ANNEX

CHRONOLOGY OF MAJOR POLICY ANNOUNCEMENTS: APRIL 2003 – JULY 2004

Date of Announcement		POLICY ANNOUNCEMENTS
		I. MONETARY POLICY MEASURES
2003		
April	**29**	• Bank Rate was reduced by 0.25 percentage points to 6.0 per cent with effect from close of business on April 29, 2003 with a policy bias to keep it stable until the Mid-term Review of October 2003.
		• CRR to be reduced by 0.25 percentage points to 4.50 per cent with effect from fortnight beginning June 14, 2003.
		• Interest on eligible CRR balances maintained by banks with the Reserve Bank to be paid on a monthly basis (as against the existing practice of quarterly basis) starting from April 2003.
		• Export credit refinance facility to continue for eligible export credit remaining outstanding under post-shipment credit beyond 90 days and up to 180 days.
		• The multiplicity of rates at which liquidity is absorbed/injected under backstop facility rationalised as under: i) the backstop interest rate will be at the reverse repo cut-off rate at the regular LAF auctions on that day; ii) in the case of no reverse repo in the LAF auctions, backstop will be at 2.0 percentage point above the repo cut-off rate; and, iii) on days when no repo/reverse repo bids are received/accepted, backstop rate will be decided by the Reserve Bank on an *ad hoc* basis.
		• In order to enhance transparency in pricing of the loan products by banks as also to ensure that the prime lending rate (PLR) truly reflects the actual costs, banks were advised to take into account their (i) actual cost of funds, (ii) operating expenses and (iii) a minimum margin to cover regulatory requirement of provisioning/capital charge and profit margin, while arriving at the benchmark PLR. The benchmark PLR to continue to be the ceiling rate for credit limit up to Rs.2 lakh.
		• The minimum maturity period of fresh NRE deposits raised to one year in line with FCNR (B) deposits.
		• Stage II of the transition to a pure inter-bank call/notice money market was to be effective from the fortnight beginning June 14, 2003, wherein non-bank participants would be allowed to lend, on average in a reporting fortnight, up to 75 per cent of their average daily lendings in the call/notice money market during 2000-01.
		• With effect from fortnight beginning May 3, 2003, reporting of all call/notice money market deals on Negotiated Dealing System (NDS) would be mandatory for all NDS members. Deals done outside NDS should also be reported within 15 minutes on NDS, irrespective of the size of the deal or whether the counterparty is a member of the NDS or not.
		• Less complex Over-the-Counter (OTC) interest rate rupee options to be permitted.
July	**17**	• All banks were advised that until further notice, interest rates on fresh repatriable non-resident external (NRE) deposits for one to three years contracted effective July 17, 2003 should not exceed 250 basis points above the LIBOR/SWAP rates for the US dollar of corresponding maturity.
	26	• The interest rate payable on deposits to be made by contributing banks in RIDF-IX would be linked to the shortfall in lending to agriculture and at varying rates between the prevailing Bank Rate *plus/minus* 1.5 per cent.
Aug.	**21**	• Regarding computation of NDTL for the purpose of maintenance of CRR/SLR, banks were advised to reckon the liability in respect of arrangement with correspondent banks as follows: i) the balance amount in respect of the drafts issued by the accepting bank on its correspondent bank under the remittance facility scheme and remaining unpaid amount should be reflected in the accepting bank's books as an outside liability and the same should be taken into account for computation of NDTL for CRR/SLR purpose; and ii) the amount received by correspondent banks to be shown as 'Liabilities to the Banking System' by them and not as 'Liabilities to Others' and this liability could be netted off by the correspondent banks against their inter-bank assets. Likewise sums placed by banks issuing drafts/interest/dividend warrants are to be treated as 'Assets with Banking System' in their books and can be netted off from their inter-bank liabilities.
Aug.	**23**	• The one-day and 14-day repo rate under the Reserve Bank's Liquidity Adjustment Facility (LAF) was reduced to 4.5 per cent from 5.0 per cent effective August 25, 2003.
Sept.	**15**	• The interest rate on fresh repatriable NRE deposits for one to three years, contracted effective close of business on September 15, 2003 not to exceed 100 basis points above the LIBOR/SWAP rates for the US dollar of corresponding maturity.

Date of Announce-ment		POLICY ANNOUNCEMENTS
2003		**I. MONETARY POLICY MEASURES** *(Contd.)*
Sep.	**15**	• The lending and deposit interest rates were restructured in respect of the undisbursed amounts of RIDF IV to VII with effect from October 1, 2003, in terms of which the State Governments would be required to pay 9 per cent on loans and the banks would be paid 8 per cent on their contribution.
Oct.	**18**	• The interest rate on fresh repatriable NRE deposits for one to three years, contracted effective close of business on October 18, 2003, not to exceed 25 basis points above the LIBOR/SWAP rates for the US dollar of corresponding maturity.
	21	• Banks were allowed to determine rates of interest on loans and advances i) for purchase of consumer durables, ii) to individuals against shares and debentures/bonds, and iii) other non-priority sector personal loans without reference to PLR and regardless of the size of loan subject to the transparent policy.
	31	• The interest rate ceiling on pre-shipment rupee export credit up to 180 days and post-shipment credit up to 90 days stipulated at PLR *minus* 250 basis points to remain valid up to April 30, 2004.
Nov.	**3**	• After discussing with select banks and the Indian Banks' Association (IBA), IBA issued necessary instructions to banks for implementation of the scheme of benchmark PLR (BPLR) as early as possible.
