Annexure

CHRONOLOGY OF MAJOR POLICY ANNOUNCEMENTS: APRIL 2000 – JULY 2001

Date	POLICY ANNOUNCEMENTS

I. MONETARY POLICY MEASURES

2000

April 1
- The Reserve Bank reduced the Bank Rate by 1.0 percentage point to 7.0 per cent, effective from the close of business on April 1, 2000.
- The Reserve Bank reduced the fixed repo rate by 1.0 percentage point from 6.0 per cent to 5.0 per cent, effective April 1, 2000.
- The Reserve Bank reduced the saving deposit rate of scheduled commercial banks from 4.5 per cent to 4.0 per cent, effective April 1, 2000.
- CRR was reduced by 1.0 percentage point to 8.0 per cent in two stages of 0.5 percentage point each, from the fortnights beginning April 8 and April 22, 2000, respectively.

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- In order to facilitate the movement of short-term money market rate within a corridor, impart greater stability and facilitate the emergence of a short-term rupee yield curve, it was announced that a full-fledged Liquidity Adjustment Facility (LAF) operated through repos and reverse repos would be progressively introduced with effect from June 5, 2000. In the first stage, it was proposed that the Additional Collateralised Lending Facility (ACLF) would be replaced by variable rate repo auctions with same day settlement; in the second stage, the Collateralised Lending Facility (CLF) and Level-I liquidity support would be replaced by variable rate repo auctions (some minimum support to PDs would be continued but at interest rate linked to variable rate in the daily repos auctions as determined by the Reserve Bank), and in the third stage, with full computerisation of Public Debt Office and introduction of Real Time Gross Settlement System (RTGS), repo operations through electronic transfers would be introduced and in the final stage LAF would possibly be operated at different timings of the same day.
- In order to impart greater flexibility in the pricing of rupee interest rate derivatives and facilitate integration between money and forex markets, interest rates implied in the foreign exchange forward market could be used as a benchmark for FRA/IRS in addition to the existing domestic money and debt market rates.
- The minimum maturity of CDs was reduced from 3 months to 15 days in order to bring it at par with other instruments like CPs and term deposits.
- It was decided to permit banks to offer, at their discretion, differential rates of interest also on NRE/FCNR(B) term deposits on size group basis. For NRE term deposits, banks were allowed to offer differential rates of interest on single term deposit of Rs.15 lakh and above as in the case of domestic deposits. For FCNR(B) deposits, it was decided to allow banks to have discretion to decide currency-wise minimum eligible quantum qualifying for such differential rates of interest. The interest rates so offered were, however, subject to the overall ceiling prescribed under the scheme. In order to make the market more 'on line', it was decided to give the banks the options to choose at their discretion, the current swap rates

while offering FCNR(B) deposits.

- It was decided that the facility to non-bank entities for routing transactions through Primary Dealers (PDs) would be extended from end-June 2000 to end-December 2000 and simultaneously steps will be initiated to extend repo facility to such entities through Subsidiary General Ledger (SGL) II Accounts.
- Select all-India Financial Institutions (AIFIs) were given flexibility in the matter of fixing interest rates on term deposits.
- In order to facilitate operational flexibility to existing lenders to adjust their asset liability structure by widening the repo market and improve the participation of the non-bank entities, a time bound programme of withdrawing permission to non-bank entities for lending in call/notice money market coinciding with the development of the repo market was announced.
- In order to provide more deployment avenues within the country and at the same time to exploit the synergy between the lending expertise of a few banks with the vast branch network of the others, it was decided that gold mobilised under the Gold Deposit Scheme could be lent to other authorised banks for similar use as per the specified guidelines. Such borrowings of gold would be treated as inter-bank liabilities and be exempt from CRR.

May 3 • With a view to providing further flexibility to banks and enabling them to choose an optimum strategy of holding reserves depending upon their intra-period cash flows, the requirement of minimum 85 per cent of the CRR balances on the first 13 days to be maintained on a daily basis was reduced to 65 per cent from the fortnight beginning May 6, 2000.

25 • An interest rate surcharge of 50 per cent of the lending rate on import finance was imposed with effect from May 26, 2000. Essential categories, such as export related imports, bulk imports in respect of crude oil, petroleum products, fertilisers, edible oil and other essential commodities imported through Government agencies were exempted from interest surcharge.

July 6 • The Reserve Bank issued draft guidelines for the issue of commercial paper (CP). It was proposed to permit all-India financial institutions to issue CPs, to allow issue of CPs in maturities ranging from 15 days to one year in denominations of Rs.5 lakh or its multiples, to facilitate corporates to issue CPs to the extent of 50 per cent of working capital (fund-based) limit under automatic route, to permit FIIs to invest in CP within their 30 per cent limit of debt instruments, to encourage issue/holding of CP in dematerialised form, to enable credit rating agencies (CRA) to have discretion on the validity period of the rating and to assign clear roles for issuer, financing banking company, issuing and paying agent and CRA.

21 • After a review of the recent developments in the international and domestic financial markets, including the foreign exchange market, the Reserve Bank raised the Bank rate by 1 percentage point to 8.0 per cent with effect from the close of business on July 21, 2000. Further it was announced that the CRR would be hiked by 0.5 percentage point to 8.5 per cent in two stages of 0.25 percentage point each, effective from the fortnights beginning July 29 and August 12, 2000, respectively, and all refinance limits available to banks (including those for CLF), as a temporary measure, would be reduced by 25.0 per cent each in two stages of the eligible limits as per the existing formula.

Oct. 6 • It was announced that the Reserve Bank would issue Banknotes in the denomination of Rs.1,000 in the Mahatma Gandhi Series with effect from October 9, 2000.

10 • Following the recommendations of Narasimham Committee II, the Reserve Bank widened the repo market by permitting the non-bank participants maintaining current and SGL accounts with the Reserve Bank to undertake both repos and reverse repos, reducing the minimum maturity of repo transactions to 1 day, making state government securities eligible for repos and opening of its purchase window to impart liquidity to government securities whenever situation warrants. As suggested by the Committee, it is necessary to move towards a pure inter-bank call money market as early as possible. However, as the repo market was not yet broad-based and deep, the permission granted to select corporates for routing call money transactions through PDs was further extended from December 2000 to June 2001.

- In order to make necessary transitional provisions in respect of non-bank institutions including FIs and MFs, before the call money market is confined to only banks/PDs, it was decided to constitute a Group to suggest smooth phasing out by a planned reduction in their access to call/notice money market.
- New guidelines were released on issue of CPs, accounting for the suggestions on draft revised guidelines circulated in July 2000, for providing flexibility, depth and vibrancy in the CP market while retaining the prudential safeguards and transparency. In particular, the guidelines were to enable companies in the services sector to more easily meet their short-term working capital needs. CP is now allowed to be issued as a 'stand alone' product. Banks and FIs would have the flexibility to fix working capital limits duly taking into account resource pattern of companies' financing, including CPs.
- With a view to providing flexibility and depth to the secondary market, it was decided to withdraw the restriction on transferability period for CDs issued by both banks and financial institutions.

Nov. 15 • It was announced that the Reserve Bank would issue banknotes in the denomination of Rs.500 in the Mahatma Gandhi Series, in revised colour scheme with effect from November 18, 2000.

2001

Jan. 6 • The interest rate surcharge of 50 per cent on import finance, which was in force since May 26, 2000, was withdrawn with effect from January 6, 2001. Furthermore, the minimum rate for interest rate charge of 25 per cent on overdue export bills, in force since May 26, 2000, was also withdrawn with effect from January 6, 2001 thereby giving banks the freedom to decide the appropriate rate of interest on overdue export bills.

Feb. 16 • The Reserve Bank reduced the Bank Rate by 50 basis points to 7.5 per cent effective close of business on February 16, 2001 and lowered the CRR by 50 basis points to 8.0 per cent in two stages of 0.25 percentage point each, effective from fortnights begining February 24 and March 10, 2001, respectively.

March 1 • On a further review, the Bank Rate was reduced from 7.5 per cent to 7.0 per cent effective close of business on March 1, 2001.

12 • The Technical Group Report on phasing out of non-banks from call/notice money market was submitted. It recommended three-stage reductions in call money lendings by non-bank participants (including mutual funds and insurance companies). In the first stage, the recommendation was to permit lending up to 70 per cent of their average daily lendings during 2000–01 for a period of three months after which the lending limit may be reduced to 40 per cent in the second stage. In the third stage, by which time Clearing Corporation is expected to be operationalised, their lendings may be reduced to 10 per cent for a period of three months to enable them to be familiar with the operations of the Clearing Corporation.

15 • The Government of India reduced the interest rate payable on Relief Bonds issued under 9 per cent Relief Bonds, 1999 Scheme from 9 per cent per annum to 8.5 per cent per annum with effect from March 15, 2001.

April 19 • In the Monetary and Credit Policy for 2001-02, the LAF progressed into its second stage by splitting the standing liquidity facilities available from the Reserve Bank to scheduled commercial banks under CLF and export credit refinance, and to PDs under liquidity support facility into normal facility and back-stop facility approximately in the ratio of2:1. While the normal facility was made available at the Bank Rate, the back-stop facility was provided at a variable daily rate (1.0 percentage point above the reverse repo cut-off during the day or 2.0-3.0 percentage points above the repo cutoff in case no reverse repo bid is accepted or 2.0-3.0 percentage points above the National Stock Exchange-Mumbai-Inter-Bank Offer Rate (NSE-MIBOR), if no repo or reverse repo bids are accepted during the day).

- In order to rationalise export credit refinance, with effect from the fortnight beginning May 5, 2001, scheduled commercial banks were provided export credit refinance to the extent of 15.0 per cent of the outstanding export credit eligible for refinance as at the end of the second preceding fortnight. The existing refinance limit as on May 4, 2001 as per current formula would constitute the minimum limit available for a bank up to March 31, 2002.
- The procedural modifications under LAF included introduction of multiple price auction (instead of existing uniform price auction), advancement of the auction timing by 30 minutes, reduction of minimum bid size for LAF from Rs.10 crore to Rs.5 crore, introduction of additional options to switch over to overnight fixed rate repos and discretion to introduce longer term repos, whenever required. The revised LAF was made effective from May 8, 2001.
- The requirement for Prime Leding Rate (PLR) to be the floor interest rate on loans or credit limits above Rs.2 lakh was relaxed and the banks were allowed to offer loans at below-PLR rates to exporters or other creditworthy borrowers including public sector enterprises (PSEs) based on a transparent policy cleared by their Boards. However, PLR was still to serve as a ceiling interest rate for loans up to Rs.2 lakh and banks were to continue declaring the maximum spread of interest rates over PLR.
- The interest rates on export credit extended by banks were rationalised by prescribing ceiling rate linked to PLRs of the respective banks in case of all categories including pre-shipment credit.
- In order to usher in pure inter-bank call money market, the Monetary and Credit

Policy of 2001-02 announced permission of the corporates to route their call money transactions through PDs to continue up to June 30, 2001 as decided earlier and reduction of lending of other non-bank institutions in the call/notice money market successively to 85.0 per cent, 70.0 per cent, 40.0 per cent and 10.0 per cent of their average daily lendings in the call money market during 2000-01 in stage I beginning from May 5, 2001, stage II with effect from date of operationalisation of Clearing Corporation, stage III with effect from three months after stage II and stage IV with effect from three months after stage III, respectively. After the onset of stage IV, the Reserve Bank would notify a date from which non-banks would not be permitted to lend in the call/ notice money market.

