

Policy Environment (Part 2 of 2)

Chronology of Major Policy Measures : April 1998 - July 1999

Date of Announcement	POLICY MEASURES
I. MONETARY SECTOR	
1998	
April 2	<ul style="list-style-type: none"> • The Reserve Bank reduced the Bank Rate by one half of one percentage point to 10.0 per cent with effect from close of business on April 2, 1998.
3	<ul style="list-style-type: none"> • The fixed repo rate was reduced by one percentage point to 7 per cent.
29	<ul style="list-style-type: none"> • The Bank Rate was further reduced by one percentage point to 9 per cent. • Export credit refinance was restored to 100 per cent (as against the prevailing 50 per cent) of the increase in the outstanding export credit eligible for refinance over the level of such credit as on February 16, 1996, effective fortnight beginning May 9, 1998. • Interest rate on pre-shipment export credit up to 180 days was reduced from 12 per cent to 11 per cent, effective April 30, 1998. • Interest rate against incentives receivable from Government covered by ECGC guarantee in respect of pre-shipment credit up to 90 days was reduced from the existing 12 per cent to 11 per cent, effective April 30, 1998. • To develop an efficient money market, (i) the minimum size of operation per transaction by entities routing their lending through PDs in the call money market was reduced from Rs.5 crore to Rs.3 crore, and (ii) the minimum lock-in period for CDs and units of MMMFs was reduced from 30 days to 15 days, effective May 9, 1998. • Banks were provided greater flexibility in regard to certain aspects pertaining to deposits and lendings: <ul style="list-style-type: none"> • (i) the minimum period of maturity of term deposits was reduced from 30 days to 15 days; (ii) banks were permitted to determine their own penal interest rates for premature withdrawal of domestic term deposits and NRE deposits as in the case of FCNR(B) deposits. This would apply in respect of fresh deposits and renewal of existing deposits. Banks would ensure that the depositors are aware of the applicable penal rate along with the deposit rate; (iii) the restriction on banks that they must offer the same rate on deposits of the same maturity irrespective of the size of such deposits was removed in respect of deposits of Rs.15 lakh and above and bank boards were allowed to lay down policy in this regard; (iv) in order to facilitate the flow of credit to small borrowers (up to Rs.2 lakh), it was proposed that the interest rates on loans up to Rs.2 lakh were not to exceed the PLR of the concerned bank, instead of a specific uniform rate for all banks; and (v) all advances against term deposits would be at an interest rate equal to PLR or less. • Taking into account the problems related to short-term external liabilities and large unhedged positions of corporates in some East Asian countries and to encourage the banks to mobilise long-term non-resident deposits, (i) the interest rate ceiling on FCNR(B) deposits of one year and above was increased by 50 basis points and that on such deposits below one year was reduced by 25 basis points; and (ii) banks were permitted to fix their own overdue interest rates in respect of FCNR(B) and NRE deposits, subject to these deposits being renewed.

- The fixed repo rate was reduced by one percentage point to 6 per cent.
- May 18**
- The Reserve Bank decided to release the remaining two-third of the balances impounded during the period May 4, 1991 and April 17, 1992 under 10 per cent incremental CRR on NDTL, in twelve equal instalments over the period May 1998 to March 1999. It may be mentioned that one-third of the amount impounded was released in three instalments in October 1992.
- June 11**
- To enable exporters to avail of export credit in foreign currency more effectively at internationally competitive rates, banks were to charge a spread of not more than 1.5 percentage points over LIBOR.
- 13**
- The Reserve Bank reduced the fixed repo rate by one percentage point to 5 per cent, effective June 15, 1998.
- 23**
- The Working Group on 'Money Supply: Analytics and Methodology of Compilation' (Chairman: Dr. Y.V. Reddy) submitted its report to the Governor, Reserve Bank. The Working Group examined the analytical aspects of monetary survey in the light of the changing dimension of the financial sector consequent to the implementation of the financial sector reforms in India. The Working Group proposed (i) compilation of comprehensive analytical surveys of the Reserve Bank, commercial and co-operative banks and the organised financial sector at regular intervals; (ii) compilation of four monetary aggregates M_0 on a weekly basis and M_1 , M_2 , M_3 and on a fortnightly basis; (iii) compilation of three liquidity aggregates L_1 and L_2 on a monthly basis and L_3 on a quarterly basis; and (iv) compilation of a comprehensive financial sector survey (FSS) on a quarterly basis.
- Aug. 6**
- It was decided to effect a temporary revision in the interest rates charged up to March 31, 1999 by the scheduled commercial banks on pre-shipment and post-shipment rupee export credit. Scheduled commercial banks would be provided export credit refinance at 2.0 percentage points below the Bank Rate (*i.e.*, 7.0 per cent per annum). The revised interest rates on export credit and export credit refinance would be applicable up to March 31, 1999.
- 20**
- As a temporary measure, in order to absorb excess liquidity, the CRR to be maintained by the scheduled commercial banks against their net demand and time liabilities (NDTL) (excluding liabilities subject to zero CRR prescription) was increased from 10 per cent to 11 per cent, effective fortnight beginning August 29, 1998.
- 21**
- The fixed repo rate was increased by three percentage points to 8 per cent from 5 per cent.
- 1999**
- March 1**
- Effective close of business of March 1, 1999, the Bank Rate was reduced by one percentage point to 8.0 per cent. As a consequence of this change, interest rates on Special Liquidity Support and General Refinance facility to banks and liquidity support to PDs against their holdings of securities in SGL accounts were reduced by one percentage point.
 - Consequent to the reduction in the Bank Rate, scheduled commercial banks would be provided export credit refinance at 1 per cent below the Bank Rate, *i.e.*, '7 per cent per annum' (instead of at the earlier rate of 2 per cent below the Bank Rate) up to March 31, 1999.
 - Interest rates on export credit were revised upward, effective April 1, 1999. (For details

see Appendix [Table I.3](#)).

- Export credit refinance to scheduled commercial banks was provided at Bank Rate (8.0 per cent) with effect from April 1, 1999.
- Effective fortnight beginning March 13, 1999, CRR to be maintained by scheduled commercial banks(excluding RRBs) was reduced by 0.5 percentage point to 10.5 per cent of the net demand and time liabilities (NDTL) (excluding liabilities subject to zero CRR prescription).
- The fixed repo rate was reduced by two percentage points to 6 per cent, effective March 2, 1999.

April 20

- Effective fortnight beginning May 8, 1999, CRR was reduced by 0.5 percentage point to 10.0 per cent which augmented the lendable resources of banks by about Rs.3,250 crore.
 - The Reserve Bank announced introduction of an Interim Liquidity Adjustment Facility (ILAF) through repos and lending against collateral of Government of India securities. It would provide a mechanism by which liquidity would be injected at various interest rates, and absorbed when necessary at the fixed repo rate, so that the volatility in the money market is minimised and the market operates within a reasonable range. The features of this facility are:
 - (a) The general refinance facility was withdrawn and replaced by a collateralised lending facility (CLF) up to 0.25 per cent of the fortnightly average outstanding aggregate deposits in 1997-98 which would be available for two weeks at the Bank Rate. An additional collateralised lending facility(ACLF) for an equivalent amount of CLF would also be available at the Bank Rate plus two per cent. CLF and ACLF availed for periods beyond two weeks would be subject to a penal rate of 2 per cent for an additional period of two weeks. There would be a cooling period of two weeks thereafter. In order to facilitate systemic adjustment in liquidity, the current restriction on participation in money market (during the period that such facilities are availed of) would be withdrawn.
 - (b) Scheduled commercial banks were made eligible for export credit refinance facility (ERF) at the Bank Rate effective April 1, 1999.
 - (c) Liquidity support against collateral of government securities, based on bidding commitment and other parameters would be available to PDs at the Bank Rate for a period of 90 days and the amounts would remain constant throughout the year. Additional liquidity support against collateral of government securities would also be provided to PDs for periods not exceeding two weeks at a time and the interest rate would be at the Bank Rate plus 2 per cent.
 - It was decided to develop and widen the repos market with proper regulatory safeguards, *e.g.*, delivery vs. payment (DVP) and uniform accounting.
 - It was decided to permit non-bank entities (*e.g.*, UTI, LIC, IDBI and others), which are currently permitted to undertake reverse repos, to borrow money through repos on par with banks and PDs.
 - To help develop the term money market as also inter-bank money market as a purely 'inter-bank market', the Reserve Bank clarified that there was no restriction on the maximum period for which repos can be undertaken.
- April 20**
- MMMFs were permitted to offer 'cheque writing facility' to provide more liquidity to unit holders. The 'cheque writing facility' would be in the nature of a tie-up arrangement with

a bank.

- It was decided to provide banks with freedom to operate different PLRs for different maturities instead of the existing two PLRs (one for the short-term and the other for the long-term loans).
- Banks were permitted to offer fixed rate term loans subject to conformity to ALM guidelines.
- The present system of charging interest rate equivalent to PLR on advances against fixed deposits was modified. Under certain cases where deposit rates are equal to or more than PLR or less than one percentage point below PLR, the banks were given freedom to charge suitable rates of interest on advances against domestic/NRE term deposits without reference to the ceiling of PLR so that interest rates on advances shall invariably be more than interest rates paid on respective deposits.
- It was decided that the Boards of Directors of banks could delegate necessary powers to Asset Liability Management Committee for fixing interest rates on deposits and advances.
- It was decided that the Reserve Bank would provide accommodation to state co-operative banks at the Bank Rate as against at 'Bank Rate plus 2.5 percentage points' earlier.

July 7

- Scheduled commercial banks (excluding RRBs), PDs and all-India financial institutions (AIFIs) were permitted to undertake Forward Rate Agreements/Interest Rate Swaps (FRAs/IRS) as a product for their own balance sheet management and for market making purposes. The participants were, however, advised that before undertaking these activities, they should ensure that appropriate infrastructure and risk management systems are put in place and also that a sound internal control system whereby a clear functional separation of trading, settlement, monitoring, control and accounting activities, is provided.

21

- On March 14, 1998, it was announced that the gold borrowed by authorised banks from abroad forms part of the time and demand liabilities and is subject to CRR and SLR. On a review, it was decided that the gold borrowed from abroad and lent to jewellery exporters in India for the purpose of exports would be exempted from the CRR and SLR requirements with effect from the fortnight beginning July 31, 1999, subject to the condition that the effective CRR and SLR maintained by the banks on total NDTL, including the liabilities under gold borrowed from abroad and lent to jewellery exporters in India for the purpose of exports should not be less than 3 per cent and 25 per cent, respectively.

29

- 35 non-banking entities (e.g. UTI, LIC, IDBI and others) were allowed, including those who were earlier permitted to undertake reverse repos, to borrow money through repos on par with banks and PDs.

