

## Annexure - Chronology of Major Policy Announcements April 2001 - July 2002

Date of  
Announce-  
ment

### POLICY ANNOUNCEMENTS

#### I. MONETARY POLICY MEASURES

- 2001 April 19**
- Maintenance of daily minimum cash balance by banks with the Reserve Bank reduced from 65.0 per cent to 50.0 per cent for the first 7 days of the reporting fortnight, with the minimum requirement of 65.0 per cent continuing for the following 7 days, with effect from the fortnight beginning August 11, 2001.
  - Interest rate on eligible cash balance of banks with the Reserve Bank aligned with the Bank Rate in two stages. In the first stage, effective fortnight beginning April 21, 2001, the interest rate was increased from 4.0 per cent to 6.0 per cent; at a subsequent stage, to be announced later, the interest rate would be at the Bank Rate.
  - Inter-bank term liabilities with original maturity of 15 days to one year exempted from the prescription of minimum Cash Reserve Ratio (CRR) requirement of 3.0 per cent, effective fortnight beginning August 11, 2001.
  - Banks provided freedom to price loans of Rs.2 lakh and above the exporters or other credit worthy borrowers including public enterprises at below-PLR rates, based on an objective and transparent loan policy, with the approval of their Boards. For loans up to Rs.2 lakh, the ceiling rate continues to be the PLR.
  - Ceiling on interest rate on export credit in respect of all categories linked to banks' PLR. Ceiling rate on pre-shipment credit up to 180 days and post-shipment credit up to 90 days would be 1.5 percentage points below PLR.
  - Ceiling rate on foreign currency loans for exports reduced to LIBOR plus 1.0 percentage point.
  - Banks permitted to formulate fixed deposits schemes for senior citizens at higher and fixed rate of interest as compared to normal deposits on any size.
  - Ceiling interest rate on FCNR(B) deposits revised downwards to LIBOR/SWAP rates.
  - Export credit refinance to scheduled commercial banks (SCBs) to be provided as per the new formula to the extent of 15.0 per cent of the outstanding export credit eligible for refinance, effective fortnight beginning May 5, 2001.
  - The liquidity support available from the Reserve Bank split into two parts: (a) normal facility (constituting 2/3<sup>rd</sup> of the total limit under standing liquidity facilities) at the Bank Rate and (b) backstop facility (constituting 1/3<sup>rd</sup> of the limit) at variable daily rate linked to cut off rates emerging in liquidity adjustment facility (LAF) auctions and in their absence to NSE-MIBOR as decided by the Reserve Bank depending upon the situation.
  - LAF operating procedures changed as follows (effective May 8, 2001) : a) minimum bid size for LAF reduced to Rs.5 crore from the existing Rs. 10 crore; b) option to switch over to fixed rate repos on overnight basis as and when felt necessary; c) discretion to introduce longer-term repos up to 14 days; d) LAF auction timing advanced by 30 minutes and results by 12 noon; e) data on SCBs aggregate cumulative cash balances during the fortnight to be disseminated with a lag of two days; and f) multiple price auctions (in place of existing uniform price auction) to be introduced on an experimental basis during May 2001.
- 21**
- Gradual phasing out of non-bank participation in call money market in four stages. In stage I, effective May 5, 2001, lending in call/notice money market during the reporting fortnight by any non-bank entity not to exceed, on an average, 85 per cent of its daily average lending during the year 2000-01.
- 27**
- The repo rate was cut by 25 basis points from 7.00 per cent to 6.75 per cent.
- May 12**
- CRR reduced by 0.50 percentage point from 8.0 per cent to 7.5 per cent effective fortnight beginning May 19, 2001, augmenting the lendable resources of banks by about Rs.4,500 crore.
- 16**
- With effect from the fortnight beginning May 19, 2001, the Collateralised Lending Facility (CLF) would be provided in 2 blocks. Block I for the first 2 weeks and block II from 3<sup>rd</sup> week to 90 days

with rate of interest at the Bank Rate and the Bank Rate plus 2 percentage points, respectively, for normal facilities and at daily variable rate (DVR) as announced by the Reserve Bank for back-stop facilities. Penal rate will be applicable beyond 90 days till the date of repayment.

- 28 • The repo rate cut by 25 basis points to 6.50 per cent.
- June** 4 • Multiple Price Auction for LAF to continue till further announcement.
- Sept.** 24 • Ceiling on interest rate for export credit reduced by 1.0 percentage point across the board for the period up to March 31, 2002. Accordingly, the maximum interest rate that the banks would charge to exporters was revised to 2.5 percentage point below its PLR for pre-shipment credit up to 180 days and for post-shipment credit up to 90 days.
- Oct.** 22 • Bank Rate reduced by 0.50 percentage point from 7.00 per cent to 6.50 per cent with effect from the close of business on October 22, 2001.
- CRR rationalised through (a) reduction by 200 basis points from 7.50 per cent to 5.50 per cent and (b) withdrawal of exemptions on all liabilities, except inter-bank, for the computation of net demand and time liabilities (NDTL) for the purpose of maintenance of CRR, with effect from the fortnight beginning November 3, 2001.
  - Interest on eligible cash balances maintained with the Reserve Bank modified from the existing 6.0 per cent and linked to the Bank Rate (i.e., 6.5 per cent), effective fortnight beginning November 3, 2001.
  - Rationalisation of Current Account Facility by the Reserve Bank under examination.
- 31 • In view of the market conditions and changes in other interest rates in the system, the maximum rate of interest that NBFCs can pay on their public deposits was reduced, effective November 1, 2001, from 14.0 per cent to 12.5 per cent per annum.
- 2002**
- March** 2 • The Reserve Bank reduced the minimum lending rate (MLR) of urban co-operative banks (UCBs) from 13 per cent to 12 per cent, effective March 2, 2002. The decision was taken in the wake of representations from UCBs which felt that such a reduction would help them offer competitive rates to their borrowers.
- 5 • One day fixed rate repo conducted at 6.00 per cent.
- 11 • The validity of the reduction in the ceiling on interest rate on pre-shipment and post-shipment export credit announced on September 24, 2001 extended up to September 30, 2002.
- April** 29 • CRR to be reduced from 5.5 per cent to 5.0 per cent effective fortnight beginning June 15, 2002.
- A reduction in Bank Rate by up to half a percentage point (50 basis points) to be considered by the Reserve Bank as and when necessary.
  - CLF to be phased out with effect from the fortnight beginning October 5, 2002. CLF could be reintroduced for a temporary period in future, if considered necessary in the light of changes in monetary conditions.
  - All banks were encouraged to put a flexible interest rate system on deposits (with a fixed rate option for depositors) in practice as early as possible. Banks to consider paying the depositors at the contracted rate for the period of deposit already run and waive the penalty for premature withdrawal if the same deposit is renewed at the variable rate.
  - Banks to provide information to depositors and the Reserve Bank on: a) deposit rates for various maturities and effective annualised return to the depositors, and b) maximum and minimum interest rates charged to their borrowers. The Reserve Bank to place the above information in public domain.
  - Banks to report to the Reserve Bank, the minimum and maximum lending rates to exporters, with effect from fortnight beginning June 15, 2002, for placing in public domain.
  - Banks to switch over to 'all cost' concept for borrowers by explicitly declaring the processing charges, service charges, *etc.* charged to borrowers and announcing them publicly.
  - Co-operative banks free to determine the lending rates with the withdrawal of MLR concept. Co-operative banks to publish the minimum and maximum lending rates.
  - Ceiling interest rates on FCNR(B) deposits revised downwards from LIBOR/SWAP rates of

corresponding maturities to LIBOR/ SWAP minus 25 basis points.

- Ceiling interest rate on export credit in foreign currency reduced to LIBOR plus 0.75 percentage point from the existing LIBOR plus 1.0 percentage point.
- The daily borrowings of State Co-operative Banks and District Central Co-operative Banks in the call/notice money market not to exceed 2.0 per cent of their aggregate deposits as at the end of March of the previous financial year.
- A Working Group on STRIPS comprising banks and market participants constituted.
- The limit on banks to borrow and invest from/in overseas market increased from 15 per cent to 25 per cent of their unimpaired Tier I capital within the banks' Open Position Limit and maturity mismatch limits (Gap Limits).

**May 18** • The CRR reduction by 0.5 percentage point from the then existing level of 5.5 per cent, initially proposed to be effective fortnight beginning June 15, 2002, advanced to reporting fortnight beginning June 1, 2002

**June 27** • The repo rate was cut by 25 basis points to 5.75 per cent from 6.00 per cent.

- Prudential limit stipulated on the exposure of SCBs in call money market in two stages:
  - i) In the first stage, effective October 5, 2002, SCBs daily lending in the call/notice money market, on a fortnightly average basis, not to exceed 50 per cent of their owned funds as at the end of March of the previous financial year; their fortnightly average borrowing not to exceed 150 per cent of their owned funds or 2.0 per cent of aggregate deposits as at the end of March of the previous financial year, whichever is higher. However, they will be allowed to lend and borrow a maximum of 100 per cent and 250 per cent, respectively, of their owned funds on any day during a fortnight.
  - ii) In the second stage, effective fortnight beginning December 14, 2002, SCBs fortnightly average lending in the call/notice money market not to exceed 25 per cent of their owned funds; fortnightly average borrowings not to exceed 100 per cent of their owned funds or 2.0 per cent of aggregate deposits as at the end of March of the previous financial year, whichever is higher. They will be allowed to lend and borrow a maximum of 50 per cent and 125 per cent, respectively, of their owned funds on any day during a fortnight.
  - iii) An increased access may be allowed for a temporary period in case of mismatches in liquidity position. If the bank has a fully functional ALM system to the satisfaction of the Reserve Bank, an increased access over the stipulated norm may be permitted for a longer period.

**July 31** • Following the recommendations of the Working Group constituted to suggest the criteria for fixing limits for transactions of PDs in call/notice money market as also to suggest a roadmap for phasing them out from call/notice money market, it was decided:

- i) With effect from October 5, 2002, PDs will be permitted to lend in call/notice money market upto 25 per cent of their net owned funds (NOF).
- ii) Access of PDs to borrow in call/notice money market would be gradually reduced in two stages: In Stage I, PDs would be allowed to borrow up to 200 per cent of their NOF as at end-March of the preceding financial year. In Stage II, PDs would be allowed to borrow upto 100 per cent of their NOF. The limits under both the stages would not be applicable for the days on which government dated securities are issued to the market. The date of implementation of the Stage I, to be notified later, would be operational upon the finalisation of uniform accounting and documentation procedures for repos, allowing rollover of repos, introduction of tripartite repos or collateralized borrowing and lending obligations and permitting repos out of 'available for sale' category. Stage II will commence one month after permitting sale of repoed securities.
- iii) On implementation of the real-time gross settlement (RTGS) system, the above exemptions would be reviewed.

