

CHRONOLOGY OF MAJOR POLICY ANNOUNCEMENTS

Date of Announcement	POLICY ANNOUNCEMENTS
2004	III. FINANCIAL SECTOR MEASURES (Contd.)
March	<p>18 • All SCBs were notified about the extension in the cut-off date for lapsing of sanctions and completion of disbursements under the Prime Minister's <i>Rozgar Yojana</i> to September 30, 2004 for the programme year 2003-04.</p> <p>20 • UCBs were advised to report serious irregularities, if any, pointed out by the concurrent auditors and action taken to rectify the same.</p> <p>25 • Banks were advised to furnish the data under <i>Swarnajayanti Gram Swarozgar Yojana</i> (SGSY), <i>Swarna Jayanti Shahari Rozgar Yojana</i> (SJSRY) and Scheme for Liberation and Rehabilitation of Scavengers (SLRS) on a monthly basis with effect from April 2004.</p> <p>29 • The relaxation in respect of Service Area obligations was granted to 97 RRBs for a further period of one year from April 1, 2004, <i>i.e.</i>, up to March 31, 2005. The existing arrangement with regard to financing of beneficiaries under SGSY and the priority sector to be continued till March 31, 2005.</p> <p>• For commencing the business of securitisation or asset reconstruction, it was prescribed that the minimum owned fund should not be less than 15 per cent, on an aggregate basis, of the total financial assets acquired or to be acquired by the Securitisation Company or Reconstruction Company or Rs.100 crore, whichever is lower, irrespective of whether the assets are transferred to a trust set up for the purpose of securitisation or not. It was also clarified that the Securitisation Company or Reconstruction Company should continue to hold this owned fund level until the realisation of the assets and redemption of security receipts issued against such assets.</p>
April	<p>10 • Following the recommendations of the Committee on Procedures and Performance Audit on Public Service (Chairman: Shri S. S. Tarapore), revised norms were issued with regard to cheque Drop Box facility, delivery of cheque books over the counter and statement of accounts/pass book.</p> <p>15 • Comprehensive guidelines were issued for investment in non-SLR securities by UCBs.</p> <p>19 • All SCBs were advised of the State/Union Territory-wise physical targets for sanctioning and disbursement of loans under PMRY for the purpose of their quarterly targets to be achieved by end-March 2005.</p> <p>22 • Banks were advised to inform, at least one month in advance, their account holders any change in the prescribed minimum balance and the charges that may be levied if the minimum balance is not maintained.</p> <p>• It was clarified to banks that non-resident ordinary accounts may be held by non-residents jointly with residents.</p> <p>23 • The guidelines with regard to payment of dividend by commercial banks were modified to the eligibility criteria (inclusive of minimum CRAR, NPA and compliance) with relevant provisions of Banking Regulation Act, 1949 for declaration of dividend without prior approval of the Reserve Bank as well as the quantum of dividend payable (with a ceiling placed at 33 1/3 per cent dividend payout ratio and methods of compilation of the ratio as indicated).</p> <p>24 • NBFCs were not allowed to accept fresh NRI deposits with effect from April 24, 2004, but they could renew the deposits already accepted.</p> <p>30 • Banks (excluding RRBs and LABs) were advised to review policies and practices relating to information system (IS) audit and place the audit reports before the top management. Banks were advised to adopt an IS audit policy appropriate to its level of computerisation, review the same at regular intervals in tune with industry best practices and guidelines issued by the Reserve Bank.</p> <p>• Banks (excluding RRBs) were advised to ensure strict compliance with the three accounting standards (No. 24, 26 and 28) recommended by the Working Group (Chairman: Shri N. D. Gupta) relating to discounting operations, intangible assets and impairment of assets, respectively.</p>
May	<p>8 • All SCBs were advised that the subsidy under SJSRY would be back-ended subsidy with a lock-in period of 2 years.</p> <p>12 • Banks were advised to strictly maintain the confidentiality of information provided by the customer for 'Know Your Customer' (KYC) compliance. The guidelines were extended to cover all primary (urban) co-operative banks on May 29, 2004.</p> <p>15 • Banks were advised to scrupulously ensure that their branches do not open current accounts of entities which enjoy credit facilities (fundbased or non-fund based) without specifically obtaining a no-objection certificate from lending banks.</p> <p>17 • NBFCs/RNBCs were advised to authorise designated banks for collection of interest on due dates on securities held in physical form lodged for safe custody with the designated banks.</p> <p>18 • The requirement of margin/security for agricultural loans up to Rs.50,000 and in the case of agri-business and agri-clinics for loans up to Rs.5 lakh was waived. The NPA norms for longer duration crops were tightened.</p> <p>• The margin requirement on all advances against shares/financing of IPOs/issue of guarantees by banks was reduced from 50 per cent to 40 per cent. Further, banks were advised to take minimum cash margin of 20 per cent (within the margin of 40 per cent) in respect of guarantees issued by them for capital market operations.</p>

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2004	III. FINANCIAL SECTOR MEASURES (Contd.)	
May	20	<ul style="list-style-type: none"> • The exemption granted to RRBs from 'mark to market' norms in respect of the SLR securities was extended for one more year, <i>i.e.</i>, up to 2004-05.
	24	<ul style="list-style-type: none"> • The primary (urban) co-operative banks were advised to exercise due caution with regard to valuation while sanctioning loans and advances against mortgage of house property.
	26	<ul style="list-style-type: none"> • The off-site surveillance system for primary (urban) co-operative banks already in place for the scheduled UCBs was extended to all non-scheduled UCBs having deposit size of Rs.100 crore and above.
June	11	<ul style="list-style-type: none"> • With a view to providing boost to the infrastructure lending, banks were allowed to raise long term bonds with a minimum maturity of five years.
	15	<ul style="list-style-type: none"> • The risk management in respect of exposure by banks/FIs to public financial institutions (PFIs) to be raised to 100 per cent for credit risk from March 31, 2005. • The scope of definition of infrastructure lending by NBFCs to include the following projects/sectors: (i) construction relating to projects involving agro-processing and supply of inputs to agriculture; (ii) construction for preservation and storage of processed agro-products, perishable goods such as fruits, vegetables and flowers including testing facilities for quality; and (iii) construction of educational institutions and hospitals. The risk weight on exposure to PFIs was raised to 100 per cent.
	17	<ul style="list-style-type: none"> • The extant limits on unsecured exposures by banks were withdrawn allowing banks to set their own limits for unsecured exposures. Unsecured exposures were redefined and it was clarified that unsecured sub-standard assets would attract 20 per cent provisioning. • The currency of the <i>Ad hoc</i> Committees set up by banks were extended by six months and they were advised to complete the work within one year from the date of their constitution and also to associate non-officials in the Committees. • The extant Guidelines on country risk management were extended to cover countries where a bank has net funded exposure of one per cent or more of its total assets with effect from the year ending March 31, 2005.
	18	<ul style="list-style-type: none"> • Banks were advised to draw a road map for migration to Basel II by the end of 2004 and make a quarterly review of the progress made.