II. INTERNAL DEBT MANAGEMENT

1998

April 1

- The practice of notifying amounts in the case of all auctions including 364-day and 14-day Treasury Bills was introduced.
- The non-competitive bids were kept outside the notified amount so as to provide certainty to the amounts acceptable from competitive bidders.
- Interest rates on shortfalls in minimum balance and Ways and Means Advances (WMA)

to both Central and State Governments were linked to the Bank Rate. The interest rate on overdrafts was also related to Bank Rate. The interest rate on WMA and overdrafts worked out to be 9 per cent and 11 per cent, respectively.

- 20** • FIIs with a ceiling of 30 per cent investment in debt instruments were permitted to invest in government dated securities within the ceiling of 30 per cent by the amendments to SEBI (FIIs) Regulations, 1995.
- 29** • The Monetary and Credit Policy for the first half of 1998-99 announced the following measures: (i) the practice of reverse repos with PDs in specified securities would be dispensed with and instead, liquidity support against the holdings of securities in Subsidiary General Ledger (SGL) accounts would be provided. This measure was effected on December 9, 1998; (ii) 182-day Treasury Bills auctions on a fortnightly basis would be reintroduced; (iii) the periodicity of holding 364-day Treasury Bill auctions would be on a monthly basis instead of the present fortnightly auctions; (iv) FIIs would be permitted to purchase/ sell Treasury Bills within the overall approved debt ceilings; (v) with the repo and reverse repo operations gaining considerable momentum in open market operations of the Reserve Bank in recent years, the use of both fixed interest and auction based repos, as appropriate, was proposed; (vi) in addition to the current three-day and four-day repos, the Reserve Bank would in due course introduce one-day repos (including reverse repos) to absorb (or infuse) liquidity from the system; and (vii) the ratio of current investments for banks in approved securities would be progressively increased to 100 per cent in the next three years in line with international best practice.
- June 11** • Following the policy decisions taken by the RBI/SEBI and amendments to SEBI (FIIs) Regulations, 1995, the RBI guidelines issued on March 8, 1997 specifying the manner of transactions by the FIIs were amended to enable equity funds to invest in government dated securities (both Central Government and State governments) and Treasury Bills, both in the primary and the secondary markets, within their debt ceiling of 30 per cent.
- In the face of market uncertainty regarding interest rates, the Reserve Bank announced its intention to accept private placement of government securities and release them into the market when conditions improve.
- 23** • With a view to enabling Satellite Dealers (SDs) to have access to short term borrowings, the Reserve Bank decided to permit them to issue CPs under certain conditions:
- (a) The SDs are to obtain the specified minimum credit rating from a credit rating agency.
 - (b) The credit rating obtained should be current and not more than two months old.
 - (c) Maturities of CPs should be between 15 days and more, but less than one year, from the date of issue.
 - (d) Every issue including renewals will be treated as a fresh issue.
 - (e) CP would have to be issued in multiples of Rs.5 lakh, but the amount to be invested by any single investor should not be less than Rs.25 lakh (face value).
 - (f) The total amount proposed to be issued must be raised within a period of two weeks from the date of approval by the Reserve Bank and the aggregate amount raised is not to exceed the amount fixed by the Reserve Bank.
 - (g) Issues would not be underwritten or co-accepted in any manner.

- Aug. 21**
- In order to facilitate custodial and depository services provided to FIIs in government dated securities and Treasury Bills, the Reserve Bank announced that, in addition to the Subsidiary General Ledger (SGL) account of the designated banks, FII investments in government securities and Treasury Bills would now be permitted through SGL account of depositories, viz., Stock Holding Corporation of India Ltd. (SHCIL) and National Securities Depository Ltd. (NSDL), having both SGL Account No.II (Constituents' Account) and current account with the Reserve Bank subject to the conditions that : i) the settlement of payments due from the FIIs to SGL and current account holders is done through bank accounts maintained by them with their designated banks; ii) SGL and current account holders with the Reserve Bank do not make their own funds available to FIIs for the purpose; and iii) all transactions put through SGL and current account holders with the Reserve Bank should be governed by the delivery *versus* payments (DVP) system of the Reserve Bank.
- Sept. 8**
- The Resurgent India Bonds (RIBs) floated by the State Bank of India on August 5, 1998 received subscriptions to the extent of US \$ 4.2 billion. It was decided on September 8, 1998, that pending the use of RIB rupee resources, temporary surpluses could be deployed in Treasury Bills and dated securities. In order that banks undertaking such investments do not face unanticipated liquidity problems, the Reserve Bank would provide them special liquidity support facility by way of refinance on the same terms as the General Refinance Facility. This temporary measure was valid up to March 31, 1999.
- Oct. 31**
- The Reserve Bank withdrew the restriction of the minimum period for repo (of 3 days which had been effective since September 30, 1995) with a view to enabling banks and other participants in the repo market to adjust their liquidity in a more flexible manner.
 - It was proposed to introduce a uniform price auction method in respect of 91-day Treasury Bill auctions. This was effected in the auction of November 6, 1998 on an experimental basis.
- Nov. 24**
- After a gap of nearly 7 years, the Government issued a long-term paper with a maturity of 20 years.
- 1999**
- Jan. 13**
- The first auction of a State Government stock was held. The Government of Punjab raised Rs.60 crore through a 10-year stock.
- Feb. 4**
- The State governments of Goa, Andhra Pradesh and Uttar Pradesh offered to sell 12.50 per cent State Development Loan, 2009 on tap during February 10-12, 1999.
- 5**
- The Reserve Bank granted its final approval to four more entities to operate as PDs in the government securities market taking the tally of PDs to ten. These are i) J.P.Morgan Securities India Private Ltd., ii) ABN AMRO Securities (India) Pvt. Ltd., iii) Tata Finance Securities Ltd. and iv) Ceat Financial Services Ltd.
 - At the request of State Finance Secretaries, the Reserve Bank had constituted a Technical Committee on State Government Guarantees. The Committee submitted its report in February 1999.

March 1

- The revised scheme of Ways and Means Advances (WMA) to the State governments was effected on the basis of recommendations of an Informal Advisory Committee on WMA to State governments (Chairman: Shri B.P.R. Vithal). The Committee, which was constituted on August 19, 1998, had submitted its report to the Governor, Reserve Bank on November 25, 1998. The recommendations related to i) revision of normal WMA, ii) liberalisation of special WMA, iii) stricter measures for regulating overdrafts and iv) revision of minimum balances. The features of the revised scheme are:
 - (a) The base for the revised WMA limits would be three-year average of revenue receipts and capital expenditure. Accordingly, the normal WMA (clean advances) limits were increased by 65 per cent to Rs.3,685 crore in 1999 from Rs.2,234.4 crore in 1996.
 - (b) The limits for Special WMA (secured advances against the pledge of Central Government dated securities and Treasury Bills) would be liberalised and accordingly, there would be no upper limit on special WMA as a multiple of minimum balance. The states would be provided special WMA against their actual holdings of Central Government dated securities.
 - (c) Overdraft from the Reserve Bank would not be allowed for more than ten consecutive working days; otherwise the Reserve Bank would stop payments on behalf of the state. The overdraft shall not exceed 100 per cent of normal WMA limits. The State shall be given only three working days to bring down the overdraft within the 100 per cent limit. Otherwise, the payments would be stopped.
 - (d) The minimum balances held by State governments with the Reserve Bank, which were left unchanged since 1976, would be revised upward linking it to the same base as for WMA.
 - (e) The recommendation that no State shall be allowed to run an overdraft for more than twenty working days during a quarter in the financial year would be implemented after two years and
 - (f) The review for future revision would be made by the Reserve Bank after three years and the same criteria as now would be applied with latest three years actuals.

April 1

- The arrangements for the fiscal year 1999-2000 in respect of Ways and Means Advances (WMA) to the Central Government and the rates of interest and the minimum balance required to be maintained with the Reserve Bank effective April 1, 1999 were announced as under:
 - (a) The limit for WMA would be Rs.11,000 crore for the first half of the year (April to September) and Rs.7,000 crore for the second half of the year (October to March). When 75 per cent of the limit for WMA is utilised by the Government, the Reserve Bank may trigger fresh floatation of market loans depending on market conditions.
 - (b) The interest rate on WMA would be at Bank Rate (8.0 per cent per annum) and that on overdraft at Bank Rate plus two percentage points (10.0 per cent per annum).
 - (c) The minimum balance required to be maintained by the Central Government with the Reserve Bank would be revised from not less than Rs.50 crore to Rs.100 crore on Fridays and not less than Rs.4 crore to Rs.10 crore on other days.
 - (d) As per the provisions of the Agreement dated March 26, 1997 between the Central Government and the Reserve Bank, overdrafts beyond ten consecutive working days would not be allowed from April 1, 1999.

- 16** • The Reserve Bank granted its final approval to three entities to operate as PDs in the government securities market taking the total tally of PDs to 13. These are i) DSP Merrill Lynch Ltd., ii) Kotak Mahindra Capital Company (Unlimited), and iii) Deutsche Securities (India) Pvt. Ltd., subsidiary of Deutsche Bank.
- 20** • With a view to increasing the depth and liquidity in the government securities market, it was decided to i) obtain minimum bidding commitment from each (of the 13) PD for the auctions of Treasury Bills so that they together absorb 100 per cent of the notified amount and ii) offer an enhanced underwriting option to PDs for the entire notified amount in auctions of dated securities.

 - It was proposed to announce a calendar for issue of Treasury Bills for the entire year. It was also proposed to re-introduce the 182-day Treasury Bills. These proposals were effected on May 26, 1999.
 - Consolidation of outstanding loans is necessary for ensuring sufficient volumes and liquidity in any one issue. Such consolidation also facilitates the emergence of benchmarks and development of the Separate Trading of Registered Interest and Principal Securities (STRIPS). Accordingly, the option of issuing new loans on price basis instead of on yield basis as is done currently was introduced through a revised notification from the Central Government. Consequently, the first ever price based auction was conducted by the Reserve Bank on May 11, 1999 with the two securities *viz.*, 11.19 per cent Government Stock 2005 and 12.32 per cent Government Stock 2011 aggregating Rs.3,000 crore and Rs.2,000 crore, respectively.
 - State governments were allowed to avail of Special WMA against the collateral of their investments in Treasury Bills in addition to their holdings in government dated securities as at present. This proposal was effected on May 7, 1999.
- April 20** • State governments were allowed to put bids on non-competitive basis in the auctions for 182-day and 364-day Treasury Bills. This proposal was effected from May 21, 1999.
- May 11** • The Reserve Bank conducted the first ever price-based auction of Central Government dated securities. In a price-based auction, the coupon of the security is pre-determined (generally existing securities are offered for subscription on a re-issue basis) and the bidders have to quote the price (per Rs.100 face value) of the stock (based on their yield expectations) at which they desire to purchase the stock. The cut-off yield or the minimum offer price is decided by the Reserve Bank.
- 17** • The Reserve Bank granted 'in-principle' approval to Corporation Bank to set up a separate subsidiary dedicated to the securities business to be accredited as a PD.
- 21** • The Reserve Bank announced the calendar of Treasury Bill issuance, which would be valid till September 1999. The Reserve Bank also decided to issue 182-day Treasury Bills, effective May 26, 1999, on every Wednesday preceding the non-reporting Friday (364-day Treasury Bills are issued every Wednesday preceding the reporting Friday). While the notified amounts for 14-day, 91-day and 182-day Treasury Bills were fixed at Rs.100 crore, that for 364-day Treasury Bills was fixed at Rs.500 crore.
- July 12** • The Reserve Bank appointed a 'Technical Advisory Committee on Money and Government Securities Markets' to advise the Reserve Bank on an ongoing basis on the developments in the money and government securities markets.