## II. INTERNAL DEBT MANAGEMENT POLICIES

**2001**

- April 1** • The revised arrangements in respect of Ways and Means Advances (WMA) to the Government of India for 2001-02 came into effect from April 1, 2001. The limit for WMA was set 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 remained unchanged.
- 20** • The Reserve Bank granted final approval to HSBC Primary Dealership India Private Limited to operate as a PD in the Government securities market thereby increasing the number of PDs to sixteen.
- 30** • A national level Clearing Corporation with the name “The Clearing Corporation of India Ltd.,” (CCIL) 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 foreign exchange, Government securities and money markets
- May 12** • 14-day and 182-day Treasury Bills discontinued with effect from May 14, 2001.
- Notified amount in the auctions of 91-day Treasury Bills enhanced from Rs. 100 crore to Rs. 250 crore.
  - Auctions of 91-day Treasury Bills conducted every Wednesday with payment on the following Friday and the auctions of 364-day Treasury Bills on the Wednesday preceding the reporting Friday with payment on the following Friday.
- Sept. 18** • Authorisation of Ceat Financial Services Limited as PD was not renewed. Hence the company ceased to be a PD with effect from this date.
- 22** • The Technical Advisory Committee on Money and Government Securities markets reconstituted for a further term of two years from the day of its first meeting.
- Nov. 1** • The Reserve Bank granted final approval to Banc of America Securities (India) Pvt. Ltd. and Standard Chartered- UTI Securities India Pvt. Ltd. to operate as PDs in the Government securities market taking number of PDs to 17.
- 5** • Fortnightly repo auction introduced with auctions conducted on every Monday following reporting Friday.
- 21** • Floating Rate Bonds (FRBs) were re-introduced with an issue of a 5-year bond.

**2002**

- Jan. 4** • PDs were required to provide back-testing results of VAR model for the year ended December 31, 2001 along with the PDR III returns for the December quarter.
- PDs were advised to follow a prudent distribution policy in the current year to build up sufficient reserves even in excess of regulatory requirements which can act as a cushion against any adverse interest rate movements in the future.
- 12** • Asset Liability Management (ALM) guidelines for NBFCs were made applicable to PDs with some modifications.
- 14** • Non-Competitive Bidding facility in Government securities for retail investors, announced on December 8, 2001, was introduced in the auction of 15-year Government Stock on January 14, 2002 with the following features: i) entities who do not maintain current account or subsidiary general ledger account with the Reserve Bank are eligible to bid; ii) the minimum amount for a bid will be Rs. 10,000 (face value) and thereafter in multiples of Rs. 10,000 and maximum amount of each bid not to exceed an amount of Rs. 1 crore of face value; iii) bids to be placed through a bank or a PD;

iv) total allotment under this facility not to exceed 5 per cent of the notified amount; v) the amounts allocated to non-competitive bidders will be within the notified amount; and, vi) allocation for non-competitive bidders will be made at the weighted average rate of successful competitive bidders.

- 17** • Guidelines on Inter-Corporate Deposits (ICDs) for PDs were issued : i) PDs prohibited from placing ICDs with other counterparties; ii) acceptance of ICDs restricted to 50 per cent of Net Owned Funds; and, iii) PDs to evolve a policy for acceptance of ICDs.
- Feb. 15** • The Negotiated Dealing System (NDS) (Phase 1) was operationalised.
- The CCIL, whose operationalisation was linked to the NDS, also commenced operations.
- March 16** • The Reserve Bank granted final approval to BOB capital Markets Ltd. to operate as PD in the Government securities market taking number of PDs to 18.
- April 1** • Calendar announced for dated Securities for the first six months of the fiscal year 2002-03.
- WMA limits for State Governments were revised. The total WMA normal limits were increased by Rs. 752 crore from Rs. 5,283 crore to Rs. 6,035 crore.
- 3** • Notified amount of 364-day Treasury Bills raised from Rs. 750 crore to Rs. 1000 crore in the auctions effective April 3, 2002.
- 17** • WMA limit to the Government of India for the fiscal 2002-03 retained at Rs.10,000 crore for the first half of the year(April to September) and Rs.6,000 crore for the second half of the year (October to March).
- May 31** • Satellite Dealers scheme discontinued effective May 31, 2002.
- June 5** • PDs were brought under the purview of Board for Financial Supervision (BFS).
- July 17** • For the first time, as part of Central Government's market borrowing programme, a bond with call and put option issued.

### III. FINANCIAL SECTOR MEASURES

**2001**

- April 4** • The Reserve Bank advised co-operative banks facing liquidity problems in their day-to-day operations, in the wake of the Gujarat earthquake, to approach public sector banks (PSBs) 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, in respect of banks, was extended up to June 30, 2001. Same instructions were issued to central public finance institutions (FIs) on April 18, 2001.
- It was decided to introduce a system of off-site surveillance for scheduled UCBs, to start with, through various quarterly returns.
- April 19** • In order to move towards international best practices and impart greater transparency, it was decided to classify loan as non-performing where 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.
- 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. Same instructions were issued to

- the FIs on June 20, 2001.
- 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 April 1, 2003. Same instructions were issued to FIs on June 20, 2001.
  - The Reserve Bank announced reduction of exposure limit for single borrower from the existing 20.0 per cent to 15.0 per cent and group exposure limit from the existing 50.0 per cent to 40.0 per cent of capital funds, effective March 31, 2002; the group exposure limit is extendible by another 10 percentage points, *i.e.*, up to 50.0 per cent provided the additional credit exposure is on account of extension of credit to the infrastructure projects. Same instructions were issued to FIs on June 20, 2001.
  - The interim prudential measures for UCBs to provide greater security to depositors and members were announced. These included: stopping of direct and indirect lending by UCBs to individuals or corporates against security of shares with immediate effect; limiting of their borrowing 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 with other UCBs and unwinding of existing term deposits by June 2002; increases in the component of SLR holdings to be held in government and other approved securities, by March 2002, from 15 per cent to 20 per cent of NDTL for scheduled UCBs, from 10 to 15 per cent of NDTL for non-scheduled UCBs with NDTL of Rs.25 crore and above, and from zero to 10 per cent in case of remaining UCBs; maintenance of the entire SLR of 25 per cent of NDTL by scheduled UCBs 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 the Reserve Bank or in constituent SGL Accounts of PSBs and PDs.
  - The 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 the Madhava Rao Committee at the earliest.
- 23** • All UCBs were directed to classify their entire investment portfolio under 'held to maturity', 'available for sale' and 'held for trading' with investments in the latter two categories marked-to-market. These instructions were applicable effective March 31, 2002.
- 25** • Pursuant to the High Powered Committee recommendation, CRAR was made applicable to UCBs in a phased manner. Scheduled UCBs and non-scheduled UCBs shall fall in line with the discipline applicable to commercial banks by March 31, 2004 and March 31, 2005, respectively.
- 26** • To give more operational freedom to UCBs, it was decided to allow new as well as existing UCBs to extend their area of operation to the whole of the district of registration and to its adjoining districts, without prior permission of the Reserve Bank.
- To bring convergence in the norms for asset classification between FIs and banks over a reasonable period of time, a credit facility of a FI would be treated as non-performing effective from the year ending March 31, 2002, if interest and/or principal remain overdue for more than 180 days in a year.
- 27** • 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 obtain the consent of borrowers to disclose their names in the event of default.
- 28** • The Reserve Bank clarified the approach to universal banking for all-India term lending and refinancing institutions. The salient operational and regulatory issues to be addressed by the FIs for conversion into universal bank relate to (a) reserve requirements (b) permissible activities (c)

disposal of non-banking assets (d) composition of the Board (e) prohibition of floating charge on 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) ADs licence (p) priority sector lending and (q) prudential norms.

**April 30** • With effect from June 30, 2001, banks, FIs, PDs, and SDs were directed to make fresh investments and hold commercial papers (CPs) only in dematerialised form.

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

- Banks and FIs were advised that all cases of wilful defaults of Rs.one crore and above should be reviewed and suits filed, if not done earlier. If in such cases of wilful defaults, there are instances of cheating or fraud by the defaulting borrowers, banks should file criminal cases.

**11** • According to 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 stock-broking entities and their 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.

**18** • It was decided that, effective March 31, 2002, UCBs will be classified as 'Weak' or 'Sick' taking into account (i) level of their achievement of CRAR norms, (ii) level of net NPAs and (iii) record of profitability. The system of constituting Bank Level Rehabilitation Review Committee was discontinued.

**June 7** • Banks were advised to put in place appropriate systems to ensure that investment in privately placed unrated instruments was 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.

**13** • The Reserve Bank clarified that refinancing institutions need not classify the Government guaranteed advances even if dues in such accounts are in arrears and are not reckoned for income recognition purposes. However, if the concerned Government repudiates its guarantee, the advances would have to be classified as NPA and provided for.

**14** • With a view to reduce divergences in assessment of NPAs by banks, statutory auditors and the Reserve Bank inspectors, user friendly guidelines defining and clarifying certain related issues in question-answer format were issued.

**27** • ALM guidelines for non-banking finance companies (NBFCs) (including RNBCs) were announced. To begin with, all NBFCs with 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, are required to put in place an ALM system to be fully operational by the year ending March 31, 2002. Other NBFCs not meeting the above criteria have been advised to put in place the system of ALM for safeguarding their own interests. Chit funds and Nidhis have been kept out of the purview of these guidelines. To start with, NBFCs with public deposits of Rs. 20 crore and above have to submit the half-yearly return as on September 30, 2002 by October 31, 2002.

- The monies received by NBFCs by issue of CPs in accordance with IECD guidelines dated October 10, 2000 have been exempted from the purview of public deposits.

**July 2** • Banks were advised to provide a personal insurance package to all Kisan Credit Cards (KCCs) holders to cover them against accidental death or permanent disability up to a maximum of Rs.50,000 and Rs.25,000, respectively.