	21	<ul style="list-style-type: none"> • Graded higher provisioning requirement to be introduced according to the age of NPAs, which are included under 'doubtful for more than three years' category, with effect from March 31, 2005. • The process of identifying wilful defaulters and the mechanism relating to redressal of grievances was clarified as two distinct processes. The borrower should be suitably advised before being classified him as a willful defaulter. • Boards of banks/FIs were advised to oversee furnishing of requisite information of all borrowers to CIBIL and report compliance of the same to the Reserve Bank. The role of CIBIL in dissemination of credit information was clarified. CIBIL should move towards a sufficiently diversified ownership structure with no single entity owning more than 10 per cent of its paid-up capital. • Banks were advised to fully adhere to the 'Know Your Customer' (KYC) policy adopted by their boards i) for opening new accounts, ii) for the existing accounts, where any wrong-doing is suspected or where the summation of the credit/debit transactions is more than Rs.10 lakh, and iii) in respect of all accounts belonging to trusts, intermediaries or those operated through a mandate or power of attorney. • The vigilance procedure in public sector banks was modified in that only such vigilance cases in which an officer of the level of Scale V and above is involved are required to be referred to the Commission for advice.
	22	<ul style="list-style-type: none"> • The investment pattern prescribed for RNBCs was rationalised for imparting liquidity and safety to the investments of RNBCs for enhancing depositors' protection. Other measures included i) phasing out of discretionary investment by RNBCs, ii) restriction of investments in financial institutions in only CD instruments of rating AA+ and above, iii) additional investment of 15 per cent of the deposits in securities issued by the Central and State Governments, iv) investment in bonds and debentures to be limited to listed securities of rating AA+ and above, v) restricting mutual fund investments to only debt oriented schemes with a sub limit of 2 per cent in any one fund, and vi) restriction of exposure to a single SCB to one per cent of aggregate deposit liabilities of the SCB and to a single specified FI to not more than one per cent of the deposits of the RNBCs.
	24	<ul style="list-style-type: none"> • Pursuant to the announcements by the Union Finance Minister on doubling the flow of credit to agriculture, all SCBs were advised to take actions as indicated therein. • Boards of banks, under exceptional circumstances, were allowed to raise single or group exposure limit by 5 per cent of capital funds. • Banks would be required to provide for capital charge for market risk in respect of trading book exposures (including derivatives) effective March 31, 2005. Capital charge would also be introduced for securities under 'Available for Sale' (AFS) category with effect from March 31, 2006.

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2004	III. FINANCIAL SECTOR MEASURES (Concl.d.)	
July	23	<ul style="list-style-type: none"> • In order to check wilful defaults, banks/FIs were advised to closely monitor the end-use of funds by borrowers for the intended purpose and obtain certificates from them to this effect. In case of wrong certification, they may promptly initiate appropriate legal proceedings, including criminal action, against the wilful defaulters, based on the facts and circumstances of each case under Sections 403 and 415 of the Indian Penal Code.
IV. CAPITAL MARKET POLICIES		
(i) Securities and Exchange Board of India (SEBI)		
2003		
April	4	<ul style="list-style-type: none"> • SEBI allowed mutual funds (MFs) to invest in equity of listed overseas companies which have share holding of at least 10 per cent in an Indian company listed on a recognised stock exchange in India. The overall ceiling for the entire mutual fund industry to invest in ADRs/GDRs issued by Indian companies and foreign equity and debt securities would be US \$ 1 billion. Each MF can invest up to 10 per cent of its net assets in these securities as on January 31 of the relevant year, subject to a maximum of US \$ 50 million.
	9	<ul style="list-style-type: none"> • In order to bring uniformity in the due diligence process in scrutinising listing applications across the stock exchanges and to dynamise the Listing Agreement, SEBI established a Central Listing Authority (CLA).
	10	<ul style="list-style-type: none"> • A uniform policy applicable to all stock exchanges was framed by SEBI regarding the maintenance/disposal of arbitration records.
	19	<ul style="list-style-type: none"> • SEBI, in consultation with the Government of India and the Reserve Bank, introduced exchange traded interest rate derivative contracts on a notional Government security with a 10-year maturity and a notional Treasury Bill with a maturity of 91 days or three months. SEBI also put in place the risk containment measures for the interest rate futures contracts.
	29	<ul style="list-style-type: none"> • It was mandated by the SEBI that contract notes could be issued by brokers in electronic form authenticated by means of digital signatures.
May	2	<ul style="list-style-type: none"> • The SEBI (Disclosure and Investor Protection Guidelines), 2000 were amended with respect to promoters' contribution and lock-in requirement. The contents of the offer document and the guidelines for preferential issues were also modified.
June	2	<ul style="list-style-type: none"> • The SEBI allowed stock exchanges, which were unable to compute the mean impact cost at their exchanges, to use the impact cost of the BSE or the NSE provided that those stock exchanges have entered into a formal legal arrangement with the relevant stock exchanges (BSE or NSE) for liquidating the positions of their members, if necessary, on that stock exchange. • The SEBI directed all the stock exchanges which have set up subsidiaries to make necessary provisions in their rules, regulations and the bye-laws as well as in the Memoranda/Articles of Association of the subsidiary companies to the effect that only members eligible to trade on a stock exchange are eligible to trade/continue to trade through the subsidiary company.
	5	<ul style="list-style-type: none"> • The SEBI had earlier stipulated that in cases where shortages are in excess of the base minimum capital, the trading facility of the member would be withdrawn and on recovery of the complete shortage, the member would be permitted to trade on a reduced exposure for four settlements. In view of the introduction of rolling settlement, SEBI specified that these provisions would now apply to at least ten rolling settlements.
	10	<ul style="list-style-type: none"> • MFs were allowed to trade in interest rate derivatives subject to disclosures made in the offer documents.
	11	<ul style="list-style-type: none"> • The SEBI revised the composition of additional capital and margins and the eligibility criterion for securities which could be considered cash equivalent. Accordingly, the minimum cash component of the additional capital and margins was increased from the existing level of 30 per cent to 50 per cent.
	18	<ul style="list-style-type: none"> • The SEBI reviewed the capital requirements of exchanges having average daily turnover of less than Rs.1 crore for three consecutive months and allowed them to maintain base minimum capital (BMC) at Rs.1 lakh. The excess of the BMC may be refunded to the members subject to certain conditions.
	19	<ul style="list-style-type: none"> • The stock exchanges were given freedom to charge listing fees, without seeking approval of the SEBI.
	25	<ul style="list-style-type: none"> • The SEBI directed the stock exchanges i) to carry out inspection of at least 20 per cent (instead of 10 per cent earlier) of the active brokers every year beginning from the financial year 2003-04, and ii) to work out transparent criteria for selection of brokers for inspection as well as formulation of their inspection policy.
	30	<ul style="list-style-type: none"> • The SEBI [Employee Stock Option Scheme (ESOS)] and [Employee Stock Purchase Scheme (ESPS)] Guidelines, 1999 were amended to include, <i>inter alia</i>, norms relating to the procedure for adjustments in options in case of corporate actions, valuations of options and disclosures regarding ESOS/ESPS, when an unlisted company becomes public.

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2003	IV. CAPITAL MARKET POLICIES (Contd.)	
July	3	<ul style="list-style-type: none"> • All stock exchanges were directed by the SEBI to make necessary amendments to the Rules or Articles of Association to provide for Guidelines for Fair Practices/Code of Conduct for Public Representatives and SEBI Nominee Directors in order to ensure that the affairs of the stock exchanges are conducted on healthy lines with the highest standards of professional conduct, business ethics and morality to ensure and sustain the confidence of the investors.