III. BANKING SECTOR

1998

- April 11** • As per guidelines, banks are required to value the government securities in the 'current' category as per market quotations as on the last day of March and to use the yields indicated by the Reserve Bank for the valuation of government securities where market quotations are not available. The Reserve Bank indicated the maturity-wise details for the valuation of banks' investment portfolio for drawing up balance sheet as on March 31, 1998. The reference yield to maturity (YTM) was announced at 12.15 per cent for securities of 10 years and beyond and at 9.43 per cent for securities of less than one year.
- 21** • A one-man committee set up by the Reserve Bank in December 1997 under Shri R.V. Gupta (Chairman) to review the issues on Agricultural Credit and also to suggest measures that would give an impetus to the flow of credit to this sector submitted its report. The main recommendations were (i) fixing targets for agricultural loans on the basis of 'flow' of credit as against 'outstandings'; (ii) making a comprehensive assessment of the credit needs of an agricultural borrower and extending a composite cash credit limit which is reckoned as agricultural credit under the priority sector; (iii) permitting banks to fix interest rates on agricultural loans along with the freedom to offer finer rates to those borrowers having a good recovery record and to those who opt for a savings module linked to the loan product; (iv) delegating powers to branch level; (v) addressing a host of HRD related issues with regard to bank officials posted at rural branches; and (vi) a review and rationalisation of forms and returns to be filled up in the case of agricultural loans.
- 24** • The Working Group on Harmonising Role of Development Financial Institutions (DFIs) and Banks (Chairman: Shri S.H. Khan), submitted its summary recommendations to the Governor, Reserve Bank. The major recommendations of the committee were: (i) a gradual move towards universal banking and evolving an enabling regulatory framework for this purpose; (ii) exploring the possibility of gainful mergers between banks, between banks and financial institutions, between strong and weak entities led by profitability and viability conditions, or between two strong ones; (iii) developing a function specific regulatory framework and a 'risk based supervisory framework'; (iv) establishment of a 'super regulator' body to supervise and co-ordinate the activities of multiple regulators; (v) speedy implementation of legal reforms to hasten debt recovery; (vi) consolidated supervision of banks and financial institutions; (vii) reducing CRR to the international standards; and (viii) phasing out of SLR. The Working Group also made several interim recommendations towards achieving co-ordination and harmonisation of the lending policy of the banks and the financial institutions before they move towards universal banking. These included: the removal of ceiling on mobilisation of resources by DFIs; stipulating a suitable level of SLR on incremental fixed deposits of DFIs; and granting AD licence to DFIs.
- 27** • An informal advisory group on NBFC was formed in order to review the implementation of the new NBFC regulations issued in January 1998.
- 29** • With a view to adopting prudent accounting standards and to move towards "mark to market" valuation of the investment portfolio, banks were required to classify a minimum of 70 per cent of their securities as 'current investments' for the year ending March 31, 1999.

 - As part of risk management, banks were advised to monitor unhedged exposures of their clients by building in adequate risk evaluation procedures in their credit appraisal system.
- April 29** • In the light of the recommendations of the High Level Committee on Banking Sector Reforms (Chairman: Shri M. Narasimham), it was indicated that specific decisions would be taken in order to strengthen the existing capital adequacy, income recognition and provisioning norms.

- In the context of the Narasimham Committee's recommendations for strengthening the disclosure and auditing requirements of banks and for ensuring transparency in banking operations, it was proposed to move towards full disclosure and transparency in line with international best practices as early as possible.
 - It was decided to further strengthen the prudential regulations to cover such exposures in respect of short-term foreign currency loans and other cross-border operations in case of Indian banks, keeping in view the international best practices and specific requirements.
 - It was proposed to prepare a 'Discussion Paper' on the respective roles of banks and financial institutions and greater harmonisation of their activities based on the Working Group on harmonising roles of development financial institutions (DFIs) and banks.
 - The Reserve Bank increased the ceiling for banks' advances against shares and debentures to individuals from Rs.10 lakh to Rs.20 lakh if the advances are secured by dematerialised securities. The minimum margin prescription of 50 per cent for advances against shares was also reduced to 25 per cent against dematerialised shares.
- May 12**
- The Reserve Bank introduced certain modifications in the norms for accounting for investment and provisioning against NPAs of NBFCs. NBFCs were directed not to grant any loan or other credit facility or make investment or create any other assets as long as defaults in repayment of public deposits exist.
 - The Reserve Bank permitted Morgan Guarantee Trust Company of New York, USA, a banking subsidiary of JP Morgan and Co., USA, and K.B.C. Bank N.V. of Belgium to open branches in India.
- 30**
- The Reserve Bank advised all scheduled commercial banks to take immediate and appropriate action on the recommendations made by the one-man high level committee on flow of credit to agriculture (Chairman: Shri R.V. Gupta).
- June 4**
- The Reserve Bank decided to permit foreign banks operating in India to remit their profit/surplus to their head offices without its prior approval. However, the permission is subject to the banks complying with the provisions of the Banking Regulation Act, 1949 and the directions issued by the Reserve Bank from time to time.
 - It was decided to allow banks to undertake credit card business either independently or in tie-up arrangement with other card issuing banks without the prior approval of the Reserve Bank. However, banks desirous of setting up a separate subsidiary for credit card business will require prior approval of the Reserve Bank.
- 11**
- For the financial year 1998-99, banks were asked to compute its share of the housing finance allocation at 1.5 per cent of its incremental deposits or the amount of its housing finance allocation fixed for the year 1997-98, whichever was higher.
- 22**
- In the context of the experience gained by the banks regarding extension of relief measures to persons affected by natural calamities, it was decided to modify the existing guidelines by delegating more powers and discretion to banks in relation to operational aspects and extension of relief to the affected borrowers (farmers) expeditiously, without repeated references to the Reserve Bank. In pursuance of this objective, banks were advised to evoke a suitable policy framework with the approval of the board of directors.
- 29**
- It was clarified to banks that they might charge interest on agricultural advances at annual rests in case of long duration crops only.

- 30** • The one-man committee (Chairman: Shri S.L. Kapur) set up by the Reserve Bank in December 1997 to review the working of credit delivery system for SSIs submitted its report. The main recommendations included: (i) special treatment to smaller among small industries; (ii) removal of procedural difficulties in the path of SSI advances; (iii) sorting out issues relating to the mortgage of land, including removal of stamp duty and permitting equitable mortgages; (iv) allowing access to low cost funds to SIDBI for refinancing SSI loans; (v) non-obtention of collateral for loans up to Rs.2 lakh; (vi) setting up of a collateral reserve fund to provide support to the first generation of entrepreneurs who find it difficult to furnish collateral securities to third party guarantees; (vii) setting up of a Small Industries Infrastructure Development Fund for developing industrial areas in/around metropolitan and urban areas; (viii) change in the definition of sick SSI units; (ix) giving statutory powers to state level inter-institutional committee (SLIC); (x) setting up of a separate guarantee organisation and opening of 1,000 additional specialised branches; and (xi) enhancing of SIDBI's role and status to match that of NABARD.
- July 3** • It was decided to allow profit-making banks to make donations during a financial year aggregating up to one per cent of their published profits for the previous year. These donations would be inclusive of donations made earlier under exempted category and those made to national funds and other funds. However, loss-making banks can make donations totalling Rs.5 lakh only in a financial year.
- July 8** • In order to ensure prompt payment of dues to SSI units by medium/large industrial borrowers, banks were advised to ascertain periodically from such borrowers, the extent of their dues to SSI suppliers and the action proposed to be taken by them to clear off the overdues, if any, besides ensuring that such borrowers finance their domestic credit purchases from SSI units at least to the extent of 25 per cent by way of bills drawn on and accepted by them. It was also advised that banks should not hesitate to take failure in this respect as a negative factor while fixing the rate of interest on the borrowing by corporate borrowers.
- 10** • All Indian commercial banks in the private sector whose shares are listed on stock exchanges need not obtain prior approval of the Reserve Bank for issue of shares, except bonus shares, subject to compliance with the relevant regulations of the SEBI.
- 16** • As regards disclosure of information regarding defaulting borrowers of banks and financial institutions, all scheduled primary (urban) co-operative banks were advised to disclose information with outstandings of Rs.1 crore and above on a half-yearly basis.
- 17** • Primary (urban) co-operative banks were advised that advances granted for agricultural purposes may be treated as non-performing assets (NPAs) if interest and/or instalments towards repayment of principal remains unpaid, after it has become past due, for two harvest seasons but for a period not exceeding two half years.
- 21** • Banks were advised to consider the possibility of settlement of overdue loans of farmers due to circumstances beyond their control on the merits of each case.
- 29** • Banks were allowed to shift their rural branches outside the block/service area and also close one of the branches at the rural centres without obtaining prior approval of the State governments.
- Aug. 3** • It was decided to treat credit to NBFCs, eligible for bank finance for the purpose of on lending to small road and water transport operators (SRWTOs) for purchase of trucks, as priority sector lending.

- 4
 - With a view to bringing about uniformity in the accounting treatment of broken period interest on government securities paid at the time of acquisition, it was decided that banks should treat the broken period interest as an item of expenditure under Profit and Loss Account.

- 7
 - The Reserve Bank advised all banks and financial institutions to suitably gear up their Year 2000(Y2K) compliance efforts to assess, convert and validate all systems and applications in time.

- 8
 - The Reserve Bank advised the NBFCs that if they were not accepting/holding 'public deposits' as defined under the NBFCs (Reserve Bank) Directions, 1998, they were not required to submit the following returns to the Reserve Bank: i) balance sheet and the auditors' report; ii) statutory annual return on deposits in the First Schedule prescribed by the Reserve Bank; iii) statutory quarterly returns on liquid assets; and iv) half-yearly returns on prudential norms. The auditors of such companies were, however, required to furnish the Reserve Bank 'Exception Reports', if such a company is found to have violated any of the provisions of the Reserve Bank of India Act or specific directions issued by the Bank.
 - Banks' investments in equity in dedicated venture capital funds meant for information technology would also be eligible for inclusion within the limit of 5 per cent of incremental deposits of the previous year prescribed for investments in equity instruments.
 - The Reserve Bank issued guidelines for sanction of working capital to information technology (IT) and software industry based on the recommendations made by the study group appointed by the Reserve Bank to study the modalities of credit extension to software industry and the suggestions made by the industry associations.
 - Consequent upon the increase in the limit for tiny units from Rs.5 lakh to Rs.25 lakh, the limit for investment in plant and machinery in respect of industry related Small Scale Service/Business Enterprises (SSSBs) was increased to Rs.25 lakh.

