in data / information on frauds reported to Reserve Bank of India, *etc.* Preferably, the co-ordination efforts should be driven by the bank which detects the fraud first or by the bank which has the maximum exposure, depending on circumstances. It would therefore be necessary for the bank which detects a fraud to immediately share the details with all other banks in the multiple banking arrangement.

RBI/2008-09/509 Ref. No. DPSS (CO) EPPD No.2283 / 04.01.04 / 2008-2009 dated June 25, 2009

The Chairman and Managing Director / Chief Executive Officer of all banks participating in NECS

## National Electronic Clearing Service (NECS) – Optimal Usage and Expansion

As you are aware, National Electronic Clearing Service (NECS) was introduced during September 2008 for centralised processing of repetitive and bulk payment instructions. NECS facilitates sponsor banks to submit ECS files centrally at Mumbai, thus obviating the need to split files and then use local-ECS at various locations for data submission. By leveraging on the core-banking solutions of member banks for centralised posting of inward transactions, NECS offers all-India coverage. As on date, little over 26,000 branches of 114 banks are enabled to participate in NECS.

2. Presently, the Credit variant of NECS is available and over the last nine months of operation, the volume of transactions processed has witnessed a gradual increase. During the month of May 2009 alone, around 2 million transactions for value Rs. 30 billion were processed. Given the benefits offered by NECS, the need for local-ECS at various locations becomes redundant. Accordingly, local-ECS-Credit at Mumbai has been merged with NECS-Credit.

3. To optimally use the reach and potential of NECS, banks need to increase the number of branches enabled to participate in NECS. Ideally, all core-banking-enabled branches should be part of NECS. Since the branches participating in RTGS / NEFT number over 55,000, there is immediate scope for banks to double the number of branches offering NECS. This apart, banks also need to increase their level of participation by enthrusting more users to tap the benefits offered by NECS.

4. To take forth the above, banks are advised to initiate action on the following points -

- a. Include, at a minimum, all the NEFT-enabled branches in NECS. Target should be to include all the core-banking-enabled branches in NECS.
- b. Educate their corporate customers and guide them in preparing a single NECS file, for credit to beneficiaries having accounts across the country with destination branches participating in NECS.
- c. A mechanism to electronically collect NECS files sponsored by different branches on behalf of their corporate customers, across the country.
- d. Efficient handling of inward NECS transactions. Banks should put in place proper interfaces for straight-through-processing of inward files received from the Clearing House.
- e. Afford NECS credit to customer accounts without delay. Uncredited items, if any, should be reported back to the Clearing House within the prescribed time limit.
- f. Avoid practices that delay and burden the system. Sponsor banks should ensure that user institutions do not include in the input files, transactions that have earlier been returned for reasons account-closed or no-such-account. Service branches also need to take due care while processing inward. There would be no justification for return of NECS-credits that would have otherwise been duly credited in local-ECS.
- g. Strengthen infrastructure at the Service Branch in Mumbai not only in terms of

adequacy of telephone lines, network, computers, *etc.*, but also by way of making the branch core-banking-enabled, providing access to customer accounts at other core-banking-enabled branches and the like. To handle products that are national in character like (NECS and NEFT), the service branch needs also to be equipped with adequate manpower - both in terms of number and quality. Once Cen-ECS and local-ECS get subsumed in NECS, there would be automatic rationalisation of overall manpower requirements.

- h. Be in readiness to participate in NECS-Debit, which requires a centralised mandate management system at banks' end. Banks should initiate steps to store and retrieve mandates electronically, with automated core-banking interface.

5. Please acknowledge receipt of this circular and keep us informed of the action initiated in this regard.

RBI 2008-09/511 Ref. No.  
DBOD.No.BP.BC.140 /21.04.048/2008-09  
dated June 25, 2009

The Chairman / CMD / MD / CEO  
All Scheduled Commercial Banks  
(including Local Area Banks)  
(Excluding RRBs)

### **Agricultural Debt Waiver and Debt Relief Scheme, 2008 – Prudential Norms on Income Recognition, Asset Classification, Provisioning and Capital Adequacy**

Please refer to our circulars  
DBOD.No.BP.BC. 26/21.04.048/2008-09 dated

July 30, 2008, DBOD.No.BP.BC.78/21.04.048/2008-09 dated November 11, 2008, and DBOD.No.BP.BC. 112 /21.04.048/2008-09 dated March 5, 2009 on the captioned subject.