	11	<ul style="list-style-type: none"> • In order to bring uniformity in the requirements under MF regulations and insider trading regulations, the SEBI clarified that the approval from the compliance officer for carrying out a transaction of sale or purchase of a security by the access person would be valid for one week instead of the existing requirement of 10 calendar days. Further, the requirement of employees to refrain from the purchase and sale or sale and purchase of any security within a period of 60 calendar days from the date of personal transaction was reduced to 30 days.
Aug.	8	<ul style="list-style-type: none"> • With a view to monitoring the investment by FIIs through derivative/financial instruments, the SEBI revised the format for reporting the issuances/renewal/cancellation/redemption of the derivative instruments.
	14	<ul style="list-style-type: none"> • The SEBI amended the SEBI (DIP) Guidelines to revise the eligibility norms for unlisted company to make initial public offer (IPO). It clarified that, in case the unlisted companies do not meet the eligibility conditions, they could make an IPO through bookbuilding process on meeting certain conditions as laid down in the Guidelines. The eligibility conditions for public issues by the listed companies were also specified, besides laying down the conditions for public/right issue of debt instruments. A new clause on green shoe option (GSO) was added whereby any issuer company making an IPO of equity shares through the book-building mechanism can avail of this facility for stabilising the post-listing price of its shares.
	22	<ul style="list-style-type: none"> • The SEBI issued a directive to the stock exchanges which have formed subsidiaries that appropriate penal action including fine, suspension of trading rights of the subsidiaries/sub-brokers would be initiated in case the subsidiaries/sub-brokers are found to be providing unauthorised access to persons for illegal trading and/or providing their own terminals for illegal trading.
	26	<ul style="list-style-type: none"> • Clause 49 of the Listing Agreement of the stock exchanges was amended by the SEBI to bring about the following improvements in corporate governance practices: i) all compensation paid to non-executive directors to be fixed by board of directors subject to the approval in the shareholders' meeting, ii) company boards to lay down code of conduct for all board members and senior management of the company, iii) Audit Committees to review financial statement and draft audit report with company managements, and iv) the company Chief Executive Officer (either Executive Chairman or Managing Director) and the Chief Finance Officer (whole-time Finance Director or other person discharging this function) to certify, <i>inter alia</i>, the balance sheet and profit and loss account and all its schedules and notes on accounts, as well as the cash flow statements and the Directors' Report.
Sep.	29	<ul style="list-style-type: none"> • The SEBI mandated that a listed company would be required to obtain 'in-principle' approval for listing from the stock exchanges before issuing further shares or securities. It also stipulated that if a company is listed on any stock exchange which is having nationwide trading terminals, it would be considered sufficient compliance, if it obtains 'in-principle' approval from such stock exchange for further issue of shares or securities. SEBI shortened the compliance period from a quarter to a month for collection of particulars about their clients by the stockbrokers.
	30	<ul style="list-style-type: none"> • Guidelines for issue of debt securities on a private placement basis by listed companies were notified. The company is required to make full disclosures (initial and continuing) in the manner prescribed in Schedule II of the Companies Act, 1956, the SEBI (DIP) Guidelines, 2000 and the Listing Agreement with the exchanges. The debt securities have to carry a credit rating of not less than investment grade from a credit rating agency registered with the SEBI. The company has to appoint a debenture trustee registered with the SEBI and the debt securities should be issued and traded in demat form. The trading in privately placed debt should only take place among qualified institutional buyers (QIBs) and high net worth individuals in standard denomination of Rs.10 lakh. • SEBI directed the stock exchanges to prepare their own Risk Disclosure Document detailing the basic risks involved in trading on a stock exchange and the rights and obligations of the clients.
Oct.	6	<ul style="list-style-type: none"> • It was clarified by the SEBI that the prudential investment norms stipulating limits on investments in debt securities issued by a single issuer are applicable to all debt securities issued by public bodies/institutions such as electricity boards, municipal corporations and State transport corporations guaranteed by either the State or the Central Government. Government securities issued by the Central/State Government or on its behalf by the Reserve Bank were exempted from such investment limits.
	8	<ul style="list-style-type: none"> • The stock exchanges were directed to seek prior approval of the SEBI for the introduction of any new trading segment on the stock exchanges.
	28	<ul style="list-style-type: none"> • The SEBI finalised the model bye-laws to be applicable to all the stock exchanges and asked them to amend their relevant bye-laws accordingly.
Nov.	12	<ul style="list-style-type: none"> • The SEBI advised mutual funds that the investments in short-term deposits should be reported to the trustees along with the reasons which, <i>inter alia</i>, would include comparison with interest rates offered by other SCBs.

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2003	IV. CAPITAL MARKET POLICIES (Contd.)	
Nov.	18	<ul style="list-style-type: none"> • The SEBI directed portfolio managers to disclose the performance of benchmark indices in periodical reports to be furnished to the clients in order to keep them informed completely about how their funds had been deployed and how they have performed in the market.
	19	<ul style="list-style-type: none"> • With a view to promoting transparency in the dealings between the broker and the client, the SEBI directed that every broker should disclose to his client whether he does client based business or proprietary trading as well.
Dec.	30	<ul style="list-style-type: none"> • It was clarified by the SEBI that the VaR based margin should be collected on an upfront basis at the time of trade instead of T+1 day basis, as specified earlier.
2004		
Jan.	13	<ul style="list-style-type: none"> • The SEBI directed the stock exchanges to ensure that a stock broker of an exchange was not dealing with brokers/sub-brokers of the same exchange either for proprietary trading or for trading on behalf of clients without prior permission of the exchange.
	14	<ul style="list-style-type: none"> • The disclosure norms pertaining to bulk deals were made more stringent to prevent rumours/speculation about the bulk deals.
	20	<ul style="list-style-type: none"> • The SEBI directed the stock exchanges to amend their bye-laws to allow participation of banks in interest rate derivatives market.
	26	<ul style="list-style-type: none"> • The norms regarding issuances, dealing in or holding offshore derivative instruments such as participatory notes, equity linked notes or any other similar instruments against underlying securities by FIIs or sub-account holders were tightened by the SEBI. SEBI made it mandatory to issue these instruments only in favour of entities, which are regulated by any relevant regulatory authority in the country of their incorporation or establishment, subject to compliance of 'Know Your Client' requirement.
	27	<ul style="list-style-type: none"> • The SEBI decided to permit certain intermediaries, including MFs, to operate in the securities market only upon quoting the unique client code with effect from a date to be announced separately.
Feb.	3	<ul style="list-style-type: none"> • In order to streamline the issuances of electronic contract notes as legal document such as the physical contract notes, the SEBI directed the stock exchanges to prescribe a standard format for electronic contract notes.
	6	<ul style="list-style-type: none"> • The SEBI clarified that guidelines for participation by MFs in derivatives trading would apply to equity-oriented schemes for 'hedging' or portfolio balancing. All derivative positions should be backed by either cash or stock as the case may be. Each MF could have a maximum net derivative position of 50 per cent of the portfolio. The limits per scrip and instrument should be specified by the Board of Trustees.
March	9	<ul style="list-style-type: none"> • The SEBI allowed the debenture trustees to associate with privately placed unlisted debt issues and clarified that the debenture trustees would be responsible and accountable for such issues. • The SEBI specified the position limits for FIIs and NRIs for trading in interest rate derivatives contracts.