- 24
 - In line with the recommendations of the Working Group on Money Supply (Chairman: Dr.Y.V. Reddy), effective October 29, 1998, all scheduled commercial banks in India were advised to furnish additional information on paid-up capital, CDs, maturity structure of time deposits, data on external liabilities and investment patterns, *etc.* in the returns under the Section 42(2) of the RBI ACT.

- 28
 - Of the 126 recommendations of the High Level Committee on Credit to SSIs (Chairman: Shri S.L. Kapur), the Reserve Bank accepted 35 recommendations and advised banks for their immediate implementation. The recommendations related to: i) delegations of more powers to branch managers to grant *ad hoc* limits, ii) simplification of application forms, iii) freedom to banks to decide their own norms for assessment of credit requirements, iv) opening of more specialised SSI branches, v) enhancement of limit for composite loans to Rs.5 lakh, vi) strengthening the recovery mechanism, vii) paying more attention to the backward states, viii) special programmes for training branch managers for appraising small projects and making customers grievance machinery more transparent and ix) simplifying the procedures for handling complaints and their monitoring.

- Aug. 28
 - Banks were advised to formulate proper policies for lending against shares and debentures and also to look into SEBI's/Stock Exchanges' norms before clearing advances. For lending against units of mutual funds, they were advised to ensure the liquidity and marketability aspects while granting advance against units.

- Sept. 10**
- Effective April 1, 1999, the Reserve Bank issued broad draft guidelines for asset-liability management (ALM) system in banks which form the basis for initiating measures for collection, compilation and analysis of data required to support ALM system. The Reserve Bank advised banks to address market risks by upgrading their risk management skills in a structured manner and adopting more comprehensive ALM practices, including setting up of Asset-Liability Management Committee (ALCO). The guidelines cover the measurement of risks relating to liquidity, interest rates and currency.
- 14**
- The Reserve Bank instructed all commercial banks to maintain proper records of Y2K compliance efforts and report the same to the Bank at monthly intervals.
- 15**
- RRBs were advised not to extend any financial assistance (including working capital funds) to NBFCs.
- Oct. 5**
- All scheduled primary co-operative banks were issued guidelines to bring uniformity in approach on various aspects of lending to information technology and software industry to facilitate free flow of credit.
- 9**
- Foreign banks operating in India were advised to submit to the Reserve Bank full details of remittances of profits, in the form of a statement, immediately after the remittances were made.
- 26**
- Loans to the software industry having credit limit up to Rs.1 crore from the banking sector were made eligible for inclusion under the priority sector.
- 30**
- The Reserve Bank advised All-India Financial Institutions (AIFIs) to take necessary steps for implementation of the recommendations of the Working Group to review the functioning of Debt Recovery Tribunals (Chairman: Shri N.V. Deshpande).
 - The Reserve Bank decided to implement the following recommendations of the second Narasimham Committee on financial system in phases with a view to reducing the risk exposures of banks, strengthening financial soundness and improving profitability outlook:
 - (a) In line with the international best practices, the minimum capital to risk weighted assets ratio was raised from 8 per cent to 9 per cent, effective the year ending March 31, 2000;
 - (b) Provisioning requirements would be introduced for standard assets effective financial year ending March 31, 2000. To start with, banks would make a general provision of a minimum of 0.25 per cent for the year ending March 31, 2000;
 - (c) The time frame for categorising sub-standard assets as doubtful would be shortened from 24 months to 18 months by March 31, 2001. Banks would be permitted to achieve the provisioning norms in two phases, at least 50 per cent of the assets which would become doubtful on account of the new norm in 2000-01 and 100 per cent in 2001-02;
 - (d) Government/approved securities would have to be provided for a risk weight of 2.5 per cent by the year ending March 31, 2000 on account of market risk. An additional risk weight of 20 per cent for securities of government undertakings, which do not form part of the market borrowing programme, would be introduced in the financial year 2000-01. Banks would implement this decision in the case of outstanding stock of such securities as on March 31, 2000 in two phases of 10 per cent each in 2001-02 and 2002-03;

- (e) The risk weight for government guaranteed advances which go into default would be introduced effective year ending March 31, 2000; the risk weights being i) 20 per cent in respect of governments which remained defaulters as on March 31, 2000 and ii) 100 per cent for governments which continued to be defaulters after March 31, 2001;
 - (f) With a view to further improving the quality of asset portfolio and enhancing the financial soundness of banks, income recognition and provisioning norms of State government guaranteed advances would be brought on par with those on other advances with effect from the financial year 2000-01. Provisions on existing and old State government guaranteed advances which would consequently become NPAs were to be fully provided over a period of four years beginning March 31, 2000 with a minimum of 25 per cent each year;
 - (g) Foreign exchange and gold open position limits would carry 100 per cent risk weight effective March 31, 1999; and
 - (h) Banks were advised to introduce effective risk management systems to cover credit risk, market risk and operational risk on a priority basis; these would serve to reduce NPAs and re-emergence of fresh NPAs.
- Oct. 30**
- Banks were requested to ensure a loan recovery mechanism for larger advances soon after their sanction and monitor any weakness that may develop in such accounts for initiating timely corrective action;
 - Public sector banks were encouraged to raise their Tier II capital;
 - Banks were advised to put in place a formal asset-liability management (ALM) system effective April 1, 1999.
 - With a view to removing the anomaly of zero risk weight for investments in bonds/securities of some of the public financial institutions (PFIs) due to their status as 'approved securities' and 100 per cent for investments in certain other PFIs, investments in bonds/debentures of PFIs would be given a uniform risk weight of 20 per cent.
 - Investments by banks in bonds or debentures of a corporate guaranteed by a PFI would be treated as an exposure by banks to the PFI and not to the corporate. Consequently, the exposure of the bank to the PFI guaranteeing the bond or debenture issued by corporates would be 100 per cent, whereas the exposure by the PFI to the corporate would be to the extent of 50 per cent.
- 31**
- The Reserve Bank announced the decision to set up a Working Group (Chairman: Shri V. Subrahmanyam) in order to improve the procedures for credit delivery, review facilities available to exporters and suggest improvements.
- Nov. 11**
- The Reserve Bank allowed banks to rediscount bills discounted by NBFCs arising from sale of commercial vehicles including light commercial vehicles. This measure would enable NBFCs to have recourse to further finance through rediscounting of bills.
 - A broad Y2K remediation framework and compliance deadline was advised to the banks.
- 12**
- Banks were allowed to extend credit/non-credit facilities (*viz.*, letters of credit and guarantees) to Indian joint ventures/ wholly owned subsidiaries abroad. Banks were also allowed to provide at their discretion, buyers' credit/acceptance finance to overseas parties for facilitating export of goods and services from India, subject to a limit of 5 per cent of the unimpaired Tier-I capital. Higher limits could be considered by the Reserve Bank on merits.

- 13 • The present ceiling on bank advances to retail traders under priority sector was increased from Rs.2 lakh to Rs.5 lakh.
- 27 • All primary co-operative banks were advised to report all advances of Rs.1 lakh and above against shares and debentures on quarterly basis.
- 30 • Banks were advised to take further appropriate steps for implementation of the recommendations of the High Level Committee on Agricultural Credit (Chairman: Shri R.V. Gupta) to ensure timely and smooth credit flow to agriculture.
- Dec. 1 • Banks were advised to draw up contingency plans to tackle Y2K issues and such plans should identify a range of Y2K scenarios, prioritise them in terms of probability of occurrence and impact potential for business and lay down cost effective approaches to mitigate associated risks.
- 3 • The Reserve Bank directed AIFIs and Refinancing Institutions to ensure compliance with the prudential norms as announced in the statement on 'Mid-Term Review of Monetary and Credit Policy for 1998-99'.
- 8 • The Reserve Bank directed All India Term Lending Institutions to provide details in respect of additions made to Tier-II capital.
- 9 • Banks were advised to take immediate steps to get the securities held as collateral dematerialised before the dates announced by SEBI regarding compulsory trading in demat form.
- 18 • In line with the recommendations of the Task Force on NBFCs (Chairman: Shri C.M. Vasudev), the Reserve Bank announced changes in the deposit acceptance norms for NBFCs and unincorporated bodies with immediate effect. Accordingly, NBFCs with Net Owned Fund (NOF) below Rs.25 lakh were debarred from raising any public deposits. NBFCs with NOF of Rs.25 lakh and above without credit rating were permitted to raise public deposits not exceeding 1.5 times of NOF or public deposits up to Rs.10 crore, whichever is less, provided the company has capital adequacy ratio (CAR) of 15 per cent or above. Equipment Leasing and Hire Purchase Finance Companies with NOF of Rs.25 lakh and above with minimum investment grade credit rating were permitted to raise public deposits up to 4 times of NOF provided the company had CAR of 10 per cent or above as on March 31, 1998, and would have CAR of 12 per cent or above as on March 31, 1999. For loan and investment companies, the limit on public deposits was placed at 1.5 times of NOF, provided the company has CAR of 15 per cent or above and minimum investment grade credit rating.
- 19 • The relaxation granted to the beneficiaries of credit from RRBs in regard to financing of IRDP and priority sectors under the Service Area Approach would be continued till March 31, 2000.
- Infrastructure Development Finance Company Ltd. (IDFC) was included in the list of AIFIs.
- Dec. 28 • It was decided to include Housing and Urban Development Corporation Ltd. (HUDCO) in the list of AIFIs, whose bonds would qualify for risk weight of 20 per cent for CAR of banks.

