MASTER

CIRCULAR

CASH RESERVE RATIO (CRR)

and
STATUTORY LIQUIDITY RATIO (SLR)

DEPARTMENT OF BANKING OPERATIONS AND DEVELOPMENT

RESERVE BANK OF INDIA
CENTRAL OFFICE
MUMBAI

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August 5, 2004

Chief Executives of all
Scheduled Commercial Banks

Dear Sir,

Master Circular-Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR)

As you are aware, the Reserve Bank of India has from time to time, issued a number of circulars containing instructions to banks on matters relating to maintenance of Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR). In order to enable the banks to have all the extant operating instructions on the subject at one place, this Master Circular has been prepared.

2. This Master Circular is a compilation of the instructions contained in the circulars issued by Reserve Bank of India on the above subject, which are operational as on date of this circular

Yours faithfully,

sd/-
(***B.Mahapatra***)
Chief General Manager

Master Circular - Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR)

1. General

With a view to monitoring compliance with statutory reserve requirements viz. Cash Reserve Ratio and Statutory Liquidity Ratio by the Scheduled Commercial Banks, Reserve Bank of India has prescribed statutory returns i.e. Form A return (for CRR) under Section 42 (2) of the RBI, Act, 1934 and Form VIII return (for SLR) under Section 24 of the Banking Regulation Act, 1949. The broad details of the reserve requirements are summarised below.

2. Cash Reserve Ratio (CRR)

2.1 Maintenance of CRR

In terms of Section 42(1) of the RBI Act 1934, Scheduled Commercial Banks are required to maintain with RBI an average cash balance, the amount of which shall not be less than three per cent of the total of the Net Demand and Time Liabilities (NDTL) in India, on a fortnightly basis and RBI is empowered to increase the said rate of CRR to such higher rate not exceeding twenty percent of the Net Demand and Time Liabilities (NDTL) under the RBI Act, 1934. At present, effective from the fortnight beginning June 14, 2003, the rate of CRR is 4.50 per cent of the NDTL.

2.2 Maintenance of incremental CRR

In terms of Section 42(1A) of RBI Act, 1934, the Scheduled Commercial Banks are required to maintain, in addition to the balances prescribed under Section 42(1) of the Act, an additional average daily balance, the amount of which shall not be less than the rate specified by the RBI in the notification published in the Gazette of India, such additional balance being calculated with reference to the excess of the total of the NDTL of the bank as shown in the return referred to in section 42(2) of the RBI Act, 1934 over the total of its NDTL at the close of the business on the date specified in the notification.

At present no incremental CRR is required to be maintained by the Scheduled Commercial Banks.

2.3 Computation of Demand and Time Liabilities

Liabilities of a bank may be in the form of demand or time deposits or borrowings or other miscellaneous items of liabilities. Liabilities of the banks may be towards banking system (as defined under Section 42 of RBI Act, 1934) or towards others in the form of Demand and Time deposits or borrowings or other miscellaneous items of liabilities. Reserve Bank of India has been authorized in terms of Section 42 (1C) of the RBI Act, 1934 to classify any particular liability and hence for any doubt regarding classification of a particular liability, the banks are advised to approach RBI for necessary clarification.

2.3.1 Demand Liabilities

'Demand Liabilities' include all liabilities which are payable on demand and they include current deposits, demand liabilities portion of savings bank deposits, margins held against letters of credit/guarantees, balances in overdue fixed deposits, cash certificates and cumulative/recurring deposits, outstanding Telegraphic Transfers (TTs), Mail Transfer (MTs), Demand Drafts (DDs), unclaimed deposits, credit balances in the Cash Credit account and deposits held as security for advances which are payable on demand. Money at Call and Short Notice from outside the Banking System should be shown against liability to others.

2.3.2 Time Liabilities

Time Liabilities are those which are payable otherwise than on demand and they include fixed deposits, cash certificates, cumulative and recurring deposits, time liabilities portion of savings bank deposits, staff security deposits, margin held against letters of credit if not payable on demand, deposits held as securities for advances which are not payable on demand, India Millennium Deposits and Gold Deposits.

2.3.3 Borrowings from banks abroad

Loans/borrowings from abroad by banks in India will be considered as 'liabilities to others' and will be subject to reserve requirements.

2.3.4 Arrangements with correspondent banks for remittance facilities

When a bank accepts funds from a client under its remittance facilities scheme, it becomes a liability (liability to others) in its books. The liability of the bank accepting funds will extinguish only when the correspondent bank honours the drafts issued by the accepting bank to its customers. As such, the balance amount in respect of the drafts issued by the accepting bank on its correspondent bank under the remittance facilities scheme and remaining unpaid should be reflected in the accepting bank's books as an outside liability and the same should also be taken into account for computation of NDTL for CRR/SLR purpose.

