

Gist of Important RBI Circulars

Rural Planning and Credit Department (RPCD) Circulars

Prime Minister's Employment Generation Programme (PMEGP)

Government of India, have merged Rural Employment Generation Programme (REGP) with Prime Minister Rozgar Yojana (PMRY) and introduced a new scheme called Prime Minister Employment Generation Programme (PMEGP). A copy of the guidelines on PMEGP, released by the Ministry of Micro, Small and Medium Enterprises (MSME), Government of India, along with the modalities for implementation of PMEGP, is enclosed. Khadi and Village Industries Commission (KVIC) is the single national level nodal implementation agency for PMEGP. Banks are requested to take appropriate action as envisaged in the said documents and issue necessary instructions to the branches/controlling offices for successful implementation of the scheme. (For details of the PMEGP, please see the original circular).

(RPCD.PLNFS.BC. No. 41 /09.04.01/2008-2009 dated October 10, 2008)

Temporary Liquidity Support for Financing Agricultural Operations

It is decided to provide temporary liquidity support to NABARD and scheduled banks to the extent of Rs.25,000 crore against their outstanding agricultural advances. The limits will be related to the quantum of debt waived by banks under the Agricultural Debt Waiver and Debt Relief Scheme, 2008. Liquidity support availed by banks will be provided under Section 17 (3-B) of RBI Act 1934 to scheduled banks and Section 17 (4-E) of RBI Act 1934 to NABARD, at the rate of 9 per cent per annum (8 per cent per annum or the prevailing fixed repo rate under LAF with effect from October 20, 2008), and will have to be repaid within a period of three weeks from the date of this circular but not later than December 15, 2008.) This liquidity support is expected to provide Rs. 17,500 crore to co-operative banks and RRBs and Rs.7,500 crore to commercial banks. Accordingly, scheduled commercial banks and scheduled UCBs desirous of availing of the support are required to approach the Regional Director, Deposit Accounts Department, Reserve Bank of India, Mumbai for the purpose. Non scheduled UCBs may approach RBI through the respective State Cooperative banks. RRBs and co-operatives may access the facility through NABARD.

(RPCD.PLFS . No. BC. 45 /05.04.02/2008-09 dated October 15, 2008) (RPCD.PLFS . No. BC. 5 / 05.04.02/2008-09 October 22, 2008); (RPCD.PLFS . No. BC. 60 /05.04.02/2008-09 dated November 3, 2008); (RPCD.PLFS.No. BC. 73 /05.04.02/2008-09 dated December 5, 2008)

Maintenance of CRR

It has been decided to reduce the Cash Reserve Ratio (CRR) for Scheduled State Co-operative Banks/ Regional Rural Banks by 100 basis points from 6.50 per cent to 5.50 per cent of their net demand and time liabilities (NDTL) in two stages. 6 per cent effective October 25, 2008 and 5.50 per cent effective November 8, 2008.

(RPCD.CO.RF.BC.No. 57/07.02.01/2008-09 dated November 3, 2008); (RPCD. CO. RRB. BC. No.59/ 03.05.28(B)/2008-09 dated November 3, 2008)

Maintenance of Statutory Liquidity Ratio (SLR)

It has been decided that Statutory Liquidity Ratio (SLR) for Regional Rural Banks be reduced from 25 per cent to 24 per cent of their net demand and time liabilities (NDTL) with effect from the fortnight beginning November 8, 2008.

(RPCD.CO.RRB.BC. No.58 /03.05.28 (B)/2008-09 dated November 3, 2008)

Regional Rural Banks- Further Liberalisation in Branch Licensing

The conditions for opening of new branches for RRBs mentioned in paragraph 1.2 of our Master Circular dated July 1, 2008 have been modified. RRB should not have defaulted in maintenance of SLR and CRR during the last two years and should be

making operational profits, its net worth should show improvement and its net NPA ratio should not exceed 8 per cent, to become eligible for opening of new branch/es

(RPCD.CO.RRB.BC. No.61 /03.05.90-A/2008-09 dated November 17, 2008)

Agricultural Debt Waiver and Debt Relief Scheme, 2008 Prudential Norms on Income Recognition, Asset Classification and Provisioning and Capital Adequacy

Government of India has since decided to pay interest on the 2nd, 3rd, and 4th installment, payable by July 2009, July 2010, and July 2011 respectively, at the prevailing Yield to Maturity Rate on 364-day Government of India Treasury Bills. The interest will be paid on these installments from the date of the reimbursement of the first installment (i.e. November 2008) till the date of the actual reimbursement of every installment. In view of this, in supersession of the earlier instructions, it has been decided that the RRBs/State and Central Cooperative Banks/ commercial banks need not make any provisions for the loss in Present Value (PV) terms for moneys receivable only from the Government of India, for the accounts covered under the Debt Waiver Scheme and the Debt Relief Scheme.