		• Banks including RRBs and LABs were allowed to increase the loan limit for dispensation of collateral requirement from Rs.15 lakh up to Rs.25 lakh, on the basis of good track record and the financial position of SSI units, with the approval of the appropriate authority.
		• The interest rate on the deposits of foreign banks placed with the SIDBI towards their priority sector shortfall was fixed at the Bank Rate effective November 3, 2003.
		• All new loans granted by banks to non-banking financial companies (NBFCs) for the purpose of on-lending to SSI sector to be reckoned under the priority sector lending.
		• An Advisory Committee was proposed to be set up to suggest appropriate changes in the institutional and procedural arrangements for smooth flow of credit to agriculture and capturing new technological developments for improving credit delivery.
		• Keeping in view the credit needs of the SSI sector, a Working Group was proposed to assess the progress made in the implementation of the recommendations of the Kapur Committee and the Gupta Committee and to suggest ways to improve credit flow considering, in particular, the backward and forward linkages of this sector with large corporates.
		• Non-bank participants were allowed to lend, on average in a reporting fortnight, up to 60 per cent of their average daily lending in the call/notice money market during 2000-01 effective fortnight beginning December 27, 2003.
		• The proportion of "normal" and "backstop" standing facilities changed to one-third to two-thirds (33:67) effective fortnight beginning December 27, 2003.
		• Primary dealers (PDs) were allowed to borrow, on average in a reporting fortnight, up to 200 per cent of their net owned funds (NOF) at end-March of the preceding financial year, effective February 7, 2004.
		• All NDS members were required to report their deals as soon as they are concluded.
		• Exporters were permitted, beginning January 1, 2004, to write off outstanding export dues on their own, and extend the normal period of realisation beyond 180 days on their own, provided the aggregate value of such write-off and delay in realisation does not exceed 10 per cent of their export proceeds in a calendar year.
		• A fully functional RTGS system was expected to be made operational by June 2004, which would be fully integrated with the Integrated Accounting System of the Reserve Bank. Banks and PDs were urged to ensure complete readiness in terms of infrastructure, systems and procedures, and adequate trained manpower to effectively participate in the RTGS system. Further, banks were advised to put in place necessary connectivity between their branches and the payment system gateway through which they will interact with the RTGS system.
		• With the commencement of RTGS system, the Reserve Bank would provide collateralised intra-day liquidity support to participants for any likely increase in their requirement of intra-day funds for a smooth and timely settlement process. Market participants were advised to devise strategies for efficient cash flow management.
	4	• The lending and deposit rates of interest on the undisbursed amounts of RIDF IV to IX were restructured with effect from November 1, 2003, in terms of which banks will be paid interest at 6 per cent per annum in respect of the undisbursed amounts of RIDF IV to VII uniformly and at varying rates of interest between the Bank Rate and the Bank Rate *minus* 3 percentage points in respect of RIDF VIII and IX. The State Governments will be required to pay interest at 7 per cent per annum in respect of RIDF IV to VII uniformly and at Bank Rate *plus* 0.5 percentage points in respect of RIDF VIII and IX.

Date of Announcement		POLICY ANNOUNCEMENTS
2003		**I. MONETARY POLICY MEASURES** *(Concld.)*
Nov.	**13**	• The exemption given to scheduled commercial banks (SCBs) from the prudential limits specified for call/notice money transactions for rupee funds raised under the Reciprocal Line Facility on November 14, 2002 to be phased out from the fortnight beginning February 7, 2004.
2004		
March	**25**	• The revised LAF scheme was operationalised effective March 29, 2004. In terms of the revised LAF Scheme, the reverse repo rate was reduced to 6.0 per cent with effect from March 29, 2004. Normal facility and backstop facility merged into a single facility to be made available at a single rate.
April	**17**	• In order to provide consistency in the interest rate offered to non-resident Indians (NRIs), interest rates on NRE deposits for one to three year maturity, contracted effective close of business on April 17, 2004, were set at par with the LIBOR/SWAP rates for US dollar of the corresponding maturity. With a view to aligning interest rates on various categories of NRE deposits, the interest rate on NRE saving deposits was linked to LIBOR/SWAP rates instead of domestic savings deposit rate effective close of business on April 17, 2004. Banks were advised that the interest rate on NRE saving deposits should not exceed the LIBOR/SWAP rates for six months maturity on US dollar deposits and be fixed quarterly on the basis of LIBOR/SWAP rate of US dollar as prevailing on the last working day of the preceding quarter.
	20	• The rate of interest on the NRI deposits payable by NBFCs, MNBCs and RNBCs not to exceed the LIBOR/SWAP rates for US dollar of corresponding maturity on fresh deposits contracted from the close of business on April 17, 2004.
	23	• Reduction in the ceiling of interest rates charged by SCBs on pre-shipment rupee export credit up to 180 days and post-shipment rupee export credit up to 90 days effected from September 26, 2001 to remain in force up to April 30, 2005.
	24	• Entities other than authorised dealers (ADs) or authorised banks were prohibited from accepting deposits from NRIs either through fresh remittances or by debit to their NRE/FCNR(B) accounts. Holding of the existing deposits would be permitted and renewed on repatriation or non-repatriation basis and the interest earned on such deposits would continue to be repatriable.
May	**18**	• Entire export credit refinance to be made available at reverse repo rate.
		• Banks were advised to align the pricing of credit to assessment of credit risk by putting in place comprehensive and rigorous risk assessment procedures for borrowers.
		• It was reiterated that the micro finance institutions can not accept public deposits unless they comply with the extant regulatory framework of the Reserve Bank.