- 29 • Where natural calamities impair the repaying capacity of agricultural borrowers, banks were permitted to decide on their own relief measures such as, i) conversion of short-term production loan into a term loan or re-scheduling of the repayment period and ii) sanctioning of fresh short-term loan. In such cases, the term loan and fresh short-term loan would be treated as current dues and need not be classified as NPA.
 - 31 • Sponsor banks of RRBs were given the freedom to decide the rate of interest on their refinance facilities to RRBs by mutual agreement. Such rates of interest should, however, bear a relationship with the cost of funds for the sponsor banks and/or the lending rate charged by RRBs to ultimate borrowers.
- 1999**
- Jan. 13 • With a view to promoting exports of floriculture, grapes and other agro-products, the Reserve Bank decided to allow banks to extend concessional credit for working capital purposes, provided banks are in a position to clearly identify such activities as export-related and satisfy themselves of the export potential thereof.
 - 15 • The Reserve Bank announced a set of enforcement measures which included one or combinations of (a) supervisory letters of caution, (b) higher CRAR, (c) monetary penalties on a graduated scale, (d) restricting expansionary strategies like opening new branches and subsidiaries and (e) suspension from participation in the call money market, clearing and securities trading.
 - 27 • In accordance with the recommendations of the Working Group to look into the system of Reconciliation of Nostro Accounts in Public Sector Banks (Chairman: Shri S.G. Gurumurthy), the Reserve Bank advised the banks to initiate measures for implementation of the recommendations, including mechanisation of branches, immediate follow-up of large value items, constant follow-up and monitoring by Controlling Offices and arrangement for training/retraining the employees at an early date.
 - The Reserve Bank released the Discussion Paper on Harmonising the Role and Operations of DFIs and Banks. The major recommendations regarding the architecture contained in the Discussion Paper are: (a) the approach to universal banking should be guided by international experience and domestic requirements, (b) in terms of institutions, there should only be banks and re-structured NBFCs, and (c) any conglomerate in which a bank is present, should be subject to a consolidated approach of supervision and regulation.
 - 29 • Banks were permitted to extend bridge loans, besides loans against expected equity flows/issues, proceeds of non-convertible debentures, external commercial borrowings, global depository receipts and/or funds in the nature of FDI, within the ceiling of 5 per cent of incremental deposits of the previous year prescribed for banks' investments in shares, debentures, *etc.*
 - Feb. 8 • In consultation with the Central Government, the Reserve Bank decided to set up a Working Group (Chairman: Shri M.S.Verma), to suggest measures for revival of weak public sector banks.
 - To enable banks to undertake close scrutiny of the balance sheets and to identify/analyse the key measures of returns and risks, a uniform framework on analysis of balance sheets was suggested. The framework consists of two parts: part-I identifies the inputs and part-II indicates the various ratios, amounts, *etc.*

- It was decided to give autonomy to all scheduled commercial banks (excluding RRBs) operating in India to raise rupee subordinated debt as Tier-II capital, subject to certain terms and conditions. Subordinated debt instruments would be limited to 50 per cent of Tier-I capital of the bank. Tier II capital should not exceed 100 per cent of Tier-I capital. Subordinated debt instruments with an initial maturity period of less than 5 years or with a remaining maturity of one year should not be included as part of Tier-II capital. The interest rate should not be more than 200 basis points above the yield on Central Government securities of equal residual maturity at the time of issuing bonds. The instrument should be of 'vanilla' type with no special features like options. For issue of subordinated debt instruments in foreign currency by banks as well as for borrowing from Head Office by foreign banks for inclusion in Tier-II capital, prior approval of the Reserve Bank should be obtained. Investments by banks in subordinated debt of other banks would be assigned 100 per cent risk weight for capital adequacy purposes.
- 10**
- The Reserve Bank issued final guidelines on ALM system for implementation by banks effective April 1, 1999. The guidelines mainly address liquidity and interest rate risks and have been formulated to serve as a benchmark for those banks that do not have formal ALM systems. In view of the constraints in the prevailing management information system and the level of computerisation, it was decided that banks would capture at least 60 per cent of their assets and liabilities under ALM system in the first year of implementation. Banks were advised to initially prepare the statement of structural liquidity, designed to measure the maturity profile of cash flows on a quarterly basis. Banks would simultaneously work on putting in place Management Information System to capture 100 per cent of data and also move over to a fortnightly reporting system by April 1, 2000. As a prudent measure, banks were advised to operate within negative gap of 20 per cent of cash outflows during 1-14 days and 15-28 days time periods. Banks having structural mismatches and needing higher limits could do so with the approval of board/management committee. Such banks should, however, comply with the prudential limit by April 1, 2000. The statement of interest rate sensitivity should be prepared at quarterly intervals and move over to monthly schedule by April 1, 2000. The statement would provide useful feedback on interest rate risk faced by banks. Banks' boards should fix prudent level of earnings at risk (EaR) or net interest margin (NIM) to minimise the interest rate risk profile.
 - Banks were directed to disclose the following additional information in the 'Notes to Accounts' to the balance sheet from the accounting year ending March 31, 2000: (a) maturity pattern of loans and advances, investment in securities, deposits and borrowings, (b) foreign currency assets and liabilities, (c) movement in NPAs, and (d) lending to sensitive sectors as defined by the Reserve Bank from time to time.
- 17**
- The Reserve Bank gave 'in-principle' approval for establishment of five more local area banks.
- 19**
- The Reserve Bank decided to permit RRBs to include the additional share capital provided to some of them under the restructuring programme for computation of 'owned funds' for the limited purpose of arriving at a single exposure limit subject to the condition that such funds are released to them for their use on receipt of the respective contributions from all the three shareholders, *i.e.*, RRBs, sponsor banks and NABARD.
- 20**
- A scheme was framed under which the banks and FIs *viz.*, IDBI, ICICI and IFCI would be required to submit on a quarterly basis the details of the wilful defaulters of Rs.25 lakh and above which would occur or would be detected after March 31, 1999.

- 25
- The Reserve Bank decided to allow advances against duty drawback receivables to exporters and accordingly advised banks to ensure that such advances are made available to exporters liberally.
- 27
- In continuation of implementation of the recommendations of the Narasimham Committee on Banking Sector Reforms, the Union Budget 1999-2000 announced setting up of 5 more Debt Recovery Tribunals and 4 more Debt Recovery Appellate Tribunals. The Parliamentary Bill was also proposed to make certain amendments to the Recovery of Debts due to Banks and Financial Institutions Act to strengthen its provisions.
- 28
- The Reserve Bank simplified the procedures for export credit in foreign currency so as to ensure that the export credit schemes become accessible particularly to the small and medium sized exporters. The guidelines relate to provision of export credit in foreign currency both at pre/post-shipment stages at internationally competitive rate through more number of bank branches, simplification of application form and procedures, *etc.*, for assessing credit requirements of exporters in a manner most suitable and appropriate to their business operations, providing a line of credit for a longer period than one year, permitting interchangeability of pre/post-shipment credit limits, waiver of submission of orders, LCs, *etc.*, for availing credit and for handling export documents, streamlining internal systems and procedures.
 - The Union Budget 1999-2000 announced the setting up of a Working Group to devise appropriate strategies for dealing with the problem of restructuring weak banks including their NPAs.
 - As per Union Budget 1999-2000, public sector banks would be encouraged to set up Settlement Advisory Committees so that chronic cases of overdue loans leading to lock-up of banks' funds and long drawn litigation in recovery suits are settled in a timely and speedy manner. The Reserve Bank would issue necessary guidelines in this regard.
 - To assist banks to come up to international standards of prudential norms for maintaining provisions against doubtful and non-performing assets, the Union Budget announced certain changes in the tax deductibility provisions.
 - To enhance the availability of banking funds to the housing sector, an announcement was made in the Union Budget that the Reserve Bank would advise scheduled commercial banks to lend up to 3 per cent of their incremental deposits for housing finance as against 1.5 per cent earlier.
 - As per the announcement made in the Union Budget 1999-2000 regarding revamping of the scheme of pre-shipment and post-shipment export credit in foreign currency, the Reserve Bank announced on February 28, 1999 that the interest rate charged would be directly related to London Inter-bank Offer rate (LIBOR) which would make credit available at international rates. Besides, the rate to be charged by Indian banks would not exceed 1.5 per cent over LIBOR for such credits.
 - The Union Budget announced the introduction of a new Gold Deposit Scheme whereby selected banks would be permitted to accept gold deposits and issue interest bearing certificates or bonds which on maturity can be reclaimed in gold.
 - With a view to improving the flow of credit to the agricultural sector, the Union Budget for 1999-2000 announced the continuation of the RIDF Scheme. The corpus of RIDF-V would be raised to Rs.3,500

- Feb. 28**
- crore from Rs.3,000 crore for RIDF-IV. The repayment period would also be extended from five to seven years. The scope of RIDF-V would also be widened to allow lending to Gram Panchayats, Self-Help Groups and other eligible organisations for implementing village level infrastructure projects.
 - The Union Budget 1999-2000 made a provision of Rs.168 crore for recapitalisation of RRBs.
 - To augment the flow of credit for food and agro-processing industries, lending by banks to this sector would be treated as priority sector lending.
 - The limit for the composite loan scheme of SIDBI and commercial banks, designed to ease operational difficulties of the small borrowers by providing term loan and working capital through a single window was proposed to be increased to Rs.5 lakh from the existing Rs.2 lakh.
 - To increase the outreach of banks to the tiny sector, lending by banks to NBFCs or other financial intermediaries for on lending to the tiny sector would be included within the definition of priority sector lending.
 - The Union Budget 1999-2000 announced that a new credit insurance scheme would be launched that would provide adequate security to banks' lending to SSI units, particularly for export oriented and tiny sector enterprises.
- March 1**
- The fund-based working capital limit for SSIs was raised from Rs.4 crore to Rs.5 crore. Accordingly, banks were advised to adopt the procedure of sanctioning working capital limits on the basis of 20 per cent of the projected annual turnover to all SSI units (new as well as existing).
- 3**
- In order to monitor implementation of the guidelines issued by the Reserve Bank on February 28, 1999 relating to foreign currency export credit schemes by banks and to sort out any operational problems that might arise in making the foreign currency facilities available to exporters, particularly small and medium scale exporters, at internationally competitive rates, it was decided to constitute a Monitoring Group of Bankers (Convenor: Shri M.G. Srivastava).
- 6**
- The Reserve Bank directed banks to compute their share of the housing finance allocation for the year 1999-2000 at 3 per cent of their incremental deposits for 1998-99.
- 9**
- Banks were advised to take expeditious steps to accelerate the pace of issue of Kisan Credit Cards in order to achieve the target of 20 lakh cards set by the Government.
 - As a sequel to the announcement in the Union Budget 1999-2000 of a scheme for marginally profit making Public Sector Enterprises (PSEs) to avail of finance from banks, for rationalising their manpower under Voluntary Retirement Scheme (VRS), the Reserve Bank permitted banks to consider financing such schemes. The financing banks should, however, satisfy themselves about the viability of the modernisation plan and should also ensure end-use of funds.
- 12**
- It was decided that bank finance to HUDCO either as a line of credit or by way of investment in special bonds issued by HUDCO for on-lending to artisans, handloom weavers, *etc.* under tiny sector, would be classified as indirect lending to SSI (tiny) Sector.