- 12 • All UCBs which had not yet formed Audit Committee at the Board level were advised to do so without further delay.
  - 18 • For the year 2001-02, SCBs were advised to compute their respective share of housing finance allocation at 3 per cent of their incremental deposits as on the last reporting Friday of March 2001 over the corresponding figure of the last reporting Friday of March 2000.
  - 26 • PSBs were advised to earmark five per cent of their net bank credit for lending to women and the target is required to be achieved by March 31, 2004.
- Aug.**
- 7 • A risk weight of 20 per cent was to be assigned to all loans and advances granted by the FIs to their own employees as are covered by superannuation benefits and mortgage of flats/houses. All other loans and advances to own employees would, however, be subject to 100 per cent risk weight.
  - 17 • All SCBs were advised that no penal interest should be charged for loans under priority sector up to Rs. 25,000.
  - 23 • A three-tier structure of the Corporate Debt Restructuring (CDR) system - a non-statutory voluntary mechanism based on the debtor-creditor and inter-creditor agreements - was envisaged to provide a transparent mechanism for restructuring of corporate debts of viable corporate entities affected by internal and external factors, outside the purview of BIFR, DRT and other legal proceedings. The CDR system is to be applied only to multiple banking/ syndicates/ consortium accounts, in the standard and sub-standard category, with outstanding exposure of Rs.20 crore and above with the banks and FIs. Accounts restructured under CDR have to be disclosed in published annual report under "Notes to Accounts".
- Aug.**
- 24 • To expedite the process of inter-branch reconciliation and provide urgency to the efforts needed on the part of the banks, it was decided to further reduce the period allowed for making provisions against the net debit balance in the inter-branch accounts from two years to one year for the year ending March 31, 2002. In respect of reconciliation of old outstanding entries in their nostro accounts, banks were advised that they should transfer balances in the Sundry Creditors/Unclaimed Deposits Accounts (representing (a) the net credit balance arising out of the netting of entries pertaining to the period prior to April 1996, and (b) credit entries originated on or after April 1, 1996 and remaining unreconciled in nostro/mirror accounts for more than three years) appearing in the books of the banks as on September 30, 2001 to distinct Blocked Accounts and shown under "Other Liabilities and Provisions-Others" in the balance sheet. Banks were also advised to pursue with the reconciliation of the entries transferred to the Blocked Accounts.
  - 27 • It was clarified that credit exposure norms are also applicable to refinancing institutions, except their refinancing portfolio. However, from the prudential perspective, it is expected that these institutions evolve their own exposure norms relating to the refinance portfolio of the FI concerned with the approval of their respective Boards.
  - 29 • It was clarified that food and agro-based processing units of small and medium size with investment in plant and machinery upto Rs. 5 crore would come under priority sector lending.
    - Amended guidelines relating to ALM were issued to FIs covering time-buckets for slotting of the off-balance sheet items and treatment of securities in the trading book for interest rate sensitivity statement.
  - 31 • Finance extended by banks to agri-clinics and agri-business centres to be classified as indirect finance to agriculture under priority sector lending.
- Sept.**
- 7 • Taking into account the business profile of UCBs and nature of risks associated with credit/debit card business, it was decided that UCBs should not undertake credit/debit card business, either on their own or in tie-up arrangement with other banks.



- 22 • Based on the recommendations of the RBI-SEBI Technical Committee, it was decided to permit banks, on an experimental basis, to extend finance to stockbrokers for margin trading within the overall ceiling of 5 per cent prescribed for exposure of banks to capital market, subject to certain conditions. It was indicated that these guidelines, valid for a period of 60 days (i.e., up to November 22, 2001), would be reviewed in the light of actual experience.
  - Finance extended by banks for purchase of land by small and marginal farmers, share croppers and tenant farmers for agricultural purposes classified as direct lending to agriculture under priority sector.
- 24 • The Reserve Bank in consultation with Government of India announced a special financial package for a period of one year from October 1, 2001 for large value exports of select products which are internationally competitive and have high value addition. Under the special financial package, credit will be extended at concessional rate of interest for an extended period up to 365 days at pre-shipment as well as post-shipment stages as against the maximum periods of 270 days and 180 days, respectively, applicable for normal export credits.
- Oct. 16 • Detailed clarifications were issued to FIs on various aspects relating to guidelines on classifications and valuation of investments.
  - 20 • The formats of returns relating to off-site surveillance system revised for FIs.
  - 22 • In response to representations received from UCBs and their federations, UCBs were allowed to grant loans to individuals against security of shares, subject to certain conditions.
    - It was clarified that scheduled UCBs are required to achieve capital adequacy norms gradually by March 2004 and non-scheduled UCBs by March 2005.
    - Banks were given the freedom to change the composition of working capital by increasing the cash credit component beyond 20 per cent or the 'loan component' beyond 80 per cent for working capital limits of Rs.10 crore and above.
  - 27 • Banks with large exposures to corporates were advised to monitor and review on a monthly basis, through a suitable reporting system, the unhedged portion of the foreign currency exposures of those corporates, whose total foreign currency exposure is relatively large (say about US \$ 25 million or its equivalent).
    - Banks were advised to furnish the following additional disclosures in the "Notes on Accounts" in their balance sheets, from the year ending March 2002: (i) movement of provisions held towards NPAs and (ii) movement of provisions held towards depreciation on investments.
    - Banks were advised that they are free to design and implement their own policies for recovery and write-off including compromise and negotiated settlements with the approval of their Boards, particularly for old and unresolved cases falling under the NPA category.
- Oct. 31 • Model guidelines were issued to all State Governments for implementing scheme of one time settlement for recovery of NPAs of UCBs.
- Nov. 2 • It was decided to effect certain changes in the norms relating to restructuring /rescheduling /renegotiation of terms of the standard and sub-standard loan assets of UCBs.
  - The frequency of all the seven returns under the prudential off-site surveillance system, to be submitted by select all-India FIs, was made quarterly effective end-September 2001.
- 15 • According to the revised guidelines issued by the Reserve Bank on bank financing of margin trading by stockbrokers, the Board of each bank should formulate detailed guidelines for lending for margin trading, subject to the following parameters: the finance extended for margin trading should be within the overall ceiling of 5 per cent prescribed for exposure to capital market; a minimum margin of 40 per cent should be maintained on the funds lent for margin trading; the shares purchased with margin trading should be in dematerialised mode, under pledge to the lending bank; the bank should put in place an appropriate system for monitoring and maintaining the margin of 40 per cent on a

regular basis; the Bank's Board should prescribe necessary safeguards to ensure that no "nexus" develops between inter-connected stock broking entities/stockbrokers and the bank in respect of margin trading; the Audit Committee of the Board should monitor periodically the bank's exposure by way of financing for margin trading and ensure that the guidelines formulated by the bank's Board, subject to the above parameters, are complied with. The total finance extended for margin trading should be disclosed in the "Notes on Accounts" to the Balance Sheets.

- 22 • In response to representations by banks, it was announced that infusion of capital either through domestic issue or overseas float, after the published balance sheet date, would be taken into account in calculating capital funds for the purpose of determination of exposure ceiling. However, other accretion to capital funds by way of quarterly profits, *etc.* would not be eligible to be reckoned for determining exposure ceiling. Banks have also to ensure that they do not take exposures in excess of the ceiling prescribed in anticipation of infusion of capital on a future date.
  - 26 • All SCBs were advised of the enhancement of SSI investment limit (from 'not exceeding Rs. 1 crore' to 'not exceeding Rs. 5 crore') in respect of specified hosiery/handtools items.
  - 28 • The guidelines for entry of the FIs into insurance business were formulated. FIs having net owned fund of Rs.2 crore were permitted to undertake insurance business as agent of insurance companies on fee basis, without any risk participation. For permission to set up a joint venture company with risk participation, FIs would need to satisfy the following criteria: owned fund not less than Rs.500 crore; CRAR not less than 15 per cent; level of net NPAs not more than 5 per cent of the total outstanding loans and advances; net profit for the last three continuous years; track record of the performance of the subsidiaries, if any, of the concerned FI should be satisfactory; regulatory compliance with the Reserve Bank guidelines for raising of resources by the FIs should be demonstrated. FIs not eligible as joint venture, as per the foregoing criteria, can make investments up to 10 per cent of its owned fund or Rs. 50 crore, whichever is lower, in an insurance company. Such participation shall be treated as investment and should be without any contingent liability for the FI. No FI would be allowed to conduct business with risk participation departmentally. A subsidiary or a company in the same group of the FI or of another FI engaged in non-banking or banking business will normally not be allowed to join the insurance company on risk participation basis.
  - 29 • In order to obviate anomalies in respect of the treatment of preference shares, with original maturity of 20 years, issued by the FIs for the purpose of capital adequacy norms, the norms were reviewed and modified. Accordingly, the amount of "grant equivalent" that can be reckoned towards the Tier 1 capital of the FIs would be computed as amount received against subscription to the preference shares less the amount of corpus created and the present values of the dividend outflows on the preference shares issued, dividend tax payable, tax payable on the income from investment of the amount left after creating the corpus plus the present value of the cash inflows/income from the investment of the amount left after creating the corpus.
- Dec.** 22 • The Boards of PSBs were advised to formulate a policy for the recovery of dues pertaining to loans outstanding up to Rs.25,000, subject to certain parameters. The amount that should be recovered as settlement amount under these guidelines would be the balance outstanding towards principal in the loan account as on March 31, 1998. The compromise settlement reached should be reviewed by the Board at monthly intervals. The guidelines will be operative up to June 30, 2002.
- 2002**
- Jan.** 1 • The Reserve Bank announced a rationalisation of the guidelines pertaining to the NBFC sector. Companies whose application for Certificate of Registration (CoR) have been rejected or cancelled, have been directed to continue to repay their deposits, if any, on due dates and dispose of their financial assets or convert into non-banking non-financial companies within three years from date of rejection/cancellation. It was reiterated that every NBFC is required to maintain the prescribed minimum capital ratio on an on-going basis and not only as on reporting dates.
- Jan.** 1 • NBFCs were directed to classify each investment into current and long term at the time of making the investment, make inter-class transfer only at the beginning of half-year and not on an *ad hoc*

basis at the lower of book value or market value and depreciation, if any, in each scrip should be provided for and appreciation should be ignored.

