

RBI/2006-07/ 145

DBOD.No. Ret.BC. 34 /12.01.001/2006-07

**October 11, 2006
Ashwina 19, 1928**

Chief Executives of all
Scheduled Commercial Banks
(excluding Regional Rural Banks)

Dear Sir,

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

Please refer to the Master Circular RBI/2005-06/70 DBOD.No.Ret.BC.18/12.01.001/2005-06 dated July 19, 2005 on the captioned subject. We enclose an updated version of the above Master Circular for your information.

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 the date of this circular.

Yours faithfully,

(P.Vijaya Bhaskar)
Chief General Manager

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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 (SCBs), 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

Consequent upon the amendment to sub-section (1) of Section 42 of the RBI Act 1934, effective from June 22, 2006 the Reserve Bank having regard to the needs of securing monetary stability in the country, can prescribe the Cash Reserve Ratio (CRR) for Scheduled Commercial Banks without any floor rate or ceiling rate. The statutory minimum CRR requirement of 3 per cent of total demand and time liabilities no longer exists with effect from June 22, 2006, RBI has decided to continue with the status quo on the rate of CRR required to be maintained by Scheduled Commercial Banks at the rate of 5 per cent of the demand and time liabilities subject to the exemptions as indicated in para 2.3.7 of this circular.

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 DTL of the bank as shown in the return referred to in section 42(2) of the Reserve Bank of India Act, 1934 over the total of its DTL 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 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 under head ' Liability to others in India' 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, 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)

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.

Scheduled Commercial Banks are not required to include income flows received in advance such as annual fees and other charges which are not refundable for computation of Demand and Time Liability/Net Demand and Time Liability of the bank for maintenance of CRR/SLR.

2.3.7 Exempted Categories

Scheduled Commercial Banks are exempted from maintaining 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 (OBU's).

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 (which is currently @ 5% per cent with effect from the fortnight beginning October 02, 2004) 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.

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

Reserve Bank of India will not pay any interest on the CRR balances maintained by Scheduled Commercial Bank's with effect from the fortnight beginning June 24, 2006 in view of the amendment carried out to RBI Act 1934, omitting sub-section (1B) of section 42.

2.3.13 Penalties

From the fortnight beginning June 24, 2006 penal interest will be charged as under in cases of default in maintenance of CRR by Scheduled Commercial Banks:

(i) In cases of default in maintenance of CRR requirement on a daily basis which is presently 70% of the total Cash Reserve Ratio requirement, penal interest will be recovered for that day at the rate of three per cent per annum above the bank rate on the amount by which the amount actually maintained falls short of the prescribed minimum on that day and if the shortfall continues on the next succeeding day/s, penal interest will be recovered at a rate of five per cent per annum above the bank rate.

(ii) In cases of default in maintenance of CRR on average basis during a fortnight, penal interest will be recovered as envisaged in sub-section (3) of Section 42 of Reserve Bank of India Act, 1934.

The Scheduled Commercial Banks (SCBs) 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 SCBs 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' return 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 into rupees at the FEDAI noon mean rate on reporting Friday.

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 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 SCBs 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 the liabilities to /assets with the banking system for computation of DTL/NDTL for the purpose of CRR as mentioned in para 2.3.7 above.

3.2 Classification and Valuation of approved securities for SLR

As regards classification and valuation of approved securities for the purpose of Statutory Liquidity Ratio, banks may be guided by the instructions contained in our Master Circular-RBI/2006-07/30 DBOD.No.BP.BC.14/21.04.141/2006-07 dated July 1, 2006 (as updated from time to time) on Prudential norms for classification, valuation and operation of investment portfolio by banks

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 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-	23/03/1985	Demand Liabilities, Time Liabilities, ODTL	2.3.1,2.3.2, 2.3.5

	85			
2	DBOD.No.BC. 111/12.02.001/97	13/10/1997	Borrowings from banks abroad-Maintenance of reserve requirement	2.3.3
3	DBOD.No.Ret.BC. 14/12.01.001/2003- 04	21/08/2003	Arrangements with correspondent banks for remittance facilities	2.3.4
4	DBOD.No.Ret.BC 149/C 236(G)71	27/12/1971	Other Demand and Time Liabilities	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 Company and ECGC	2.3.6 (d,e,f)
8	DBOD.No.BC.191 /12.01.001/93	2/11/1993	Liabilities under Bankers Acceptance Facility (BAF)	2.3.6 (g)
9	DBOD.No.BC.5 /12.01.001/2001-02	7/08/2001	Reporting of Inter-bank liabilities in Form A	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)
13	DBOD.No.BC.50/ 12.01.001/2000-01	7/11/2000	Collection of Data from Scheduled Commercial Banks in Annexure A and B	2.3.8
14	RBI/2005-2006/423 DBOD.No.BC.93/1 2.01.001/2005- 2006	22/06/2006	Maintenance of CRR on Exempted Categories	2.1, 2.3,2.10,2.3.7
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	RBI/2005-2006/422 DBOD.No.Ret.BC. 91/12.01.001/2005- 2006	22/06/2006	Section 42(1) of Reserve Bank of India Act, 1934- Maintenance of CRR	2.3.12, 2.3.7
17	RBI/2006-2007/106 DBOD.No.Ret.BC. 26/12.01.001/2006-	10/08/2006	Section 42 (1) of Reserve Bank of India Act, 1934- Penalties on default in	2.3.13

	07		maintenance of Cash Reserve Ratio (CRR)	
18	DBOD.BC.89/ 12.01.001/98-99	24/08/1998	Return in Form 'A'	2.3.14
19	DBOD.No.BC.117/ 12.02.001/97-98	21/10/1997	Rationalisation of Statutory Liquidity Ratio (SLR)	3
20	RBI/2006-07/30 DBOD.No.BP.BC. 14/21.04.141/ 2006-2007	1/07/2006	Guidelines for classification and valuation of Investments by banks	3.2
21	DBOD.No.BC.87/1 2.02.001/2001- 2002	10/04/2002	Valuation of Securities for the purpose of SLR	3.2
22	CPC.BC.69/279 (A)-84	20/10/1984	Data on maintenance of Statutory Liquidity Requirement-Supplemental information to the Special Return	3.4(ii)