- The minimum maturity period of wholesale term deposits of Rs.15 lakh and above was reduced from 15 days to 7 days in order to facilitate flexibility in investment of short-term funds by non-banks.
- The requirement of minimum daily average of 65.0 per cent of CRR balances during a reporting fortnight except the reporting Friday was reduced to 50.0 per cent for the first seven days of the reporting fortnight while maintaining minimum requirement of 65.0 per cent for the remaining seven days including the reporting Friday with effect from the fortnight beginning August 11, 2001.
- The interest rate on eligible balances kept by the scheduled commercial banks (except RRBs) with the Reserve Bank under CRR was increased from 4.0 per cent to 6.0 per cent from the fortnight beginning April 21, 2001 and at a subsequent stage to be announced later, interest paid was to be at the Bank Rate.
- Effective fortnight beginning August 11, 2001 the inter-bank term liabilities of maturity of 15 days and above were made exempt from the prescription of minimum CRR requirement of 3.0 per cent.
- To improve the infrastructure for facilitating efficient funds management, the Reserve Bank decided to set up a Structured Financial Messaging backbone Solution for which Society for World-wide Inter-bank Financial Telecommunication (SWIFT) like message formats have been finalised and circulated to the banks to encompass various types of intra and inter-bank applications including those of government transactions, debt-related transactions and currency chest transfer data.
- Regulation Review Authority (RRA) ceased to exist from March 31, 2001 after completion of its term. However, to examine suggestions received from general public at large for reviewing Bank's rules, from April 1, 2001, the Bank has put in place a mechanism under the charge of an Executive Director for dealing with such applications.
- A package of special relief measures for the State of Gujarat such as freezing of loans classification status, special limit of sanction up to Rs.1 lakh for rehabilitating small business, loans up to Rs.2 lakh for repairs/ reconstruction, additional limits/rescheduling of existing limits to SSI, loans up to Rs.10 lakh at PLR, relief/concession to exporters, soft loan to NHB for providing assistance for reconstruction of houses, *etc.* were announced.

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- Banks, FIs, PDs and SDs have been permitted to make fresh investments and hold CP only in dematerialised form effective from June 30, 2001. Their outstanding investments in scrip form would be converted into dematerialised form by October

31, 2001.

- Effective from October 31, 2001, banks, FIs, PDs and SDs would be permitted to make fresh investments and hold bonds and debentures privately placed or otherwise only in dematerialised form.

May 12 • The Reserve Bank reduced the CRR by 50 basis points from 8.0 per cent to 7.5 per cent, effective from the fortnight beginning May 19, 2001.

22 • It was announced that the Reserve Bank would re-introduce bank notes of denomination Rs.5 in the existing design with effect from May 25, 2001.

June 4 • It was announced that the system of multiple price method of repo and reverse repo auctions would continue until further notice. Moreover, the rate for back-stop facility would be between 1.0 to 3.0 percentage points over NSE-MIBOR, as may be decided by the Reserve Bank, when no bids for repo or reverse repo auctions have been received/accepted.

II. INTERNAL DEBT MANAGEMENT POLICIES

2000

April 1 • The arrangements for the fiscal year 2000-01 in respect of Ways and Means Advances (WMA) to the Government of India, the rate of interest and the minimum balance required to be maintained with the Reserve Bank effective April 1, 2000 were to be same as those in 1999-2000.

27 • The restriction that no sale deal should be entered into without actually having the securities in the investment portfolio at the time of sale was removed and entities were permitted to sell the securities after allotment, thus enabling sale, settlement and transfer on the same day.

- Special facility for securities settlement was proposed to be introduced for banks and PDs having SGL accounts for providing smooth securities settlement.
- The liquidity support to PDs was reviewed and it was decided to take into account not only the bidding commitment but also the performance of PDs in both primary and secondary markets for this support. The payment of commissions for Treasury Bills was withdrawn with effect from June 5, 2000 as PDs were no longer required to take devolvements.

Aug. 23 • PDs were allowed “switch facility” to swap their long-dated government securities with 364-day Treasury Bills available in the list of open market operations. Reserve Bank offered to purchase from August 24 three dated Government of India securities against sale for an equal amount in face value of 364-day Treasury Bills.

Sept. 26 • The Reserve Bank announced, with effect from October 3, 2000, an introduction of a special fund facility for banks and PDs to provide intra-day funds to facilitate the settlement of securities transactions in case of a gridlock occurring on account of shortage of funds on a gross basis in the current account of one or more SGL account holders especially when transactions are linked. Banks and PDs who are eligible for CLF/liquidity support facility at the Bank Rate would be made eligible. Credit was made available on a collaterised basis against undrawn CLF/primary dealers liquidity support (PDLS) at Bank Rate with equal interest cost sharing by all the beneficiary participants.

Oct. 3 • A scheme was introduced for automatic invocation by the SGL Account holder of undrawn refinance/ liquidity support from the Reserve Bank for facilitating smooth securities settlement to banks and PDs only.

10 • With a view to encouraging investors to hold Government securities in a scrip-less form and to ensure that entities holding securities in custody employ practices and procedures so that constituents' securities are appropriately accounted and kept safe, a set of guidelines governing the maintenance of the Constituents' SGL Accounts was issued.

27 • With the creation of three new States (Jharkhand, Uttaranchal and Chhattisgarh) special arrangements were made for the WMA: apportioning the minimum balances and WMA limits between the respective old and new States on the basis of revenue sharing formula adopted by Government of India, increasing the WMA limits uniformly by 30 per cent for all the six states to take care of mismatches that may arise out of the division and partial relaxation of overdraft (OD) regulations. As per the existing provision, the OD regulation scheme stipulated a three-day limit for clearing/ reducing OD below normal limits, if it exceeded 100 per cent of normal WMA. This provision was relaxed for both the new and successor states (old states) up to March 31, 2001. However, the clause of suspension would persist, if any of the States continues to be in OD for 10 consecutive working days.

Dec. 9 • The notified amount in respect of auctions of 364-day Treasury Bills was enhanced from Rs.500 crore to Rs.750 crore.

11 • New capital adequacy guidelines were issued for PDs taking into account credit and market risks faced by them. PDs were asked to submit capital adequacy returns on a quarterly basis with effect from September 30, 2000. For meeting the market risk capital charges, Tier-III capital was specifically introduced in accordance with international norms. PDs were asked to calculate their market risk charges with help of the higher of the capital charges obtained from standardised method and the Value at Risk method.

2001

Jan. 10 • On the basis of the recommendations of the Informal Group of State Finance Secretaries, the Reserve Bank revised the normal WMA limits (WMA Scheme 2001) to 2.4 per cent and 2.9 per cent, respectively, for non-special category States and special category States, of the average of revenue receipts and capital expenditure for 1997-98, 1998-99 and 1999-2000 with effect from February 1, 2001, thereby increasing the present limit by 34 per cent to Rs.5,296 crore. The period of availing OD was extended from 10 working days to 12 working days as an *ad hoc* measure and the restriction period for bringing the OD level down to within 100 per cent normal WMA was extended from 3 days to 5 days. The entire scheme for the WMA would be reviewed by the Reserve Bank after two years in light of the emerging conditions in State finances.

12 • In pursuance to the decision in the meeting of the State Finance Secretaries held at the Reserve Bank on June 12, 1999, the Core Group on 'Voluntary Disclosure Norms for State Governments', which was constituted to enhance transparency in the disclosures of the State Budgets, submitted its report.

27 • In view of the unprecedented nature of the calamity in Gujarat, the Reserve Bank relaxed the WMA limits and the terms of OD regulations for Gujarat initially for a period of one month till the end of February 2001 and later extended up to April

2001.

March 2 • In-principle approval to become PDs in Government securities market was given to four more entities *viz.*, Banc of America Securities (India) Pvt. Ltd., Subsidiary of Bank of Baroda, HSBC Primary Dealership (India) Pvt. Ltd. and Standard Chartered - UTI Securities India Pvt. Ltd. This was in addition to the 15 PDs already working in the Government securities market.

April 1 • The revised arrangements in respect of WMA to the Government of India for 2001-02 came into effect from April 1, 2001. Accordingly, the limit for WMA would be lower at Rs.10,000 crore for the first half of the year and Rs.6,000 crore for the second half. The other provisions of the scheme would remain the same.

19 • In the Monetary and Credit Policy 2001-02, it was decided to discontinue 14-day and 182-day Treasury Bills auctions and increase the notified amount for 91-day Treasury Bill auction to Rs.250 crore and also to synchronise the dates of payment for both 91-day and 364-day Treasury Bills with a view to provide adequate fungible stock of Treasury Bills of varying maturities and to activate secondary market. The notified amount in the case of 364-day Treasury Bill auctions was, however, to remain at Rs.750 crore. These changes became effective from the week beginning May 14, 2001.

- In pursuance of announcement in Union Budget 2001-02, it was proposed to replace the Public Debt Act by the Government Securities Act.
- An electronic Negotiated Dealing System (NDS) was proposed to be introduced by June 2001 with a view to facilitating transparent electronic bidding in auctions and secondary market transactions on a real time basis.
- It was proposed that while the current eligibility criteria for accredition as a SD would continue, the existing liquidity support from the Reserve Bank would be discontinued.
- Effective June 2, 2001 all the transactions in Government securities settled through the Delivery *versus* Payment (D*v*P) system of the Reserve Bank was to be made on T plus 1 basis in order to enable participants to prepare themselves for a Negotiated Dealing System (NDS).
- To promote retail access in Government securities, screen-based trading in Government securities would be introduced.
- It was proposed to discuss with the Government the feasibility of separation of government debt management function from the Reserve Bank with the passing of Fiscal Responsibility Bill and amendments to Reserve Bank of India Act.
- To encourage retail participation in the primary market for Government securities, a scheme to provide retail investors, on a non-competitive basis, an allocation of up to 5 per cent of notified amount would be introduced.
- There would be an extension of uniform price auction format to the auctions of dated securities, on a selective and experimental basis.

20 • The Reserve Bank granted final approval to HSBC Primary Dealership India Private Limited to operate as a primary dealer in the Government Securities market thereby increasing the number of primary dealers to sixteen.

30 • As announced earlier, a national level Clearing Corporation with the name “The Clearing Corporation of India Ltd.,” was registered as a limited liability company under the Companies Act, 1956 at the initiative of the Reserve Bank with SBI as chief promoter for facilitating smooth clearing and settlement of transactions in forex, Government securities and money markets.