(RPCD.CO.RRB. BC No.64 /03.05.072/2008-09 dated November 17, 2008); (RPCD.CO. RF. BC. No.69/07.37.02/2008-09 dated November 17, 2008); (UBD. PCB.Cir.No. 27 / 13.05.000/08-09 dated November 17 , 2008); (DBOD.No.BP.BC. 78 /21.04.048/2008-09 dated November 11, 2008)

Housing Loans : Orders of the Delhi High Court

It has since been clarified by the Monitoring Committee that since the agricultural land is outside the limit of the Gram Panchayats and Municipal Councils and as these authorities neither sanction plans nor issue completion certificates for farmhouses constructed by the farmers on the agricultural land, its directions will not apply to such situations. In all such cases, local rules will apply. The banks are advised to take action accordingly.

(RPCD.CO.RF.BC.70/07.40.06/2008-09 dated November 28, 2008); (RPCD.CO.RRB.BC.No.71 /03.05.33/2008-09 dated December 2, 2008); (UBD.PCB.Cir.No. 30/ 09.09.001/ 08-09 dated December 8 , 2008)

3 per cent Interest Subvention Scheme for Short-Term Crop Loans in 2008-09

The subvention of 3% per annum is available to public sector banks(PSBs), rural co-operative banks and regional rural banks(RRBs) on their own funds used for short term credit up to Rs 3,00,000/- provided to farmers. The amount of subvention is to be calculated on the amount of the crop loan disbursed from the date of disbursement/drawal up to the date of repayment or up to the date beyond which the outstanding loan becomes overdue, whichever is earlier. This subvention is available to the banks on the condition that they make available short-term credit at the ground level at 7% p.a.

(RPCD.No.PLFS.BC. 72 /05.04.02/2008-09 dated December 3, 2008)

Priority Sector Lending Loans to Housing Finance Companies

It has been decided that loans granted by banks to Housing Finance Companies (HFCs), approved by National Housing Bank for the purpose of refinance, for on-lending to individuals for purchase/construction of dwelling units may be classified under priority sector, provided the housing loans granted by HFCs do not exceed Rs.20 lakh per dwelling unit per family. However, the eligibility under this measure shall be restricted to five per cent of the individual bank's total priority sector lending, on an ongoing basis. The above special dispensation shall apply to loans granted by banks to HFCs up to March 31, 2010. Such loans granted till March 31, 2010 will continue to be classified under priority sector till they are repaid.

(RPCD.CO.Plan.BC. 74 /04.09.01/2008-09 dated December 8, 2008)

Guidelines on Fair Practices Code for Lenders- Disclosing all Information Relating to Processing Fees / Charges

Regional Rural Banks are advised to ensure that all information relating to charges / fees for processing are invariably disclosed in the loan application forms. Further, the banks must inform 'all-in-cost' to the customer to enable him to compare the rates charged with other sources of finance.

(RPCD.CO.RRB.BC.No.75 /03.05.28-B/2008-09 dated December 10, 2008); (DBOD.No. Leg. BC. 86 /09.07.005/2008-09 dated November 25, 2008)

Credit Delivery to Micro and Small Enterprises

In the context of the global developments and the knock on effects in the domestic credit markets, RBI has taken several measures to enhance credit delivery to the employment intensive micro and small enterprises (MSE) sector. For details of specific initiatives, please see the original circular.

In order that the problems faced by the MSE sector are addressed proactively by banks and steps taken for timely restructuring, holding on operations and additional facilities etc., banks are advised that SLBC convenors may immediately organise special meetings of SLBC where representatives of MSE sector are invited to facilitate exchange of views and arrive at concrete measures in the interest of the sector and the banking system. The details of the RBI restructuring guidelines can be explained and disseminated in these meetings.

