

May 20, 2005
Vaisakha 30, 1927(S)

The Chairman / Managing Director
State Bank of India / Associate Banks /
17 Nationalised Banks / UTI Bank Ltd., ICICI Bank Ltd.,
HDFC Bank Ltd., IDBI Bank Ltd. & SHCIL

Dear Sir,

**Committee on Procedures and Performance Audit on
Public Services (CPPAPS) - Report No. 2 - Compensation
structure for delay in payment of interest and / or Principal**

Agency banks are already aware that in terms of instructions issued to them, interest warrants in case of non-cumulative bonds are required to be despatched **one month before the due date**. Interest in respect of cumulative bonds is, however, paid along with the principal at the time of maturity. The procedure for repayment of principal amount is already prescribed at paragraph 1.18 of the Memorandum of Procedure and our Circular CO DT No. 13.01.298 / H-6913 / 2003-04 dated 17.04.2004.

2. Further, in terms of instructions contained in our letter dated March 24, 2004, the repayment may be made either by credit to the Savings Bank account of the investor or by issue of Payment Order. In terms of our letter DGBA DT No. 13.01.298 / H-6252 / 2003-04 dated April 22, 2004, the maturity value must be sent to the bond holders within five clear working days on receipt of the duly discharged securities / acquittance by the office, in case the holders tender the same after the date of maturity .

3. With a view to providing better customer service to the investors in Relief / Savings Bonds, it has now been decided to compensate such investors at the current **Savings Bank rate**, on account of financial loss incurred by them due to late receipt / delayed credit of interest warrants / maturity value of the investments, despite the existing instructions as enumerated in the foregoing paragraphs.

4. For the purpose of compensating the investors for delay in receipt of interest warrants / maturity proceeds, the period of delay needs to be reckoned as under:

I. Delayed receipt of interest warrants -

Form of Holding	Investor's option for receiving the interest	Period of Delay (Actual No. of days)
(a) Bond Ledger Accounts (both at Reserve Bank of India and Agency banks /SHCIL)	(i) By Post.	In case of delay in receipt of Interest Warrants by the investors after the Coupon date i.e., after 1 January / February / July / August on account of delay in dispatch of such interest warrants from the office (one month in advance of the due date, as per DGBA instructions and to be effected for the half yearly interest due from July/ August 2005), the period of delay will be reckoned from 2 January / February / July / August and the actual number of days excluding the date of receipt will be reckoned for compensation.
	(ii) Credit to bank account of the investor with the same bank or through ECS.	In the case of credit of interest after the Coupon date i.e., after 1 January / February / July / August, the period of delay will be reckoned from 2 January / February / July / August and the actual number of days excluding the date of credit will be reckoned for compensation.
(b) Stock Certificate (only at RBI)	(i) By Post	In case of delay in receipt of Interest Warrants by the investors after the Coupon date i.e., after 1 January / February / July / August on account of delay in dispatch of such warrants from the office (one month in advance of the due date, as per DGBA instructions and to be effected for the half yearly interest due from July / August 2005), the period of delay will be calculated from 2 January / February / July / August and the actual number of days excluding the date of receipt will be reckoned for compensation.
	(ii) Through ECS	In case of credit of interest after the Coupon date i.e., after 1 January / February / July / August, the period of delay will be considered from 2 January / February / July / August and the actual number of days excluding the date of credit will be reckoned for compensation.

(c) G. P. Notes (only at RBI)	The question of delay does not arise as the post dated interest warrants were issued along with the G.P.Notes.
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II. For delayed receipt of Maturity Value / Principal Amount –

Form of Holding	Investor's option for receiving the Principal / Maturity Value	Period of Delay (Actual No. of days)
(a) Bond Ledger account (both at RBI and agency banks / SHCIL) (b) Stock Certificates / G.P. Notes (only at RBI offices)	(i) By Post	In case of receipt of Payment Orders by the investors after the date of maturity or after five clear working days from the date of submission of duly filled in acquittance to the office of issue due to delay in dispatch of cheque / draft / pay order, the actual number of days excluding the date of despatch will be reckoned for compensation.
	(ii) Through ECS	In case of credit to the account of the investor after the date of maturity (not counting the 3 days' clearing discipline for ECS payments) or after five clear working days from the date of submission of duly filled in acquittance to the office of issue, the actual number of days excluding the date of credit will be reckoned for compensation.

5. In case an investor submits the discharged bond / acquittance much after the due date, the period of delay will be reckoned only after five clear working days from the date of submission to the office of the issue.

6. In the case of Bonds where the investor had opted for cumulative interest payment, if the investor sends the acquittance by Post and is also desirous of getting any documentary evidence of the date when the acquittance had reached the branch / office, then he may be advised to send the acquittance with an "Acknowledgement Due" card, at the time when the branch / office advises him about the maturity of the investment.

7. It is also clarified that requests for reimbursement of the financial compensation for delayed despatch, paid to the investors by the Agency banks / SHCIL will not be entertained by Reserve Bank of India.

8. The Agency banks / SHCIL should also submit a certificate at the time of claiming reimbursement for the interest and principal amount paid to the investors that the claims do not include any amount arising out of payment for compensation towards delayed despatch of warrants, etc.

Yours faithfully,

(B. B. Sangma)
General Manager