III. FINANCIAL SECTOR MEASURES 2000

2000

April 4
- FIs were to value the investments in Mutual Funds (MFs) units at the market rates as per Stock Exchange quotation, if available. Otherwise, the latest Net Asset Value (NAV) declared by the MF in respect of each particular scheme should be used for valuation.

April 8
- FIs may enter into ready forward contracts through the treasury bills, dated securities of GoI and State Governments in accordance with certain terms and conditions specified by the Reserve Bank.

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- The Reserve Bank advised that (a) banks need to assign risk weight of 100 per cent on those State Government guaranteed securities that are issued by the defaulting entities and not on all the securities issued or guaranteed by the concerned State Government; (b) no provision need be made for a period of one year in respect of additional credit facilities granted to SSI units which are identified as sick where rehabilitation packages/ nursing programme have been drawn by the banks themselves or under consortium arrangements, and (c) the general provision of 0.25 per cent on Standard Assets should be made on global portfolio basis and not on domestic advances alone.
- It was decided that lending by banks to NBFCs for on-lending to agriculture be reckoned as priority sector lending.

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- Banks were advised to voluntarily build-in the risk weighted components of their subsidiaries into their own balance sheets on notional basis at par with the risk weights applicable to bank's own assets.
- The Reserve Bank announced a move towards risk-based supervision (RBS) of banks. The RBS approach entails monitoring of banks by allocating supervisory resources and focusing supervisory attention according to the risk profile of each institution.
- The Reserve Bank decided to enhance the ceiling for classifying advances for financing distribution of inputs for allied activities, such as cattle-feed, poultry-feed, *etc*., as indirect advances to agriculture to Rs.15 lakh from Rs.5 lakh.
- Realising the need for better institutional mechanism for sharing of credit-related information, banks and FIs were advised to make the necessary in-house arrangements for gathering and collecting of such information in one place for transmitting it to the Credit Information Bureau.
- With regard to deposit insurance, the Reserve Bank announced that a new law in supercession of the existing enactment is required to be enacted to implement the recommendations of the Advisory Group on Reforms in Deposit Insurance in India and the task of preparation of the new draft law has been taken up.

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- It was decided to authorise Regional Rural Banks (RRBs) which have minimum working capital of Rs.25 crore and satisfy other listed criteria to open/maintain Non-Resident (Ordinary/External) accounts in rupees.

May 5
- Select AIFIs were advised that the provision for Standard Assets need not be netted from gross advances, but shown separately as "Contingent Provision against

Standard Assets" under "Other Liabilities and Provisions" in the balance sheets. This provision would not be eligible for inclusion in Tier II Capital and the provision for Standard Assets should not be reckoned for arriving at net NPAs.

25 • Interest rate surcharge of 50 per cent of the actual lending rate on credit extended by the FIs for imports was reintroduced as a temporary measure.

26 • In line with banks, FIs were advised to charge interest at the rate of 25 per cent per annum (minimum) in respect of overdue export bills from the date bills fall due for payment and also to ensure that the exporters do not delay repatriation of export proceeds beyond the due date.

• The exemption granted to RRBs from the practice of marking to market norms in respect of the SLR securities was further extended to another two financial years, *viz*., 2000-01 and 2001-02.

30 • FIs were advised to assign a risk weight of 100 per cent only on those State Government guaranteed securities issued by the defaulting entities and not on all securities issued by State Governments.

• The FIs were advised that the excess provision towards depreciation on investments should be appropriated to 'Investment Fluctuation Reserve Account' (IFRA) instead of 'Capital Reserve Account' (CRA) and will be eligible for inclusion in Tier II Capital.

June 9 • Any NBFC registered with the Reserve Bank having net owned fund (NOF) of Rs.2 crore as per last audited balance sheet was permitted subject to the Reserve Bank's approval, to undertake insurance business as an agent of insurance company on fee basis, without any risk participation. All registered NBFCs having minimum owned fund of Rs.500 crore that satisfy the eligibility criteria prescribed by the Reserve Bank were permitted to undertake insurance business with risk participation, subject to safeguards. Companies which are not eligible for undertaking insurance business with risk participation can make straight investment up to 10 per cent of their owned fund or Rs.50 crore whichever is lower, in the equity of insurance companies subject to fulfilment of certain criteria. In all the above three cases, the NBFCs registered with the Reserve Bank require prior approval of the Reserve Bank.

June 21 • FIs are not required to seek Reserve Bank's issue-wise prior approval/registration for raising of resources by way of issue of bonds (both public issue and private placement) subject to the fulfilment of certain specified terms and conditions.

29 • Banks were advised not to charge interest tax in respect of any chargeable interest accruing or arising after March 31, 2000.

30 • The Reserve Bank announced rationalisation of some of the regulations applicable to NBFCs and RNBCs. Provisioning norms for NBFCs in respect of lease and hire purchase assets were rationalised. RNBCs were permitted to invest in the schemes of SEBI approved mutual funds besides UTI subject to certain ceilings. The floor on interest rates payable by the RNBCs was lowered by two percentage points. Compliance with prudential norms has been made a pre-condition for deposit acceptance by RNBCs. Deposits from the relative of a Director of an NBFC were exempted from the purview of public deposits. The NBFCs were also advised to brand their certificates of registration as 'deposit taking companies' or 'non-deposit taking companies'. The returns to be submitted by NBFCs were modified and rationalised.

July **14**• A revised calendar of reviews effective from August 1, 2000 was prescribed for public sector banks. The revised calendar contains three parts *viz*., reviews to be put up to i) the Board of Directors, ii) the Management Committee and iii) Audit Committee of the Board. The reviews prescribed cover in an exhaustive manner all the functional areas of the banks.

20• Considering the fact that banks and FIs which are raising capital abroad for improving their capital base have largely rupee denominated assets and that most of the risk limits are linked to their capital, banks and FIs were advised to repatriate the entire proceeds of GDRs/ADRs soon after the issue process is completed. The provision would be applicable to direct investments in banks and FIs made by NRIs/OCBs, foreign banking companies or finance companies, including multilateral institutions.

27• Revised guidelines for recovery of dues relating to NPAs of public sector banks were announced. These covered NPAs relating to all sectors including the small sector and were operative up to March 31, 2001.

28• For recovery of dues relating to NPAs, all the Central Public Financial Institutions were advised to implement the modified guidelines which provides a simplified, non-discretionary and non-discriminatory mechanism for recovery of the stock of NPAs.

31• The Reserve Bank prepared a Discussion Paper on Prompt Corrective Action (PCA). The schedule of prompt corrective actions under the broader PCA regime was worked out based on three parameters: CRAR, net NPAs to net advances and Return on Assets. Trigger points were set under each of the three parameters taking into account the practicality of implementation in the Indian context.

Aug. **7**• It was decided that each bank should compute its minimum share of housing finance allocation for 2000-01 at 3 per cent of its incremental deposits as on last reporting Friday (LRF) of March 2000 over the corresponding figure for LRF of March 1999.

• It was decided that banks should assign 100 per cent risk weight to the loans and advances granted by them to their own staff instead of the existing practice of assigning zero weight. Further, all such loans were to be shown under “Other Assets” in Schedule 11 of the Balance Sheet indicating the aggregate quantum with a suitable footnote.

9• It was decided that any bank intending to undertake insurance as per the guidelines should obtain prior approval of the Reserve Bank before engaging in such business. Banks having minimum net worth of Rs.500 crore, and satisfying other criteria in regard to capital adequacy, profitability *etc.*, were allowed to undertake insurance business through joint venture on risk participation basis. Reserve Bank would consider equity contribution in the joint venture to the tune of 50 per cent. Banks which were not to satisfy the above criteria would be allowed on a ‘without participation’ basis up to 10 per cent of their net worth or Rs.50 crore, whichever was lower, as strategic investors.

29• It was clarified that rupee subordinated debts raised by banks as Tier II capital, would not be considered for inclusion in capital funds for the purpose of determining the exposure ceilings to individual/group borrowers.

Sept. **2** • Corporates desirous to avail hedging facility for underlying exposures in crude oil/petroleum products were permitted to approach the Reserve Bank for one-time approval subject only to monthly reporting of transactions through authorised dealers.

23 • All commercial banks (including foreign banks) operating in India have been advised to transfer not less than 25 per cent of their net profit (before appropriations but after adjustments/provisions for staff bonus) to the reserve fund as against statutory minimum of 20 per cent.

Oct. **5** • The Reserve Bank issued guidelines for sanction of working capital finance to Information Technology (IT) and Software Industry.

6 • The scheduled commercial banks were permitted sale of Government securities after they have been allotted the same in the issues of primary auctions without actually holding the securities at the time of sale subject to some terms and conditions.

10 • The mid-term Monetary and Credit Policy announced the following prudential policy measures: (a) general provision on standard assets was allowed to be included in Tier II capital (subject to a maximum of 1.25 per cent of the total risk weighted assets) in line with international best practices, (b) public sector banks were directed to attach the balance sheet in respect of each of their subsidiaries to their balance sheet beginning from the year ending March 31, 2001 in order to bring more transparency and move towards consolidated supervision, (c) the concept of past due in respect of non-performing assets, (grace period of 30 days) was to be dispensed with, effective March 31, 2001 on account of the improvements in the payment and settlement systems, recovery climate and upgradation of technology in the banking systems.

• In order to improve functional efficiency of market, rating was made mandatory for the term deposits accepted by all-India financial institutions with effect from November 1, 2000.

• Since Boards of the banks already decide the PLR and spreads, with a view to give further operational autonomy, banks were permitted to formulate transparent policy of the penal/additional interest to be charged by them in cases of default in repayment, non-submission of financial statements, *etc.* with the approval of their Boards.

• Banks were permitted to decide margin based on their commercial judgement on free sale sugar and hitherto prescribed margin stood withdrawn with effect from October 10, 2000.

11 • In the light of best international practices, the FIs were permitted to include the "General Provision on Standard Assets" in their supplementary (Tier II) capital. It was also stipulated that the provisions on standard assets along with other 'general provisions and loss reserves' should not exceed 1.25 per cent of the total risk weighted assets.

16 • As regards the flow of credit to SSI sector, in the light of the decision of the Group of Ministers, the Reserve Bank advised banks that, while sanctioning/renewing credit limits to their large corporate borrowers (*i.e.*, borrowers who enjoy working capital limits of Rs.10 crore and above from the banking system), they should fix separate sub-limits, within the overall limits, specifically for meeting payment obligations in respect of purchases from SSIs either on cash basis or bill basis. Banks may ensure that sale proceeds/other receipts of the borrower are credited to this account on a pro-rata basis.

- Reserve Bank issued revised guidelines on classification and valuation of the investment portfolio. As per these, banks were to classify their entire investment portfolio as on September 30, 2000, under three categories, *viz*., 'held to maturity', 'available for sale' and 'held for trading'. In the balance sheet, the disclosure would continue to be as per six classifications, *viz*. 'Government securities', 'other approved securities', 'shares', 'debentures & bonds', 'subsidiaries/joint ventures' and 'others (CP, Mutual Fund Units, *etc*.). While securities under 'available for sale' and 'held for trading' were to be marked to market, 'held to maturity' investments were not to be marked to market.