	19	<ul style="list-style-type: none"> • The SEBI allowed corporate brokers with a net worth of at least Rs.3 crore to provide margin trading facility to their clients in the cash segment subject to certain conditions. Brokers were allowed to use their own funds or borrowings from SCBs and/or NBFCs regulated by the Reserve Bank for this purpose. • The SEBI issued guidelines for uniform cut-off timings for applicability of NAV based MF schemes/plans. The cut-off timings would apply to purchase and redemptions across all schemes/plans of MFs excluding international funds.
April	1	<ul style="list-style-type: none"> • With a view to making the trading system efficient and less time consuming, Straight Through Processing (STP) was made compulsory for all institutional trades.
	2	<ul style="list-style-type: none"> • In order to identify the trades through multiple members of the stock exchanges and for the purpose of better risk management, the SEBI made FIIs/sub-accounts to inform the unique client code to the member broker while trading in the Indian securities market.
	8	<ul style="list-style-type: none"> • The SEBI amended the SEBI (DIP) Guidelines, 2000 to include provisions relating to issue of advertisements on television, facility of shelf prospectus by specific entities such as public sector banks, scheduled banks and public financial institutions and preferential issues to restrict sale of shares by shareholders.
	21	<ul style="list-style-type: none"> • SEBI laid down guidelines to facilitate smooth completion of settlement process and help members of the stock exchanges to meet their obligations in a timely manner in cases where holidays of banks and stock exchanges are not common.
	30	<ul style="list-style-type: none"> • The SEBI advised all listed companies which decide to change their names to comply with certain conditions such as (i) at least one year should have elapsed from the last name change, (ii) at least 50 per cent of its total revenue in the preceding one year period should have been accounted for by the new activity suggested by the new name, and

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	<p>(iii) the new name along with the old name should be disclosed through the websites of the respective stock exchanges where the company is listed and also through the EDIFAR website for a continuous period of one year, from the date of the last name change.</p>	
May	7	<ul style="list-style-type: none"> • The SEBI revised the guidelines in respect of the disclosures to be made in the letter of offer for buyback of securities and prescribed a standard format.
	28	<ul style="list-style-type: none"> • The SEBI announced amendments to the SEBI (DIP) Guidelines, 2000 with respect to the following: splitting of shares before IPO, terms of the issue, post issue obligations, public issues of bonds by designated financial institutions under a shelf prospectus, definition of employees, reservation for shareholders and availability of green shoe option (GSO) facility.
June	10	<ul style="list-style-type: none"> • Guidelines for the system of Straight Through Processing (STP) were issued by the SEBI.
July	16	<ul style="list-style-type: none"> • In line with the recommendations of the Advisory Committee on Derivatives and Market Risk Management, SEBI modified the risk containment measures, position limits and the broad eligibility criteria of stocks and indices on which futures and options could be introduced. The FII position limit in all index derivative contracts (futures or options) on a particular underlying index would be Rs.250 crore or 15 per cent of the total open interest of the market per exchange, whichever was higher, in that index derivative. • The SEBI specified that wherever applicable, all specified intermediaries and their related persons should quote the Unique Identification Number (UIN) obtained under the Central Database of Market Participants (MAPIN) in lieu of the unique Client Code for all secondary market transactions with effect from August 2, 2004. <p>(ii) Government of India</p>
2003		
Oct.	5	<ul style="list-style-type: none"> • Government of India amended the Securities Contracts (Regulation) Rules, 1957 to allow securities brokers to participate in commodity derivative market. It was clarified that business in commodity derivatives may be conducted only by setting up a separate company, which should comply with the regulatory requirements specified by the Forwards Market Commission.
Dec.	4	<ul style="list-style-type: none"> • Government of India issued the Unlisted Public Companies (Preferential Allotment) Rules, 2003 that would be applicable to all unlisted public companies in respect of preferential issue of equity shares, fully/partly convertible debentures or any other financial instruments, which would be convertible or exchanged with equity share at a later date. Issue of shares on a preferential basis by a company can not be made unless authorised by its Articles of Association and unless a Special Resolution is passed by the members in a General Meeting authorising the board of directors to issue the same. The Special Resolution should be acted upon within a period of 12 months.
2004		
Feb.	23	<ul style="list-style-type: none"> • Government of India notified the Companies (Issues of Indian Depository Receipts) Rules, 2004. Companies incorporated outside India may issue Indian Depository Receipts (IDRs) if they meet the following conditions: (i) their pre-issue paid-up capital and free reserves are at least US \$ 100 million, with an average turnover of US \$ 500 million during the preceding three financial years; (ii) they have been making profits for at least five years preceding the issue and have been declaring dividend of not less than 10 per cent each year; and (iii) pre-issue debt equity ratio is not more than 2:1. The issuing company also has to fulfil the eligibility criteria stipulated by the SEBI in this regard.
July	8	<ul style="list-style-type: none"> • The Union Budget, 2004-05 proposed the following measures: i) raising of the investment ceiling for FIIs in debt funds from US \$ 1 billion to US \$ 1.75 billion, ii) raising of the sectoral cap for FDI in telecommunications from 49 per cent to 74 per cent, in civil aviation from 40 per cent to 49 per cent and in insurance from 26 per cent to 49 per cent, iii) 0.15 per cent Securities Transaction Tax (STT) on all transactions made on the stock exchanges, iv) abolition of the tax on long-term capital gains from securities transactions, v) reduction in the short-term capital gains tax to a flat rate of 10 per cent from the existing 30 per cent (excluding surcharge), vi) a tax of 12.5 per cent on the income distributed to individual unit holders and 20 per cent in case of corporate unit holders by debt-oriented mutual funds, and vii) abolition of the bonus stripping and dividend stripping in units. <p>21</p> <ul style="list-style-type: none"> • The Finance Minister modified the budget proposal relating to the STT. It was clarified that the STT of 0.15 per cent would be applicable only to the delivery-based transactions and would be shared equally between the buyers and the sellers. The tax for non-delivery transactions by day traders and arbitrageurs was proposed to be reduced from 0.15 per cent to 0.015 per cent and to 0.01 per cent on derivatives transactions. The debt market was fully exempted from the STT. Debt oriented mutual funds were also exempted from STT and would pay 10 per cent tax on long-term capital gains and 30 per cent tax on short-term capital gains. Equity oriented mutual funds were exempted from tax on long-term capital gains and the tax on short-term capital gains was reduced to 10 per cent. Buyers of units of MFs would pay a STT of 0.15 per cent.

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	(iii) Reserve Bank of India	
April	29	<ul style="list-style-type: none"> • MFs were given general permission by the Reserve Bank for overseas investments within the cap of US \$ 1 billion, where SEBI's approval for undertaking such investments has been obtained.
Sep.	1	<ul style="list-style-type: none"> • The Reserve Bank specified that FIIs and NRIs, with the approval of the SEBI, may trade in all exchange traded derivative contracts subject to the limits prescribed by the SEBI.
	16	<ul style="list-style-type: none"> • The Reserve Bank, in consultation with the Government, derecognised OCBs in India as an eligible 'class of investor' under various routes/schemes available under the extant Foreign Exchange Regulations.
Nov.	3	<ul style="list-style-type: none"> • In order to provide single window clearance to AMCs who launch offshore funds abroad, the Reserve Bank proposed to accord general permission to AMCs, with prior approval of the SEBI, to issue units, remit dividend and redeem the units issued, subject to the reporting requirements.