The amount received by correspondent banks has to be shown as 'Liability to the Banking System' by them and not as 'Liability to others' and this liability could be netted off by the correspondent banks against the inter-bank assets. Likewise sums placed by banks issuing drafts/interest/dividend warrants are to be treated as 'Assets with Banking System' in their books and can be netted off from their inter-bank liabilities.

2.3.5 Other Demand and Time Liabilities (ODTL)

Other Demand and Time Liabilities (ODTL) include interest accrued on deposits, bills payable, unpaid dividends, suspense account balances representing amounts due to other banks or public, net credit balances in branch adjustment account, any amounts due to the "Banking System" which are not in the nature of deposits or borrowing. Such liabilities may arise due to items, like (i) collection of bills on behalf of other banks, (ii) interest due to other banks and so on. If a bank cannot segregate from the total of "Other Demand and Time Liabilities" (ODTL) the liabilities to the banking system, the entire 'Other Demand and Time Liabilities' may be shown against item II (c) 'Other Demand and Time Liabilities' of the return in Form 'A' and average CRR is required to be maintained on it by all Scheduled Commercial Banks; Participation Certificate issued to other banks, the balances outstanding in the blocked account pertaining to segregated outstanding credit entries for more than 5 years in inter branch adjustment account, the margin money on bills

purchased / discounted and gold borrowed by banks from abroad, also should be included in ODTL.

2.3.6 Liabilities not to be included for DTL/NDTL computation

The under-noted liabilities will not form part of liabilities for the purpose of CRR :

a) Paid up capital, reserves, any credit balance in the Profit & Loss Account of the bank, amount availed of as refinance from the RBI, and apex financial institutions like Exim Bank, IDBI, NABARD, NHB, SIDBI etc.
b) Amount of provision for income tax in excess of the actual estimated liabilities.

c) Amount received from DICGC towards claims and held by banks pending adjustments thereof.
d) Amount received from ECGC by invoking the guarantee.
e) Amount received from insurance company on ad-hoc settlement of claims pending Judgment of the Court.
f) Amount received from the Court Receiver.
g) The liabilities arising on account of utilization of limits under Bankers Acceptance Facility (BAF)
h) Inter bank term deposits/term borrowing liabilities of original maturity of 15 days and above and upto one year with effect from fortnight beginning August 11, 2001.

2.3.7 Exempted Categories

Scheduled Commercial Banks are exempted from maintaining average CRR on the following liabilities :

i) Liabilities to the banking system in India as computed under Clause (d) of the Explanation to Section 42(1) of the RBI Act, 1934.
ii) Credit balances in ACU (US$) Accounts.
iii) Transactions in Collateralized Borrowing and Lending Obligation (CBLO) with Clearing Corporation of India Ltd. (CCIL).
iv) Demand and Time Liabilities in respect of their Offshore Banking Units (OBUs).

Although Scheduled Commercial Banks are exempted from maintaining average CRR on the above liabilities, they are required to maintain 3 per cent statutory reserve thereon. Scheduled Commercial Banks are not required to include inter-bank term deposits / term borrowing liabilities of original maturities of 15 days and above and upto one year in 'Liabilities to the Banking System' (item I of Form 'A'). Similarly banks should exclude their inter-bank assets of term deposits and term lending of original maturity of 15 days and above and up to one year in 'Assets with the Banking System' (item III of form A) for the purpose of maintenance of CRR. This concession is not available for maintenance of SLR.

2.3.8 Loans out of FCNR (B) Deposits and IBFC Deposits

Loans out of Foreign Currency Non –Resident Accounts (Banks), (FCNR [B] Deposits Scheme) and Inter-Bank Foreign Currency (IBFC) Deposits should be included as part of bank credit while reporting in Form 'A'. For the purpose of reporting banks should convert their FCNR (B) Deposits, Overseas foreign currency assets and bank credit in India in foreign currency in 4 major currencies into rupees at FEDAI noon mean rate on the reporting Friday.

2.3.9 Assets with the Banking System

Assets with banking system include balances with banks in current accounts, balances with banks and notified financial institutions in other accounts, funds made available to banking system by way of loans or deposits repayable at call or short notice of a fortnight or less and loans other than money at call and short notice made available to the Banking System. Any other amounts due from banking system which cannot be classified under any of the above items are also to be taken as assets with the banking system.