- 9 • Banks/FIs were advised to exercise due caution while taking any investment decisions to subscribe to debentures, bonds, shares, *etc.* and refer to the 'Defaulters Lists' to ensure that investments are not made in companies/entities who are defaulters to banks/FIs.
  - 10 • To build up Investment Fluctuation Reserve (IFR), banks were advised to transfer maximum amount of the gains realised on sale of investment in securities to the IFR Account to achieve IFR of a minimum of 5 per cent of the portfolio within a period of 5 years. Banks are, however, free to build up higher percentage of IFR of up to 10 per cent of the portfolio depending on the size and composition of their portfolio, with the concurrence of their board of directors.
  - 16 • The guidelines with regard to rehabilitation of sick units in the SSI sector were released with specific reference to definition of sick SSI units, monitoring, viability norms, incipient sickness as also relief and concessions from banks/ FIs in the case of potentially viable units.
  - 22 • The norm of two harvest seasons, not exceeding two half years, for reckoning NPAs in respect of short-term agricultural loans for production and marketing of seasonal agricultural crops such as paddy, wheat, oilseeds, sugarcane, *etc.* was extended to cover all direct agricultural advances.
  - 23 • The exemption limit of Rs. 5 lakh in respect of borrowal accounts for dispensation of collateral securities was made applicable to all SSI units.
  - 25 • Banks/FIs may not refuse proposals for investments in companies whose Director's names find a place in defaulters companies list circulated by the Reserve Bank at periodical intervals and particularly in respect of those banks accounts which have been restructured under the extant Reserve Bank guidelines, provided the proposal is viable and satisfies all parameters for such credit extension.
  - 30 • Based on the recommendations of a High Level Committee chaired by Dr. I.G. Patel, the Reserve Bank accorded its 'in-principle' approval to two applicants (i.e., Shri Ashok Kapur and two other banking professionals with Rabobank and M/s. Kotak Mahindra Finance Ltd.). In the case of Kotak Mahindra Finance Ltd., however, the recommendation of the high level committee has been accepted with a change that the applicant should convert itself into a new bank instead of setting up a bank and also continue simultaneously as an NBFC. The in-principle approvals will be valid for a period of one year during which period the applicants can mobilise the required capital and fulfil other conditions outlined in the Reserve Bank guidelines for licensing of new banks in the private sector.
- Feb.**
- 1 • The Reserve Bank developed a new software for submission of returns by FIs under the prudential Off-Site Monitoring and Surveillance System incorporating the suggestions received from various FIs.
    - For the purposes of asset classification and provisioning, clarifications were issued to the FIs relating to treatment of Restructured Accounts.
    - The treatment of 'time overrun' in respect of projects under implementation for the purpose of asset classification was redefined/reclassified. The projects have been grouped into three categories: (i) projects where financial closure had been achieved and formally documented; (ii) projects with original cost of Rs.100 crore or more and (iii) projects with original cost of less than Rs.100 crore.
  - 8 • To bring greater transparency in the published annual reports, FIs were advised to disclose the following additional information on movement in the provisions held towards (i) NPAs and (ii) depreciation in investment portfolio in their published annual report, with effect from the financial year 2001-02, as part of "Notes to Accounts".
  - 14 • The Reserve Bank issued detailed guidelines for raising subordinated debt through Head Office (HO) borrowings in foreign currency for inclusion in Tier II capital by foreign banks. The salient features

of the guidelines are as under:

- a) the amount eligible for inclusion in Tier II capital as subordinated debt will be subject to a maximum ceiling of 50 per cent of the Tier I capital maintained in India;
- b) the HO borrowings should have a minimum initial maturity of five years. HO borrowings in the nature of perpetual subordinated debt will not be permitted and the rate of interest should not exceed the on-going market rate.
- c) the HO borrowings should be fully paid up, *i.e.* the entire borrowing or each tranche of the borrowing should be available in full to the branch in India. It should be unsecured, subordinated to the claims of other creditors of the foreign bank in India, free of restrictive clauses and should not be redeemable at the instance of the HO.
- d) the total amount of HO borrowings is to be reckoned as liability for the calculation of NDTL for the purpose of reserve requirements and, as such, will attract CRR/SLR requirements.

**Feb. 16** • Consolidated guidelines were issued on foreign direct investment (FDI) in the banking sector. It was clarified that FDI from all sources in private banks is permitted under the automatic route up to 49 per cent. FDI and portfolio investment in PSBs, including State Bank of India, however, is permitted up to 20 per cent. The maximum limit of 49 per cent is applicable also to foreign banks having branch presence in India and wishing to make FDI in private banks. Certain categories of investors cannot take the automatic route, and require prior approval from specified authorities; these categories include: (i) investors who have financial or technical collaboration in the same or allied field; (ii) transfer of existing shares in a banking company from residents to non-residents; and (iii) foreign investments in banks which have joint venture/subsidiary in insurance sector.

**March 4** • The Reserve Bank announced that all NBFCs granting/intending to grant demand/call loans should lay down a policy, duly approved by their Board of Directors, covering aspects relating to cut off date within which the repayment of the loan will be demanded/called up and rate of interest covering satisfactory compliance with the terms of sanction etc. All such loans remaining unpaid for more than six months from the date of demand/call or loans where interest remained past due for a period of six months from the due date would be classified as NPAs. The provisioning requirements as applicable to loans, advances and other credit facility would be applicable to such loans. These directions became effective March 31, 2002 for both the existing and fresh loans.

**9** • The Reserve Bank directed SCBs that, with effect from April 1, 2002, they shall move over to charging interest on loans/advances at monthly rests. In respect of agricultural advances, banks shall continue to follow the existing practice of charging/compounding of interest on agricultural advances linked to crop seasons. Application of interest on monthly rests shall be restricted to cash credit and overdraft accounts and new loans only. Interest at monthly rests shall be applied in case of other loans of longer/fixed tenor at the time of review/renewal.

**20** • The Reserve Bank liberalised the norms for issue and pricing of shares by private sector banks. All private sector banks - listed or unlisted - will be free to issue bonus and rights issues without prior approval of the Reserve Bank. Moreover, the bonus issue will now be delinked from the rights issue. For initial public offerings and preferential shares, however, the Reserve Bank's approval will be necessary. Banks will be free to price their subsequent issues once their shares are listed on the stock exchanges. The issue price should be based on merchant banker's recommendation. Pricing of preferential issues by listed banks may be as per the SEBI formula while for unlisted banks the fair value may be determined by a chartered accountant or a merchant banker. In case of pricing of issues where the Reserve Bank approval is not required, pricing should be as per the SEBI guidelines; in cases where prior approval of the Reserve Bank is required, pricing should take into account both the SEBI and the Reserve Bank guidelines.

**21** • The Reserve Bank decided to consider, on a case-by-case basis, extension of timeframe for investment in Government and other approved securities by UCBs as part of their SLR investments.

**22** • In line with the announcements in the Union Budget, 2002-03, the Reserve Bank announced special One-Time Settlement (OTS) Scheme for small and marginal farmers. The guidelines will cover loans

up to Rs.50,000 principal amount (excluding any interest element) which have become NPAs as on March 31, 1998. The guidelines will remain operative up to December 31, 2002.

- 26 • The Reserve Bank issued a Guidance Note on Market Risk Management. The guidance note delineates the minimum requirements for the banks including approval levels and requirements for any exceptions, deviations or waivers. The note illustratively encompasses the following broad areas: (a) responsibilities of risk management with regard to market risk management, (b) responsibilities of risk taking unit, (c) responsibilities of market risk manager, (d) risk identification, (e) risk monitoring, (f) funding and liquidity, (g) models of risk analysis, and (h) risk reporting.
  - 30 • UCBs were advised to move over to charging interest rate on advances on monthly basis, effective April 1, 2002.
- April**
- 1 • In respect of UCBs, it was decided that accretion to or reduction in the share capital after the balance sheet date may be taken into account for determining exposure ceiling at half yearly intervals and the bank may, if they so desire, fix a fresh exposure limit taking into account the amount of share capital available as on 30 September. However, accretions to capital funds other than to share capital would not be eligible for re-fixing the exposure ceiling. Banks should also ensure that they do not take exposures in excess of the ceiling prescribed, in anticipation of infusion of capital on a future date.
  - 4 • Instances of frauds in UCBs involving large amounts or frauds of serious nature should be reported to the Registrar of Co-operative Societies through a D.O. letter which may cover the various categories of specified frauds.
  - 5 • The Consultative Group of Directors of Banks and Financial Institutions (Chairman: Dr. A.S. Ganguly), which was constituted to look into the role of Board of Directors of banks/FIs and make recommendations, for consideration by the government/the Reserve Bank, for making it more effective with a view to minimising risks and over-exposure, submitted its report to the Reserve Bank. The major recommendations of the Group pertain to: appointment of one more whole-time director on the Boards of large-sized nationalised banks; establishment of appropriate due diligence procedures for appointment of directors on the Boards of private sector banks; setting up of nomination committees of Boards of banks to recommend appointment of independent/non-executive directors; building and creation of a pool of professional and talented people for Board level appointments in banks.
  - 5 • The recommendation of the High Power Committee on UCBs regarding the appointment of at least two directors with suitable banking experience or with relevant professional qualifications, on the Boards of newly constituted UCBs, was extended to all the existing UCBs. All UCBs were advised to amend their bye-laws to incorporate the above recommendation and initiate steps for compliance.
  - 6 • UCBs were advised that the investment limit in plant and machinery in respect of the industrial undertakings manufacturing specified hosiery and hand tool items has been enhanced from 'not exceeding Rs.1 crore' to 'not exceeding Rs.5 crore'. Advances to such units may be classified as SSI advances under priority sector.
  - 15 • Scheduled UCBs were advised to put in place an effective ALM System by June 30, 2002. To begin with, the banks have to ensure coverage of at least 60 per cent of their liabilities and assets; for the remaining 40 per cent, banks may include the position based on their estimates. Internal Asset-Liability Committee (ALCO) is to be set up in each bank, headed by the CEO.
  - 18 • The Reserve Bank advised that while reckoning the quantum of unsecured advances and guarantees for applying the norms relating to unsecured advances and guarantees, outstanding credit card dues should be excluded from the total of unsecured advances.
  - 19 • Banks were advised that products of aluminium, petroleum products, sugar and foodgrains were to be included in the products eligible for special financial package for large value exports.