	V. EXTERNAL SECTOR POLICIES	
	a) Trade Policy	
2003		
May	22	<ul style="list-style-type: none"> • The Government amended the Diamond and Jewellery Dollar Accounts Scheme. Firms and companies dealing in the purchase/sale of rough or cut and polished diamonds/precious metal jewellery plain, minakari and/or studded with/without diamond and/or other stones with a track record of at least 3 years in import or export of diamonds/coloured gemstones/diamond and coloured gemstones studded jewellery/plain gold jewellery, and having an average annual turnover of Rs.5 crore or above during the preceding three licensing years may also carry out their business through designated Diamond Dollar Accounts.
June	6	<ul style="list-style-type: none"> • Under the India-Nepal Treaty of Trade signed on March 2, 2002, State Trading Corporation (STC) was allowed to make imports of vegetable fats up to the indicated quantity on an annual quota basis, in addition to the existing Central Warehousing Corporation (CWC).
2004		
Jan.	8	<ul style="list-style-type: none"> • The Central Government announced the following measures effective January 9, 2004: i) reduction in peak rate of customs duty on all goods (other than agricultural commodities) from 25 per cent to 20 per cent, ii) abolition of the Special Additional Duty (SAD) of 4 per cent, iii) reduction of customs duty, <i>inter alia</i>, on specified drugs, medicinal equipment, parts of artificial limbs/rehabilitation aids, specified IT products, power transmission and distribution projects, coal, nickel, project imports and cell phones, iv) reduction in customs duty on specified capital goods/raw materials used by the electronic industry, v) reduction of duty on goods covered under Bangkok Agreement and Preferential Areas Agreement in line with reduction in MFN rates, vi) exemption of customs duty on laptop imported as baggage, vii) allowing free import of 6 items and reduction in import duty from 30 per cent to 15 per cent in respect of 17 items under transfer of residence, and viii) exemption of all passengers from Inland Air Travel Tax and Foreign Travel Tax.
	28	<ul style="list-style-type: none"> • The Government announced a number of measures by fine-tuning the EXIM Policy 2002-07 and focusing on procedural simplifications in order to reduce transaction costs for exporters, impart greater transparency and reduce discretion while availing various benefits under the EXIM Policy. The major policy announcements were as under: <ul style="list-style-type: none"> i) Imports of gold and silver, global positioning system receiver and electrical energy were allowed freely. Non-tariff barriers applicable to imports of food and textile items for export production were rationalised. ii) The Procedure for fixation of "nexus" between imports of capital goods and the export products under the EPCG scheme was simplified by allowing the imports on the basis of a Chartered Engineer's certificate as against the earlier system of examination by an Expert Committee. iii) The export obligation of past EPCG licences was re-fixed in line with the present policy where the export obligation would be 8 times of the duty saved instead of 5 times the CIF value. The facility of clubbing of EPCG licences was introduced for discharge of export obligation. Import of spare refractories, catalyst and consumables were allowed under the EPCG. iv) Duty free import of fuel was allowed with actual user condition under the Duty Free Replenishment Certificate (DFRC) scheme.

Date of Announcement	POLICY ANNOUNCEMENTS
<p>2004</p> <p>Feb.</p> <p>May</p> <p>June</p> <p>2003</p> <p>April</p>	<p style="text-align: center;">V. EXTERNAL SECTOR POLICIES (Contd.)</p> <p>v) Rupee payments received for port handling services would be reckoned for the discharge of export obligation under the EPCG scheme. Imports of prototypes - hitherto restricted to 10 numbers per annum - were allowed to actual users without any limit. The ceiling on export of gifts abroad was raised from Rs. one lakh to Rs. five lakh per annum.</p> <p>vi) The benefits of duty free imports admissible to the tourism sector was extended to certain categories of hotels and restaurants, subject to an undertaking that the entire benefit would be passed on to the customers.</p> <p>vii) The measures to boost project exports included enhancement of the equity base of ECGC from Rs.500 crore to Rs.800 crore; creation of a National Export Insurance Account to enable the ECGC to underwrite high value projects implemented by Indian Companies abroad; and introduction of a Gold Card Scheme for creditworthy exporters with good track record.</p> <p>12 • India along with Bhutan, Myanmar, Sri Lanka, Thailand and Nepal signed the Framework Agreement on the BIMST-EC Free Trade Area at Phuket in Thailand on February 8, 2004 for (i) strengthening and enhancing economic cooperation through the progressive elimination of tariffs and non-tariff barriers substantially in all trade in goods, and (ii) progressive liberalisation of trade in services with substantial sectoral coverage, and (iii) for establishing an open and competitive investment regime that facilitates and promotes investments within the BIMST-EC FTA.</p> <p>17 • China granted concessions on 217 tariff lines (at 8-digit ITS HS level) to India under the Bangkok Agreement, while India extended the concessions on 106 items corresponding to 188 tariff lines at 6-digit HS level. The preferential tariff rates for trade between India and China under the Bangkok Agreement were effective January 1, 2004.</p> <p>27 • India and the Netherlands signed a Memorandum of Understanding (MOU) for promotion of investment between the two countries. A Joint Investment Promotion Committee was set up to promote investment cooperation, identify promising sectors and assist the private sector.</p> <p>17 • Additional Standard Input-Output Norms for 20 new export items and amendments/corrections/deletions in the Standard Input-Output Norms for 20 existing export items were notified by the DGFT. Out of the 20 new norms, 16 norms relate to chemicals and allied products and one each relates to engineering products, plastic products, textile products and miscellaneous products.</p> <p>27 • The Reserve Bank announced the Gold Card Scheme for exporters.</p> <p>24 • Under the India-Nepal Treaty of Trade signed on March 2, 2002, State Trading Corporation was authorised to be the sole agency for importing vegetable fats (Vanaspati) up to the indicated quantity on an annual quota basis.</p> <p>b) Foreign Exchange Market</p> <p>1 • A number of incentives/facilities for Special Economic Zones (SEZs) were announced: i) the stipulation of twelve months or extended period thereof for realisation of export proceeds was removed in respect of SEZs, ii) units in SEZs were permitted to undertake job work abroad and export goods from that country itself, subject to certain conditions, iii) gem and jewellery units in SEZs and EOUs were allowed to receive payment for exports in the form of precious metals <i>i.e.</i>, Gold/Silver/Platinum equivalent to the value of jewellery exported, subject to certain conditions, and iv) netting off of export receivables against import payments as well as capitalisation of import payables was permitted, subject to stipulated conditions for SEZ units.</p> <p>4 • Persons resident outside India having FDI in India were permitted to enter into forward contracts with ADs with Indian rupee as one of the currencies to hedge the currency risk on dividend receivable by them on their investments in Indian companies.</p> <p>5 • To facilitate large corporates with proven track record and large import/export turnover to effectively and actively manage currency risks arising out of genuine exposures, the Reserve Bank permitted higher limits for booking forward contracts (hitherto linked to last three years' average export/import performance) on the basis of past performance without submission of documentary evidence. However, the forward contracts booked and outstanding, at any point of time should not exceed 50 per cent (up from 25 per cent earlier) of the eligible limit, without any cap.</p> <p>26 • It was clarified that ADs/NHB approved housing finance institutions in India could grant loans to NRIs/PIOs for the purpose of repairs/renovation/improvement of residential accommodation owned by them in India.</p> <p>• For export promotion, ADs were permitted to consider requests for export of goods free of cost up to 2 per cent of average annual exports of the applicant during the preceding three years subject to a ceiling of Rs. 5 lakh.</p>

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Date of Announcement	POLICY ANNOUNCEMENTS	