		• Based on the recommendations of the Interim Report of the Advisory Committee on Flow of Credit to Agriculture and Related Activities from the Banking System (Chairman : Prof. V. S. Vyas) a series of measures were announced in the Annual Policy Statement for the year 2004-05: i) loans to storage units designed to store agricultural produce/products irrespective of their location would be treated as indirect agricultural finance, ii) investment by banks in securitised assets representing direct (indirect) lending to agriculture was treated as their direct (indirect) lending to agriculture, iii) Banks may waive margin/security requirements for agricultural loans up to Rs.50,000 and loans up to Rs.5 lakh for agri-business and agri-clinics, and iv) NPA norms for crop loans and agricultural term loans aligned to crop seasons. These measures were made applicable to all SCBs (including RRBs) and local area banks (LABs).
		• As recommended by the Working Group on Flow of Credit to the SSI Sector (Chairman : Dr. A. S. Ganguly), Credit Information Bureau of India Ltd. (CIBIL) was asked to work out a mechanism for development of proper credit records. A Special Group on debt restructuring mechanism for medium enterprises was also proposed.
		• Banks were advised to lay down the criteria for issue of Gold Card for creditworthy exporters.
		• Non-bank participants' lending in the call/notice money market reduced to 45 per cent of their average daily lending during 2000-01 effective June 26, 2004.
		• Automated value-free transfer of securities between market participants and the Clearing Corporation of India Ltd. (CCIL) was enabled for collateralised borrowing and lending operations (CBLO).
		• A Working Group on Electronic Funds Transfer for Capital Markets was constituted by the Reserve Bank to increase the coverage of EFT to facilitate T+1 settlement.
		• ECS facility of the Reserve Bank was allowed to be used by the CBDT for tax refunds up to Rs.25,000 to individuals under Online Tax Accounting System (OLTAS).
June	**21**	• The service charges on banks for both electronic clearing service (ECS) and electronic funds transfer (EFT) transactions were waived up to March 31, 2006. A decision was taken to set up a Board for Payment and Settlement Systems (BPSS), on the lines of the Board for Financial Supervision, which would function as a Committee of the Central Board. The BPSS would lay down the policies for the regulation and supervision of payment and settlement systems, both paper-based and electronic, encompassing domestic and cross-border systems.

Date of Announcement		POLICY ANNOUNCEMENTS
2003		**II. INTERNAL DEBT MANAGEMENT POLICIES**
April	**1**	• Ways and Means Advances (WMA) limit to the Central Government for the fiscal year 2003-04 was retained at Rs.10,000 crore for the first half of the year (April-September) and Rs.6,000 crore for the second half of the year (October-March). The interest rate on WMA was fixed at the Bank Rate and on Overdraft at the Bank Rate *plus* two percentage points.
		• Overdraft regulation for the State Governments was made more stringent. The States cannot remain in overdraft for more than 36 working days in a quarter.
	3	• Operational guidelines were issued to the Clearing Corporation of India Ltd. (CCIL) for operationalisation of a limited-purpose Government securities lending scheme. The CCIL was permitted to enter into an arrangement with any of its members for borrowing Government securities for the purpose of handling securities shortage in the settlement of transactions.
	10	• Operational guidelines were issued to PDs for portfolio management services (PMS). PDs with prior approval of the Reserve Bank and registration with the SEBI, were permitted to offer PMS only to entities not regulated by the Reserve Bank.
May	**19**	• Floating Rate Bonds (FRBs) 2014 were issued for Rs.5,000 crore incorporating modified features for the first time.
June	**3**	• With a view to enabling PDs to manage their exposure to interest rate risk, they were permitted to transact in interest rate futures on notional bonds and Treasury Bills for limited purpose of hedging the risk in their underlying investment portfolio subject to prudential guidelines and appropriate disclosures.
	11	• PDs were further permitted to hold trading positions in interest rate futures.
2004		
Jan.	**7**	• Revised guidelines on Capital Adequacy Standards and Risk Management were issued to PDs which became operational from the quarter ended March 31, 2004.
March	**8**	• Prudential guidelines on investment in non-government securities were issued to PDs.
	25	• An indicative calendar was issued for issuance of dated securities for the first half of 2004-05 (April-September) under the market borrowing programme of the Central Government for Rs.59,000 crore.
		• The Government of India and the Reserve Bank formally signed a Memorandum of Understanding (MoU) detailing the rationale and operational modalities of the Market Stabilisation Scheme (MSS). Under the MSS, Treasury Bills/dated Government securities having the same features as the existing bills/securities would be issued by way of auctions. Amount, tenure and timing of issuance would be notified by the Reserve Bank. The ceiling on the outstanding obligations of the Government under the MSS was initially placed at Rs.60,000 crore for 2004-05, subject to revision through mutual consultation.
		• An indicative schedule was issued for the issuance of Treasury Bills/dated securities under the MSS for the period April-June 2004 for an amount of Rs.35,500 crore.
	29	• Under the revised guidelines relating to sale of Government securities, effective April 2, 2004, PDs were permitted to sell a security against an existing confirmed purchase contract provided the contract is guaranteed for settlement by a central counter party such as CCIL or counter party to that contract is the Reserve Bank. Certain safeguards have been prescribed for compliance with the guidelines. To facilitate settlement under the revised guidelines, settlement of transactions in Government securities was changed to the D*v*P–III mode so that each security is deliverable/receivable on a net basis for a particular settlement cycle as against the current system of gross settlement of securities under the D*v*P–II mode. These changes also facilitated the rollover of repurchase transactions.