Banks were also advised to closely monitor the operations in the sub-limits, particularly with reference to their corporate borrowers' dues to SSI units by ascertaining periodically from their corporate borrowers, the extent of their dues to SSI suppliers and ensuring that the corporates pay off such dues before the 'appointed day' /agreed date by using the balance available in the sub-limit so created. The instructions provided that if, at any time, the sub-limit is exhausted there is no bar on such payments being made from the other segment of the working capital limit. Similarly, if no payments are due to SSI suppliers, and the sub-limit remains unutilised/partially utilised, banks were free to allow their corporate borrowers to operate this limit for meeting other working capital expenses.

The SLBC convenor banks may also take up, with the concerned authorities, issues which are not credit related but which are coming in the way of smooth flow of credit to the MSE sector. Every Regional Office/Zonal Office of all banks should closely monitor the flow of credit to MSEs and also institute a help desk at key centres.

(RPCD. SME&NFS.BC.No. 76 / 06.02.31(P)/2008-09 dated December 16, 2008)

Inclusion in / Exclusion from the Second Schedule to the Reserve Bank of India Act, 1934 Regional Rural Banks (RRBs)

The names of 25 amalgamated Regional Rural Banks have been included in the Second Schedule to the Reserve Bank of India Act, 1934 by notification RPCD.CO.RRB. No. 3231/ 03. 05.100 /2008-09 dated September 22, 2008 published in the Gazette of India (Part III- Sec.4) dated November 15, 2008. Simultaneously the names of 76 erstwhile Regional Rural Banks have been excluded from the Second Schedule to the Reserve Bank of India Act, 1934 by notification RPCD.CO.RRB.No.3230/03.05.100 /2008-09 dated September 22, 2008 published in the Gazette of India (Part III- Sec.4) dated November 15, 2008. (Please see the original circular for details).

(RPCD.CO.RRB. No. BC.77 / 03.05.100/2008-09 December 17, 2008)

Disclosing Information Relating to Processing Fees / Charges

State and Central co-operative banks are, advised to ensure that loan application forms, in respect of all categories of loans irrespective of the amount of loan sought by the borrower, are comprehensive and all information relating to fees/charges, if any, payable for processing, the amount of such fees refundable in the case of non-acceptance of application, pre-payment options and any other matter which affects the interest of the borrower, are invariably disclosed in the loan application forms. Further, the banks must inform 'all-in-cost' to the customer to enable him to compare the rates charged with other sources of finance. Besides, in case of all categories of loans irrespective of any threshold limits, the banks should also convey in writing, within stipulated time, the main reasons which, in the opinion of the bank, have led to rejection of the loan applications.

(RPCD.CO.RF.BC.No.78/07.38.01/2008-09 dated December 19, 2008)

Inclusion of Issues Pertaining to MSME Sector in SLBC Meetings

As you are aware, the State Level Bankers' Committee (SLBC) is a critical focal point for coordination among banks and agencies of the State and Central Government to ensure adequate and timely flow of credit to needy sectors. Necessary instructions have been issued to the banks to review their institutional arrangements for delivering credit to SME Sector especially in identified clusters with a view to providing adequate and timely credit. In view of this, banks are requested to ensure that adequate attention is paid to the financial needs of MSME Sector in their State(s)/UT(s), and include the issue and discuss the problems faced by this sector in all SLBC meetings, in future.

(RPCD.LBS.CO.BC.No. 79 /02.01.01/2008-09 dated December 30, 2008)

Urban Banks Department (UBD) Circulars

Payment of Interest on Frozen Accounts

Banks are advised to follow the procedure detailed below in the case of term deposit accounts frozen by the enforcement authorities: (i) A request letter may be obtained from the customer for renewal for a term equal to the original term, on maturity, (ii) No new receipt is required to be issued. However, suitable note may be made regarding renewal in the deposit ledger, (iii) Renewal of deposit may be advised by registered letter / speed post / courier service to the concerned Government department under advice to the depositor. In the advice to the depositor, the rate of interest at which the deposit is renewed should also be mentioned, and (iv) If overdue period does not exceed 14 days on the date of receipt of the request letter, renewal may be done from the date of maturity. If it exceeds 14 days, banks may pay interest for the overdue period as per the policy adopted by them, and keep it in a separate interest free sub-account which should be released when the original fixed deposit is released. Further, with regard to the savings bank accounts frozen by the enforcement authorities, banks may continue to credit the interest to the account on a regular basis.