- 20** • As it was observed that some banks had not followed the Reserve Bank guidelines on investment transactions and had undertaken transactions which might have exposed the banks to significant risks, UCBs were advised to strictly follow the extant guidelines. Some of the important instructions are as follows: (i) UCBs should not undertake any purchase/sale transactions with broking firms or other intermediaries on a principal to principal basis, (ii) UCBs should seek a SCB, PD or FI as a counter party. Preference should be for direct deals with such counter parties. It will be desirable to check prices from the banks or PDs with whom UCBs may be maintaining Constituent SGL Account (CSGL) (iii) If a deal is put through with the help of broker, the role of the broker should be restricted to that of bringing the two parties to the deal together. Under no circumstances should bank give power of attorney or any other authorisation to brokers/intermediaries to deal on their behalf in the money and securities markets, (iv) Only brokers registered with NSE or BSE or OTCEI should be utilised for acting as intermediary. A limit of 5 per cent of total transactions (both purchases and sales) should be treated as the aggregate upper contract limit for each of the approved brokers, (v) All investment transactions should be perused by the Board at least once a month.
- 22** • The Reserve Bank announced that the past due period of 30 days for identification of NPAs by NBFCs would be done away with, effective March 31, 2003.
- The Reserve Bank prescribed guidelines for objective identification of loss assets by NBFCs including therein instances which could threaten the recovery of the assets so that the NPAs are promptly classified and adequate provisions are made against such assets.
  - It was decided to take action progressively against NBFCs for non-submission of returns. Such action may include imposing penalties as provided in the Reserve Bank of India Act, 1934 as also launching court proceedings against the errant companies, besides considering rejection/cancellation of the Certificate of Registration. To start with, cases of NBFCs having public deposits of Rs. 50 crore and above and defaulting in submission of returns are being taken up. This discipline will be extended to other NBFCs in due course.
- 26** • The Reserve Bank approved the merger of ICICI Ltd. with ICICI Bank Ltd., subject to certain conditions.
- Scheduled UCBs were advised to conduct a special audit of their securities transactions by a Chartered Accountant and to place a report of the audit before the Board.
- 29** • The RRBs were advised to maintain their entire SLR holdings in Government and other approved securities by converting existing deposits with sponsor banks in to approved securities by March 31, 2003 .
- All SCBs were advised that they may, on the basis of good track record of the SSI units and the financial position of the units, increase the limit of dispensation of collateral requirement from Rs. 5 lakh to Rs. 15 lakh.
  - Banks were permitted to invest their FCNR(B) deposits in longer term fixed income instruments with appropriate rating prescribed for the money market instruments, with prior approval of their Boards with regard to type/tenor, rating and likely cap on such investments within the ALM guidelines in force.
  - Increase in limit from Rs.15 lakh to Rs.25 lakh for financing of distribution of inputs for allied activities under priority sector.
  - Increase in credit limits from Rs.1 lakh to Rs.5 lakh for marketing of crops (pledge financing) under priority sector. Repayment schedules of such credit enhanced to 12 months from 6 months.
  - Banks were advised that, effective March 31, 2005, an asset would be classified as doubtful if it remained in the sub-standard category for 12 months. Banks were permitted to phase the additional provisioning consequent upon the reduction in the transition period from substandard to doubtful asset from 18 months to 12 months over a four- year period, commencing from the year ending March 31, 2005, with a minimum of 20 per cent each year.
  - Banks were advised to compute Investment Fluctuation Reserve (IFR) with reference to investments in two categories, viz., “Held for Trading” and “Available for Sale” and not include investments

under “Held to Maturity” for the purpose.

- As an interim measure, the Reserve Bank would grant permission for CDR on the basis of specific recommendations of CDR “Core Group”, if a minimum of 75 per cent of the lenders consent for CDR, irrespective of differences in asset classification status in banks/FIs.

- May**
- 14** • With the operationalisation of the CCIL, modified instructions were issued to FIs, which, *inter alia*, state that ready forward contracts shall be settled through the SGL accounts of the participants with the Reserve Bank or through the SGL accounts of the CCIL with the Reserve Bank.
  - 21** • The existing norm of two harvest seasons not exceeding two half years for reckoning NPAs applicable only in respect of short-term agricultural loans for production and marketing of seasonal agricultural crops and not for other activities like horticulture, floriculture or other allied activities was reviewed and it was decided that the norm of two harvest seasons, not exceeding two half years, be made applicable to all specified direct agricultural advances.
  - 23** • Parabanking facilities such as lending and hire-purchase extended by banks at select branches departmentally were made eligible for classification as priority sector advances, provided the beneficiary satisfies the criteria laid down by the Reserve Bank for treating such advances as priority sector advances.
  - 24** • Banks were advised that loans and advances secured by mortgage of residential property may be assigned a risk weight of 50 per cent instead of the existing 100 per cent for the purpose of capital adequacy. Loans against mortgage of commercial real estate would continue to attract 100 per cent risk weight as hitherto. Bank’s investment in Mortgage Backed Securities (MBS) of residential assets of Housing Finance Companies (HFCs) which are supervised by the National Housing Bank (NHB) would be eligible for risk weight of 50 per cent for the purpose of capital adequacy.
  - 28** • To ensue that the loan assets relating to projects under implementation were appropriately classified and asset quality correctly reflected, the norms on income recognition, asset classification and provisioning with respect to industrial projects under implementation, which involve time overrun, earlier applicable to FIs only, were made applicable to banks also.
  - 29** • Keeping in view the nature of operations of banks and the need to ensure uniformity in regulatory requirements, it was decided that compliance with the following Accounting Standards be made optional for banks only for the financial year ended March 31,2002: AS 17 on Segment Reporting, AS 18 on Related Party Disclosure, AS 21 on Consolidated Financial Statements and AS 22 on Taxes on Income. Banks would be required to conform to the above Accounting Standards by March 31, 2003 in accordance with the detailed guidelines to be issued shortly on the basis of the recommendations of a Working Group on the issue.
  - 30** • Based on the recommendations of the Working Group on Wilful Defaulters, the term ‘Wilful Default’ was redefined and widened so as to cover the aspects of diversion of/siphoning off funds therein. The banks and FIs are required to initiate penal measures against wilful defaulters as advised.
- June**
- 4** • The banks, all-India notified FIs and State Financial Corporations were advised to submit the list of suit filed accounts of Rs.1 crore and above as on March 31, 2002 and quarterly updates thereof till December 2002 and suit filed accounts of wilful defaulters of Rs.25 lakhs and above as at end-March, June, September and December 2002 to the Reserve Bank as well as to Credit Information Bureau (India) Ltd. (CIBIL) for a period of one year till March 31, 2003 and thereafter to CIBIL only.
  - 6** • UCBs were advised that, in addition to the existing permitted entities, they can also seek insurance companies, mutual funds and provident funds as counter parties for their transactions in securities.
  - 7** • To ensure uniformity in interpretation of the term ‘financial closure’ for the green field projects, a

standard definition was introduced for the purpose of asset classification.

- It was decided that, with immediate effect, all transactions in Government securities by UCBs should necessarily be through SGL or constituent SGL account or dematerialised account with depositories.
- 11** • In the light of developments involving securities transactions of certain UCBs, it was decided that concurrent auditors shall also certify that investments held by the bank as on the last reporting Friday of each quarter and as reported to the Reserve Bank, are actually owned/held by it as evidenced by physical securities or the custodians' statement. Those banks not having the system of concurrent audit may have the above certification furnished by an auditor appointed by the Registrar of Co-operative Societies.
- June**    **15** • To increase the investor base, the minimum size of CDs to single investor was reduced from the existing level of Rs.5 lakh to Rs.1 lakh and in multiples of Rs.1 lakh thereafter.
- 20** • UCBs were advised to initiate steps to enhance/augment flow of credit under priority sector to artisans, craftsmen, *etc.* belonging to the minority communities, namely, Sikhs, Muslims, Christians, Zoroastrians and Buddhists.
- 26** • The Reserve Bank introduced the supervisory rating system based on "CAMELS" model for the FIs, on lines similar to banks.
- 30** • Effective June 30, 2002, FIs should issue CDs only in dematerialised form. All existing outstanding shall be converted into the dematerialised form by October 2002.
- July**        **26** • In supersession of the earlier instructions on system of charging interest on advances at monthly rests with effect from April 1, 2002, banks were advised that : i) they have option to compound interest at monthly rests effective either from April 1, 2002 or July 1, 2002 or April 1, 2003; ii) with effect from quarter beginning July 1, 2002, banks should ensure that the effective rate does not go up merely on account of the switchover to the system of charging/ compounding interest at monthly rests and increase the burden on the borrowers; iii) instructions on charging interest at monthly rests shall not be applicable to agricultural advances and banks shall continue to follow the existing practice of charging/compounding of interest on agricultural advances linked to crop seasons. In case of other agricultural advances, banks may take into consideration due dates fixed on the basis of fluidity with borrower for charging of interest.

#### **IV. CAPITAL MARKET POLICIES**

##### **(i) Securities and Exchange Board of India (SEBI)**

- 2001**
- April**    **20** • The SEBI decided to revise the format for unaudited half-yearly results for the mutual funds. These results are to be published before the expiry of one month from the close of each half-year as against two months period provided earlier. These results shall also be put on their websites by the mutual funds.
- 27** • The SEBI clarified that all the schemes by mutual funds shall be launched within six months from the date of the letter containing observations from SEBI on the scheme offer document. Otherwise, a fresh offer document along with filing fees shall be filed with the SEBI.
- 30** • The SEBI directed the mutual funds to disclose large unit holdings in the scheme, which are over 25 per cent of the NAV.
- May**        **2** • The SEBI directed the stock exchanges to amend their Listing Agreement to ensure that the companies maintain on a continuous basis, the minimum level of non-promoter holding at the level of public shareholding as required at the time of listing.
- 8** • To ensure that all personal securities transactions by employees of AMCs and Trustee Companies



avoid any actual or potential conflict of interest or any abuse of an individual's position of trust and responsibility, SEBI laid down detailed norms of investment and disclosure standards.

- 22 • The SEBI advised the stock exchanges to desist from the practice of granting conditional listing to the companies as Section 73 of the Companies Act, 1956 does not envisage any qualified conditional listing permission.
- June**
- 20 • American Style Stock Options to be settled in cash were permitted by the SEBI following the recommendations of the Advisory Committee on Derivatives. 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 were also laid down.
  - 21 • Following the recommendations of the Advisory Committee on Derivatives (Chairman: Prof. J. R. Varma), the SEBI laid down broad parameters for adjustments for corporate actions for stock options.
    - The SEBI announced that all deferral products, viz., ALBM/BLESS/MCFS/CNS shall cease to be available for all scrips. A period of transition up to September 3, 2001 was granted to effect the change.
    - It was also announced that the stocks not on the compulsorily rolling settlement from July 2, 2001 will be traded under T+5 compulsorily rolling settlement with effect from January 2, 2002. In the interim period, these stocks would be traded on uniform settlement cycle (Monday to Friday) with effect from July 2, 2001 on all exchanges.
    - With effect from July 2, 2001, the SEBI introduced the 99 per cent Value-at-Risk (VaR) based margin system for the scrips in the compulsory rolling settlement. In addition to the VaR-based margin, the stock exchanges shall continue to collect mark-to-market margin. The exchanges should at their discretion impose additional margin on scrips wherever necessary to contain the risks in the market. A system of gross margining for the entire market was also prescribed effective September 3, 2001.
- June**
- 25 • With the introduction of the rolling settlement in 414 scrips from July 2, 2001, and the fact that all deferral products such as the ALBM/BLESS/MCFS/CNS will no longer be available, the SEBI decided to withdraw the restrictions on short sales not covered by a purchase transaction of equivalent amount.
  - 26 • Restriction on Securities Lending Scheme, 1997 imposed since March 13, 2001 was withdrawn by the SEBI with effect from July 2, 2001.
  - 28 • The SEBI decided to implement, effective July 2, 2001, an index-based market-wide circuit breaker system for scrips in rolling settlement mode, which will apply at three stages of the index movement either way at 10%, 15% and 20%. These circuit breakers will bring about a coordinated trading halt in all equity and equity derivative markets nationwide. The market-wide circuit breakers would be triggered by movement of either the BSE Sensex or the S&P CNX Nifty, whichever is breached earlier. In addition, there would be individual scrip-wise price bands of 20% either way for all scrips in the compulsory rolling settlement except for the scrips on which derivative products are available. In the rest of the scrips that are not in compulsory rolling settlement, the existing price bands would continue to apply.
- July**
- 17 • The SEBI amended the SEBI (Disclosure and Investor Protection) Guidelines, 2000 to provide for: inclusion of Foreign Venture Capital Investors (FVCIs) and SIDCs as Qualified Institutional Buyers (QIBs) to participate in book-building route; no lock-in period for the pre-issue share capital of an unlisted company held by VCFs and FVCIs; removal of the restriction of a minimum issue size of Rs.25 crore in case of an IPO through book building; and, the option to allocate the unsubscribed portion of the fixed price portion in a book building issue to any category or lapse altogether.
  - 18 • SEBI decided that every investor should have a unique ID, for which brokers and sub brokers shall

collect and maintain in their back office the Permanent Account Number (PAN) allotted by Income Tax Department or other identification numbers, in case PAN is not allotted. The stock exchanges shall be required to maintain a database of client details submitted by brokers. Furthermore, the brokers shall maintain and preserve, for a period of seven years, a mapping of client IDs used at the time of order entry in the trading system, with those unique client IDs along with client name, address and other particulars given in the Know Your Client form.