		• The limits of aggregate WMA to the State Governments were revised to Rs.8,140 crore from the existing limit of Rs.7,170 crore. The minimum normal WMA limit for a State was fixed at Rs.50 crore.
	31	• The limit for WMA to the Central Government remained unchanged for the year 2004-05 *i.e.*, Rs.10,000 crore for the first half of the year (April-September) and Rs.6,000 crore for the second half of the year. When 75 per cent of the limit of WMA is utilised by the Government, the Reserve Bank may trigger fresh floatation of market loans depending on the market conditions. The interest rate on WMA would continue to be at the Bank Rate and overdraft at two percentage points above the Bank Rate.
June	**3**	• Guidelines were issued on dividend distribution by PDs. Dividend payout ratio was linked to CRAR and ceiling on individual payout ratio was fixed.
	29	• An indicative schedule was issued for the issuance of Treasury Bills/dated securities under the MSS for the period July-September, 2004 for an amount of Rs.36,500 crore.

Date of Announcement		POLICY ANNOUNCEMENTS
2003		**III. FINANCIAL SECTOR MEASURES**
April	**8**	• The ceiling for banks (excluding RRBs and LABs) to offer credit/non-credit facilities to Indian Joint Ventures/Wholly Owned Subsidiaries abroad was increased from 5 per cent of the unimpaired Tier I capital to 10 per cent of banks' unimpaired capital funds (Tier I and Tier II capital) subject to certain terms and conditions.
	16	• All SCBs (excluding RRBs) were advised that wilful defaulters should not be financed under *Swarnajayanti Gram Swarozgar Yojana* (SGSY). Wilful defaulters of the groups should also not get benefits under the SGSY scheme and the group may be financed excluding such defaulters, while documenting the loan. Non-wilful defaulters may be certified by a team comprising the Block Develoment Officer (BDO) or his representative, bank manager and the *Sarpanch*.
	23	• The Reserve Bank issued final guidelines and directions on Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act.
	29	• Banks were advised to build up provisions, significantly above the minimum regulatory requirements for their NPAs, particularly for those assets which they propose to sell to securitisation/reconstruction companies.
		• CBLO borrowings were exempted from CRR subject to the bank maintaining the statutory minimum CRR of 3.0 per cent. Securities lodged in the gilt account of the bank maintained with CCIL under CSGL facility for CBLO remaining unencumbered at the end of any day reckoned for SLR purposes by the concerned bank.
		• Dealers in drip irrigation/sprinkler irrigation system/agricultural machinery, irrespective of their location, would be eligible for advances up to Rs.20 lakh under the priority sector lending for agriculture.
		• Banks with their boards' approval would be free to extend direct finance to the housing sector up to Rs.10 lakh in rural and semi-urban areas as a part of the priority sector lending.
		• Urban co-operative banks (UCBs) were permitted to exempt both gold loans and small loans up to Rs.1 lakh from the 90-day norm for recognition of loan impairment. These loans would, therefore, continue to be governed by the 180-day norm for classification as NPA even after March 31, 2004.
		• The ceiling on the unsecured advances for the UCBs was revised and linked to their financial position. The aggregate of unsecured advances by UCBs to its members would continue to be within the overall ceiling of 33 1/3 per cent of the bank's demand and time liabilities.
		• UCBs were given a maximum period of six months from the date of the inspection report to remove the irregularities pointed out in the inspection report in all respects, failing which the Reserve Bank will invoke the penal provisions.
		• All UCBs were advised to introduce concurrent audit with immediate effect.
		• UCBs were directed not to grant loans and advances (both secured and unsecured) to directors, their relatives and firms/concerns/companies in which they are interested. Existing advances extended prior to April 29, 2003 should not be renewed or extended further.
	30	• Non-bank entities including corporates were allowed to provide unconditional and irrevocable guarantee for credit enhancement for issuance of Commercial Paper (CP). Furthermore, banks are allowed to invest in CP guaranteed by non-bank entities provided their exposure remains within the regulatory ceiling as prescribed by the Reserve Bank for unsecured exposures.
May	**5**	• Banks/all India Financial Institutions (AIFIs) were advised to adopt the broad guidelines and frame the Fair Practices Code regarding applications for loans and their processing, loan appraisal and terms/conditions, disbursement of loans including changes in terms and conditions and post disbursement supervision, duly approved by their board of directors.
	7	• While Investment Fluctuation Reserve (IFR) would continue to be treated as Tier II capital, it would not be subjected to the ceiling of 1.25 per cent of the total risk-weighted assets. However, for the purpose of compliance with the capital adequacy norms, Tier II capital including IFR, would be considered up to a maximum of 100 per cent of total Tier I capital. The above treatment would be effective March 31, 2003 for all banks (excluding RRBs and LABs).
	12	• All scheduled commercial banks (excluding RRBs) were advised to follow the revised guidelines on SGSY Scheme as advised by the Central Government.
	14	• Advances up to Rs.20 lakh per dealer granted by urban co-operative banks to dealers in drip irrigation/sprinkler irrigation systems and agricultural machinery, may be classified under 'indirect finance to agriculture' as a part of priority sector lending.
	28	• Banks were advised to make necessary arrangements to give wide publicity to the Comprehensive Education Loan Scheme by highlighting its features and furnishing related material such as brochures, handouts, *etc.* to their branches.