- 13 • The Reserve Bank decided to set up a Regulations Review Authority (Chairman: Dr.Y.V. Reddy) for a period of one year (April 1, 1999 - March 31, 2000) with a view to making the Reserve Bank regulations effective and simple.
- 24 • It was decided that beginning from the accounting year 1998-99, banks should make 100 per cent provision for the net debit position in their inter-branch accounts arising out of the unreconciled entries (both debit and credit) outstanding for more than three years as on March 31 every year.
- 30 • It was decided that the excess provision towards depreciation on investments should be appropriated to 'Investment Fluctuation Reserve Account' instead of 'Capital Reserve Account' and would be eligible for inclusion in Tier II capital.
- April 5 • The Reserve Bank advised that all NBFCs, including RNBCs, irrespective of their holding of public deposits and the size of their NOF and including those whose applications for certificate of registration have been rejected, were required to submit to the Reserve Bank the statutory quarterly return on liquid assets. NBFCs not holding public deposits were not only required to submit 'nil' information in respect of public deposits but also fill up the information about NOF as per the last audited balance sheet. It may be indicated that effective April 1, 1999, NBFCs were required to hold liquid assets at 15 per cent of public deposits held on the last working day of the second preceding quarter.
- 7 • Primary (urban) co-operative banks were allowed to invest their surplus funds in unsecured redeemable bonds, floated by nationalised banks, within the stipulated limit of 10 per cent.
- 8 • The Reserve Bank announced that in order to identify a particular company as a NBFC, it would consider both the assets and the income pattern as evidenced from the last audited balance sheet of the company to decide its principal business. The company would be treated as a NBFC if i) its financial assets are more than 50 per cent of its total assets (netted off by intangible assets) and ii) income from financial assets is more than 50 per cent of the gross income.
- 12 • The Reserve Bank announced that NBFCs holding public deposits would be allowed to park an amount equivalent to the amount of outstanding public deposits together with the present value of future interest differentials (between the yield on investments and the obligations of the company to pay the rate of interest) in an escrow account subject to certain conditions.
- ADs were permitted, on request from exporters, to allow change in tenor of bills in respect of bills drawn on original buyer or the alternate buyer, provided the revised due date of payment does not fall beyond six months from the date of shipment and the change of tenor takes place before the original due date of the bill. In such cases banks were permitted to extend concessional rate of interest up to the revised notional due date subject to a maximum of six months from the date of shipment.

- 13
- The Reserve Bank announced the regulations for Mutual Benefit Companies (MBCs) which were yet to be notified as nidhis by Department of Company Affairs (DCA) of Government of India. Such companies would be treated at par with the notified nidhi companies subject to certain conditions, which include that the total of NOF and preference share capital should be Rs.10 lakh or more as on the date of last audited balance sheet for such companies incorporated on or before January 9, 1997. The companies incorporated after January 9, 1997 would be considered for classification as MBCs only if they have minimum NOF of Rs.25 lakh and have obtained a certificate of registration from the Reserve Bank under the provisions of the Reserve Bank Act.
- 20
- Banks were advised to classify a minimum of 75 per cent of their investments in approved securities as current investments effective the year ending March 31, 2000.
 - It was decided that a bank's or a FI's investment in Tier II bonds issued by other banks be subjected to a ceiling of 10 per cent of the bank's or the FI's total capital.
 - In certain situations (e.g., cyclical downturns) where loans have been rescheduled but the borrowers have started servicing their loans on a regular basis after a short gap, the classification of loans as sub-standard for at least two years of satisfactory performance under the renegotiated or rescheduled terms was reduced to one year (or four quarters) if the interest and instalment of loans are serviced regularly as per the terms of rescheduling.
 - As a part of the process of moving away from micro-level regulations, the Reserve Bank decided that henceforth it would be left to the Board of Directors of each bank to prescribe detailed rules for determining the date of commencement of commercial production by units.
 - The Reserve Bank announced setting up of a special cell in the Reserve Bank, with a time frame of one year and manned by a senior officer from the commercial banking sector, in order to liaise with NABARD and micro credit institutions and for augmenting the flow of credit to this sector.
 - Interest rates applicable to loans given by banks to micro-credit organisations or by these organisations to their members/ beneficiaries would be left to the discretion of banks. There would, however, be no change in applicable interest rate ceilings in respect of loans under Government programme.
 - Incremental credit given to NBFCs by banks for on-lending to small road and water transport operators and to units in tiny sector of industry, over March 31, 1999, would qualify for priority sector status.
 - In order to encourage flow of finance for venture capital, the overall ceiling of investment by banks in ordinary shares, convertible debentures of corporates and units of mutual funds, *etc.*, of 5 per cent of their incremental deposits of the previous year would stand automatically enhanced to the extent of banks' investment in venture capital. Further, investments in venture capital would also be included in priority sector lending.
 - To ensure timely and adequate availability of credit, banks/FIs were advised to clearly delineate the procedure for approval of loan proposals and institute a suitable monitoring mechanism for reviewing applications pending beyond the specified period. Banks/FIs were also urged to set up a mechanism for monitoring the project implementation.

- The Reserve Bank announced finalisation of a scheme for Settlement Advisory Committee (SAC) to be set up by public sector banks so that chronic NPAs, specially those relating to the small sector, are settled in a timely and speedy manner.
 - Under the Reserve Bank of India Act, 1934, the Reserve Bank is vested with the powers of enhancing the minimum NOF of NBFCs to Rs.2 crore (as against the minimum limit of Rs.25 lakh then). In respect of new NBFCs, which would be incorporated on or after April 21, 1999 and which seek registration with the Reserve Bank, the Reserve Bank raised the requirement of minimum NOF to Rs.2 crore.
 - The Reserve Bank decided to appoint a High Power Committee to review the performance of the urban co-operative banks and to suggest measures for strengthening this sector.
 - The Reserve Bank decided to constitute a National Payments Council with a Deputy Governor as the Chairman and representative membership.
- April 23**
- In view of the national importance attached to infrastructure development, operational guidelines on financing of infrastructure projects were issued to banks/FIs. Accordingly, banks would be free to sanction term loans for technically feasible, financially viable and bankable projects undertaken by both public and private sector undertakings, subject to prescribed criteria. In this context, four broad modes of financing were identified viz., i) financing through funds raised by way of subordinated debt, ii) entering into take-out financing, iii) direct financing through rupee term loans, deferred payment guarantees, foreign currency loans *etc.* and iv) investments in infrastructure bonds issued by project promoters/FIs. Banks were also permitted to issue inter-institutional guarantee subject to certain norms.
- 24**
- The Reserve Bank decided that for the purpose of capital adequacy, the all India term lending and refinance institutions may treat the 'grant equivalent' implicit in non-cumulative preference shares issued for a maximum period of 20 years at par with perpetual non-cumulative preference shares subject to certain conditions.
- May 25**
- The ceiling on bank credit linked to NOF was removed in respect of all NBFCs which are statutorily registered with the Reserve Bank, and are engaged in the principal business of equipment leasing, hire purchase, loan and investment activities.
- 26**
- The Reserve Bank constituted a National Payments Council (NPC) (Chairman: Shri S.P. Talwar). The NPC would focus on the broad policy parameters for designing and developing an integrated, state-of-the-art, robust payments and settlements system for the country, with the proposed Real Time Gross Settlement System (RTGS) as its core.
- 27**
- The Reserve Bank set up a High Power Committee (Chairman: Shri K. Madhava Rao) to review the performance of urban co-operative banks and suggest necessary measures to strengthen them. The Committee will submit its report to the Reserve Bank before September 30, 1999.
 - The Reserve Bank issued guidelines for constitution of Settlement Advisory Committees (SAC) and compromise settlement of NPAs of small-scale sector by the public sector banks. The guidelines would apply to all NPAs in the SSI sector, small business including trading and personal segment and agricultural sector, which are chronic and at least 3 years old as on March 31, 1999 and will be operative only up to September 30, 2000.

- June 8**
 - The Reserve Bank set up a Working Group to explore the possibilities of setting up a Credit Information Bureau in India.
- 19**
 - With a view to bringing about an efficient payment system, the Indian financial network (INFINET) was inaugurated at the Institute for Research and Development in Banking Technology at Hyderabad.
- July 17**
 - With a view to bringing in uniformity in the accounting practices followed by banks undertaking equipment leasing activity departmentally, banks were advised to follow the 'Guidance Note on Accounting for Leases' issued by the Institute of Chartered Accountants of India (ICAI). As per guidelines, the net lease rentals (finance charge) on the leased asset accrued and credited to income account before the asset became non performing, and remained unrealised, should be reversed or provided for in the current accounting period.
 - Banks were advised to have an independent assessment of Y2K compliance by competent independent agencies so as to enhance the existing comfort levels by providing an additional tier of assurance.

IV. CAPITAL MARKET

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

1998

- April 7**
 - In accordance with the recommendations of the C.B. Bhave Committee on continuing disclosure standards by the corporates, SEBI advised all the stock exchanges that all the listed companies are required to publish unaudited financial results on a quarterly basis and are also required to inform immediately to the stock exchanges of all events which would have a bearing on the performance/operations of the company as well as price sensitive information.
- 24**
 - SEBI allowed dematerialised securities to be treated as good as delivery in the physical segment at both BSE and NSE. The list of compulsory dematerialisation was expanded to include 22 scrips with effect from June 1, 1998.
- May 11**
 - SEBI approved the report of the Committee on Derivatives (Chairman: Shri L.C. Gupta) and its suggestive bye-laws for regulation and control of derivative contracts.
- June 15**
 - In a move to ensure investor protection, SEBI advised investors to exercise a great deal of caution while investing in plantation companies. At the same time, plantation companies and other collective investment schemes were directed to ensure credit rating by some accredited credit rating agencies prior to issuing of advertisement.
- June 23**
 - SEBI amended SEBI FII Regulations, 1995, permitting FIIs to invest in unlisted companies through the 100 per cent debt route and to tender their securities directly in response to an open offer made in terms of the SEBI (Substantial Acquisition of Shares and Take-overs) Regulations, 1997.
 - SEBI simplified the process of approval of sub-accounts of registered FIIs.
 - SEBI permitted FIIs to buy and sell derivative contracts which are traded on a stock exchange. FIIs were also permitted to trade in derivatives without requiring them to take or give delivery.
- July 2**
 - In order to curb excessive volatility in the stock prices, SEBI introduced a system of volatility margin on scrips replacing the system of weekly price band.

- Aug. 1** • SEBI changed its guidelines relating to tradable lot in order to encourage small investors to participate in highly priced public issues/offers for sale. The new guidelines allow the issuer to fix the size of the minimum marketable lot depending on its price. The maximum lot should not consist of more than 100 shares.
- 20** • SEBI granted certificate of registration to Central Depository Services (I) Ltd. (CDSL), the second depository in the country. CDSL is sponsored by BSE and Bank of India.
- Sept. 7** • SEBI exempted infrastructure firms from certain norms while floating a public issue. In particular, the requirements such as, making a minimum public offer of 25 per cent of its security, five shareholders per Rs.1 lakh of offer and minimum subscription of 90 per cent would not be mandatory for infrastructure companies.
- Oct. 20** • SEBI created an Overseas Investors' Cell to facilitate investments by overseas investors and to enhance their confidence in India's regulatory and redressal mechanism.
- Nov. 3** • SEBI permitted the stock exchanges to expand their trading terminals to those cities where no stock exchange is located.
- 10** • Following the promulgation of the Companies (Amendment) Ordinance, SEBI issued regulations for the buy-back of shares by Indian companies. The buy-back covers only listed securities of a company and has been permitted through the tender offer mode, from the existing shareholders on a proportionate basis and from odd lot holders. For open market transactions, the book building mode and purchases through stock exchanges have been permitted. Buy-back through negotiated deals, spot transactions or private arrangements has not been permitted.
- 19** • SEBI granted recognition to Inter-Connected Stock Exchange of India Ltd., Mumbai (ICSI) for setting up an inter-connected market system. All regional exchanges participating in ICSI will have a uniform trading and settlement cycle. ICSI will also have a settlement guarantee fund.
- Dec. 31** • A SEBI committee (Chairman: Dr. S.A. Dave) prepared draft regulations for collective investment schemes (CIS), which stipulated minimum net worth requirements for the scheme. All schemes would have to be registered with SEBI. Further, only the public companies under Companies Act, 1956 can become promoter of a CIS and schemes shall be constituted only in the form of a trust with the trustees approved by SEBI. Schemes also have to conform to SEBI guidelines in respect of credit rating, advertising, returns, *etc.*
- 1999**
- Jan. 13** • In a bid to improve the market microstructure, SEBI prohibited stock exchanges from allowing the 'All or None' or 'Minimum Fill' order facility in their trading system.
- 25** • Effective May 31, 1999, SEBI decided to make delivery of shares in dematerialised form compulsory for another 40 companies taking the total number of shares in the list of compulsory demat trading for all investors to 104.
- Feb. 19** • Consequent upon buy-back of shares by Indian companies, investment by FIIs in such companies, in case they do not participate in buy-back, may exceed the permissible limit. In this context, SEBI clarified that investment in such companies by FIIs would be frozen, but FIIs would not be required to dilute their holding from the pre-buy-back level.