(UBD (PCB) CO BPD Cir No: 21/13.01.000/2008-09 dated October 1, 2008)

Savings Bonds 2002/2003 - Collateral Facility

It has now been decided by the Government of India to allow for pledge or hypothecation or lien of the bonds issued under the captioned schemes as collateral for obtaining loans from scheduled banks. Accordingly, the holders of the said bonds will be entitled to create pledge or hypothecation or lien in favour of scheduled banks in accordance with section 28 of the Government Securities Act, 2006 (the G S Act) and regulations 21 and 22 of the Government Securities Regulations, 2007 (the G S Regulations). It may be noted that collateral facility is available only for the loans extended to the holders of the bonds and, as such, the facility is not available in respect of the loans extended to third parties.

(UBD.PCB.Cir. No. 6/13.05.000/2008-09 dated October 15, 2008)

Maintenance of Cash Reserve Ratio

It has been decided to reduce the Cash Reserve Ratio (CRR) for Scheduled Urban Co-operative Banks by 100 basis points from 6.50 per cent to 5.50 per cent of their net demand and time liabilities (NDTL) in two stages. 6 per cent effective October 25, 2008 and 5.50 per cent effective November 8, 2008.

(UBD (PCB).No./8/12.03.000/2008-09 dated November 03, 2008)

Advances Against Pledge of Gold / Silver Ornaments

In order to mitigate the inherent risks attached to sanction of loans and advances against Gold / Silver ornaments, Urban Cooperative Banks are advised to observe the safeguards as detailed in the Annex. (For details of the safeguards, please the original circular).

(UBD.PCB.Cir.No. 24/ 13.05.001/ 08-09 dated November 10, 2008)

Investment in Government and Other Approved Securities

It has been decided to increase the proportion of SLR holdings in the form of government and other approved securities as percentage of NDTL in the following manner, which should be achieved by non-scheduled urban co-operative banks by end-March 2011. (i) Non-scheduled UCBs in Tier I shall maintain SLR in the form of Government and other approved securities not less than 7.5 per cent of their NDTL by September 30, 2009 and 15 per cent of their NDTL by March 31, 2010. (ii) The current prescription of holding SLR in Government and other approved securities not less than 15 per cent of their NDTL in respect of non-scheduled UCBs in Tier-II shall continue up to March 31, 2010. From March 31, 2011 onwards all non-scheduled UCBs shall be required to maintain SLR in Government and other approved securities up to 25 per cent of their NDTL.

(UBD (PCB) CO BPD Cir No: 28/16.26.00/2008-09 dated November 26, 2008)

Provisioning for Standard Assets and Risk Weights for Exposures to Commercial Real Estate and NBFCs

It has now been decided, as a countercyclical measure, to effect the following changes in these norms, with immediate effect. (a)

Provisioning Norms: The provisioning requirements in case of Tier II UCBs for all types of standard assets stand reduced to a uniform level of 0.40 per cent except in the case of direct advances to agricultural and SME sectors, which shall continue to attract a provisioning of 0.25 per cent, as hitherto. Tier I UCBs will continue to make a general provision of 0.25% on all their standard assets. The revised norms would be effective prospectively but the provisions held at present should not be reversed. However, in future, if by applying the revised provisioning norms, any provisions are required over and above the level of provisions currently held for the standard category assets; these should be duly provided for.

b) **Risk weights:** (i) Loans and advances secured by commercial real estate: Such loans would attract a risk weight of 100 per cent as against the extant risk weight of 150 per cent, (ii) Loans and advances to NBFCs : As per extant guidelines, UCBs shall not finance NBFCs other than those engaged in hire-purchase / leasing. Such companies now stand reclassified as Asset Finance Companies, vide DNBS circular dated September 15, 2008. The risk weights on exposure to such companies will remain unchanged at 100 per cent.

(UBD.PCB.Cir. No.29 / 09.11.600/2008-09 dated December 1 , 2008)

Detection and Impounding of Counterfeit Notes : Issue of Receipt to Tenderer

Complaints are being received from the public that while impounding a counterfeit note, the tenderer is not informed the reasons for deeming a note as counterfeit. It is advised that the format of the receipt at Annex I of the Master Circular has been modified with immediate effect indicating the parameters on which a note is deemed as counterfeit. (please see the original circular for the amended proforma of the receipt).