Date of Announce-ment		POLICY ANNOUNCEMENTS
2003		**III. FINANCIAL SECTOR MEASURES** *(Contd.)*
June	**2**	• RRBs were given one-time opportunity to regularise their investment exposure ceiling. RRBs which have exceeded the exposure norms may bring down their investments within the prescribed exposure norms/limit on maturity of the investments or by augmenting their owned funds.
	3	• Banks/FIs were allowed to deal in exchange traded interest rate derivatives in a phased manner with a view to enabling them to manage their exposure to the interest rate risk.
	20	• It was stipulated that the major irregularities observed in the concurrent audit report of the treasury transactions as also the position of compliance therewith should be incorporated in the half-yearly reviews of the investment portfolio to be submitted to the Regional Offices of the Reserve Bank.
	26	• Banks were advised to deal severely with frequent dishonour of cheques and also to create a database of all dishonoured cheques of Rs.1 crore and above which should form part of their management information system (MIS).
July	**1**	• With a view to facilitating participation of FIs on the Stock Exchanges within the regulations prescribed by the Reserve Bank, the SEBI and the Exchanges, FIs were allowed to open demat accounts with a Depository Participant (DP) of National Securities Depository Limited (NSDL)/Central Depository Services Limited (CDSL) in addition to their SGL accounts with the Reserve Bank. Further, it was clarified that value free transfer of securities between SGL/CSGL and demat accounts would be enabled by Public Debt Office, Mumbai subject to operational guidelines issued by the Reserve Bank.
	8	• UCBs were advised to settle all their Government securities transactions compulsorily through the Clearing Corporation of India Ltd. Primary (urban) co-operative banks which are not members of NDS/CCIL system were advised to undertake Government securities transactions through gilt account/demat account maintained with NDS members.
		• UCBs were advised to take advantage of non-competitive bidding facility for acquiring Government of India securities in the auctions conducted by the Reserve Bank.
	9	• The ceilings in respect of priority sector advances to retail traders, professional and self-employed and medical practitioners were enhanced.
		• Scheduled UCBs lending under the NABARD's scheme of financing 'Agri-clinics and Agri-business Centres' were included under priority sector lending.
	14	• Investment limit in plant and machinery for 13 items of Stationery Sector and 10 items of the Drugs and Pharmaceuticals Sector, which figure in the list of items reserved for manufacture in the SSI Sector, were enhanced from Rs.1 crore to Rs.5 crore for the purpose of classification under priority sector advances.
	17	• The Reserve Bank announced the detailed scheme of the Central Government's proposal to buyback illiquid securities from banks on a voluntary basis. Banks, which declare premium received as business income for IT purposes were allowed additional deduction to the extent of such income as is used for provisioning of their NPAs. Banks were exempted from the requirement of appropriating the profit on sale of securities from 'Held to Maturity' (HTM) category to 'Capital Reserve Account', as a one-time measure.
		• FIs were advised to place the guidelines relating to the prevention of slippage of the accounts in the 'sub-standard' category to the 'doubtful' category before their board of directors and to take appropriate action for their implementation.
	19	• With a view to reducing the level of long pending outstanding entries in the Clearing Adjustment Account of banks, banks were allowed, as a one-time measure, to net-off the entries representing clearing differences 'receivable' against entries, representing clearing differences 'payable' up to Rs.500 which are outstanding for more than three years as on March 31, 2003.
	22	• Revised guidelines were issued for opening of Extension Counters by UCBs.
	29	• FIs were advised to submit to the Reserve Bank the Liquidity Statement and the Interest Rate Sensitivity Statement prepared in terms of the Reserve Bank guidelines.
	31	• Regulatory framework of NBFCs was amended to permit ready forward contracts in dated securities and Treasury Bills issued by the Central Government and dated securities issued by the State Governments in February 2003. To facilitate transactions, NBFCs/RNBCs were advised to maintain two CSGL accounts or one CSGL and one demat account wherein one account was to hold Government securities in compliance with prescribed statutory liquidity requirements under section 45-IB of the RBI Act and the other for trading purpose.
Aug.	**1**	• Prudential norms for NBFCs, particularly in relation to infrastructure projects were amended with a view to aligning the norms with those applicable to banks and FIs.
		• Final guidelines were issued on Consolidated Accounting and Consolidated Supervision of FIs.

Date of Announcement		POLICY ANNOUNCEMENTS
2003		**III. FINANCIAL SECTOR MEASURES** *(Contd.)*
Aug.	**18**	• Detailed operational guidelines were issued for the process of takeover of bank branches in rural and semi-urban centers.
		• Scheduled UCBs having a net worth of Rs.100 crore and complying with exposure norms and connected lending were allowed to act as corporate agents to undertake insurance business without risk participation, after obtaining the approval of the Reserve Bank.
	26	• New policy on working of Local Area Banks (LABs) was announced.
	28	• An NBFC, registered with the Reserve Bank as a securitisation or reconstruction company, was exempted from provisions of Sections (45-IA), (45-IB) and (45-IC) of the Reserve Bank of India Act, 1934. Section 45-IA defines requirement of registration and net owned funds while section 45-IB deals with maintenance of percentage of assets in unencumbered approved securities. Section 45-IC deals with reserve funds of NBFCs.
Sep.	**11**	• Banks, registered with the SEBI as Depository Participants, were allowed to provide the facility of depository services to their customers at Extension Counters.
		• All SCBs (including RRBs) and LABs were advised to urgently initiate necessary steps to implement the decisions taken in the meeting of the Standing Advisory Committee to Review Flow of Institutional Credit to the SSI sector.