2. In terms of the circular dated March 5, 2009, we had advised that the Government of India had decided to extend the last date of repayment of first instalment by the "other farmers" under the Debt Relief Scheme, from September 30, 2008 to March 31, 2009. The dates of payment of second and third instalments remained unchanged at March 31, 2009 and June 30, 2009.

3. The Government of India has now decided to make the accounts of "other farmers" eligible for a debt relief of 25% from Government of India, even if they pay their entire share of 75% as one single instalment, provided the same is deposited by such farmers till June 30, 2009. The banks will not charge any interest on the eligible amount till June 30, 2009. A copy of the Government of India's letter F. No. 3/9/2008-AC dated June 12, 2009 is enclosed herewith.

4. The Government of India has also advised that the banks/lending institutions are allowed to receive even less than 75% of the eligible amount under OTS provided the banks/lending institutions bear the difference themselves and do not claim the same either from the Government or from the farmer. The Government will pay only 25% of the actual eligible amount under debt relief.

5. All other terms of the aforesaid circulars including provisioning remain unchanged.

RBI/2008-09/512                      Ref.                      No.  
RPCD.CO.RF.BC.No. 116 /07.37.02/2008-09  
dated June 26, 2009

All State and Central Co-operative Banks

### **Agricultural Debt Waiver and Debt Relief Scheme, 2008 - Prudential Norms on Income Recognition, Asset Classification and Provisioning**

Please refer to our circulars RPCD.CO.RF.BC.No.17/07.38.03/2008-09 dated July 30, 2008, RPCD.CO.RF.BC.No.69/07.37.02/2008-09 dated November 17, 2008 and RPCD.CO.RF.BC.No.91/07.37.02/2008-09 dated March 6, 2009 on the captioned subject.

2. In terms of the circular dated March 6, 2009, we had advised that the Government of India had decided to extend the last date of repayment of first instalment by the "other farmers" under the Debt Relief Scheme from September 30, 2008 to March 31, 2009. The dates of payment of second and third instalments remained unchanged at March 31, 2009 and June 30, 2009.

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banks / lending institutions bear the difference themselves and do not claim the same either from the Government or from the farmer. The Government will pay only 25% of the actual eligible amount under debt relief.

5. All other terms of the aforesaid circulars remain unchanged.

RBI/2008-09/514 Ref. No. UBD.PCB.Cir.No. 73/09.14.000/2008-09 dated June 29, 2009

The Chief Executive Officer of All Primary (Urban) Cooperative Banks

### **Prudential treatment of different types of Provisions in respect of loan portfolios**

It has been decided to lay down the following guidelines in regard to the prudential treatment of different types of provisions in respect of loan portfolios. It is clarified that the relative provisions **can only** be reckoned for the purpose listed thereagainst.

#### *(i) Additional Provisions for NPAs at higher than prescribed rates*

The regulatory norms for provisioning represent the minimum requirement. Banks may therefore voluntarily make specific provisions for NPAs at rates which are

higher than the rates prescribed under existing regulations if such higher rates are based on a policy approved by the Board of Directors to provide for estimated actual loss in collectible amount and the policy is consistently adopted from year to year or if provided in the respective State Cooperative Societies Acts / Multi-State Cooperative Societies Act 2002. The additional specific provisions for NPAs, like the minimum regulatory provision on NPAs, may be netted off from Gross NPAs to arrive at the Net NPAs. The additional specific provision for NPAs will not be reckoned as Tier II capital.

#### *(ii) Excess Provisions on sale of NPAs*

Excess provisions which arise on sale of NPAs can be admitted as Tier II capital subject to the overall ceiling of 1.25% of total Risk Weighted Assets.

#### *(iii) Provisions for diminution of fair value*

Provisions for diminution of fair value of restructured advances, both in respect of Standard Assets as well as NPAs, made on account of reduction in rate of interest and / or reschedulement of principal amount are permitted to be netted from the relative asset.

The above guidelines are effective from the date of this circular.