- Aug. 14** • The SEBI allowed the mutual fund schemes to invest in the listed or unlisted securities or units of venture capital funds, within the specified overall ceilings.
- 20** • To ensure smooth settlement, the SEBI decided that, whenever there is a scheduled bank holiday on a trading day, settlement for two trading days would be conducted on a single day.
- 31** • The SEBI amended Clause 41 of the Listing Agreement and the companies were required to furnish segment-wise revenues, results and capital employed along with the quarterly unaudited financial results with effect from the quarters ending on or after September 30, 2001 (later extended to December 2001) as per the prescribed format.
- Amendments to Clause 32 of the Listing Agreement were effected for mandatory publication of Consolidated Financial Statements in the annual report in addition to the individual financial statements and audit of the same by the statutory auditors besides compliance with the accounting standard on “Related Party Disclosures” in the annual reports. A new clause was added to the Listing Agreement as Clause 50 to provide that companies shall mandatorily comply with all the accounting standards issued by ICAI from time to time.
- Sep. 27** • SEBI issued norms for speedy redressal of grievances pertaining to a) pending transfer of shares, b) dealing with objection memos in future and c) duplicate share certificates. The norms would be applicable in respect of all companies/organisations whose shares are listed on any of the stock exchanges and are in physical form.
- Nov. 2** • Following the recommendations of the Advisory Committee on Derivatives (Chairman: Prof. J. R. Varma), the SEBI permitted trading in cash settled Stock Futures on 31 stocks on which option contracts have been introduced on BSE and NSE. The SEBI also laid down the risk containment measures whereby a portfolio based margining approach is to be adopted taking an integrated view of the risk involved in the portfolio of each individual client comprising of his positions in all derivative contracts.
- Dec. 20** • The SEBI proposed Model Rules to be followed by the stock exchanges in phases. These have been divided into four parts covering rules, which, *inter alia*, include, a) already implemented by the stock exchanges, b) to be introduced by the stock exchanges, c) those which have to await corporatisation/demutualisation of the stock exchanges, and d) those related to the basic legal structure of the stock exchanges and may require legislative amendments, *etc.*
- 2002**
- Jan. 2** • The stock exchanges were advised to incorporate the amendments related to buy back of shares in the Listing Agreement with immediate effect. The amendments require the companies to give prior notice of at least 7 days to the stock exchanges about the Board meetings at which the proposal for buy back of securities is to be considered and to disclose the decision on buy back within 15 minutes of the closure of the Board meeting.
- Jan. 30** • With a view to derive benefits of increased efficiency, the SEBI decided to shorten the rolling settlement cycle from T+5 to T+3. The stock exchanges were advised to make the necessary arrangements/modifications in their systems accordingly. The compulsory rolling settlement on T+3 basis commenced on April 1, 2002.
- Feb. 12** • Following the circular dated February 4, 2002 by the Reserve Bank permitting FIIs to trade in all the exchange traded derivative contracts, the SEBI announced the position limits to be followed by the

FII's and their sub-accounts. The SEBI also laid down norms for the derivative segment of the exchanges and their Clearing House/Clearing Corporation to implement the procedure for the monitoring of FII's and the sub-account's position limits and the norms for computation of such position limits.

- 20** • In line with the recommendations of Group on Insider Trading (Chairman: Kumar Mangalam Birla), the SEBI notified changes in the SEBI (Insider Trading) Regulations, 1992, and inserted a new Chapter (IV) outlining policy on disclosures and internal procedure for prevention of insider trading. Various entities relating to the capital market would have to frame a code of internal procedures and conduct as near to the model code specified in the regulations. The norms specify disclosure standards and trading restrictions on directors/officers and designated employees of the company; appointment of a compliance officer; and, limited access to confidential and price sensitive information.
  - Following representations from AMFI, the SEBI notified the Mutual Funds (Amendment) Regulations, 2002, whereby the Requirement of publishing of scheme-wise annual report or abridged annual report in the newspapers by the mutual funds was waived. However, the mutual funds shall continue to send the annual report or abridged annual report to the unit holders. Further, all mutual funds were advised to display the scheme-wise annual reports on their websites to be linked with AMFI website so that the investors and analysts can access the annual reports of all mutual funds at one place.
  - SEBI modified certain guidelines for valuation of securities related to traded securities, thinly traded securities, risk-free benchmark, mark-up/mark-down yield, benchmark yield for valuation, valuation of Government securities, *etc.*
- March 26** • To provide the investors an objective analysis of the performance of the mutual funds' schemes in comparison with the rise or fall in the markets, the SEBI decided to include disclosure of performance of benchmark indices in case of equity-oriented schemes (extended to debt-oriented and balanced fund schemes on April 15, 2002) in the format for half-yearly results. In case of sector or industry specific schemes, mutual funds may select any sectoral indices published by stock exchanges and other reputed agencies.
- 30** • In pursuance with the proposals in the Union Budget 2002-03, the SEBI allowed the mutual funds to invest in foreign debt securities in the countries with fully convertible currencies and with highest rating (foreign currency credit rating) by accredited/registered credit rating agencies. They were also allowed to invest in government securities where the countries are AAA rated.
- May 9** • To bring uniformity in calculation of NAVs of mutual fund schemes, the SEBI issued guidelines for valuation of unlisted equity shares.
- 10** • SEBI amended the Clause 41 of the Listing Agreement to require that the companies which opt to publish audited results for the entire year within 3 months (instead of publishing un-audited results for the last quarter within 30 days) to publish annual audited results in a specified format. Companies would also be required to disclose audit qualifications in the unaudited/audited financial results along with their impact on the profit or loss together with explanations and the date by which these are expected to be removed.
- 15** • SEBI laid down the procedure relating to writing off securities held by FII's or their sub-Accounts.
- June 19** • SEBI clarified that the service charge of five per cent on the management fees of asset management companies imposed in the Union Budget 2002-03 can be charged to the schemes as an item of general expenditure without imposing an additional burden on unit holders.
- 20** • SEBI prescribed all mutual funds to enter into transactions relating to Government securities only in dematerialised form.

- SEBI advised mutual funds that the non-performing or illiquid assets at the time of maturity/closure of schemes but realised within two years after the winding up of the scheme, should be distributed to the old investors if the amount is substantial. In case the amount is not substantial or it is realised after two years, it may be transferred to the Investor Education Fund maintained by each mutual fund.
  - SEBI clarified that the SEBI (Insider Trading) (Amendment) Regulations, 2002 should be followed strictly by the trustee companies, asset management companies and their employees and directors.
  - SEBI advised the stock exchanges to amend the listing agreement to require the companies to furnish specified information on the Electronic Data Information Filing and Retrieval (EDIFAR) website maintained by the SEBI.
- 26 • SEBI clarified that the investors who have dealt with the member broker through the registered sub-broker are also clients of member broker. Thus in case of the default of the member broker, the clients of the registered sub-brokers would also be eligible for the claims against the defaulting member broker for compensation from the Investor Protection Fund (IPF)/Customer Protection Fund (CPF).

#### (ii) Reserve Bank of India

2001

- Sept. 20 • In consultation with the Government of India, the Reserve Bank permitted Indian companies to increase the FII investment limit up to the sectoral cap/statutory ceiling, as applicable.
- Oct. 22 • Banks and FIs would be permitted to make fresh investments and hold bonds and debentures, privately placed or otherwise, only in dematerialised form with effect from October 31, 2001.

#### (iii) Government of India

2001

- April 26 • A Joint Parliamentary Committee (Chairman: Shri Prakash Mani Tripathi) with 30 members from both houses of the Parliament was constituted to look in to the irregularities in securities market, role of different institutions and entities, identify the sources of misuse and recommend measures for improvements, *etc.*
- May 10 • The Companies (Passing of Resolution by Postal Ballot) Rules, 2001 were issued. The rules define postal ballot to include voting by postal or electronic mode instead of voting personally in a general meeting of the company. The rules would be applied to all listed companies in case of resolutions as listed in the notification.
- 25 • The Government amended the Companies (Acceptance of Deposits) Rules, 1975 to reduce the ceiling on rate of interest on fixed deposits collected by companies from 15 per cent to 14 per cent.
- July 2 • The Department of Company Affairs (DCA) clarified that investor complaints relating to deposits in the banking companies and NBFCs are dealt with by the Reserve Bank and those relating to non-banking non-financial companies (listed) by the SEBI. The complaints in respect of non-banking non-financial companies (unlisted) are dealt with by DCA.
- 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 Commission will have a two-year term and advise the Government on the disinvestment of PSUs.

**2002**

**Feb. 28** • The Government announced that the FII portfolio investments will not be subject to the sectoral limits applicable for FDI except in specified sectors.

- The distribution tax of 10 per cent on companies and mutual funds on the dividends or income distributed by them was abolished. Such income will henceforth be taxed in the hands of the recipients at the rates applicable to them and will be subject to tax deduction at source at the rate of 10 per cent. The income received during the financial year 2002-03 by unit holders of equity-oriented funds will be taxed at 10 per cent as at present.

**June 19** • The Income Tax (Eighth Amendment) Rules, 2002 reduced the threshold for quoting PAN for the sale and purchase of securities from Rs.10 lakh to Rs.1 lakh.

## **V. EXTERNAL SECTOR POLICIES**

### **(i) Trade Policy**

**2001**

**June 22** • To speed up the approval process, the Government constituted a single Board of Approval for Export Processing Zones (EPZs)/Special Economic Zones (SEZs)/EOUs towards procedural simplification.