Nov. 8 • In pursuance of the mid-term review of Monetary and Credit Policy, the Reserve Bank issued a set of guidelines governing the maintenance of the Constituents' SGL Accounts in the Reserve Bank with a view to encourage holding of securities safely in scripless form.

9 • Effective half year ended March 2001, the entire investment portfolio of FIs have to be classified into the three categories *viz.*, 'held to maturity', 'held for trading' and 'available for sale'.

Nov. 10 • As recommended by the RBI-SEBI Technical Committee report, the final guidelines on bank financing of equities and investment in shares were issued. A bank was allowed to invest up to 5 per cent of its total outstanding domestic credit (excluding inter-bank lendings and advances outside India) as on March 31 of the previous year in capital market by way of investments in shares, convertible debentures and units of mutual funds (other than debt funds). Credit substitutes like commercial papers, non-convertible debentures, *etc*. were not to be reckoned as part of credit portfolio for arriving at the ceiling on bank's investments in shares and debentures.

- The Reserve Bank set up a multi-disciplinary working group (Chairman: Shri Vipin Mallik) to look into the introduction of consolidated accounting and other quantitative techniques of consolidated supervision of bank groups.

20 • As regards income recognition, asset classification and provisioning, urban co-operative banks were advised that no provision would need to be made for a period of one year in respect of additional credit facilities granted to SSI units which are identified as sick and where rehabilitation packages/ nursing programmes have been drawn by the banks themselves or under consortium arrangements.

22 • The FIs were permitted to undertake transactions in securities among themselves or with banks and non-banks clients through members of the Bombay Stock Exchange (BSE) directly.

23 • Banks were advised that the practice of submitting credit proposals in excess of Rs.1 crore to the Reserve Bank for approval may be discontinued in respect of sensitive commodities coming under selective credit control with immediate effect. Banks will, henceforth, have the freedom to sanction such credit proposals in terms of their individual loan policies.

28 • Certain categories of credit for imports were exempted from the levy of interest rate surcharge.

29• The Reserve Bank set up a multi-disciplinary working group (Chairman: G. Sitharaman) to look into the introduction of risk based internal inspection/audit in banks in India and to make suitable recommendations.

Dec. **5•** Format for reporting on raising of resources by select AIFIs have been amended to include 'commercial paper' under the one time 'umbrella limit'.

8• Due to the improvements in the financial sector during the past few years, it was decided to dispense with 'past due' concept with effect from March 31, 2001. Accordingly, urban co-operative banks were advised that as from that date, an NPA shall be an advance where (a) interest and /or instalment of principal remain overdue for a period of more than 180 days in respect of a Term Loan, (b) the account remains 'out of order' for a period of more than 180 days, in respect of an OD/ Cash Credit (CC), (c) the bill remains overdue for a period of more than 180 days, in the case of bills purchased and discounted, (d) interest and/or instalment of principal remains overdue for two harvest seasons, but for a period not exceeding two half years in the case of an advance granted for agricultural purposes, and (e) any amount to be received remains overdue for a period of more than 180 days in respect of other accounts.

21• Banks were advised that review of the progress in implementation of guidelines on Risk Management Systems in banks, which was so far being undertaken by the Boards of the banks at half yearly intervals must henceforth be undertaken at quarterly intervals.

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Jan. **3•** The revised guidelines for licensing of new banks in the private sector were issued which stipulated a minimum initial paid-up capital of the new bank of Rs.200 crore to be raised to Rs.300 crore within three years from the commencement of business with minimum 40 per cent as promoter's contribution subject to a lock-in period of 5 years and dilution of any excess stake after one year. The rest could be raised through public issue or private placement with NRI participation in the primary equity limited to 40 per cent and within this limit a restriction of 20 per cent for any foreign banking company or finance company (including multilateral institutions) as a technical collaborator or a co-promoter. However, while the new bank should not be promoted by an industrial house, individual companies can invest up to 10 per cent of the bank's equity. No extension of credit facilities from the bank to the promoters and companies investing up to 10 per cent. NBFCs with good track record desirous of conversion to a bank should also meet the above criteria as well as should have capital adequacy of not less than 12 per cent and net NPAs of not more than 5 per cent. The bank would be required to maintain a minimum capital adequacy ratio of 10 per cent, priority sector target of 40 per cent of net bank credit and open 25 per cent of branches in rural and semi-urban areas.

Jan. **13•** Interest rate surcharge on import finance was withdrawn for FIs.

18• In the case of urban co-operative banks, it was decided to consider the amounts held under the head "Building Fund" also as eligible to be treated as part of free reserves and will be taken into account for calculating "Capital Funds" for the purpose of determining exposure norms.

24• Certain changes in the practices and procedure of conducting financial inspection by the Reserve Bank in respect of FIs were introduced.

30 • The Reserve Bank clarified the accounting and prudential regulatory treatment of expenditure on account of Voluntary Retirement Scheme (VRS). VRS related expenditure would comprise (a) *ex-gratia* payment of a sum equal to 2 months pay for every year of service rendered or pay for the remaining period of service, whichever is less and (b) terminal benefits like gratuity, pension/ provident fund, commutation of pension, encashment of accumulated leave, cost of reimbursement of travel and transportation at the time of retirement, *etc*.

Feb. 2 • The Reserve Bank advised banks about the exemption granted by the Central Government to all associations (other than political parties) from provision of Foreign Contribution (Regulation) Act, 1976 to accept foreign contribution without obtaining a formal approval from the Central Government, in cash or kind, to provide relief to earthquake victims in Gujarat with effect from February 1, 2001 up to March 31, 2001, subject to certain terms and conditions. Banks were also asked to advise all their branches, in particular those situated in Gujarat, to ensure immediate credit of payments received towards relief of Gujarat earthquake victims with collection of remittance particulars later.

• Subsequent to the release of the Second Consultative Document on the New Capital Adequacy Framework, banks were advised to study the Consultative Document and assess their preparedness in regard to existing Management Information System (MIS), risk management systems and technical skills of staff in order to adopt the new Accord.

6 • With a view to assisting exporters affected by the earthquake in Gujarat, banks have been advised (i) to extend the period of packing credit at concessional rate even beyond 360 days in deserving cases where the goods are likely to be exported (the concessional rate ranges between 10-13 per cent); (ii) to convert the overdue packing credit into term loans after taking into account the availability of ECGC claim, repayable in suitable instalments; (iii) not to classify the overdue loans as NPA in respect of (i) and (ii) above but to treat as NPA if interest and instalment of principal remains unpaid for 180 days, after it has become overdue, taking into account the revised due date fixed by the banks.

7 • In respect of jointly financed projects, in order to ensure effective and closer co-ordination between banks and FIs, select banks and FIs evolved certain ground rules on certain areas for consideration and adoption by them.

12 • The following special relief package of measures was introduced for persons in the districts and blocks notified by the Government of Gujarat as having been affected by the earthquake of January 26, 2001:

i) Loan classification status in case of borrowers affected by the earthquake was frozen on an ‘as-is-where-is’ basis up to March 31, 2003.

ii) In regard to standard assets, no demand for recovery to be made for two years.

iii) In regard to loans not classified as standard assets, no penalties to be levied in the event of non-receipt of repayments due during the next two years.

iv) The banks are to charge simple interest rate of 10 per cent per annum till March 31, 2003 and thereafter normal interest to be charged.

v) Small traders, small business, self employed and small road transporters are to be sanctioned special limits up to Rs.1 lakh for restoration/rehabilitation of their business at interest rates not exceeding PLR.

vi) Provision for grant of loans up to Rs.2 lakh for repairs/reconstruction of houses/business premises damaged by earthquake.
vii) Concessions were extended to affected persons in the rate of interest and processing fee being charged by banks was waived.
viii) In the case of agricultural loans, banks are not to recover either principal or interest from the affected farmers for a period of two years and reschedule the amounts not collected during the two years for a period up to seven years.
ix) Limit on consumption loan was raised to Rs.2000.

Feb. 26 • In the context of transition of the banks and the AIFIs from a regulated to a deregulated regime, the need for more effective co-ordination among banks and the FIs was increasingly being felt, particularly in respect of large value projects jointly financed by banks and FIs. In this context, a meeting of select banks and FIs convened by IDBI finalised the Ground Rules on the following issues pertaining to financing of such projects:
a) Timeframe for sanction of facilities
b) Asset classification across consortium members
c) Disciplining borrowers - change in management
d) Levy of charges in the problem accounts
e) Group approach for borrowers
f) Sharing of securities and cash flows, and
g) Treatment of restructured accounts for the asset classification purposes.
The Reserve Bank circulated the above ground rules among banks and FIs and advised them to implement these rules in letter and spirit in the interest of the banks and FIs and the economy.

28 • Banks were advised to assign 20 per cent risk weight on all loans and advances to staff which were fully covered by superannuation benefits and mortgage of flat/house and classify under "Advances" in Schedule 9 of the balance sheet all interest bearing loans and advances granted to their staff. However, all non-interest bearing loans and advances to their own staff was to be included in "Others" under "Other Assets" in Schedule 11 of the balance sheet.

March 2 • With regard to the provision of credit to SSI sector, in line with the recommendations of the Nayak Committee, the Reserve Bank advised banks to make further improvements in the following areas: (a) delegation of adequate discretionary powers to branch officials for sanction of credit facilities, (b) issuing acknowledgements of the loan proposals received, (c) providing technical expertise in the branches, (d) providing credit to the tiny sector, (e) maintenance of loan application registers in a comprehensive manner, (f) referring proposals liable for rejection/curtailment in the amount of finance to the next higher authority.

3 • The Reserve Bank advised banks to prepare an action plan for issuing Kisan Credit Cards (KCCs) to all eligible borrowers in agricultural sector within next three years and keep the Reserve Bank informed in case of change of targets in future.

22 • In order to keep a special watch on receipt and utilisation of foreign contribution received for providing relief to the earthquake victims in different parts of Gujarat, the Reserve Bank directed all commercial banks to furnish a monthly report in respect of receipt of foreign contributions by Associations/Organisations in India under Foreign Contribution (Regulation) Act, 1976.

- It was clarified that all deposits placed by banks with NABARD/SIDBI *in lieu* of shortfall in advance to priority sector *vis-a-vis* the prescribed target would attract 100 per cent risk weight since these deposits were *in lieu* of shortfall in assets which carry 100 per cent risk weight.