2.3.10 Procedure for calculation of CRR

In order to improve the cash management by banks, as a measure of simplification, a lag of one fortnight in the maintenance of stipulated CRR by banks has been introduced with effect from the fortnight beginning 6th November 1999. Thus, all Scheduled Commercial Banks are required to

maintain the prescribed Cash Reserve Ratio (@ 4.50 per cent with effect from the fortnight beginning June 14, 2003) based on their NDTL as on the last Friday of the second preceding fortnight.

2.3.11 Maintenance of CRR on daily basis

With a view to providing flexibility to banks in choosing an optimum strategy of holding reserves depending upon their intra period cash flows, all Scheduled Commercial Banks, are required to maintain minimum CRR balances upto 70 per cent of the total CRR requirement on all days of the fortnight with effect from the fortnight beginning December 28, 2002. If any Scheduled Commercial Bank fails to observe the minimum level of CRR on any day/s during the relevant fortnight, the bank will not be paid interest to the extent of one fourteenth of the eligible amount of interest, even if there is no shortfall in the CRR on average basis.

2.3.12 Payment of interest on eligible cash balances maintained by SCBs with RBI under CRR

i) All Scheduled Commercial Banks are paid interest on all eligible cash balances maintained with RBI under proviso to Section 42 (1) and Section 42 (1A) of the RBI Act, 1934, at Bank Rate from the fortnight beginning November 3, 2001. The rate of interest on CRR balances has been linked to Bank Rate as announced by RBI from time to time

ii) The Scheduled Commercial Banks were paid 100 per cent interest on CRR balances on receipt of the quarterly interest claim statements in a prescribed proforma. From the month of April 2003 onwards, Scheduled Commercial Banks were paid interest on CRR balances on monthly basis on receipt of interest claim statements. With effect from August 2004, interest on CRR balances would be paid without obtaining interest claim statements from Scheduled Commercial Banks.

iii) The amount of interest payable at Bank Rate is to be worked out on the eligible portion of CRR balances for a period of 14 days. In case the CRR balances held with RBI is less than the amount required to be maintained for any of the fortnights, eligible interest will be paid for that defaulted

fortnight only after working out cost of shortfall at the rate of 25 per cent per annum and subtracting the amount so worked out from interest payable amount.

2.3.13 Penalties

Shortfall, if any, observed in the maintenance of the CRR is reckoned against the eligible cash balances required to be maintained on the NDTL. The total amount of interest payable so arrived at is being reduced by an amount calculated at the rate of 25 per cent per annum on the amount of shortfall. In a situation where shortfall exceeds the level at which no interest becomes payable on eligible balances held by a bank on net basis i.e. (after interest deduction on the amount of CRR shortfall) the penal interest under sub-section (3) of Section 42 of the RBI Act, 1934 is made applicable.

The Scheduled Commercial Banks are required to furnish the particulars, such as date, amount, percentage, reason for default in maintenance of requisite CRR and also action taken to avoid recurrence of such default.

2.3.14 Fortnightly return in Form 'A'

Under section 42 (2) of RBI Act, 1934, all Scheduled Commercial Banks are required to submit to RBI a provisional return in Form 'A' within 7 days from the expiry of the relevant fortnight. It is used for preparing press communiqué. The final Form 'A' is required to be sent to RBI within 20 days from expiry of the relevant fortnight. Based on the recommendation of the Working Group on Money Supply: Analytics and Methodology of Compilation, all Scheduled Commercial Banks in India are required to submit from the fortnight beginning October 9, 1998, Memorandum to form 'A' giving details about paid-up capital, reserves, time deposits comprising of short term and long term, certificates of deposits, NDTL, total CRR requirement etc., Annexure A to form 'A' return showing all foreign currency liabilities and assets and Annexure B to form 'A' return giving details about investment in approved securities, investment in non-approved securities, memo items such as subscription to shares /debentures / bonds in primary market and subscriptions through private placement.

For reporting in Form 'A' return, banks should convert their overseas foreign currency assets and bank credit in India in foreign currency in four major currencies viz., US dollar, GBP, Japanese Yen and Euro at the FEDAI noon mean rate on reporting Friday.

There is no change in the existing format of fortnightly returns in Form 'A' and the method of computing DTL in Form 'A' i.e. if (I-III) is positive, then [(I-III) plus II], otherwise only II.

The explanations to item No's. I, II and III of the return in form 'A' are given below:

Item I - Liabilities to the Banking System in India .
Item II - Liabilities to Others in India.
Item III - Assets with the Banking System in India.