2003	V. EXTERNAL SECTOR POLICIES (Contd.)	
April	29	<ul style="list-style-type: none"> • Indian corporates and resident individuals were permitted to invest in rated bonds/fixed income securities of listed foreign companies abroad subject to certain conditions. • The requirement of obtaining separate permission from the Reserve Bank by mutual funds for investing overseas in rated debt/equity instruments and ADRs/GDRs under the existing regulations was waived. Accordingly, MFs having the requisite approval from the SEBI for undertaking such investments overseas do not require separate approval from the Reserve Bank. • Overseas investors making long-term investments were allowed to hedge their forex exposures in India, pending investment, by entering into forward sale contracts with banks in India. • Entities having transactions denominated in foreign currency but settled in rupees were permitted to book forward contracts which should be held till maturity and on which cash settlement would be made on the maturity date. • NRIs/OCBs were allowed to book cross-currency forward contracts to hedge the balances held in their FCNR(B) accounts. However, contracts once cancelled cannot be rebooked.
May	2	<ul style="list-style-type: none"> • ADs were empowered to consider applications received from individual exporters and grant permission for opening/hiring of warehouses abroad, subject to certain conditions.
	5	<ul style="list-style-type: none"> • Repatriation of sale proceeds of residential accommodation purchased by NRIs/PIOs out of funds raised by them by way of loans from ADs/housing finance institutions was allowed to be made by ADs to the extent of such loans repaid by them out of foreign inward remittances or by debit to their NRE/FCNR accounts.
	21	<ul style="list-style-type: none"> • As a step towards further liberalisation, resident individuals maintaining a foreign currency account with an AD in India or a bank abroad, as permissible under the extant regulations, were extended the facility of obtaining International Credit Cards issued by overseas banks and other reputed agencies. The charges incurred against the card either in India or abroad, were allowed to be met out of funds held in such foreign currency accounts of the cardholder or through remittances from India only through a bank where the cardholder has a current or savings account. Restrictions on purchase of prohibited items continue to apply to such cards.
June	16	<ul style="list-style-type: none"> • Units in Domestic Tariff Areas (DTAs) were permitted to purchase foreign exchange from ADs to pay for goods supplied to them by units in SEZs.
	21	<ul style="list-style-type: none"> • For developing the derivative market in India and widening the spectrum of hedge products available to residents and non-residents for hedging currency exposures, foreign currency rupee options were permitted with effect from July 7, 2003. ADs having a minimum CRAR of 9 per cent were permitted to offer the product on a back-to-back basis. Further, ADs having adequate internal control, risk monitoring/management systems, mark to market mechanism along with fulfilling of certain specified criteria were allowed to run an option book after obtaining a one time approval from the Reserve Bank. ADs were permitted to offer only plain vanilla European options for their customers.
July	17	<ul style="list-style-type: none"> • The existing limits on remittances in respect of items such as employment abroad, emigration, maintenance of close relatives abroad, education and medical treatment abroad were enhanced uniformly to US \$ 1,00,000 based on a simple self declaration form to be submitted by the customer, subject to the existing conditions. The limit for remittance towards consultancy services procured from outside India was enhanced to US \$ 1 million per project, from the existing limit of US \$ 1,00,000.
	21	<ul style="list-style-type: none"> • All companies entering into foreign technology collaboration agreements, irrespective of the extent of foreign equity in the shareholding, were permitted under the automatic approval route to make royalty payments at 8 per cent on export and 5 per cent on domestic sales without any restriction on the duration of royalty payments.
Aug.	18	<ul style="list-style-type: none"> • It was clarified that while undertaking import transactions, ADs should ensure that imports into India are in conformity with the Export-Import Policy in force and Foreign Exchange Management (Current Account Transactions) Rules, 2000. In view of enhancement of the limit of US \$ 25,000 for submission of required document/proof of import to US \$ 1,00,000 for all imports made into India, ADs were advised to forward to the Reserve Bank details of only those import transactions which exceed US \$ 1,00,000 in Form BEF. The limit for accepting either Exchange Control copy of Bill of Entry for home consumption or a certificate from the Chief Executive Officer (CEO) or Auditor of the company that the goods for which remittance was made have actually been imported into India was enhanced from US \$ 1,00,000 to US \$ 1 million.
Sep.	1	<ul style="list-style-type: none"> • Registered FIIs were permitted to trade in all Exchange Traded Derivative Contracts (ETDCs) approved by the SEBI from time to time subject to the stipulated limits. NRIs were also allowed to invest in ETDCs approved by the SEBI out of INR funds held in India on a non-repatriable basis.
	16	<ul style="list-style-type: none"> • Overseas Corporate Bodies (OCBs) in India were derecognised as an eligible 'class of investor' under various routes/schemes available under the extant Foreign Exchange Management Regulations (FEMR). It was decided in consultation with the Government that (i) the ban imposed on OCBs under Portfolio Investment Scheme (PIS) in November 2001 shall continue, (ii) OCBs as a 'class of investor' entity shall not be allowed to make fresh investments

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2003	V. EXTERNAL SECTOR POLICIES (Contd.)