23 • The Reserve Bank announced that select all-India Term Lending and Refinancing Institutions were to disclose certain important financial ratios/data in their published Annual Reports as part of the 'Notes on Accounts' to enable the auditors to authenticate the information. These included (a) CRAR, core CRAR and supplementary CRAR, (b) amount of subordinated debt raised and outstanding as Tier-II capital, (c) risk weighted assets (on-and off-balance sheet, separately), (d) shareholding pattern as on date of the balance sheet, (e) net NPA to net loans and advances, (f) amount and percentage of net NPAs under prescribed asset classification categories, (g) provisions made during the year towards standard assets, NPAs, investments, (h) movements in net NPAs, (i) credit exposure as a percentage of capital funds and as percentage to total assets, (j) credit exposure to five largest industrial sectors as percentage to total loan assets (k) maturity pattern of rupee assets and liabilities, (l) maturity pattern of foreign currency assets and liabilities, (m) interest income as a percentage to average working funds, (n) non-interest income as a percentage to average working funds, (o) operating profit as a percentage to average working funds, (p) return on average assets and (q) net profit per employee.

March 28 • Norms relating to restructuring/rescheduling/re-negotiation of terms of the standard and substandard loan assets, was reviewed in the light of the international best practices and revised guidelines for FIs were issued.

- Public sector banks were instructed to (a) annex only the annual accounts and Auditors' report of the subsidiaries to its balance sheet, (b) make available the Directors' report in respect of the subsidiaries on the web site of the parent bank, (c) continue the above procedure till such time the bank switches over to the consolidated balance sheet system.

30 • Guidelines were issued by the Reserve Bank regarding classification and provisioning norms for restructured accounts in the standard and sub-standard categories.

31 • The maximum rate of interest that NBFCs can pay on their public deposits was reduced from 16 per cent to 14 per cent per annum. The new ceiling was also extended to miscellaneous non-banking companies (chit funds) and Nidhi companies as applicable to the deposits accepted by them as per the directions prescribed by the Reserve Bank.

April 4 • The Reserve Bank advised the co-operative banks facing liquidity problems in their day-to-day operations in the wake of the Gujarat earthquake to approach public sector banks and also PDs for repo facilities against their holdings of eligible government securities and, in the event of a shortfall, approach the Reserve Bank for special liquidity support against the eligible holdings of appropriate assets for temporary periods up to 90 days.

10 • The operation of the guidelines for a simplified, non-discriminatory and non-discretionary mechanism for settlement of dues relating to NPAs with outstanding up to Rs.5 crore was extended up to June 30, 2001 in respect of banks.

18 • The operation of the guidelines for simplified, non-discriminatory and non-discretionary mechanism for settlement of dues relating to NPAs with outstanding up to Rs. 5 crore was extended up to June 30, 2001 in respect of central public FIs.

19 • Banks were permitted to formulate fixed deposit schemes specifically for senior citizens offering higher and fixed rates of interest as compared to normal deposits of any size.

- In order to facilitate better ALM, banks were given freedom to exercise their discretion to disallow premature withdrawal of large deposits held by entities other than individuals and Hindu Undivided Families subject to informing the depositors in advance. The period of renewal of overdue domestic deposits at interest rate prevailing on the date of maturity was made 14 days and in the case of the overdue period exceeding 14 days where the depositors placed the entire amount of overdue deposit or a portion there of as a term deposit, banks were allowed to prescribe their own interest rate for the overdue period on the amount so placed as term deposits. Banks, however, have to inform the depositors in advance of their policy for renewal of overdue deposits.
- In order to move towards international best practices and impart greater transparency, it was decided to introduce classification of loan as non-performing when the interest and/or instalment of principal remain overdue for a period of more than 90 days from the year ending March 31, 2004. Banks were advised to make additional provisions from the year ending March 31, 2002 to facilitate smooth transition.
- Effective from the year 2001-02, audit firms recommended by private sector banks for appointment as Statutory Central Auditors (SCAs) would have to satisfy certain minimum standards like minimum number of full time partners, number of chartered accountants exclusively associated, number of professional audit staff, *etc*.
- In line with international best practices, it was decided that the concept of capital funds in India as defined under capital adequacy standards for determining exposure ceiling uniformly by domestic and foreign banks would be made effective from March 31, 2002.
- It was decided that non-fund based exposures should be reckoned at 100 per cent and banks should include forward contracts in foreign exchange and other derivative products at their replacement cost, effective from April 1, 2003.
- In regard to exposure ceiling, the Reserve Bank announced reduction of exposure limit for single borrower from the existing 20.0 per cent to 15.0 per cent, effective from March 31, 2002 and group exposure limit from the existing 50.0 per cent to 40.0 per cent of capital funds, effective from March 31, 2002; for financing infrastructure projects, the limit is extendable by another 10.0 per cent, *i.e.*, up to 50.0 per cent.

April 19 • For greater transparency in the operation of borrowal accounts, the Reserve Bank advised banks for bi-annual circulation of defaulters list of Rs.1 crore and above in the doubtful or loss category, and also to obtain the consent of borrowers to disclose their names in the event of default.

- The interim prudential measures for urban co-operative banks (UCBs) proposed to provide greater security to depositors and members included stopping of direct or indirect lending by UCBs to individuals or corporates against security of shares with immediate effect, unwinding of existing lending to stock brokers or direct investment in shares, limiting of their borrowings from call money market up to 2.0 per cent of their aggregate deposits as at end-March in the previous financial year, no permission for increase in their term deposits in other UCBs and unwinding of existing term deposits by June 2002, increases in their SLR holdings in government and other approved securities as per cent of NDTL by March 2002 from 15 to 20 per cent for scheduled UCBs; from 10 to 15 per cent for non-scheduled UCBs with deposits base of Rs. 25 crore and above and from zero to 10.0 per cent in case of other non-scheduled UCBs), maintenance of the entire SLR of 25 per cent of NDTL for scheduled UCB only in government and other approved securities with effect from April 1, 2003 and maintenance of investment in Government securities of scheduled as well as non-scheduled UCBs only in SGL accounts with Reserve Bank or in constituent SGL Accounts of public sector banks and PDs.

- Reserve Bank proposed a new apex supervisory body which can take over the entire inspection/ supervisory functions in relation to scheduled and non-scheduled UCBs. This apex body could be under the control of a separate high level supervisory board consisting of representatives of Central Government, State Governments, Reserve Bank as well as experts and it may be given the responsibility of inspection/and supervision of UCBs and ensuring their conformity with prudential, capital adequacy and risk management norms laid down by the Reserve Bank.
- In order to improve the functioning of co-operative banks on a professional basis and also to substantially improve the entry point norms and stiffer prudential and other parameters, State Governments were to be requested to implement the recommendations of Madhava Rao Committee at the earliest.

23• As per the revised guidelines for classification and valuation of investment, all urban co-operative banks were directed to classify their entire investment portfolio under 'held to maturity', 'available for sale' and 'held for trading' with investments under the latter two categories marked to market. These instructions would be applicable with effect from March 31, 2002.

25• Pursuant to High Power Committee's recommendation, Capital to Risk weighted Assets Ratio (CRAR) has been made applicable to UCBs in a phased manner. Over a period of three years, UCBs should fall in line with the discipline applicable to commercial banks.

26• To bring convergence in the norms for asset classification between FIs and banks over a reasonable period of time, effective from the year ending March 31, 2002, the credit facility of a financial institution would be treated as non-performing if interest and/or principal remains overdue for more than 180 days in a year.

28• The Reserve Bank clarified the approach to universal banking for all-India term lending and refinancing institutions. Illustratively, the salient operational and regulatory features to be addressed by the FIs for conversion into a Universal Bank included those with respect to (a) reserve requirements, (b) permissible activities, (c) disposal of non-banking assets, (d) composition of the Board, (e) prohibition on floating charge of assets, (f) nature of subsidiaries, (g) restriction on investments,

(h) connected lending, (i) licensing, (j) branch network, (k) assets in India, (l) format of annual reports, (m) managerial remuneration of Chief Executive Officers, (n) deposit insurance, (o) AD's licence, (p) priority sector lending, and (q) prudential norms.

30 • With effect from June 30, 2001, banks, FIs, PDs and SDs were directed to make fresh investments and hold CP only in dematerialised form. Outstanding investments in scrip form in the books of these institutions should also be converted into dematerialised form by October 31, 2001.

May 2 • Guidelines were issued for compromise settlement of dues of banks and financial institutions through *Lok Adalats.*

May 11 • As per the revised guidelines issued on Bank Financing of Equities and Investments in Shares, the ceiling of 5 per cent was made applicable to total exposure of a bank to stock markets with sub-ceilings for total advances to all stock brokers and market makers as well as individual stockbroking entities, its associate/interconnected companies. The 5 per cent ceiling will be computed in relation to the total advances (including CPs) as on March 31 of the previous year as against total outstanding domestic credit as on March 31 of the previous year under the earlier guidelines. The Margining system was rationalised and simplified to a stipulation of a uniform margin of 40 per cent on all advances/guarantees with a minimum cash margin of 20 per cent (within the margin of 40 per cent) in respect of guarantees issued by banks. Banks were not permitted to take arbitrage operations themselves or extend credit facilities directly or indirectly to stockbrokers for arbitrage operations in Stock Exchanges. Banks were permitted to acquire shares from secondary markets with a *proviso* of no sale of shares without actually holding of the same in their investment accounts. The responsibilities relating to investment and surveillance functions were segregated with the Investment Committee associated with the decision making of investments in shares/advances against shares and with the Audit Committee to be set up by the Board to undertake surveillance and monitoring of these decisions.

June 7 • Banks were advised to put in place appropriate systems to ensure that investment in privately placed unrated instruments were made in accordance with the systems and procedures prescribed under the respective bank's investment policy approved by the Board. Banks were also advised to introduce suitable format of disclosure requirements in respect of private placement issues, on the lines of the Model Format recommended by the Technical Group on Non-SLR Investments, with the approval of the Board.

• It was also prescribed that the Boards of banks should lay down policy and prudential limits on investments in bonds and debentures including cap on unrated issues and on private placement basis, sub-limits for PSU bonds, corporate bonds, guaranteed bonds, issuer ceiling, *etc.* The policy laid down by banks should prescribe stringent appraisal of issues, especially by non-borrower customers, provide for an internal system of rating for non-borrower customers, stipulate entry level minimum ratings/quality standards, lay down proper risk management systems, *etc.*

20 • In line with the best international practices, the Reserve Bank has decided to adopt the concept of 'capital fund' as defined under capital adequacy standards for determining exposure ceiling for the FIs, effective March 31, 2002.

27 • Asset Liability Management (ALM) guidelines for NBFCs (including RNBCs) were announced as a part of the overall system for effective risk management in their various portfolios. To begin with, all the NBFCs which have an asset size of Rs.100 crore and above or public deposits of Rs.20 crore and above as per their balance sheet as on March 31, 2001 should put in place an ALM system which is required to be fully operational by the year ending March 31, 2002. Chit funds and Nidhis have been presently kept out of the purview of these guidelines.