In terms of Clause (d) of explanation to Section 42 (1) of RBI Act, 1934, the amount of net inter-bank liabilities is to be calculated after reducing assets with banking system from liabilities to the banking system. Inter bank deposits and borrowings within the banking system, of maturity period of 15 days and above and upto one year, are totally excluded from liabilities to the banking systems with effect from the fortnight beginning August 11, 2001. For the purpose of working out liabilities to be subjected to CRR at rates prescribed from time to time (at present 4.5 per cent with effect from the fortnight beginning June 14, 2003) under section 42 (1) of RBI Act 1934, if net inter-bank liabilities are positive, they should be deducted from total net demand and time liabilities. However for the purpose of working out Statutory minimum CRR of 3 per cent on total net demand and time liabilities, net inter-bank liabilities should be included.

3. Statutory Liquidity Ratio (SLR)

In terms of Section 24 (2-A) of the B.R. Act, 1949 all Scheduled Commercial Banks, in addition to the average daily balance which they are required to maintain under Section 42 of the RBI Act, 1934, are required to maintain in India,

a) in cash, or
b) in gold valued at a price not exceeding the current market price,
or
c) in unencumbered approved securities valued at a price as specified by the RBI from time to time.

an amount of which shall not, at the close of the business on any day, be less than 25 per cent or such other percentage not exceeding 40 per cent as the RBI may from time to time, by notification in gazette of India, specify, of the total of its demand and time liabilities in India as on the last Friday of the second preceding fortnight,

At present, all Scheduled Commercial Banks are required to maintain a uniform SLR of 25 per cent of the total of their demand and time liabilities in India as on the last Friday of the second preceding fortnight which is stipulated under section 24 of the B.R. Act, 1949.

3.1 Procedure for computation of demand and time liabilities for SLR

The procedure to compute total net demand and time liabilities for the purpose of SLR under Section 24 (2) (B) of B.R. Act 1949 is similar to the procedure followed for CRR purpose. However, it is clarified that Scheduled Commercial Banks are required to include inter-bank term deposits /

term borrowing liabilities of original maturities of 15 days and above and up to one year in 'Liabilities to the Banking System'. Similarly banks should include their inter-bank assets of term deposits and term lending of original maturity of 15 days and above and up to one year in 'Assets with the Banking System' for the purpose of maintenance of SLR. However, both the above liabilities and assets are not to be included in liabilities/assets to the banking system for computation
of DTL/NDTL for the purpose of CRR as mentioned in paragraph 2.3.7 above.

3.2 Valuation of approved securities for SLR

The entire investment portfolio of the banks (including SLR Securities) will be classified under three categories viz.' Held to Maturity', 'Available for sale' and 'Held for Trading'.

Investment classified under **Held to Maturity** category need not be marked to market and will be carried at acquisition cost unless it is more than the face value. In such a case, the premium should be amortised over a period remaining to maturity.

Individual scrips in the **Available for Sale** category will be marked to market at the year-end or at more frequent intervals. The net depreciation under each classification should be recognized and fully provided for and any appreciation should be ignored. The book value of the individual securities would not undergo any change after the revaluation.

The individual scrips in the **Held for Trading** category will be revalued at monthly or at more frequent intervals and **net** appreciation/depreciation under each classification will be recognized in income account. The book value of the individual scrip will be changed with revaluation.

3.3 Penalties

If a banking company fails to maintain the required amount of SLR, it shall be liable to pay to RBI in respect of that default, the penal interest for that day at the rate of 3 per cent per annum above the bank rate on the shortfall and if the default continues on the next succeeding working day, the penal interest may be increased to a rate of 5 percent per annum above the Bank Rate for the concerned days of default on the shortfall.

3.4 Return in Form VIII (SLR) to be submitted to RBI

(i) Banks should submit to the RBI before 20th day of every month, a return in form VIII showing the amounts of SLR held on alternate Fridays during immediate preceding month with particulars of their DTL in India held on such Fridays or if any such Friday is a public holiday under the Negotiable Instruments Act, 1881, at the close of business on the preceding working day.

(ii) Banks should also submit a statement as annexure to form VIII giving daily position of (a) value of securities held for the purpose of compliance with SLR and (b) the excess cash balances maintained by them with RBI in the prescribed format.

3.5 Correctness of computation of demand and time liabilities to be certified by Statutory Auditors.

The Statutory Auditors should verify and certify that all items of outside liabilities, as per the bank's books had been duly compiled by the bank and correctly reflected under DTL/NDTL in the fortnightly/monthly statutory returns submitted to RBI for the financial year.