- March 19**
- In respect of the entry norms for an initial public offer (IPO) by an unlisted company, SEBI decided to replace the existing requirement of actual dividend payment in three out of preceding 5 years by the company's 'ability to pay dividend'. Certain minimum pre-issue net worth requirements for the company were also laid down.
 - SEBI withdrew the existing requirement to issue shares with a par value of Rs.10 and Rs.100 and gave companies freedom to determine a fixed value per share. The companies will have to ensure that shares are not issued in decimal of a rupee. This facility will be available for companies which have dematerialised their shares. The companies, which have already issued shares at Rs.10 or Rs.100 par value, are also eligible for splitting and consolidating the share values.
 - SEBI (Mutual Fund) Regulations were amended to permit mutual funds to trade in derivatives for the purpose of hedging and portfolio balancing.
 - SEBI approved the regulations for credit rating agencies (CRAs), which specify minimum net worth requirement of Rs.5 crore for the entities permitted to promote a CRA. The regulations prohibit CRAs from rating instruments of their promoters.

(ii) Government of India

- 1998**
- June 1**
- The Union Budget for 1998-99 proposed to (i) divest its equity in non-strategic PSUs to 26 per cent and raise Rs.5,000 crore by way of disinvestment in PSUs; (ii) bring forward necessary amendments to the Securities Contracts (Regulation) Act to enable trading of derivative instruments; (iii) abolish capital gains tax on stock lendings; (iv) increase the limits of purchase of shares in Indian companies in the secondary market by the NRIs and OCBs to 5 per cent and 10 per cent, respectively, from 1 per cent and 5 per cent, respectively, of the company's equity capital; and (v) allow provident funds to invest 10 per cent of their new accretion in private sector securities which have an investment grade rating from at least two credit rating agencies.
- Oct. 31**
- The Central Government promulgated the Companies (Amendment) Ordinance permitting Indian companies to buy-back their own shares for the purpose of capital restructuring. Restrictions on inter- corporate loans and investments were also relaxed substantially.
- Nov. 18**
- Mobilisation of funds by instruments, such as agro-bonds, plantation bonds *etc.*, treated as 'Collective Investment Schemes' and the entities which floated them were brought under the regulatory purview of SEBI.
- 1999**
- Feb. 27**
- The Union Budget for 1999-2000 proposed several measures to revive the capital market:
 - (a) Opening of trading terminals abroad for facilitating the participation of NRIs in the secondary market;
 - (b) Exemption from dividend tax for 3 years for US-64 Scheme and all open-ended equity oriented schemes (with more than 50 per cent investment in equity) of UTI and other mutual funds;
 - (c) Exemption from income tax for all income received in the hands of investors from UTI and other mutual funds;
 - (d) Reduction of long-term capital gains tax from 20 per cent to 10 per cent for resident Indians on transfer of shares and securities; and

- (e) Abolition of stamp duty on transfer of debt instruments within the depository mode.

V. EXTERNAL SECTOR

(i) Trade Policy

1998

- April 13**
- The Union Government announced the following major modifications in the Export Import (EXIM) Policy 1997-2002: (a) shifting of about 340 items from Restricted List to Open General Licence List for imports, (b) extension of the scope of Duty Exemption Pass Book (DEPB) Scheme, (c) providing special incentives for export of various items including agricultural and allied products, gems and jewellery, project goods *etc.*, (d) reduction of threshold limits for availing facilities under certain schemes including Export Promotion Capital Goods (EPCG) Scheme and schemes for recognition under export houses and various types of trading houses, (e) simplification of EXIM norms and (f) steps to improve infrastructure facilities.
- 15**
- The Directorate General of Foreign Trade (DGFT) notified the revised credit rates under DEPB Scheme for specified items.
- 29**
- The Central Government made 105 items (according to EXIM code) freely importable into India if imported in new/prime condition from other SAARC countries.
- May 8**
- The DGFT extended the time limit for completing export obligation/release of gold/silver/platinum taken from designated authorities.
- June 22**
- The DGFT amended/corrected the input-output norms with respect to chemicals and allied products, electronics, engineering goods, plastic and miscellaneous goods.
- 24**
- The DGFT amended the input-output norms for fish and fish products.
- Aug. 27**
- Subject to undertaking of export obligations and the fulfilment of certain conditions, units other than small-scale units were permitted to expand and open new capacity in respect of items reserved for small-scale sector.
- Sept. 16**
- Subject to certain conditions, period for fulfilment of obligations under Advance Licence was extended by the DGFT up to March 31, 1999.
 - The DGFT amended the Handbook of Procedures (Volume 1) to extend option of availing of Special Advance Licence Scheme to the eligible exporters of electronic products.

1999

- March 31**
- Following major modifications to the EXIM Policy 1997-2002 were announced: (a) discontinuation of the convention of publishing Negative Lists for exports and imports, shifting of 894 new items to the list of freely importable items and allowing import of 414 additional items under the Special Import Licence (SIL), (b) introduction of new schemes to boost services exports, (c) initiation of pilot schemes for electronically filling-up of forms in respect of certain types of trade activities, (d) provision of special status to manufacturing and merchant exporters with proven track records under "Green Card" and "Golden Status" Schemes, respectively, (e) introduction of special facilities for manufacturing companies and industrial houses, (f) withdrawal of incentives for import of second-hand capital goods, (g) provision of special benefits to direct export by small scale, tiny and cottage industries, and (h) extension of additional incentives to the export of products from sectors such as bio-technology, textiles, engineering and chemical.
- April 6**
- The DGFT laid down the guidelines for extension in export obligation period in respect of Advance Licences and Export Promotion Capital Goods (EPCG) Scheme. Subject to certain conditions, the maximum extension can be up to 18 months for Advance Licence and up to March 31, 2001 under the EPCG Scheme.
- 9**
- The DGFT set up fast track counter to cater to the requirements of Status Holders (*i.e.*, export houses and various trading houses) in the context of Advance Licence and DEPB Scheme. Applications for these facilities can be filled up either electronically or manually.
- (ii) Foreign Exchange Market**
- 1998**
- May 5**
- ADs were permitted to allow delayed remittances towards cost of imports up to a maximum period of 60 days beyond the period of six months provided no interest payment was involved subject to certain conditions.
- June 6**
- With a view to relaxing the exchange control policy, the Reserve Bank allowed branches of foreign companies operating in India to remit profits to their head offices through ADs without Reserve Bank's prior approval.
- 11**
- ADs were permitted to provide forward cover facility to FIIs in respect of their fresh investments in India in equity, effective June 12, 1998. ADs were also allowed to extend forward cover facility to FIIs to cover the appreciation in market value of their existing investments in India. The amount eligible for cover would be the (i) difference between the market value of their investments as at the close of business on June 11, 1998 converted at the Reserve Bank reference rate of Rs.42.38 per US \$ and the market value of investments at the time of providing the cover, converted at the current rate; or (ii) fresh inflows (including reinvestments of cash balances lying in the accounts of the FIIs at the close of business on June 11, 1998) since June 11, 1998, whichever is higher. The ADs were given the option of extending the cover fund-wise or FII-wise according to their operational feasibility. The same facility was extended to the NRIs/OCBs for their portfolio investments, effective June 16, 1998.
- 15**
- Transactions among FIIs with respect to Indian stocks would no longer require the post-facto confirmation from the Reserve Bank.
 - The trigger point limit for investments in Indian companies by FIIs/NRIs/OCBs under the portfolio scheme was raised by 2 percentage points.

- Aug. 7**

 - Indian software companies were allowed to offer ADR/GDR linked Stock Option Schemes to their non- resident/resident permanent employees (including Indian and overseas working directors). On exercising the option each resident employee would be permitted to remit up to US \$ 50,000 in a block of 5 years to acquire the ADRs/GDRs.

- Aug. 7**

 - ADs were permitted to approve proposals for overseas investment under the EEFC Fast Track Window even in cases where the balances in the EEFC Accounts were not sufficient to fully cover the proposed investment at the time of approval, subject to certain conditions.
 - ADs were allowed to reimburse International Credit Cards (ICCs) issuing organisations up to US \$ 15,000 per transaction towards advance for import of software through internet even before the downloading of the software.
 - ADs were delegated powers to allow use of ICCs for remittances to ICC issuing organisations towards (i) fees for scientific/technical training or education by their customers through internet and (ii) payment for registration of internet domain name, hosting charges for web-sites, *etc.*

- 14**

 - Limits for investments by FIIs/NRIs/OCBs in Indian companies were enhanced: (a) the ceiling of 24 per cent on FII investment in primary and secondary markets in the paid-up equity capital was raised to 30 per cent subject to the approval by the Board of Directors of the company; (b) the ceiling on holding of a single FII or the concerned FII group in any Indian company was raised from 5 per cent to 10 per cent of total paid-up capital; (c) the aggregate ceiling for FII investment *i.e.*, 24 per cent or 30 per cent, as the case may be, would be exclusive of investments made by NRIs/OCBs under the portfolio investment scheme.
 - Ceiling applicable to individual NRIs/OCBs in respect of their portfolio investment in shares/debentures of any Indian company was raised from 1 per cent to 5 per cent of the paid-up equity capital of the company concerned. The existing overall ceiling of (a) 5 per cent of the total paid-up equity capital of the company concerned and (b) 5 per cent of the total paid-up value of each series of convertible debentures issued by the company to all NRIs/OCBs taken together both on repatriation and non- repatriation basis was raised to 10 per cent which could be further raised to 24 per cent by the company concerned by passing a Board/General Body resolution. This would be exclusive of investment ceilings applicable to FIIs.