• The monies received by NBFCs by issue of CP in accordance with the IECD guidelines dated October 10, 2000 have been exempted from the purview of public deposits. Procedure for accounting of repossessed lease/hire purchase assets was clarified. A uniform practice of computing the amount of outstanding public deposit liabilities net of TDS actually paid and remitted to Government has been advised to all NBFCs for adoption. Statutory auditors of NBFCs were advised that their observations on contravention of RBI Act/Directions should also form part of their reports to the shareholders of the company. Companies which have been issued Certificate of Registration (CoR) with authorisation to accept public deposits, but which have subsequently repaid all the public deposits or placed in the requisite amounts in deposits with scheduled commercial banks for the purpose, have been given an option either to convert themselves into companies without authorisation to accept public deposits or comply with all the regulatory requirements as applicable to companies which have been granted authorisation to accept public deposits.

July 2 • Banks have been advised to provide a personal insurance package to all Kisan Credit Cards (KCC) holders to cover them against accidental death or permanent disability up to a maximum amount of Rs.50,000 and Rs.25,000, respectively. As per a model scheme advised to the banks, the premium burden will be shared by KCC issuing banks and KCC holders in the ratio of 2:1.

IV. CAPITAL MARKET POLICIES

(i) Securities and Exchange Board of India (SEBI) 2000

2000

April 7 • SEBI modified guidelines for 100 per cent one-stage book-building process. Under the new guidelines, a maximum of 60 per cent of the issue was allowed to be allotted to institutional investors and at least 15 per cent to non-institutional investors applying for more than 1000 shares. The remaining 25 per cent could be allotted to small investors on a *pro-rata* basis. One-stage 100 per cent book-building was permitted with bidding centres at all cities with stock exchanges.

• SEBI permitted mutual funds to invest in mortgage backed securities of investment grade and above. This amendment is expected to augment the funds available for the housing sector.

May 24 • SEBI liberalised investment norms for mutual funds by allowing open-ended schemes to invest up to five per cent of their net asset value (NAV) in equity shares or equity related instruments of unlisted companies. Investment limit in such equities was kept unchanged at 10 per cent for close-ended schemes.

• SEBI granted approval for trading in futures contracts based on the BSE Sensex and S&P CNX Nifty indices. Clearing house of BSE and clearing corporation of NSE were also permitted to deal in derivative contracts.

June **7**• SEBI increased the maximum investment limit for mutual funds in listed companies from 5 per cent to 10 per cent of NAV in respect of open-ended funds. Also, any change in the fundamental attributes of a scheme was allowed to be made without the consent of three fourths of the unit holders provided that unit holders are given the exit option at NAV without any exit load.

9• SEBI issued a code of conduct on advertisement for MFs banning them from making any assurance or claims based on past performance, *etc.* that might mislead the public.

14• In the secondary market, SEBI permitted introduction of daily and weekly carry forward system with maturities of 1,2,3,4 and 5 days in the rolling settlement. It also permitted stock exchanges to introduce continuous net settlement (CNS). For the existing carry forward system SEBI allowed increase in the existing limit to Rs.40 crore from Rs. 20 crore with a 5 per cent increase in the margin on the incremental limit. However, the present limit of 75 days for carrying forward trades was discontinued.

15• SEBI tightened the entry norms for IPOs by modifying the Disclosure and Investor Protection (DIP) guidelines. According to the new guidelines, the IPOs of size up to 5 times the pre-issue networth was allowed only if the company had a record of profitability and networth as specified in the guidelines. Companies without such a track record or the issue size beyond 5 times the pre-issue net worth were allowed to make IPOs only through the book-building route with 60 per cent of the issue to be allotted to qualified institutional borrowers (QIBs). SEBI also stipulated the lock-in period of shares issued on preferential basis by listed companies to any person for a period of one year.

July **4**• SEBI issued guidelines specifying eligibility criteria and risk containment measures for automated lending and borrowing mechanism (ALBM), a quasi-derivative instrument introduced by NSE, in line with the modified carry forward system.

7• Following the recommendations of the Committee on Accounting Standards (Chairman: Shri Y.H. Malegam), SEBI made it mandatory for the listed companies to provide their half-yearly results on the basis of limited review by its auditors.

Aug. **2**• SEBI permitted internet trading on wireless media using Wireless Application Protocol (WAP) subject to the adherence of all the requirements stipulated for internet based trading.

9• SEBI asked the Asset Management Companies (AMCs) to maintain records in support of each investment decision indicating the data, facts and opinion on the investment made in equity and debt securities.

Sept. **4**• Malegam Committee set up by SEBI recommended that securities held by MFs should be classified as NPAs if either the principal or interest is not received for six months instead of one year after the due date, as under the earlier norms. MFs will have to disclose NPAs and illiquid securities in portfolio every six months.

14• SEBI Board approved the SEBI (Venture Capital Funds)(Amendment) Regulations, 2000 and also the SEBI (Foreign Venture Capital Investors) Regulations, 2000. Besides defining a Venture Capital Fund and Undertaking, the

Regulations stipulated a minimum corpus of Rs.5 crore for a VCF, investment criteria, disclosure standards, *etc*. Furthermore, it provided that a VCF seeking to avail itself of the tax/pass-through benefit will have to divest from the investment within a period of one year from the listing of the venture capital undertaking.

Oct. **13**• SEBI introduced the facilities of Continuous Net Settlement (CNS), Carry Forward under Rolling Settlement (CFRS) and Automated Lending and Borrowing Mechanism under Rolling Settlement (ALBRS) for fifteen scrips under rolling settlements.

14• SEBI has set parameters for the eligibility criteria for selection of scrips for ALBM and Modified Carry Forward Segment (MCFs) and for liquidity. Under the minimum liquidity criteria, liquidity would be measured by four parameters *viz.*, trading volume, number of trades, trading frequency and velocity of trades or on the basis of impact cost, which should be less than 2.5 per cent.

16• The Advisory Committee on Mutual Funds of SEBI decided to reduce the initial offer period to 30 days from a maximum 45 days at present and stipulated that within the next 30 days the scheme should dispatch statements of accounts and should open for ongoing sale and repurchase. Other measures include standardisation of the format for half-yearly disclosure of portfolio, transfer of unclaimed redemption amount to a pool account and following minimum international standards for trading by the employees to avoid conflict of interest, front running and insider trading.

Nov **28**• . SEBI abolished the ‘no delivery’ period for corporate actions for the companies whose securities are traded in the compulsory dematerialised form to reduce the possibilities of the price manipulation. Other measures include reduction in the current requirement of 90 days gap between two book closures to 30 days, upholding the legal validity of the use of digital signature on contract notes, mandatory client code and minimum floating stock requirement for continuous listing.

• SEBI simplified the procedures for FIIs permitting them to go ahead with clients’ order and do the registration later within a day or two. The move will help the FIIs to proceed with execution of requests of clients, who are mostly from outside the country without waiting for SEBI clearance for each transaction.

29• SEBI directed MFs to disclose the total outstanding exposure in derivative instruments as well as their total investments in foreign securities, ADRs and GDRs by the schemes in their half-yearly disclosures.

Dec. **2**• SEBI issued guidelines for online issue of shares which include connectivity of the registrar to the issue with the stock exchange, appointment of registered broker with obligation to pay on behalf of the clients in case the latter fails to meet his commitment and prohibition of the stock exchanges to use their settlement/trade guarantee fund for honouring broker commitments.

9• SEBI allowed disclosure of material information during trading hours but stipulated that such announcement should be made within 15 minutes of the conclusion of the Board meeting in which the decision was taken.

22• SEBI changed the eligibility criteria for overseas investment by the Indian MFs. As per the new norms the US $ 10 million floor was removed and SEBI decided to apportion the US $ 500 million limit of overseas investments among Indian MFs.

UTI was made eligible for a ceiling of US $ 50 million.

2001

Jan 13• To tighten market surveillance, SEBI asked the stock exchanges to maintain order data for 5 years and brokers to keep client ID for 7 years. Besides, it decided to evolve code of ethics for elected directors, strengthen the stock watch system and empower the exchanges to act against errant members and monitor advisory services.

Feb. 1• SEBI laid down norms for disclosure of interest by SEBI regulated intermediaries giving public investment advice.

6• SEBI has allowed stock exchanges to use up to 25 per cent of the trade guarantee fund (TGF) or the settlement guarantee fund (SGF) as a cover of initial public offerings (IPOs) offered under the secondary market group.

March 7• The Risk Management Group of the SEBI banned all naked short sales for the next two settlements across all exchanges with immediate effect. The SEBI order applied to all scrips in MCFS and Borrowing and Lending of Securities Systems (BLESS) on the BSE and ALBM on the NSE.

April 30• SEBI decided that the MFs shall disclose large unitholdings in the scheme which are over 25 per cent of the NAV. The information on the number of such investors and total holdings by them in percentage terms shall be disclosed in the allotment letters after the initial public offerings and also in the annual and half-yearly results.

May 8• SEBI laid down guidelines relating to procedures and code of conduct for transactions in securities by the key personnels of the AMCs so that there is no conflict of interest between the transactions of employees and the MFs and interests of investors are not affected adversely.

9• SEBI issued guidelines to Registrars to Issue and Companies for unified procedure for handling and processing of transfer documents/bad delivery documents/stock invests *etc*.

11• SEBI stipulated that the applications, details regarding the application and application monies received from the investors investing in the issue of a body corporate and the final certificate are to be furnished to the Registrar to the issue, the lead manager and the body corporate before the expiry of seven working days after the date of closure of the issue.

14• SEBI announced significant changes in the capital market. These measures included: (a) banning of all deferral products including badla, bringing in 414 scrips accounting for 95 per cent of trading volumes within the ambit of rolling settlements from July 2, 2001, (b) allowing index based and individual stock based options, (c) introduction of uniform Monday-to-Friday settlement cycle across all SEs for all scrips not in the rolling mode, (d) a code of conduct and a preventive framework against insider trading, (e) removal of price bands for all stocks in the rolling mode from July 2, 2001 and for the entire market from January 2, 2002 and introduction of a market wide circuit breaker system which would be applied at three stages of the index movements, (f) shifting the margining system from net basis to gross basis (sales and purchases) with effect from September 3 and (g) introduction of 99 per cent value at risk (VAR)-based margin system for all scrips in the compulsory rolling settlement with effect from July 2, 2001 *etc.*

22 • SEBI advised the Stock Exchanges to desist from the practice of granting conditional listing to the companies.

29 • SEBI stipulated that the intermediaries regulated by SEBI or any of its employees shall not render any investment advice about any security in the publicly accessible media unless a disclosure of his/employees' or his dependent family members' interest in the said security has been made while rendering such advice.

June 20 • SEBI tightened the norms relating to the risk containment measures to be adopted by the derivative exchange/segment and the Clearing House/Corporation for the trading and settlement of option contracts on stocks. While exchanges are free to decide the particular risk management model the framework shall be consistent with the risk management guidelines mandated by the L.C. Gupta Committee.

25 • The restriction on short sales announced in March 7, 2001 was withdrawn with effect from July 2, 2001 as all deferral products were banned after that.