Appendix

Master Circular

Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR)

List of circulars consolidated by the Master Circular

Sr. No.	Circular No	Date	Subject	Corresponding paragraph number in this master circular
1	DBOD.No.Leg. BC. 34/C.233A-85	23/03/1985	Demand Liabilities, Time liability, ODTL	2.3.1, 2.3.2, 2.3.5, 3.4 (i)
2	DBOD.No.BC. 111/12.02.001/97	13/10/1997	Borrowings under paragraph 5.B.8(1) of Exchange Control Manual- Maintenance of reserve requirement	2.3.3
3	DBOD.No.Ret.BC. 14/12.01.001/2003-04	21/08/2003	Computation of Net Demand and Time Liabilities (NDTL) for the purpose of maintenance of CRR/SLR	2.3.4
4	DBOD.No.149/C. 236(G)71	27/12/1971	Participation Certificate to be included in ODTL	2.3.5
5	DBOD.No.BC.58/ 12.02.001/94-95	13/05/1995	Margin money on bills purchased	2.3.5
6	DBOD.No.Ret.BC. 40/c.236(G)Spl-86	27/03/1986	Amount received from DICGC	2.3.6 (c)
7	DBOD.No.Ret/BC. 98/C.96(Ret)-86	12/09/1986	Exclusion from NDTL-Receipt from Court Receiver, Insurance and ECGC	2.3.6 (d, e, f)
8	DBOD.No.BC.191 /12.01.001/93	2/11/1993	Rediscounting of Export Bills abroad	2.3.6 (g)
9	DBOD.No.BC.5/1 2.01.001/2001-02	7/08/2001	Reporting of Inter-bank liabilities in Form A	2.3.6(h), 2.3.7
10	DBOD.No.BC.82/ 12.01.001/2001-2002	26/03/2002	Maintenance of CRR-ACU Dollar Funds-Exemption of	2.3.7(ii)
11	DBOD.No.Ret.BC. 63/12.01.001/2003-04	14/01/2004	Maintenance of CRR/SLR on transaction in Collateralised Borrowing and Lending Obligation (CBLO)	2.3.7(iii)
12	DBOD.IBS.BC.88 /23.13.004/2002-03	27/03/2003	Offshore Banking Units (OBUs) in Special Economic Zones (SEZs)	2.3.7 (iv)

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13	DBOD.No.BC50/12.01.001/2000-01	7/11/2000	Collection of Data from Scheduled Commercial Banks in Annexure A and B	2.3.8
14	DBOD.No.Ret.BC.99/12.01.001/2002-03	29/04/2003	Maintenance of Cash Reserve Ratio (CRR)	2.3.10
15	DBOD.No.BC.54/12.01.001/2002-03	27/12/2002	Relaxation in Daily Minimum Cash Reserve Maintenance Requirement	2.3.11
16	DBOD.No.BC.34/12.01.001/2001-02	22/10/2001	Maintenance of Cash Reserve Ratio(CRR)	2.3.12
17	DBOD.No.BC.34/12.01.001/2001-02	22/10/2001	Maintenance of Cash Reserve Ratio (CRR)	2.3.12(1)
18	DBOD.Ret.BC.No.79/12.01.001/2002-2003	7/03/2004	Payment of interest on eligible CRR balances on monthly basis-Revision in the format for submission of interest claim-Introduction of New software for Form A	2.3.12 (ii)
19	DBOD.No.Ret.BC.98/12.01.001/2003-04	18/06/2004	Revision of procedure for payment of interest on the eligible CRR balances on monthly basis	2.3.12 (ii)
20	DBOD.No.Ret.BC.61/C.96 (Ret)-90	24/12/1990	Shortfall in the maintenance of Cash Reserve Ratio (CRR)-Scheme of Graduated Interest Rates	2.3.12(iii)
21	DBOD.BC.89/12.01.001/98-99	24/08/1998	Return in Form 'A'	2.3.14
22	DBOD.No.BC.117/12.02.01/97-98	21/10/1997	Rationalisation of Statutory Liquidity Ratio (SLR)	3
23	DBOD.No.BP.BC.32/21.04.048/2000-2001	16/10/2000	Guidelines for Classification and Valuation of Investments by banks	3.2
24	DBOD.No.BC.87/12.02.001/2001-2002	10/04/2002	Valuation of Securities for the purpose of SLR	3.2
25	CPC.BC.69/279 (A)-84	20/10/1984	Provisional data on maintenance of Statutory Liquidity Requirement Supplemental information to the special Return	3.4(ii)