(UBD. PCB. Cir. No. 31 /09.39.000/2008-09 dated December 26, 2008)

Department of Banking Operations and Development (DBOD) Circulars

Investments in the Equity of a Bank by Other Banks or Their Group Entities

It is clarified that (i) The aggregate 'proprietary' holdings of a bank and its group entities should be limited to 5% of the investee bank's paid-up capital, (ii) 'Fiduciary' holdings of an AMC belonging to the group (through PMS and MF) would not be reckoned for the purpose of the 5% limit, (iii) However, the investee bank should approach RBI for acknowledgement if the total holdings of the group (including fiduciary holdings) are at 5% or more of the bank's paid-up capital, (iv) The AMC should not exercise voting rights on its holdings in the investee bank. An undertaking to this effect may be furnished by the AMC to the investee bank, which may be kept with the bank for verification during inspections, and (v) The AMC should not have any Board representation in the investee bank.

(DBOD. No. PSBD.BC. 53/ 16.13.100 / 2008-09 dated October 8, 2008)

Exchange Traded Interest Rate Derivatives

It has now been decided to allow banks to take trading positions also in IRFs. Other provisions of above mentioned circular will continue to remain effective. These guidelines will also be applicable to overseas branches of Indian banks.

(DBOD.BP.BC. No.56 /21.04.157/2008-09 dated October 13 , 2008)

Prudential Norms for Off-balance Sheet Exposures of Banks

The issues regarding asset classification status of overdue payments in respect of derivative transactions and re-structuring of derivative contracts have been examined, and it is advised as under:

Asset Classification: (i) The overdue receivables representing positive mark-to-market value of a derivative contract will be treated as a non-performing asset, if these remain unpaid for 90 days or more. In that case all other funded facilities granted to the client shall also be classified as non-performing asset following the principle of borrower-wise classification as per the existing asset classification norms, (ii) If the client concerned is also a borrower of the bank enjoying a Cash Credit or Overdraft facility from the bank, the receivables mentioned at item (i) above may be debited to that account on due date and the impact of its non-payment would be reflected in the cash credit/overdraft facility account. The principle of borrower-wise asset

classification would be applicable here also, as per extant norms, (iii) In cases where the contract provides for settlement of the current mark-to-market value of a derivative contract before its maturity, only the current credit exposure (not the potential future exposure) will be classified as a non-performing asset after an overdue period of 90 days, and (iv) As the overdue receivables mentioned above would represent unrealised income already booked by the bank on accrual basis, after 90 days of overdue period, the amount already taken to 'Profit and Loss a/c' should be reversed and held in a 'Suspense a/c' in the same manner as is done in the case of overdue advances.

Re-structuring of derivative contracts: In cases where a derivative contract is restructured, the mark-to-market value of the contract on the date of restructuring should be cash settled. For this purpose, any change in any of the parameters of the original contract would be treated as a restructuring. These instructions will also be applicable to the foreign branches of Indian banks.

(DBOD.No.BP.BC.57 / 21.04.157 / 2008 09 dated October 13, 2008)

Restructuring of Dues of the Small and Medium Enterprises (SMEs)

It has come to RBI's notice that in view of somewhat tight liquidity conditions in the domestic markets in the recent past, some of the banks have been averse to disbursing working capital limits and term loans (including short-term loans) to their clients against the sanctioned limits even in cases where the drawing power is available in the client's account and all the terms and conditions of the sanction of the loan stand complied with. In view of the improved liquidity in the markets, the banks concerned are advised to review all such cases and permit drawal of sanctioned limits, guided by their usual commercial judgment. It is understood that some of the banks have not been undertaking the restructuring of dues of the SMEs, where warranted. The banks concerned are, therefore, also advised to consider restructuring the dues of the SMEs, under the guidelines, on merits of the case.

(DBOD.No.BP.BC.58 / 21.04.048/2008-09 dated October 13, 2008)

Loans to Mutual Funds Against and Buy Back of Certificates of Deposits (CDs)

It has been decided to relax the restrictions on lending and buy back, until further advice, only in respect of the CDs held by mutual funds. While granting such loans to the mutual funds, the banks should keep in view the provisions of paragraph 44(2) of the SEBI (Mutual Funds) Regulations, 1996. Further, such finance, if extended to equity-oriented mutual funds, will form part of banks' capital market exposure, as hitherto.