	13	• In consultation with the Institute of Chartered Accountants of India, banks were advised to adopt the following guidelines, effective March 31, 2004, for accounting legal expenses in suit-filed accounts: i) legal expenses incurred by banks in respect of suit-filed accounts should be debited to the profit and loss account at the time of incurrence; and ii) at the time of recovery of the legal expenses from the borrower, the amount recovered should be recognised in the profit and loss account of the year in which the recovery is made.
	15	• All SCBs were advised that in terms of the Central Government's guidelines, the number of items reserved for exclusive manufacture in SSI sector stood at 675 as on June 3, 2003 after dereservation of 75 items.
		• All SCBs were advised to introduce a suitable scheme based on the model scheme prepared by the NABARD and approved by the Ministry of Finance, under the nomenclature "*Swarojgar Credit Card Scheme*".
	17	• The rate of interest which NBFCs and MNBCs pay on deposits from NRIs, on a repatriation basis, was aligned to that payable by the SCBs on NRI deposits.
	19	• UCBs classified under Grade III/IV were prohibited from declaring dividend. UCBs in Grade II should obtain prior permission of the Reserve Bank for declaring dividend.
		• The rate of interest, which the RNBCs pay on deposits from NRIs on a repatriation basis, was aligned to that payable by the SCBs on NRI deposits.
	29	• RRBs were advised to improve the credit-deposit ratio through quality lending and proper appraisal of the loan proposals. They were further advised to achieve the target of at least 60 per cent of their outstanding advances under priority sector, with at least 25 per cent of the total priority sector advances (*i.e.,* 15 per cent of the total outstanding advances) made available to weaker sections of the society.
Oct.	**10**	• It was decided that a bank should not borrow from its Off-shore Banking Units (OBUs) and the exposures of an OBU in the domestic tariff area (DTA) will be restricted to the amount the corporates in the DTA can borrow from an OBU only under the scheme of ECBs, subject to FEMA regulations. The aggregate of such exposures should not exceed 25 per cent of its total liabilities as at the close of business of the previous working day, at any point of time.
	20	• Banks were advised to ensure smooth and expeditious disposal of educational loan applications without insisting on collateral security for loans up to Rs.4 lakh.
	21	• UCBs were permitted to open demat account with a depository participant to hold PSU securities.
	28	• The rate of interest on fresh repatriable NRI deposits payable by NBFCs, MNBCs and RNBCs was capped at 25 basis points above the LIBOR/SWAP rates for US dollar of corresponding maturity.
	30	• It was clarified that NBFCs, MNBCs and RNBCs are not allowed to accept NRI deposits for a period less than one year.
Nov.	**3**	• Banks were allowed to increase the limit of dispensation of collateral requirements for loans from the existing level of Rs.15 lakh to Rs.25 lakh (with the approval of the appropriate authority in the banks), on the basis of good track record and financial position of SSI units.
		• All new loans granted by banks to NBFCs for the purpose of on-lending to the SSI sector would be reckoned under the priority sector lending.

Date of Announcement		POLICY ANNOUNCEMENTS
2003		**III. FINANCIAL SECTOR MEASURES** *(Contd.)*
Nov.	**3**	• Banks should provide adequate incentives to their branches in financing the Self-Help Groups (SHGs) and establish linkages with them, making the procedures absolutely simple and easy. The group dynamics of working of the SHGs may be left to themselves. The approach to microfinancing of SHGs should be totally hassle free and may include consumption expenditures.
		• Banks were advised to quickly build up Investment Fluctuation Reserve (IFR) so that they are better positioned to meet interest rate risk.
		• It was proposed to constitute a Standing Technical Advisory Committee on Financial Regulation on similar lines as the RBI Technical Advisory Committee on Money and Government Securities Markets (TAC) to strengthen the consultative process and advise the Reserve Bank on regulations on an ongoing basis.
		• In consultation with the SEBI and the IRDA, a special monitoring system was proposed for Systemically Important Financial Intermediaries (SIFIs) to encompass a reporting system on financial matters of common interest to the Reserve Bank, the SEBI and the IRDA, the reporting of intra-group transactions, and the exchange of relevant information. After co-opting a member from the IRDA, the present RBI-SEBI Technical Committee would propose a list of SIFIs and advise on a reporting system.
		• It was proposed to set up a Working Group on Development Finance Institutions (DFIs) to address the regulatory and supervisory issues relating to the refinancing institutions for improving the flow of resources to them. The Group would examine, within the broader framework of regulation of NBFCs, various regulatory and supervisory aspects, including access to short-term resources for the DFIs as a separate category.
		• The consultative process to harmonise the approaches suggested by the Consultative Group of Directors of Banks/ Financial Institutions (Chairman: Dr. A.S. Ganguly) and the SEBI Committee with regard to Corporate Governance in banks has already been initiated and is proposed to extend the principles of good corporate governance practices to PDs, NBFCs and other financial institutions.
	4	• Banks were advised that education loans up to the ceilings of Rs.7.5 lakh for studies in India and Rs.15 lakh for studies abroad as indicated in the Model Scheme would be reckoned under priority sector advances.
		• Draft guidelines on investment by FIs in debt securities were issued covering the following aspects: i) the need for strengthening the internal rating systems of FIs; ii) prudential limits on the exposure through debt securities; iii) review by the board of directors of FIs; and iv) public disclosures in the 'Notes on Accounts' to the balance sheet.
	6	• Foreign banks operating in India were permitted to remit net profits/surplus (net of tax) earned out of their Indian operations, in the normal course of business on a quarterly basis, to their Head Offices without prior approval of the Reserve Bank provided they meet the specified conditions.
