RBI/2008-09/260
Ref. DBOD.No.Ret.BC.74/12.02.001/2008-09

November 03, 2008

All Scheduled Commercial Banks

Dear Sir,

Section 24 of the Banking Regulation Act, 1949 –
Shortfall in Maintenance of Statutory Liquidity Ratio (SLR) –
Additional Liquidity support under Liquidity Adjustment Facility (LAF)

Please refer to our circular DBOD. No. Ret. BC. 43/12.02.001/2008-09 dated September 16, 2008 advising that as a temporary and *ad hoc* measure, scheduled banks could avail additional liquidity support under the Liquidity Adjustment Facility (LAF) to the extent of up to one per cent of their Net Demand and Time Liabilities (NDTL) and seek waiver of penal interest. As indicated in the Reserve Bank's Press Release 2008-09/603 dated November 1, 2008 it has been decided to make this reduction permanent with effect from the fortnight beginning November 8, 2008 and accordingly, this flexibility shall be available up to November 7, 2008 after which the statutory liquidity ratio (SLR) will stand reduced to 24 per cent of NDTL. Therefore, as already indicated in the circular dated September 16, 2008, referred to above, banks may apply to the Reserve Bank for waiver of penal interest for shortfall, if any, in maintenance of SLR arising out of availment of this facility up to November 7, 2008.

2. On October 15, 2008, vide its circular DBOD. No. Ret. BC. 62/12.02.001/2008-09 the Reserve Bank further announced, purely as a temporary measure, that banks may avail of additional liquidity support exclusively for the purpose of meeting the liquidity requirements of mutual funds (MFs) to the extent of up to 0.5 per cent of their NDTL. As set out in the aforesaid RBI Press Release, a similar facility of liquidity support for non-banking financial companies (NBFCs) is also found to be necessary to enable them to manage their funding requirements. Accordingly, it has now been decided, on a purely temporary and ad hoc basis, subject to review, to extend this facility and allow banks to avail liquidity support under the LAF as stated in our circular FMD.MOAG.No.29 /01.01.01/2008-09 dated November 03, 2008, through relaxation in the maintenance of SLR to the extent of up to 1.5 per cent of their NDTL. This relaxation in SLR is to be used exclusively for the purpose of meeting the funding requirements of NBFCs and MFs. Banks can apportion the total accommodation allowed above between MFs and NBFCs flexibly as per their business needs. Accordingly, banks may apply to the Reserve Bank in writing with a request not to demand payment of the penal interest under sub-section (8) of Section 24 of the Banking Regulation Act, 1949, for the shortfall up to 1.50 per cent of NDTL in maintenance of SLR arising out of availment of this additional liquidity support under LAF.

Yours faithfully,

(Vinay Baijal)
Chief General Manager