(ii) Government of India

2000

Oct. 6 • The Department of Company Affairs (DCA) conferred 12 officials of SEBI the power to punish companies for their misstatement in prospectus, non-issue of shares and non-payment of dividends.

2001

Feb. 28 • Exemption of long-term capital gains tax arising out of sale of securities and units if such gains are reinvested in primary issues of shares of public companies.

- Increase in the ceiling for investment by FIIs from 40 per cent to 49 per cent with the approval of the shareholders through a special resolution in the General Body Meeting.
- Companies were permitted to invest all ADR/GDR proceeds abroad. Two way fungibility was announced for ADRs/GDRs. Converted local shares can be reconverted into ADRs/GDRs while being subject to sectoral caps, wherever applicable.

July 20 • The Government notified that companies in the IT, telecom, media and entertainment sectors would be allowed to tap the market with a minimum offering of 10 per cent of their equity. All public issues through this route would have to satisfy the criterion of minimum Rs.100 crore issue size, follow book-building route with allocation of 60 per cent to Qualified Institutional Buyers (QIBs) and maintain a minimum floating stock post-listing on a continuous basis.

25 • The Government reconstituted the Disinvestment Commission under the chairmanship of Dr. R.H. Patil. The body will have a two-year term and will advise the Government on the disinvestment of PSUs.

(iii) Reserve Bank of India 2000

2000

June 23 • Reserve Bank relaxed the guidelines for bond issues by financial institutions (FIs) where the requirement of issue-wise prior approval/registration for raising of resources by way of bonds was done away with subject to fulfillment of certain conditions relating to maturity period, exit options and rate of return on the bond.

Oct. 10 • Reserve Bank, in consultation with SEBI decided, in principle, to move over in due course to order-driven screen-based trading in Government securities on the stock exchanges.

(iv) Insurance Regulatory and Development Authority (IRDA) 2000

2000

Aug. 19 • IRDA has stipulated that insurance companies have to confirm their compliance with the shareholding pattern requirements specified under the IRDA Act, 2000. Earlier, it directed that insurance companies would have to restrict their investment in an equity instrument to a maximum of 20 per cent with the total capital employed at any given time.

V. EXTERNAL SECTOR POLICIES a) Trade Policy 2000

a) Trade policy

2000 The Directorate General of Foreign Trade (DGFT) made the following changes in the Export Import (EXIM) policy, 1997-2002:

July 20 • The sale of tea by Export Oriented Units (EOUs) and units in Export Processing Zones (EPZs) in Domestic Tariff Area (DTA) was banned.

Sept. 29 • The Export Promotion Capital Goods (EPCG) licence holders were allowed to source the capital goods from other domestic manufacturers subject to an application for the issuance of Advance Licence for Deemed Exports for the import of inputs. The domestic manufacturer could also replenish the inputs including components after supply of capital goods to the EPCG licence holders.

Oct. 19 • Capital goods and spares that have become obsolete/surplus may either be exported or disposed off in the DTA on payment of applicable duties.

Nov. 24 • The compliance of all the conditions of the Standard of Weights and Measures (Packaged Commodity) Order, 1977, as applicable to domestic producers was imposed for imports of packaged commodities.

Dec. 4 • With a view to simplify operating regime, Special Economic Zones (SEZs), EPZs and EOUs were exempted from industrial licensing requirement for establishment of projects for manufacture of items reserved for small scale sector.

15 • In order to prevent the import of sub-standard goods, the import of 131 items were subjected to compliance of the mandatory Indian quality standards as applicable to domestic goods. For compliance of these requirements, all manufacturers/exporters of these products to India were required to register themselves with the Bureau of Indian Standards (BIS).

2001

Feb. 28 With a view to safeguard interests of domestic producers in the context of the proposed complete removal of Quantitative Restrictions (QRs) and also to boost exports, the Union Budget for 2001-02 announced the following major policies:

- a ten-year tax holiday to the developers of SEZs on the same lines as developers of industrial parks;
- a provision to exempt anti-dumping duty or safeguard duty on goods imported by 100 per cent EOUs, units in the Free Trade Zones (FTZs) or in the SEZs;
- a provision for exemption from safeguard duty on Tariff Rate Quota (TRQ) basis;
- a New Textile Policy (including exemption from *ad-valorem* excise structure for independent textile processors and abolition of the 16 per cent countervailing duty on 12 textile machinery items) and initiation of a scheme for setting up of integrated apparel parks;
- a proposal to do away with the ten per cent surcharge on custom duties and

reducing the peak custom tariff from 38.5 per cent to 35 per cent;

- an increase in the rates of customs duty on crude edible oils ranging from 35 per cent to 55 per cent to a uniform rate of 75 per cent and on refined oils from 45/65 per cent to 85 per cent;
- Increase in the basic custom duty on the imports of second-hand cars to 105 per cent and the customs duty on tea and coffee, copra, coconut and desiccated coconut from 35 per cent to 70 per cent;
- reduction in customs duties on 159 specified textiles machines from 15 per cent to 5 per cent, on IT and telecom products and their inputs and components from their current levels to 15 per cent, on silk waste, cotton waste and flax fibre reduced from 35 per cent/25 per cent to 15 per cent, on cut and polished coloured gem stones from 35 per cent to 15 per cent and on gold from Rs.400 per ten grams to Rs.250 per ten grams.

March 31 The salient features of the modified EXIM policy for 1997-2002 are as follows:

- Setting up of product specific Agricultural Export Zones (AEZs) for promoting agricultural exports is envisaged and extending the benefits of Duty Exemption Scheme and the EPCG Scheme to the agro sector as well;
- A new scheme of Market Access Initiative (MAI) was evolved in order to help the industry in research and development, market research, specific market and product studies, warehousing and retail marketing infrastructure in select countries and direct market promotion activities through media advertising and buyer-seller meets;
- With respect to SEZs, Foreign Direct Investment (FDI) was permitted under automatic route for all manufacturing sectors, except a small negative list;
- The SEZs developers have been allowed duty free import/procurement from DTA for development of SEZs to give a boost for development of integrated infrastructure for exports;
- The units in SEZs were allowed to bring back their proceeds in 365 days and retain 100 per cent of proceeds in Exchange Earners Foreign Currency (EEFC) account;
- The SEZs developers would be made eligible for various entitlements as provided for in the Income Tax Act;
- Quantitative Restrictions (QRs) on the remaining 715 items have been removed thereby completely eliminating the QRs;
- With complete removal of QRs, certain measures were announced to protect the interests of the domestic industry. The imports of items like wheat, rice, maize, petrol, diesel, Aviation Turbine Fuel (ATF) and urea were permitted only through the designated State Trading Enterprises following commercial principles of functioning in accordance with Article XVII of GATT;
- Import of all primary products of plant and animal origin would be subject to import permits to be issued by the Ministry of Agriculture after an import risk analysis based on Sanitary and Phyto-sanitary measures and provisions;
- The import of new and second-hand cars was to be allowed subject to certain conditions;
- Import of foreign liquor, processed food products and tea wastes would be subject to already existing domestic regulations concerning health and hygiene;
- The entitlement for Annual Advance Licence facility was increased from 125 per

cent to 200 per cent of the FOB value of preceding year exports;

- Validity of Duty Free Replenishment Certificate (DFRC) scheme was extended from 12 months to 18 months;
- Validity of Duty Entitlement Passbook (DEPB) scheme was extended up to the last day of the month in which case the same is expiring;
- The Restricted Import Licensing, Export Licensing and Clarification committees were abolished;
- There would be no time limit for filing application for golden status;
- The facility of electronic filing of applications was extended to 29 out of 31 offices of DGFT, facility of offline filing was introduced and that of electronic filing was extended to all categories of licences.

June 22 • In order to speed up the approval process, the Government constituted a single Board of Approval for EPZs/SEZs/EOUs as a matter of procedural simplification.

2000 b) Foreign Exchange Market

April 22 • It was decided to raise the monetary ceiling of advance remittances undertaken by Authorised Dealers (ADs) on behalf of importers against bank guarantee from an international bank of repute situated abroad furnished by an overseas supplier from US $ 15,000 to US $ 25,000.

24 • With a view to further liberalising investment by Foreign Institutional Investors (FIIs) in Indian companies in the primary/secondary markets in India, Indian companies (other than Banking Companies) were permitted to enhance the aggregate ceiling on investment from 30 per cent to 40 per cent of issued and paid-up capital of the Indian company.

May 16 • The Diamond Dollar Account (DDA) Scheme was introduced. Under this scheme, firms and companies dealing in the purchase/sale of diamonds, with a track record of at least three years in import/export of diamonds and having an average annual turnover of Rs.5 crore or above during the preceding three license years were permitted to carry out their business through DDA with not more than two ADs. The DDA were to be maintained in current accounts with the balances subject to CRR and SLR requirements. Furthermore, firms and companies maintaining foreign currency accounts, excluding EEFC accounts, with banks in India or abroad, were not eligible to maintain DDA.

25 • The Reserve Bank indicated that it will meet partly or fully the government debt service payments directly as considered necessary.

- The Reserve Bank decided to make arrangements to meet fully or partly the foreign exchange requirements for import of crude oil by the Indian Oil Corporation.
- The Reserve Bank also announced that it will continue to sell the US dollars through SBI in order to augment supply in the market or intervene directly as considered necessary to meet any temporary demand-supply imbalances.
- Exporters were advised by the Reserve Bank not to delay repatriation of export proceeds beyond the due date. In order to discourage any delay in realisation of export proceeds, it was decided that in respect of overdue export bills, banks will charge interest at 25 per cent per annum (minimum) from the date the bill falls due for payment.
- The Reserve Bank reiterated that ADs acting on behalf of FIIs were free to

approach the Reserve Bank to procure foreign exchange at the prevailing market rate. Depending on market conditions, the Reserve Bank would either sell the foreign exchange directly or advise the concerned bank to buy it in the market.

- Banks were advised by the Reserve Bank to enter into transactions in the forex market only on the basis of genuine requirements and not for the purpose of building up speculative positions. The Reserve Bank also indicated that it would monitor the position closely.

June 1 • The Foreign Exchange Management Act (FEMA) replaced the existing Foreign Exchange Regulation Act (FERA), 1973 with effect from June 1, 2000. The FEMA consolidated and amended the law relating to foreign exchange with the objectives of facilitating external trade and payments and of promoting the orderly development and maintenance of foreign exchange market in India.

14 • The limit for ECB approvals given by the Reserve Bank was increased to US $ 100 million under all windows. Even in cases of pre-payments, approved by the Government, the Reserve Bank was empowered to give all such approvals. The facility of domestic rupee denominated structured obligations to be credit enhanced by international banks/financial institutions/joint ventures was extended to those NBFCs, which were registered with the Reserve Bank, had earned profits during the last three years and had “AA” or equivalent rating from a reputed credit rating agency.

July 14 • FDI up to 100 per cent was allowed for business to business e-commerce subject to the condition that such companies divest 26 per cent of their equity in favour of the Indian public in five years, if these companies were listed in other parts of the world.