- 20**

 - ADs were allowed to offer forward cover facilities to FIIs to the extent of 15 per cent of market value of investment in equity as on June 11, 1998, converted into US \$ terms at the rate of US \$ 1= Rs.42.38 in addition to available facilities.
 - The facility of rebooking cancelled contracts (with rupee as one of the currencies) for imports was withdrawn.
 - The facility for splitting forward and spot legs for a commitment was withdrawn.
 - Extension of time limit for repatriation of export proceeds was allowed only in exceptional circumstances.
 - ADs were advised to report their peak intra-day positions.
 - With a view to simplifying procedure for investments by NRIs/OCBs in 'priority' industries under the 100 per cent scheme, the Reserve Bank granted general permission to the Indian companies for the issue and export of equity shares.

- 25**

 - External commercial borrowing (ECB) guidelines were modified: (a) ECBs were permitted for project related rupee expenditure in all sectors (except stock markets and real estate), (b) the average minimum maturity was relaxed and fixed at 5 years for all ECBs above US \$ 20 million, (c) the average maturity requirement under long-term maturity window outside the ECB cap was reduced to 8 and 16 years for ECBs up to US \$ 100 million and US \$ 200 million, respectively, (d) ECB eligibility for exporters was raised to three times of their average export performance, subject to a maximum of US \$ 100 million (raised to US \$ 200 million, effective May 5, 1999), (e) to enable corporates to hedge exchange rate risks, domestic rupee denominated structured obligations were permitted to be credit-enhanced by international banks/international financial institutions/ joint venture partners.

- Sept. 5**

 - ADs were permitted to grant any type of fund-based and/or non-fund based facilities to residents against the collateral of fixed deposits in NRE accounts subject to certain conditions.

- 28**

 - As per the recommendation of the "Committee on Hedging through International Commodity Exchanges" (Chairman: Shri R.V. Gupta), the Indian entities having genuine underlying exposure were allowed to access International Commodity Exchanges for exchange traded future contracts/options (purchases only) for hedging commodity price exposures. The facility of hedging would, however, not be available for oil and petroleum products.

- 30**

 - In order to simplify the procedure for sale/transfer of underlying shares by GDR/ADR holders, the Reserve Bank granted exemption from the provision under Section 19(5) of the FERA, 1973 for sale/ transfer of shares from non-residents to residents subject to certain conditions.
 - It was decided to treat the payment received by exporters from their overseas buyers through ICC as an approved method for receipt of export proceeds.

- Oct. 9**

 - It was decided to permit use of funds held in EEFC accounts by account holders for their business- related payments in India in foreign exchange including payments for air fare and hotel expenditure.

- Oct. 10**

 - The ECB limit of US \$ 3 million or its equivalent at a minimum simple maturity of three years was raised to US \$ 5 million or its equivalent.
 - Foreign banks operating in India were permitted to remit proportionate expenditure on electronic database cost incurred by their Head Offices.

- 16**

 - Persons resident in India were allowed to hold international credit card, which could be used either in India or abroad subject to exchange control regulations.

- 27**

 - In order to simplify the procedure for NRI/OCB Investment Schemes, the Reserve Bank granted general permission for issue and export of shares/convertible debentures by Indian companies under the 24 per cent/ 40 per cent Schemes applicable to NRIs/OCBs and for acquisition of shares by NRIs/OCBs.

- Dec. 2**
- The Reserve Bank decided to consider applications for remittance towards acquisition of shares of the overseas joint ventures/wholly owned subsidiaries in the software field by the employees of the Indian promoter company concerned, provided, among other conditions, (a) the remittance did not exceed US \$ 10,000 or its equivalent per employee in a block of 5 years, and (b) the shares so allotted to Indian employees did not exceed 5 per cent of the paid-up capital of the overseas concern.
- 4**
- The ceiling for clearance of proposals for Indian investment in Overseas Joint Ventures/Wholly Owned Subsidiaries under the Fast Track Route of the Reserve Bank was uniformly raised from US \$ 4 million to US \$ 15 million for all countries. The ceiling for Indian Rupee investment under this route in Nepal was raised from Rs.25 crore to Rs.60 crore, which would also be applicable to investment in Bhutan.
 - The Reserve Bank decided to grant blanket approval for investment abroad in the field of computer software by Indian software companies up to 50 per cent of their foreign exchange earnings in a block of three consecutive financial years subject to a maximum of US \$ 25 million provided the cumulative export/foreign exchange earnings of such companies was not less than US \$ 25 million in previous three years.
- 14**
- The limit of Rs.50,000 per transaction in respect of remittances through exchange houses for financing trade transactions was raised to Rs.2,00,000 per transaction.
- 21**
- The Reserve Bank introduced a new scheme for investment by NRIs/OCBs up to 51 per cent of the new issues floated by Indian companies which are not listed on stock exchanges and also granted general permission for issue and export of shares/securities by Indian companies to NRIs/OCBs to acquire such shares/securities. With the introduction of this scheme, the earlier 40 per cent scheme was withdrawn.
- 29**
- With the introduction of Euro, ADs were permitted to accept deposits denominated in Euro under FCNR(B) scheme with effect from 1st January 1999 and also to continue to accept FCNR(B) deposits in Deutsche Marks up to December 31, 2001.
 - ADs were permitted to allow remittances related to registration or renewal of registration of Patents and Trade Marks with overseas Government/Regulatory Authorities/ International Organisations without any monetary ceiling on the basis of documentary evidence in support of payment of such fees.
- 1999**
- Feb. 2**
- On account of introduction of Electronic Data Interchange System for processing shipping bills, *etc.*, by the customs authorities at certain customs offices, it was decided that in respect of electronically processed shipping bills for exports, the existing export declaration form, *viz.*, GR form be replaced by a declaration in form Statutory Declaration Form (SDF).
- March 17**
- The Reserve Bank was empowered by Central Government to consider proposals for raising ECBs up to US\$ 10 million or its equivalent with a minimum average maturity of three years for utilising the proceeds thereof for business related expenses including expenditure to be incurred in Indian rupees under various windows *i.e.*, Exporters'/Foreign Exchange Earners' Scheme, Infrastructure Project Scheme, and Long-term Borrowers' Scheme. This is in addition to the scheme under which Reserve Bank considers applications from corporates *etc.*, for raising ECBs up to US\$ 5 million.

- 26 • In order to simplify the procedures applicable to operation of bank accounts and financial transactions in India by non-resident individuals of Indian nationality/persons of Indian origin, the Reserve Bank introduced, with effect from 15th April 1999, a new type of account viz., Non-Resident Special Rupee (NRSR) Account for such persons who would voluntarily undertake not to seek repatriation of funds held in such accounts and interest/income accrued thereon. These accounts would have the same facilities as well as restrictions as are applicable to domestic resident accounts of individuals in respect of repatriation of funds held in these accounts, with the exception that investment of funds held in these accounts in shares/securities and immovable property would be governed by the extant exchange control regulations.
- 30 • In order to simplify the procedures applicable to non-residents of Indian Nationality (NRIs)/Persons of Indian Origin (PIOs)/Overseas Corporate Bodies (OCBs) for undertaking financial investment transactions, the Reserve Bank has by issue of notifications under FERA, 1973 granted general permission as under subject to certain conditions.
- i) General permission to domestic mutual funds for seeking investment from NRIs/PIOs/OCBs on repatriation/non-repatriation basis.
 - ii) General permission to Indian companies to accept deposits from NRIs/PIOs/OCBs on repatriation basis and to Indian proprietorship concerns/firms and companies for accepting deposits from NRIs/PIOs on non-repatriation basis.
 - iii) General permission for investment by NRIs/PIOs/OCBs in Air Taxi operations.
 - iv) General permission for sale of shares acquired by NRIs/PIOs/OCBs under direct investment scheme on stock exchanges.
 - v) General permission for transfer by way of gift of rupee securities, shares, bonds, debentures held by NRIs/PIOs to registered charitable trusts/organisations.
 - vi) General permission to resident individuals/proprietorship concerns/firms for raising rupee loans from non-residents of Indian nationality/persons of Indian origin on non-repatriation basis.
 - vii) General permission for transfer by way of gift of immovable property held in India by PIOs to registered Charitable Trusts/ Organisations in India.
- April 7 • ADs and/or their subsidiaries were permitted to issue rupee credit cards valid in India, Nepal and Bhutan to NRIs/PIOs and allow settlement of bills in rupee arising out of use of such cards by debit to their NRSR/NRO/NRE account.
- 24 • Cut-off date for providing forward exchange cover to FIIs in respect of their equity investment was changed from June 11, 1998 to March 31, 1999 and ADs were permitted to provide forward exchange cover to FIIs to the extent of 15 per cent of their outstanding equity investment as at the close of business on March 31, 1999 converted into US \$ terms at the rate of US \$ 1 = Rs.42.43, as well as for the entire amount of any additional investment made after March 31, 1999. Existing forward contracts booked in accordance with earlier instructions are allowed to continue even if the amount thereof exceeded 15 per cent of the value of investment as on March 31, 1999. The Reserve Bank would also consider requests from FIIs for additional limits on case by case basis after the eligible limits have been fully utilised.

- The Reserve Bank decided to consider requests from Export Houses/Trading Houses/Star Trading Houses/Super Star Trading Houses for availing of fund-based/non-fund based facilities from overseas banks for their trading offices abroad on merits, subject to reasonableness of terms and conditions of such facilities.
 - ADs were permitted to allow the EEFC account holders the facility of making payments from such accounts for eligible purposes by issue of cheques to beneficiaries of the payments subject to certain conditions.
- May**
- 10** • The Reserve Bank decided to consider requests for hedging commodity price exposure from Indian corporates to i) use Over the Counter (OTC) futures contracts, based on average prices; ii) cancel an option contract by entering into an opposite transaction with the same broker; iii) use products involving simultaneous purchase and sale of options provided there is no net receipt of premium either direct or implied; and iv) hedge exposures to bullion prices from export commitments in the London Bullion Market (through London Bullion Market Association approved brokers) besides recognised international exchanges.
 - 19** • ADs were empowered to renew the general permission granted by the Reserve Bank to OCBs under the Portfolio Investment Scheme for a further period of five years, at a time.
 - Foreign embassies/missions/diplomats were permitted to open foreign currency accounts with any AD in India without the approval of the Reserve Bank subject to certain conditions. Earlier such accounts were allowed to be opened only at select branches of State Bank of India.
 - The Reserve Bank granted (a) exemption from the operation of provisions of Section 29(1)(b) of FERA, 1973 to non-resident holders of ADRs/GDRs to acquire the underlying shares released by the Indian custodian upon surrender of the ADRs/GDRs, and (b) general permission to company/depository concerned for entering an address outside India in its register of books in respect of such shares.
- June**
- 2** • ADs were permitted to grant credit facilities, fund based as well as non-fund based, according to their commercial judgement against the security of balances held in EEFC account.
 - 29** • The Reserve Bank granted general permission to foreign airline companies, which did not have a branch office or a place of business in India, to carry on their normal commercial activity in India through their local agents. ADs were also permitted to allow local agents of such foreign airline companies to remit net surplus passage fare/freight collection subject to certain conditions.