	<p>in India under various routes/schemes available under the extant FEMR and the facility of opening fresh NRE and FCNR (B) and NR(O) accounts shall also be withdrawn, and (iii) unincorporated entity also shall not be allowed to make fresh investments under FDI Scheme including the Automatic Route. Accordingly, the following measures were undertaken: i) unincorporated entity and OCBs should not make fresh investment under FDI Scheme (including Automatic Route); ii) OCBs should not undertake purchase of shares/convertible debentures on a non-repatriation basis; iii) OCBs should not undertake purchase of Government dated securities or Treasury Bills or units of domestic mutual funds or units of Money Market Mutual Funds in India or National Plan/Savings Certificates both on a repatriation and non-repatriation basis; iv) A person resident outside India including OCBs should not transfer by way of sale or gift, the shares or convertible debentures held by them to another OCB; v) OCBs should not purchase equity or preference shares or convertible debentures offered on a rights basis by an Indian company; vi) A person resident in India should not borrow in foreign currency from OCBs; vii) An Indian company should not borrow in rupees on a repatriation and non-repatriation basis from OCBs by way of investment in non-convertible debentures; viii) An Indian company, a proprietorship concern or a firm in India should not accept deposits from OCBs on a non-repatriation basis; ix) OCBs should not open and maintain Non-Resident (External) Rupee Account (NRE), Foreign Currency (Non-Resident) Account (Banks) [FCNR(B)] Accounts and Non-Resident Ordinary Rupee (NRO) Deposit Account with ADs in India.</p> <p>Sep. 17 • ADs were permitted to allow advance remittance exceeding US \$ 1,00,000 or its equivalent for import of goods into India, if an unconditional, irrevocable standby Letter of Credit or a guarantee from an international bank of repute situated outside India or a guarantee of an AD in India (if such guarantee is issued against the counter guarantee of an international bank of repute situated outside India) is obtained. In cases where the importer (other than a Public Sector Company or a Department/Undertaking of the Government of India/State Governments) is unable to obtain bank guarantee from overseas suppliers and the AD is satisfied about the track record and bonafides of the importer, the requirement of the bank guarantee/standby Letter of Credit may not be insisted upon for advance remittances up to US \$ 1 million. ADs were advised to frame their own internal guidelines to deal with such cases as per a suitable policy framed by the bank's board of directors.</p> <p>20 • A national of a foreign state, resident in India being an employee of a foreign company, or a citizen of India employed by a foreign company outside India, were permitted to open, hold and maintain foreign currency account with a bank outside India and receive the salary payable to him for services rendered to the branch/office/subsidiary/joint venture in India of such foreign company by credit to such account. This is subject to a maximum of 75 per cent of the salary so accrued or received as also to the payment of applicable taxes on the whole salary.</p> <p>23 • As a matter of procedural simplification, Foreign Embassies/Diplomats/Consulate Generals were extended general permission to purchase/sell immovable property (other than agricultural land/plantation property/farm house) in India subject to Government approval and certain specified conditions.</p> <p>27 • Resident individuals were allowed to borrow a sum not exceeding US \$ 2,50,000 or its equivalent from close relatives residing outside India, subject to the conditions that the minimum maturity period of the loan is one year; the loan is free of interest; and the amount of loan is received by way of inward remittances in free foreign exchange through normal banking channels or by debit to the NRE/FCNR(B) account of the non-resident lender.</p> <p>Oct. 3 • ADs were permitted to approve proposals for export of books on a consignment basis on elongated credit term for realisation of export proceeds up to 360 days from the date of shipment.</p> <p>10 • Indian companies, viz. a body corporate registered or incorporated in India, were given general permission to grant rupee loans to their employees who are NRIs/PIOs for personal purposes including purchase of housing property in India, in accordance with the lender's Staff Welfare Scheme/Staff Housing Loan Scheme, subject to other terms and conditions applicable to their staff resident in India.</p> <p>18 • Units in SEZs were allowed to raise ECBs in compliance with the guidelines issued by Government of India, subject to the conditions that they (i) raise ECBs for their own requirement, and (ii) not transfer or on-lend any borrowed funds to their sister concerns or any other units in DTA.</p> <p>Nov. 14 • Government of India permitted the issue of equity shares against lump-sum fee, royalty and ECBs, excluding loans covering import dues, in convertible foreign currency already due for payment/repayment, subject to meeting all applicable tax liabilities and compliance with the prescribed procedures.</p> <p>• In order to provide a single window clearance, Indian Asset Management Companies, with the approval of the SEBI for launching off-shore funds, were granted general permission to issue units, remit dividend and redeem the units in such funds issued abroad to the overseas investors, subject to certain conditions.</p> <p>15 • Foreign entities were granted general permission for setting up project offices in India. If such project office requires the opening of Foreign Currency Account, it has to approach the concerned regional office of the Reserve Bank for grant of permission. Foreign entities were also granted general permission to remit the surplus on winding up/completion of projects through ADs. In the case of request by the project office for intermittent remittance of temporary surplus, however, ADs have to seek permission from the concerned regional office of the Reserve Bank.</p>

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2003	V. EXTERNAL SECTOR POLICIES (Contd.)
Dec.	<p>5 • All exporters (including Status Holders) were allowed to (i) write-off (including reduction in invoice value) outstanding export dues up to 10 per cent of the export proceeds due during the calendar year, and (ii) to extend the prescribed period of realisation beyond 180 days or further period as applicable, subject to certain conditions.</p> <p>• Banks were required to ensure that foreign currency loans above US \$ 10 million, or such lower limits as may be deemed appropriate <i>vis-à-vis</i> banks' portfolios of such exposures, can be extended by banks only on the basis of a well laid out policy of their boards with regard to hedging of such foreign currency loan. However, banks were allowed certain exceptions in this regard.</p> <p>6 • Investments in JV/WOS abroad through the medium of a Special Purpose Vehicle (SPV) were brought under the automatic route, subject to the restrictions imposed on the Indian parties included in the Reserve Bank's Caution List/Defaulter's List or those under investigation by the Directorate of Enforcement.</p> <p>• Investment by way of swap of shares was also permitted under the automatic route. Accordingly, Indian parties were permitted to transfer by way of sale to another Indian party or to a person resident outside India, any share or security held by it in a JV/WOS outside India subject to the stipulated conditions and reporting requirements.</p> <p>• Indian listed companies were permitted to disinvest their investment in a JV/WOS abroad even in cases where such disinvestment may result in a write-off of the capital invested to the extent of 10 per cent of the previous year's export realisation.</p> <p>• Indian companies with a minimum net worth of Rs.15 crore and engaged in financial sector activities in India were permitted to invest abroad in the financial sector with prior approval of the concerned regulatory authorities both in India and abroad. The stipulation of the minimum limit of Rs.15 crore was dispensed with.</p> <p>8 • Indian students studying abroad would be treated as NRIs and they would be eligible for all the facilities available to NRIs, besides remittance facilities currently available to students as residents.</p> <p>9 • The eligible limit for booking forward contracts by importers/exporters on the basis of declaration of an exposure based on past performance was to be calculated on the basis of the average of the past three years' export/import turnover or the previous year's turnover, whichever is higher. The forward contracts so booked and outstanding at any point of time should not exceed 50 per cent (earlier 25 per cent) of the eligible limit without any cap (earlier cap was US \$ 100 million), provided that any amount in excess of 25 per cent of the eligible limit is only on a deliverable basis. These limits to be computed separately for export/import transactions.</p> <p>12 • Resident entities having overseas direct investments were permitted to hedge the exchange risk arising out of such investments.</p> <p>17 • SEBI registered FIIs/sub-accounts of FIIs were permitted to buy/sell equity shares/debentures of Indian companies (excluding companies engaged in the print media sector), units of domestic mutual funds, Government dated securities and Treasury Bills through stock exchanges in India at the ruling market price, invest/trade in ETDCs, and also to buy/sell shares and debentures, etc. of listed/unlisted companies otherwise than on stock exchange at a price approved by the SEBI/Reserve Bank. FIIs were permitted to make investments in Government dated securities and Treasury Bills either in the primary or secondary market subject to SEBI (FIIs)/Government of India Regulations modified from time to time.</p> <p>23 • The limit for foreign exchange remittance by resident individuals for current account purposes other than imports was raised from US \$ 500 to US \$ 5,000, without documentation formalities.</p>