	15	• FIs to adopt 90-day norm for recognition of loan impairment with effect from the year ending March 31, 2006. However, in order to mitigate the burden of additional provisioning arising out of adoption of the revised norm, FIs were permitted to phase out the required provisioning over a period of three years beginning from the year ending March 31, 2006, with a minimum of one-fourth of the additional provisioning to be made each year.
Dec.	**3**	• Banks, with the approval of their boards, were encouraged to build IFR up to a maximum of 10 per cent against the mandated requirement of 5 per cent to be better positioned to meet interest rate risks.
	8	• SHGs to be considered for financing under the Prime Minister's *Rozgar Yojana* (PMRY) subject to certain conditions.
	12	• An Advisory Committee on Flow of Credit to Agriculture and Related Activities from the Banking System was constituted under the Chairmanship of Prof. V.S. Vyas, Director, Central Board of Directors of the Reserve Bank.
	16	• A Working Group on Flow of Credit to the SSI sector was constituted under the Chairmanship of Dr. A.S. Ganguly, Director, Central Board of Directors of the Reserve Bank.
	27	• In order to support broadbased improvement in customer services relating to various banking services, each commercial bank would constitute an *ad hoc* Committee to undertake procedures and performance audit on public services rendered by it. Each *ad hoc* Committee is expected to complete its work in six months from the date of its constitution and submit its Report to the RBI Committee on Procedures and Performance Audit on Public Services.
2004		
Jan.	**3**	• The margin requirement on all advances against shares/financing of IPOs/issue of guarantees by banks was raised from 40 per cent to 50 per cent. Further, banks were advised to take minimum cash margin of 25 per cent (within the overall margin of 50 per cent) in respect of guarantees issued by them for capital market operations.
	5	• Provisioning norms for net debit balances outstanding in Inter-Branch Accounts were prescribed for State/Central Co-operative Banks/RRBs to ensure international best accounting standards in the treatment of Inter-Branch Adjustment Accounts and also to bring them in line with those applicable to SCBs. Accordingly, the State/Central Co-operative

Date of Announcement		POLICY ANNOUNCEMENTS
2004		**III. FINANCIAL SECTOR MEASURES** *(Contd.)*
		Banks/RRBs were advised to segregate the debit and credit entries in Inter-Branch Account pertaining to the period up to March 31, 2001 outstanding as on March 31, 2004 and arrive at a net position. It was clarified that, in the case of a net debit, provisioning should be made from the year ended March 2004.
Jan.	**5**	• The margin on all advances against shares for UCBs were raised to 50 per cent with immediate effect with no change in the quantum of loan that can be granted.
		• RRBs were advised to review the existing systems and controls and plug the lacunae therein to prevent occurrence of frauds in the housing, consumer and retail finance portfolios.
		• Know Your Customer (KYC) guidelines for NBFCs were issued on January 5, 2004 on the similar lines as prescribed for SCBs.
		• For safeguarding NBFCs from being used for transfer or deposit of funds derived from criminal activity or for financing of terrorism, additional guidelines were issued. In addition to personal introduction, documentary evidence should be used in the identification of a new customer. For existing customers, NBFCs should ensure that gaps and missing information in compliance of KYC guidelines on customer identification procedure were filled up and completed before June 30, 2004. Wherever, transactions of Rs.10 lakh and above are undertaken, they should keep record of those transactions in a separate register maintained at branch as well as at the Registered Office.
	8	• The final guidelines on investment by FIs in debt securities were issued. Effective April 1, 2004, FIs were prohibited from investing in unrated debt securities and in debt securities of original maturity of less than one year other than CP and CDs.
	15	• For effective monitoring of the agricultural lending, banks were advised to furnish data on priority sector lending on a quarterly basis, as on the last reporting Friday of each quarter, to the Reserve Bank within a fortnight from the end of the particular quarter. Public sector and private sector banks, however, would continue to submit the sector-wise provisional data on priority sector advances on a half-yearly basis as on the last reporting Friday of March and September every year.
	16	• Banks were advised not to deduct tax at source while making payment of interest on the 8 per cent Savings (Taxable) Bonds 2003. This stipulation also applies to UTI Bank, IDBI Bank, HDFC Bank and Stock Holding Corporation of India Ltd.
	17	• In pursuance of the guidelines issued on January 9, 2002, primary (urban) co-operative banks were advised to desist from the practice of stapling of note packets. Further banks were asked to refrain from issuing Ashoka Pillar series notes.
	19	• All branches of banks maintaining currency chests in the country were advised to provide customer services to the public more actively and vigorously in areas such as (i) meeting the demands for fresh/good quality notes and coins of all denominations, (ii) exchanging soiled notes, (iii) adjudicating mutilated notes, and (iv) accepting coins and notes either for transactions or in exchange, so that there is no need for them to approach the Regional Offices of the Reserve Bank only for this purpose.
	24	• With regard to reverse flow of coins from the public, all public and private sector banks were advised to issue instructions and ensure that the currency chests and small coin depots maintained by their branches remit old coins of value up to Re.1 made from Cupro-Nickel alloy and Aluminum to the Mints with prior consultation with the mints.
	29	• Banks were advised to ensure that note counting machines in sufficient numbers be provided at branches for use of customers for instilling confidence regarding numerical accuracy of the notes issued.
Feb.	**3**	• Detailed guidelines were issued towards streamlining the procedure for obtaining acknowledgement and removing uncertainties for investors including foreign investors with regard to allotment or transfer of shares.