**July 4** • The Directorate General of Foreign Trade (DGFT) issued a notification stating that export of raw cotton would be allowed freely.

**Jan. 30** • The Medium Term Export Strategy (MTES) for the five-year period 2002-2007 was announced. Major features of the MTES, which takes into account the international developments and the complexities arising in the New World Trade Order under the WTO, are as follows:

- i) On the basis of the principle of real comparative advantage, 220 commodities at the 4-digit level identified as potential products for export focus.
- ii) Based on five major criteria, 25 focus markets identified, the major markets being the USA, the EU and Japan.
- iii) For the identified key sectors, sector-wise strategies advocated in consultation with Export Promotion Councils/ Commodity Boards and other export related bodies.
- iv) Task setting at the commodity level and at the market level suggested with respect to all strategies.
- v) 15 key macro policy issues identified for attaining overall export competitiveness; these relate to FDI and exchange rate mechanism, tariff issues, procedural issues (export related tax rebates, transaction costs) and infrastructure issues.
- vi) The key areas identified for action comprise policies for increasing price competitiveness; an effective and responsive trade defence mechanism to provide protection against unfair trade practices; WTO compatible export credit strategies and policies by providing non-actionable subsidies and supporting agriculture sector; effective tax rebate schemes and reduction in transaction costs through automation, EDI system, digital signatures, upgradation of export infrastructure; flexibility in labour policy by re-examining the role of the Government in the labour markets; enhancing export responsibility of State Governments; developing SSI export industry by a well-formulated package support; continuation of the policy related to SEZs with added features and expansion of Market Assistance Programmes.
- vii) A need for forging Strategic Free Trade Agreements and giving a regional focus to other areas like Africa.
- viii) A need to capitalise the opportunities in the services sector.

**Feb. 28** • The Union Budget 2002-03 announced the following changes relating to Custom Duty and Foreign Trade:

- i) Peak rate of customs duty reduced from 35 per cent to 30 per cent.
- ii) Customs duty increased on tea and coffee from 70 per cent to 100 per cent; on spices, natural rubber and poppy seeds from 35 per cent to 70 per cent; and, on pulses from 5 per cent to 10 per cent.
- iii) Duty rate of 30 per cent would apply to such non-edible oils that contain 20 per cent or more of free fatty acid.
- iv) Extent of exemption under Indo-Sri Lanka Free Trade Agreement extended from 50 per cent to 90 per cent for specified goods.
- v) The customs duty on imported liquors reduced from 210 per cent to the bound rate of 182 per cent in accordance with India's WTO commitments. The rates of CVD applicable to liquors and wines rationalised to 75 per cent for value up to US \$ 25 per case and 50 per cent for others.
- vi) Customs duty on specified items of reeling, twisting, weaving and processing machinery for silk textile industry reduced from 25 per cent to 10 per cent.

**March 5** • The DGFT made the following announcements:

- i) Quantitative Restrictions (QRs) on exports of wheat and wheat products, grain and flour of barley, maize, bajra, ragi and jowar, and butter removed.
- ii) The packaging restriction of 5 kg. for export of pulses removed.
- iii) The conditions of registration of contract with APEDA (Agriculture and Processed Food Products Export Development Authority) for export of non-basmati rice removed.
- iv) Continuation of QRs on export of onions on enhanced quota up to 7 lakh tonnes per annum (2 lakh tonnes from kharif and 5 lakh tonnes from rabi crop).
- v) Creation of a system to monitor the export of commodities freed for exports.

**31** • The salient features of the Five-Year Export and Import (Exim) Policy for 2002-2007 are as follows:

- i) All QRs on exports removed, except for a few sensitive items which have been retained for exports through the State Trading Enterprises.
- ii) SEZs would be eligible for the following entitlements: a) overseas Banking Units (OBUs) permitted to be set up in SEZs which, *inter alia*, would be exempt from CRR, SLR and give SEZ units and SEZ developers access to international finance at international rates; b) income tax concessions would be given to units in SEZ; c) exemption from CST (Central Sales Tax) to supplies from DTA (Domestic Tariff Area) to SEZ; d) drawback/Duty Entitlement Pass Book (DEPB) to DTA suppliers; e) transactions from DTA to SEZ would be treated as exports under Income Tax Act and Customs Act; f) exemption to SEZ units from External Commercial Borrowings (ECB) restrictions, freedom to make overseas investment and carry out commodity hedging.
- iii) DEPB rates permitted for all kinds of blended fabrics for the textile sector.
- iv) A new programme called "Special Focus on Cottage Sector and Handicrafts" launched with a view to strengthen the small scale sector.
- v) Units in the handicraft sector entitled to the benefit of Export House status on achieving a lower average export performance of Rs.5 crore.
- vi) To boost the electronic hardware industry, Electronic Hardware Technology Park (EHTP) Scheme modified to enable the sector to face the zero duty regime under the Information Technology Agreement (ITA-I) of the WTO. Units in the EHTP will now be entitled to the following facilities: a) NFEP (Net Foreign Exchange Earning as a Percentage of exports) to be positive in 5 years only instead of every year; b) no other export obligation for EHTPs; c) supplies of ITA-I items having zero duty in the domestic market to be eligible for counting of export obligation.
- vii) To further reduce transaction cost, the following procedural simplifications covering DGFT and Customs were announced: a) adoption and harmonisation of the 8-digit ITC(HS) code; b) reduction in the percentage of physical examination of export cargo to less than 10 per cent except for few sensitive destinations; c) finalisation of the application for fixation of brand rate of drawback within 15 days.

- viii) Various duty-neutralisation instruments for exports such as DEPB and all other schemes like Advance Licences, EPCG *etc.* to continue along with the existing dispensation of not having any value caps.
  - ix) In regard to Gems and Jewellery sector, a) customs duty on import of rough diamonds reduced to zero percent and licensing regime for rough diamonds abolished; b) value-addition norms for export of plain jewellery reduced from 10 per cent to 7 per cent and exports of all mechanised unstudded jewellery allowed at a value- addition of only 3 per cent; c) personal carriage of jewellery allowed through Hyderabad and Jaipur airports also.
  - x) Duty free imports of trimmings and embellishments up to 3 per cent of FOB value, hitherto confined to leather garments, extended to all leather products.
- April 26** • The following modifications to the Union Budget 2002-03 were announced:
- i) 100 per cent deduction of export profits under Section 10A to all SEZ units commencing production on or after April 1, 2002, for a period of five years, and thereafter at 50 per cent for the next two years.
  - ii) Supplies to SEZs from DTA to be treated as physical exports instead of deemed exports for the purposes of duties, tariffs and central sales tax.
  - iii) Customs duty on dairy products will be at the WTO-bound rate of 40 per cent as against 30 per cent.
- June 19** • India's Trade Policy Review was conducted by the World Trade Organisation at Geneva on June 19 and 21, 2002.
- July 23** • The Government approved setting up of 28 Agri Export Zones (AEZs) in 14 different states with a likely total investment of Rs. 780 crore.
- (ii) Foreign Exchange Market**
- 2001**
- July 27** • Authorised dealers (ADs) were advised to suitably inform the public that remittances in any form towards participation in lottery schemes are prohibited under Foreign Exchange Management Act (FEMA), 1999. These restrictions are also applicable to remittances for participation in lottery like schemes functioning under different names like money circulation scheme or remittances for the purpose of securing prize money/awards etc.
- Aug. 27** • The Reserve Bank, as a temporary measure, allowed a period of 360 days (in place of existing six months), from the date of shipment, for realisation and repatriation of full value of goods/software exported to 43 Latin American countries. The relaxation in the period of realisation is available for one year with effect from September 1, 2001.
- Sept. 24** • It was decided, as a temporary measure, to allow manufacturer exporters of products like pharmaceuticals, agro- chemicals, cement and iron and steel, *etc.*, having export contracts of Rs.100 crores and above, in value terms in one year, a period of 365 days from the date of shipment for the realisation and repatriation of full value of the exports of products specified. The relaxation in the period of realisation will be available for exports to be made on or after 1<sup>st</sup> October 2001, for a period of one year, subject to review.
- Oct. 13** • Settlement of claims in foreign currency in respect of general insurance policies in foreign currency, issued with the approval of the Reserve Bank, was permitted subject to specified conditions.
- 25** • In terms of FEMA provisions, designated officials of Ministry of Information Technology, Government of India at the Software Technology Parks of India (STPIs) or at Free Trade Zones (FTZs) or EPZs or SEZs were authorised to certify exports declared on SOFTEX forms by the units located in STPIs/EPZs/SEZs. In terms of the Exim Policy, designated officials of STPIs/SEZs may also certify the SOFTEX Forms in respect of EOUs which are registered with them. Accordingly, EOU software exporters may approach the designated officials of STPIs/EPZs/SEZs where they are registered for certification of software exports on SOFTEX Forms.

- Nov.**
- 1** • At present, all trade transactions between a person resident in India and a person resident in Nepal are settled in rupees. It was decided that in case of export of goods to Nepal, where an importer resident in Nepal has been permitted by the Nepal Rashtra Bank to make payment in free foreign exchange, such payments shall be routed through the ACU mechanism.
  - 13** • The ceiling of US \$ 500 or its equivalent on foreign exchange in the form of foreign currency notes and coins allowed to travellers proceeding to countries other than Iraq, Libya, Islamic Republic of Iran, Russian Federation and other Commonwealth of Independent States was enhanced to US \$ 2,000 or its equivalent without prior permission from the Reserve Bank, out of the overall foreign exchange released to them.
  - 23** • It was decided that henceforth ADs and FFMCs need not make any endorsement on the passports of the travellers availing of foreign exchange for tourism and private purposes. On the basis of a declaration given by the traveller regarding the amount of foreign exchange availed of during a calendar year, ADs/FFMCs have been permitted to release exchange for tourism and private purposes. Travellers can, however, seek endorsement on their passports of foreign exchange released, at their option, if they consider it necessary for their record.
  - 29** • It was decided that henceforth overseas corporate bodies (OCBs) shall not be permitted to invest under the Portfolio Investment Scheme (PIS) in India. The OCBs that have already made investments under the PIS are allowed to continue to hold such shares/convertible debentures till such time these are sold on the stock exchange. However, OCBs will continue to enjoy the facilities of opening and maintaining non-resident accounts as hitherto. OCBs would also continue to be eligible for making FDI under the existing guidelines.
- Dec.**
- 15** • It was clarified that the concession in price of shares being offered under Employees Stock Option Scheme (ESOP) may be borne by the foreign company issuing the shares or by its Indian branch/office/subsidiary or the company in India in which the foreign equity holding is not less than 51 per cent.
  - With the introduction of FEMA, 1999 certain prescribed returns no longer relevant, viz. CIR, SPG, SPM and DBS, were discontinued. Moreover, persons resident in India need not submit Annual Returns in respect of all types of foreign assets held by them either in terms of general permission or specific permission of the Reserve Bank. However, wherever the Reserve Bank has granted specific permission for acquisition of assets as well as sale thereof and submission of the Return has been prescribed as one of the conditions of approval, the applicants are required to furnish full details of the foreign assets as prescribed in the permission.
- 2002**
- Jan.**
- 28** • ADs were permitted to extend the period of realisation beyond six months without any reference to the Reserve Bank after obtaining an application from the exporter, where invoice value does not exceed US \$ 1,00,000, subject to the following conditions: i) the AD is satisfied that the exporter has not been able to realise export proceeds for reasons beyond his control; ii) the exporter submits a declaration that he will realise the export proceeds during the extended period; iii) the extension can be granted up to a period of 3 months at a time. While considering the extension beyond one year from the date of export, the total export outstandings should not be more than 10 per cent of the average of export realisations during the preceding three financial years; iv) the ceiling of US \$ 1,00,000 would not apply where the exporter has filed suits against the importer abroad. In such cases, extension can be granted up to six months at a time, irrespective of the amount involved; v) all other cases including those where the export invoices are under investigation will require approval from the Reserve Bank.
- Feb.**
- 13** • The Operative Guidelines for the limited two-way fungibility under the “Issue of Foreign Currency Convertible Bonds and Ordinary Shares (Through Depository Receipt Mechanism) Scheme, 1993” as approved by the Government of India were issued for guidance of Authorised Persons and their constituents.