2004	
Jan.	<p>13 • Resident corporates and registered partnership firms were allowed to i) invest up to 100 per cent of their net worth in overseas JV/WOS without any separate monetary ceiling for any bonafide activity and ii) invest in agricultural activities overseas including purchase of land incidental to this activity either directly or through their overseas offices (other than through JV/WOS) within the overall limit available for investment overseas under the automatic route, viz., up to 100 per cent of their net worth.</p> <p>16 • General permission was granted to foreign companies to establish branch offices/units in SEZs to undertake manufacturing and service activities, subject to the following conditions: i) such units are functioning in those sectors where 100 per cent FDI is permitted, ii) such units comply with part XI of the Companies Act (Sec. 592-602), iii) such units function on a stand-alone basis, and iv) in the event of winding-up of business and for remittance of winding-up proceeds, the branch/unit shall approach an AD with prescribed documents.</p> <p>31 • As a step towards further liberalisation, under the revised ECB Guidelines with effect from February 1, 2004, ECBs were allowed under two routes, viz. (i) Automatic Route and (ii) Approval Route. Under the Automatic route, ECB can be raised for investment in real sector - industrial sector, especially infrastructure sector in India. ECB up to US \$ 500 million or equivalent with a minimum average maturity of five years was permitted under this route. Under the Approval Route, borrowings by FIIs dealing exclusively with infrastructure or export finance would be considered. Further,</p>

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<p>2004</p> <p>Feb.</p> <p>March</p> <p>April</p>	<p style="text-align: center;">V. EXTERNAL SECTOR POLICIES (Contd.)</p> <p>banks and FIs participating in the textile/steel sector restructuring package as approved by the Government were permitted, to the extent of their investment in the package and assessment by the Reserve Bank based on prudential norms. Finally, all cases falling outside the purview of the automatic route limits and maturity period would be covered under this route. An Empowered Committee was set up by the Reserve Bank to consider proposals coming under the approval route. In order to provide greater transparency, information with regard to the name of the borrower, amount, end-use and maturity of ECB is put on the Reserve Bank's website for proposals both under the Approval Route and the Automatic Route at regular intervals. The liberalisation made for ECB was also extended to FCCB in all respects.</p> <p>4 • Resident individuals were allowed to freely remit up to US \$ 25,000 per calendar year for any current or capital account transactions or a combination of both. Under this facility, resident individuals are free to acquire and hold immovable property or shares or any other asset outside India without prior approval of the Reserve Bank. Individuals can also open, maintain and hold foreign currency accounts with a bank outside India for making remittances under the Scheme without prior approval of the Reserve Bank.</p> <p>6 • With a view to further simplifying and liberalising the procedure for imports, the prescribed limit for making remittances in respect of import bills/documents received directly by the importer from the overseas supplier was enhanced to a uniform US \$ 1,00,000 or its equivalent for certain categories of imports.</p> <p>11 • As a liberalisation measure, ADs were advised to accept and approve GR/PP/SDF/SOFTEX forms of exporters who were placed on caution list, subject to certain conditions.</p> <p>12 • ADs were permitted to grant rupee loans to NRIs, other than for prohibited purposes under the FEMA, as per the policy laid down by the bank's board of directors.</p> <p>23 • To promote overseas direct investment by Indian corporates, permitted end-use of ECBs was enlarged to include overseas direct investment in JVs/WOSs.</p> <p>24 • ADs were permitted to allow remittances for securing insurance for health from a company abroad without Government approval. Further, it was clarified that the Reserve Bank's approval is not required for remittances i) by artistes, ii) towards payment of commission to agents abroad for sale of residential flats/commercial plots in India up to US \$ 25,000 or 5 per cent of inward remittance per transaction, whichever is higher, iii) for short term credit to overseas offices of Indian companies, iv) towards advertisement on foreign television channel without export condition, v) towards royalty up to 5 per cent on local sales and 8 per cent on exports and lump sum payment not exceeding US \$ 2 million, vi) for use and/or purchase of trade marks/franchise in India, and vii) towards hiring charges of Transponders for TVs and ISPs, subject to prior approval of the Ministry of Information and Broadcasting.</p> <p>18 • It was decided in public interest that no entity other than a licensed banking company can solicit foreign currency deposits from residents. Further, all banks both Indian and foreign, including those not having an operational presence in India, were asked to seek prior approval from the Reserve Bank for the schemes being marketed by them in India to residents either for soliciting foreign currency deposits for their foreign/overseas branches or for acting as agents for overseas mutual funds or any other foreign financial services company.</p> <p>24 • To rationalise the existing facilities for overseas borrowings and introduce a monitoring and reporting system for all ADs, the existing facilities available to them were replaced by a single facility in terms of which all categories of overseas foreign currency borrowings including existing ECBs and overdrafts in <i>Nostrro</i> accounts not adjusted within five days, should not exceed 25 per cent of their unimpaired Tier I capital as at the close of the previous quarter, or US \$ 10 million (or its equivalent), whichever is higher. However, overseas borrowings by ADs for the purpose of financing export credit as per the guidelines and subordinated debt placed by head offices of foreign banks with their branches in India as Tier II Capital would continue to be outside such limits. Any fresh borrowing above this limit is subject to the prior approval of the Reserve Bank.</p> <p>17 • ADs were allowed to approve trade credits for imports into India up to US \$ 20 million per import transaction for import of all items (permissible under the EXIM Policy) with a maturity period (from the date of shipment) up to one year. ADs were allowed to approve trade credits up to US \$ 20 million per import transaction with a maturity period of more than one year and less than three years only for import of capital goods. No rollover/extension would be permitted by the ADs beyond the permissible period.</p> <p>• ADs were permitted to allow remittance of net salary (after deductions of taxes, contribution to provident fund and other deductions) of a citizen of India, who is on deputation to the office or branch or subsidiary or joint venture in India of such overseas company, for the maintenance of close relatives residing abroad.</p> <p>24 • It was clarified that deposits by NRIs with persons other than ADs/authorised banks out of inward remittances from overseas or by debit to NRE/FCNR (B) Accounts would not be permitted. However, deposits by NRIs with persons other than ADs/authorised banks by debit to NRO Accounts may continue hitherto provided that the amount deposited with such entities does not represent inward remittances or transfer from NRE/FCNR(B) Accounts into the NRO account.</p>

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2004	V. EXTERNAL SECTOR POLICIES (Concl.d.)	
May	3	<ul style="list-style-type: none"> • ADs were permitted to allow remittances for acquisition of shares under ESOP Schemes as per the terms of the offer. Sale of the shares so acquired was also permitted, without prior permission of the Reserve Bank, provided the proceeds thereof are repatriated to India.
	25	<ul style="list-style-type: none"> • As a further measure of liberalisation, close relatives (as defined under section 6 of the Companies Act, 1956) of the borrower in India were permitted to repay the instalment of loans, interest and other charges, if any, through their bank accounts directly to the borrower's loan account with the authorised dealer/housing finance institution.
June	7	<ul style="list-style-type: none"> • Exporters were permitted to grant trade related loans/advances from their EEFC Account to their overseas importer customer without any ceiling, subject to certain conditions. In case the amount of loan/advance exceeds US \$ 1,00,000 (earlier US \$ 25,000), a guarantee of a bank of international repute situated outside India would be required to be submitted by the overseas borrower in favour of the lender.
July	9	<ul style="list-style-type: none"> • ADs were advised that they can open Letters of Credit (LCs) and allow remittance on behalf of EOUs, units in SEZs in the gem and jewellery sector in addition to nominated agencies, subject, <i>inter-alia</i>, to the conditions that (i) the import of gold should be strictly in accordance with the EXIM policy, (ii) Suppliers' and Buyers' Credit, including usance period of LCs opened for direct import of goods, should not exceed 90 days, and (iii) bankers' prudence should be strictly exercised for all such transactions, while also meeting reporting requirements stipulated by the Reserve Bank.
	20	<ul style="list-style-type: none"> • Resident individual beneficiaries were permitted to credit to their RFC Account or RFC (Domestic) Account, as the case may be, the foreign exchange received by them by way of the proceeds of life insurance policy claims/maturity/surrender values settled in foreign currency from an insurance company in India permitted to undertake life insurance business by the Insurance Regulatory and Development Authority (IRDA).