		• Private sector banks were required to ensure, through an amendment to the Articles of Association, that no transfer takes place of any acquisition of shares of 5 per cent or more of the total paid-up capital of the bank without a prior acknowledgement by the Reserve Bank. Boards of private sector banks were advised to take the guidelines into account while seeking acknowledgement for transfer or allotment of shares.
		• Multilateral Development Banks such as International Finance Corporation (IFC) and Asian Development Bank (ADB), which are specifically permitted by the Central Government to float rupee bonds in India were allowed to purchase dated Government securities. The payment should be made either by inward remittance through normal banking channels or out of funds held in the fund account opened with the specific approval of the Reserve Bank.
	5	• The last date for receipt of applications from banks for one time settlement (OTS) of chronic NPAs of banks up to Rs.10 crore was extended to July 31, 2004. Similar guidelines were issued for AIFIs on February 17, 2004.
	6	• The restriction that banks could provide finance up to Rs.50,000 or six months' salary, whichever is less, to assist employees to buy shares of their own companies was withdrawn. Banks were given freedom in this regard. However, it was clarified that these advances would form part of the bank's capital market exposure.

Date of Announce-ment		POLICY ANNOUNCEMENTS
2004		**III. FINANCIAL SECTOR MEASURES** *(Contd.)*
Feb.	**10**	• NBFCs registered with the Reserve Bank were permitted, without the approval of the Reserve Bank, to take up insurance agency business on a fee basis and without risk participation provided they: i) Obtain requisite permission from the IRDA and comply with its regulations for acting as 'composite corporate agent' with insurance companies. ii) Do not adopt any restrictive practice of forcing its customers to go in only for a particular insurance company in respect of assets financed by NBFCs. The customers should be allowed to exercise their own choice. iii) Disclose that there is no 'linkage' either direct or indirect between the provision of financial services offered by NBFCs to its customers and use of the insurance products. The premium should be paid by the insured directly to the insurance company without routing through the NBFC. The risks, if any, involved in insurance agency should not get transferred to the business of the NBFC.
	11	• UCBs were advised that they are not allowed to open CSGL Accounts of other UCBs and account, if any, already opened, should be closed immediately.
	13	• Banks were given freedom to decide all aspects relating to renewal of overdue deposits subject to non-discretionary and non-discriminatory policy laid down by their boards. Similarly, decisions on margin on advances against term deposit and interest payable on maturity proceeds of deposit account of deceased depositors were left to the discretion of the individual bank.
	17	• *Ad hoc* Committees set up by banks were asked to submit to the Reserve Bank suitable recommendations for modification/rationalisation of the existing Reserve Bank guidelines on the provision of customer service in banks with a view to further enhancing the quality of customer service. The recommendations in this regard could cover the interface with the individual customers in respect of foreign exchange transactions, Government and public debt transactions, banking operations and currency management.
	23	• Prudential guidelines on banks' investment in non-SLR debt securities were issued to contain risks arising out of non-SLR investment portfolio of banks, in particular through private placement. The guidelines require that banks should not invest in non-SLR securities of original maturity of less than one year and also in unrated debt securities and unlisted shares of AIFIs. These guidelines needed to be fully complied with by March 31, 2004.
March	**8**	• Prudential guidelines on investment in non-government securities were issued for all primary dealers in the Government securities market.
	10	• Guidelines on credit exposure norms and statutory and other restrictions on loans and advances were issued for primary (urban) co-operative banks through a master circular. • A master circular on board of directors for primary (urban) co-operative banks was issued covering the constitution and role of the board, loans and advances and payment of fees and allowances to directors among others.
	11	• A master circular on lending to NBFCs was issued covering detailed guidelines on i) eligibility criteria for NBFCs for bank finance and ii) activities undertaken by NBFCs that are not eligible for bank credit. It also stipulates that banks should not enter into lease agreements departmentally with equipment leasing companies as well as other NBFCs engaged in equipment leasing. Banks were also prohibited to grant bridge loans. • The list containing the claims of depositors forwarded by Administrators/Liquidators of UCBs under liquidation/ amalgamation/merger/restructuring should be certified by a Chartered Accountant appointed by the Reserve Bank.
	15	• Towards bringing about a certain minimum level of uniformity with regard to the content and coverage of the Best Practices Codes (BPC) in Banks, broad guidelines were prescribed to commercial banks. The key aspects to be noted while framing the BPC are as follows : i) BPC should be integrated with the overall risk management strategy of the bank; ii) The BPC should be a comprehensive and homogenous document. While the manual of instructions/circulars issued by banks from time to time could be consolidated and incorporated, this by itself would not constitute 'BPC'; iii) The BPC should, at a minimum, cover all the functional areas of the bank; iv) The BPC should incorporate recommendations of various Committees advised to banks by the Reserve Bank; v) BPC should also take into account the instructions of the Central Vigilance Commission (CVC), Goverment of India, if any, issued from time to time and the instructions relating to the common fraud prone areas and their prevention issued to banks by the Reserve Bank from time to time; and vi) BPC may also incorporate practices that would help prevention of losses to its customers and include suitable guidance to such customers.
	16	• A master circular on interest rates on rupee deposits for primary (urban) co-operative banks was issued. The circular covered i) rate of interest payable on current, saving and term deposit accounts, ii) premature withdrawal of term deposit, iii) guidelines on credit exposure norms and statutory/other restrictions on loans, iv) recurring deposit for reinvestment in term deposit, and v) margin on advances against term deposits and exemptions. • Revised guidelines on discounting /rediscounting of bills were issued for UCBs.