July 14 • The dividend balancing condition was removed for FDI in the remaining 22 consumer industries.

- The upper limit of Rs.1,500 crore for FDI in projects of electricity generation, transmission and distribution (other than atomic reactor power plants) was removed.
- The limit of FDI in oil refining sector under automatic route was raised from the existing 49 per cent to 100 per cent.

Aug. 14 • The Reserve Bank instructed ADs to direct exporters to scale down the balances in accounts held under EEFC scheme to 50 per cent of the amount as on August 11, 2000 and convert the excess amount into rupees by August 23, 2000, to permit them future accretions only up to 50 per cent of the existing eligibility and in liquid form as current/savings accounts and hold in abeyance the credit facilities available against such accounts.

24 • To deal with applications relating to import of goods and services into India, ADs were advised to sell foreign exchange or transfer rupees to non-resident account towards payment for imports into India, from any foreign country, in conformity with the EXIM Policy in vogue and the Rules framed by the Government of India and the Directions issued by Reserve Bank from time of time under the Act.

- ADs were advised to follow normal banking procedures and the provisions of Uniform Customs and Practices for Documentary Credits (UCPDC), *etc*., while opening letters of credit for import into India on behalf of their customers.

Sept. 5 • The Reserve Bank operationalised the automatic route for External Commercial

Borrowings (ECBs) up to $ 50 million. The refinancing of existing ECBs was also brought under automatic route.

- Importers/exporters of crude oil and petroleum products were permitted to hedge their exposure to price risk.

26
- General permission was granted to a resident, being a principal debtor, to make payment to a person resident outside India who has met the liability under a guarantee. Accordingly, in cases where the liability is met by the non-resident out of funds remitted to India or by debit to his FCNR/ NRE account, the repayment may be made by credit to the FCNR/NRE/NRO/NRSR account of the guarantor provided the amount remitted/credited shall not exceed the rupee equivalent of the amount paid by the non-resident guarantor against the invoked guarantee.

Oct. 10
- The facility under EEFC Accounts was reviewed and the earlier entitlements were restored to facilitate quick export related payments and reduce transaction costs. The banks were thus permitted to credit 70 per cent of inward remittances with respect to the EEFC accounts of 100 per cent EOUs and units in EPZs, Software Technology Park or Electronic Hardware Technology Park and 50 per cent of the inward remittances in respect of others. However, the EEFC accounts were to be held as current accounts *albeit* with continuance of cheque-issuing facility. No bank credit facility, either fund-based or non-fund based, was to be provided against these accounts.

19
- State Bank of India was permitted to float a scheme called 'India Millennium Deposits (IMDs)'. ADs were permitted to grant loans in non-repatriable rupees, in India, to the holders of IMDs for personal purposes, and for carrying on business activities except for the purpose of relending or carrying on agricultural/plantation activities or for investment in real estate business. NRIs (and not OCBs) were also permitted to be granted loans in non-repatriable rupees for acquisition of immovable property in terms of Foreign Exchange Management (Acquisition and transfer of immovable property in India) Regulations, 2000 subject to certain conditions. ADs were permitted to grant loans to the account holders for the purpose of making direct investment in India on non-repatriation basis. ADs were also permitted to grant loans/overdrafts to individuals/firms/companies resident in India against the collateral of IMDs, subject to usual norms and the stipulated conditions .

30
- ADs were allowed advance remittance for any current account transactions for which the release of foreign exchange is admissible, provided the amount of advance remittance does not exceed US $ 25,000 or its equivalent. Where the amount exceeds US $ 25,000 or its equivalent, a guarantee from a bank of international repute situated outside India or a guarantee from an AD in India, if such a guarantee is issued against the counter-guarantee of a bank of international repute situated outside India, should be obtained from the overseas beneficiary. The ADs is to ensure that the beneficiary of the advance remittance has fulfilled his obligations under the contract or agreement with the remitter in India.

Dec. 7
- In the case of remittances in foreign currency towards purchase of websites, which offer earnings in US Dollars and/or in other foreign currency, on incremental basis, depending on the number of new clients/ customers added to the chain (thereby making the operation of such schemes akin to money circulation), it was

clarified that ADs should not allow remittances to operators of such schemes and/or to any other overseas company carrying on such types of activities. ADs may, however, allow remittance if they are satisfied that the website is being sold unconditionally and the remitter is purchasing it for developing it for his present/future business and not for the purpose of adding further members to the chain. For this purpose, ADs should satisfy themselves about the bonafides of the overseas company and/or the operators and the scheme, through proper documents.

Dec. 30 • A supplementary statement of receipts, for purposes other than exports, involving amounts equivalent to Rs.1,00,000 and above at present is required to be submitted with the R-Return. The cut-off limit of Rs.1,00,000 was raised to US $ 10,000 effective fortnight ending January 15, 2001 onwards. ADs were also advised to ensure that credits to the customers' accounts arising out of the inward remittances received from NRIs were not delayed for the sake of indicating the purpose of remittance in the supplementary statement. The "purpose" may be ascertained after affording credit and then reported to the Reserve Bank.

2001

Jan. 6 • General permission was granted to SEBI registered Foreign Venture Capital Investors (FVCIs) to invest in Indian Venture Capital Undertaking (IVCU) or in a Venture Capital Fund (VCF). No permission from Foreign Investment Promotion Board (FIPB) is needed. The Reserve Bank would allow the registered FVCIs to maintain a foreign currency account and a convertible rupee account to facilitate their investments. No pricing norms, either for entry or for exit, have been prescribed. The FVCIs are also allowed to obtain forward cover from ADs.

Feb. 6 • Extending concessions on pre-shipment credit likely to be delayed for exporters affected by the earthquake in Gujarat, the banks were advised to extend up to the original period from less than 180 days.

17 • At present, requests from ADs for funding of their Asian Clearing Union (ACU) dollar accounts with commercial banks in participating countries on "Spot" basis are required to be made in form ACU-1, in duplicate, to the Department of External Investments & Operations (DEIO), Reserve Bank of India, Mumbai. It was decided that requests from ADs for funding their ACU dollar accounts with commercial banks in participating countries as well as for repatriation of the excess liquidity in the ACU dollar accounts of their correspondent banks maintained with them, would be accepted in ACU-1 and ACU-2 format, respectively, by DEIO, Reserve Bank, Mumbai on "Tom" basis also in addition to "Spot" basis, with effect from March 1, 2001.

22 • In consultation with the Government of India, it was decided to withdraw the facility to FIIs/NRIs/OCBs and FVCIs to purchase shares or convertible debentures of Indian companies engaged in the print media sector. The restriction shall also apply to purchase of shares and convertible debentures by NRIs and OCBs on non-repatriation basis.

27 • The units in SEZs were permitted to credit 100 per cent of their foreign exchange receipts to EEFC accounts except foreign exchange acquired by way of purchase against rupees from any person resident in India other than another unit in a SEZ.

• The limit of currency notes of Government of India or Reserve Bank that any person resident in India can take outside India, except to Nepal or Bhutan, was increased to not exceeding Rs.5000. The Reserve Bank was also empowered to permit a person, on an application made to it and on being satisfied, to take or send out of India or bring into India currency notes of Government of India/Reserve Bank of India of value exceeding Rs.5000 subject to such terms and conditions as the Reserve Bank may stipulate.

March 2

- Pursuing the announcement in the Budget Speech for 2001-2002, the Reserve Bank liberalised the Capital Account by allowing Indian companies (a) wishing to make acquisitions of foreign companies or direct investment abroad in Joint Ventures/Wholly Owned Subsidiaries to invest up to US $ 50 million annually through Automatic Route without being subject to the three-year profitability condition (instead of the earlier block of three-year with a profitability condition) and (b) to invest up to 100 per cent of the proceeds of their ADR/GDR issues for acquisitions of foreign companies and direct investments in Joint Ventures and Wholly Owned Subsidiaries (instead of the earlier ceiling of 50 per cent).
- A new facility for additional Block Allocation of foreign exchange to companies with proven track record which have already exhausted the limit of US $ 50 million available under the Automatic Route for investment/ acquisition overseas was also instituted by the Reserve Bank.
- Any Indian company that has issued ADRs/GDRs may acquire shares of foreign companies engaged in the same area of core activity up to an amount of US $ 100 million or an amount equivalent to ten times of their exports in a year, whichever is higher (instead of the earlier facility available only to Indian companies in certain sectors).
- Two-way fungibility in ADR/GDR issues of Indian companies was introduced, subject to sectoral caps, wherever applicable. Stock brokers in India could purchase shares and deposit these with the Indian Custodian for issue of ADRs/GDRs by the overseas depository to the extent of the ADRs/ GDRs that have been converted into underlying shares.
- Indian companies were allowed to sponsor ADR/GDR issues with an overseas depository against shares held by its shareholders who wish to use this option. The issue price shall be determined by the lead manager to the issue and the issue proceeds shall be repatriated within one month. The sponsoring company shall have to comply with the provisions of the Scheme for Issue of Foreign Currency Convertible Bonds and Ordinary Shares (through Depository Receipt Mechanism) Scheme, 1993 and guidelines issued there under by the Central Government.
- The ban on overseas investments by registered partnership firms was removed. Partnership firms providing certain specified professional services, *viz*. Chartered Accountancy, Legal services, Medical and Health care services, Information Technology and Entertainment Software related services were made eligible to invest abroad in foreign currency in the same line of activity up to US $ 1 million under Automatic Route. For such investments exceeding US $ 1 million approval of the Reserve Bank was made necessary.
- Indian employees who have the benefit of Employees Stock Options (ESOP) schemes in foreign owned companies can now invest up to US $ 20,000 per annum. Earlier this facility was available only to the extent of US $ 10,000 in a

block of five years.

- FIIs can invest in a company under the portfolio investment route up to 24 per cent of the paid up capital of the company. This can be increased to 40 per cent with the approval of the General Body of the shareholders by a special resolution. This limit was increased from 40 per cent to 49 per cent.
- Reserve Bank ammended the notification issued under the Foreign Exchange Management Act by adding that a registered broker in India may purchase shares of an Indian Company on behalf of a person resident outside India, for the purpose of converting the shares so purchased into ADRs/ GDRs, provided that the shares are purchased on a recognised stock exchange and the Indian company has issued ADRs/GDRs.

April 19

- The ceiling interest rate of the FCNR(B) deposits was revised downward to LIBOR/SWAP rates from the existing level of LIBOR/SWAP plus 50 basis points for the corresponding maturity.
- In order to reduce the effective interest rate on export credit, to introduce healthy competition and provide exporters greater choice to avail banking services with reference to interest rates, quality of service and transaction cost, interest rate on export credit extended by banks was rationalised by indicating it as ceiling rate linked to PLR of respective banks; for preshipment credit up to 180 days, ceiling rate applicable would be 1.5 percentage points below PLR. Ceiling on foreign currency loans for exports by banks was reduced to LIBOR plus 1.0 percentage point.