- 19 • It was clarified that the general permission to Indian parties, subject to specified guidelines, to make direct investment in Joint Venture (JV) or Wholly Owned Subsidiary (WOS) outside India did not include investment proposals which envisage setting up a holding company or a Special Purpose Vehicle abroad, which would in turn set up one or more step down subsidiaries as operating units. Such overseas investment proposals through a two-tier structure would require prior approval of the Reserve Bank.
  - It was clarified that the restriction on Indian parties included in the Reserve Bank's Caution List as not being eligible to make overseas investments under the automatic route was also applicable to Indian parties which were defaulters to the banking system in India and whose names appeared in the Defaulters List published/circulated by the Reserve Bank.
- March 1**
- ADs were permitted to allow remittance of payment of lease rentals, opening of letter of credit towards security deposit *etc.* in respect of import of aircraft/aircraft engine/helicopter on operating lease basis after verifying that necessary approval from the appropriate authorities had been obtained. It was clarified that financial lease transaction *i.e.* lease transaction containing option to purchase the asset at the end of the lease period would continue to require prior approval from the Reserve Bank.
  - Indian corporates, with proven track record, were permitted to contribute funds from their foreign exchange earnings for setting up chairs in educational institutions abroad, and for such other purposes.
  - Export oriented units and other exporters are permitted to credit up to 70 per cent and 50 per cent of their foreign exchange earnings to their Exchange Earners' Foreign Currency (EEFC) accounts, respectively. To enable the corporates to take advantage of lower interest rates and prepay the ECBs, the corporates were permitted, on a case by case basis, to credit higher than above percentages of export proceeds to their EEFC account.
- 2**
- Limit for Indian direct investment outside India under automatic route was raised from US \$ 50 million in a financial year to US \$ 100 million. Furthermore, such Indian investors were permitted to buy foreign exchange up to 50 per cent of their net worth as on the date of last audited balance sheet as against the existing limit of 25 per cent.
- 4**
- With a view to providing full convertibility of deposit schemes for non-resident Indians, it was decided to discontinue non-resident non-repatriable (NRNR) account and non-resident special rupee (NRSR) account schemes with effect from April 1, 2002. Banks were advised not to accept any fresh deposits or open any fresh account by way of renewal or otherwise under these two schemes with effect from that date. It was clarified that the NRNR account holders had the option to directly credit the maturity proceeds to NRE account but not to FCNR(B) account. The proceeds of NRNR deposits can be credited to NRE account only on maturity and in case of premature withdrawal the proceeds shall be credited only to Non-Resident Ordinary Rupee (NRO) Account.
- 11**
- Corporates were allowed to issue foreign currency convertible bonds (FCCBs) up to US \$ 50 million, in any one financial year, under the automatic route *i.e.*, without the approval from the Government or the Reserve Bank.
- 26**
- It was decided to permit residents to take/export goods for exhibition and sale outside India without the prior approval of the Reserve Bank, subject to certain conditions. Unsold exhibit items may be sold outside the exhibition/trade fair in the same country or in a third country. Such sales at discounted value are also permissible. Gift of unsold goods up to the value of US \$ 5,000 per exporter per exhibition/trade fair is also permitted.
- April 1**
- Exporters with proven track record who have been certified as 'Status Holder' in terms of EXIM policy were permitted: i) to credit up to 100 per cent of their eligible receipts of foreign exchange to their EEFC Account; ii) to despatch the export documents direct to the consignees outside India subject to the conditions that the export proceeds are repatriated through the AD named in the GR

form and the duplicate copy of the GR form is submitted to the AD for monitoring purposes, by the exporters within 21 days from the date of shipment of export; iii) to realise and repatriate the full value of export proceeds within a period of twelve months from the date of shipment in respect of shipments made on or after April 1, 2002.

- 2 • Insurance companies registered with IRDA were permitted to issue general insurance policies denominated in foreign currency and receive premium in foreign currency without prior approval of the Reserve Bank in the following type of cases: i) marine insurance policies in respect of vessels (a) owned by foreign shipping companies but managed by Indian companies as technical operators for the vessels and (b) mortgaged to foreign financiers/bank as per the loan agreement and assignment of the same in favour of the foreign financiers/bank; ii) aviation insurance for aircrafts imported from outside India on lease/ hire basis for the purpose of air taxi operations; iii) marine-cum-erection all risks insurance policies to Indian companies in connection with a project to be set up in India with collaboration of foreign companies for supply of the equipment; iv) and, marine-cum-erection all risks policies favouring Indian companies for execution of projects in India being financed by ECB or awarded to local companies under global tender requiring insurance in foreign currency. Furthermore, ADs have been advised to allow remittance towards the settlement of claims in the above cases subject to compliance of certain conditions.
  - 12 • ADs were permitted to consider requests for reduction up to 10 per cent in invoice value of export bills in respect of export of gold/silver jewellery or articles made out of cut and polished diamonds also.
  - 29 • To provide greater freedom and flexibility to banks in their fund management, permission was granted to banks to crystallise their foreign exchange liability in rupees, in select cases, where circumstances so warrant, keeping in view the status of the account of the borrower who had raised ECBs. ADs desirous of crystallising their foreign exchange liability, arising out of guarantees provided for ECBs raised by corporates in India, into rupees have been advised to apply to Exchange Control Department, giving all the required details in the matter.
- May**
- 14 • ADs were advised to obtain, before making any remittances for advertisement on foreign television, a certificate from a Chartered Accountant certifying that the applicant satisfies the criteria of having export earning of more than Rs.10 lakhs during each of the preceding two years and the advertisement for which foreign exchange is being remitted will be broadcast by foreign television company in foreign countries and not in India alone.
    - ADs were permitted to allow repatriation of current income like rent, dividend, pension, interest of NRIs who do not maintain an NRO account in India based on an appropriate certification by a Chartered Accountant, certifying that the amount proposed to be remitted is eligible for remittance and that applicable taxes have been paid/provided for.
  - 17 • At present, a person resident in India has been prohibited from taking any general or life insurance policy issued by an insurer outside India. It was decided, in consultation with Government of India, to exempt units located in SEZs from the purview of the above stipulations for the purpose of taking out general insurance policies. Accordingly, Ads are free to allow remittances towards premium for general insurance policies taken by units located in SEZs from insurers outside India provided the premium is paid by the units out of their foreign exchange balances.
- June**
- 4 • The Reserve Bank reiterated instructions about the prohibition on remittance in any form towards participation in lottery schemes or lottery like schemes, functioning under different names like money circulation scheme, or remittances for the purpose of securing prize money/awards under FEMA, 1999. The prohibition on such payments includes payment not only by a resident by use of cash/draft/credit card/debit card *etc.* but also payments made by non-residents on behalf of residents. As such any person resident in India effecting/remitting such payment directly/ indirectly would make himself/herself liable to be proceeded against the contravention of the FEMA.
  - 24 • To further streamline the procedure for reporting overseas direct investments in JV/WOS, the

requirement of forwarding of 'Form ODA' alongwith the prescribed documents to the Reserve Bank for investments made under the automatic route by Indian parties was dispensed with. The report on remittances required to be submitted by ADs was also revised. All remittances/guarantees issued/capitalisation of exports *etc.*, under the automatic route as well as under the Reserve Bank approval, are henceforth required to be reported in the revised form ODR. However, no change in the procedures relating to the receipt/scrutiny of the form ODA submitted by the Indian parties to the AD has been made.

- 27 • On the use of international credit cards, it was clarified that : i) these can be used on internet for any purpose for which exchange can be purchased from an AD in India; ii) these cannot be used on internet or otherwise for purchase of prohibited items, like lottery tickets, banned or proscribed magazines, participation in sweepstakes, payment for call- back services *etc.*, since no drawal of foreign exchange is permitted for such items/activities, and, iii) there is no aggregate monetary ceiling separately prescribed for use of International Credit Cards through internet. Furthermore, debit Cards and ATM Cards can be used for any purpose for which foreign exchange can be purchased from an AD in India.
- ADs were permitted to receive payment for exports made out of India by debit to the credit card of an importer, where the reimbursement from the card issuing bank/organisation will be received in foreign exchange.
- 29 • ADs were permitted to allow remittances for the purpose of normal business operations of the office (trading/non- trading)/branch or representative outside India of Indian entities subject to the following terms and conditions:
- i) The overseas office (trading/ non-trading)/branch/ representative should not (a) create any financial liabilities contingent or otherwise for Head Office in India (b) invest surplus funds abroad without prior approval of the Reserve Bank. Any funds rendered surplus should be repatriated to India.
  - ii) The overseas office/branch of software exporter company/firm, may repatriate to India 100 per cent of the contract value of each 'off-site' contract as also at least 30 per cent of the contract value of each 'on-site' contract and may utilise the balance amount (70 per cent) of the contract value of 'on-site' contracts for contract related expenses including office/branch expenses abroad. A duly audited yearly statement showing receipts under 'off-site' and 'on-site' contracts undertaken by the overseas office, expenses and repatriation thereon may be sent to the AD.
  - iii) The details of bank account opened in the overseas country should be promptly reported to AD.
- Indian entities were permitted to open, hold and maintain in the name of its office/branch set up outside India, a foreign currency account with a bank outside India by making remittance for the purpose of normal business operations of the said office/branch or representative, subject to specified conditions.