(DBOD.BP.BC.No.59/21.03.009/2008-09 dated October 14, 2008); (DBOD.No.BP.BC. 65 / 21.06.001/2008-09 dated October 20, 2008)

Shortfall in Maintenance of Statutory Liquidity Ratio - Additional Liquidity Support Under Liquidity Adjustment Facility

It has been decided, purely as a temporary measure, that banks may avail of additional liquidity support exclusively for the purpose of meeting the liquidity requirements of mutual funds to the extent of up to 0.5 per cent of their net demand and time liabilities (NDTL). This additional liquidity support will terminate 14 days from the closure of the special term repo facility for mutual funds announced on October 14, 2008. This accommodation will be in addition to the temporary measure contained in the above-mentioned circular permitting banks to avail of additional liquidity support to the extent of up to 1 per cent of their NDTL. It is advised that for any shortfall in maintenance of SLR arising out of avilment of this additional liquidity support under LAF, bank may apply to the Reserve Bank in writing under sub-section (8) of Section 24 of the Banking Regulation Act, 1949 with a request not to demand payment of the penal interest thereon. This measure is ad hoc, temporary in nature and will be reviewed on a continuous basis in the light of the evolving liquidity conditions.

(DBOD.No.Ret.BC. 62 / 12.02.001/2008-09 dated October 15, 2008)

Savings Bonds 2002/2003 - Collateral Facility

It has now been decided by the Government of India to allow for pledge or hypothecation or lien of the bonds issued under the captioned schemes as collateral for obtaining loans from scheduled banks. Accordingly, the holders of the said bonds will be entitled to create pledge or hypothecation or lien in favour of scheduled banks in accordance with section 28 of the Government Securities Act, 2006 (the G S Act) and regulations 21 and 22 of the Government Securities Regulations, 2007 (the G S Regulations). It may be noted that collateral facility is available only for the loans extended to the holders of the bonds and, as such, the facility is not available in respect of the loans extended to third parties.

(DBOD.No.Dir.BC. 66/13.03.00/2008-2009 October 24, 2008)

Prudential Norms for Off-balance Sheet Exposures of Banks

It has now been decided to confine the applicability of the principle of borrower-wise asset classification to only the overdues arising from forward contracts and plain vanilla swaps and options. Accordingly, any amount, representing positive mark-to-market value of the foreign exchange derivative contracts (other than forward contract and plain vanilla swaps and options) that were entered into during the period April 2007 to June 2008, which has already crystallised or might crystallise in future and is / becomes receivable from the client, should be parked in a separate account maintained in the name of the client / counterparty. This amount, even if overdue for a period of 90 days or more, will not make other funded facilities provided to the client, NPA on account of the principle of borrower-wise asset classification, though such receivable overdue for 90 days or more shall itself be classified as NPA, as per the extant IRAC norms. The classification of all other assets of such clients will, however, continue to be governed by the extant IRAC norms. These relaxations will also be applicable to the foreign branches of Indian banks. All other instructions contained in the aforesaid Circular of October 13, 2008 remain unchanged.

(DBOD.BP.BC.No.69/21.03.009/2008-09 dated October 29, 2008)

Maintenance of Statutory Liquidity Ratio

It has been decided that Statutory Liquidity Ratio for scheduled commercial banks be reduced from 25 per cent to 24 per cent of their net demand and time liabilities (NDTL) with effect from the fortnight beginning November 8, 2008.

(DBOD No. Ret.BC.73 /12.02.001/2008-09 dated November 03, 2008)

Shortfall in Maintenance of Statutory Liquidity Ratio - Additional Liquidity support under Liquidity Adjustment Facility (LAF)

Banks were earlier advised that as a temporary and *ad hoc* measure, scheduled banks could avail additional liquidity support under the Liquidity Adjustment Facility (LAF) to the extent of up to one per cent of their Net Demand and Time Liabilities (NDTL) and seek waiver of penal interest. It has been decided now decided to make this reduction permanent with effect from the fortnight beginning November 8, 2008 and accordingly, this flexibility shall be available up to November 7, 2008 after which the statutory liquidity ratio (SLR) will stand reduced to 24 per cent of NDTL. Therefore, banks may apply to the Reserve Bank for waiver of penal interest for shortfall, if any, in maintenance of SLR arising out of availment of this facility up to November 7, 2008.

It has also been decided, on a purely temporary and *ad hoc* basis, subject to review, to extend the facility and allow banks to avail liquidity support under the LAF as stated in our circular FMD.MOAG.No.29 /01.01.01/2008-09 dated November 03, 2008, through relaxation in the maintenance of SLR to the extent of up to 1.5 per cent of their NDTL. This relaxation in SLR is to be used exclusively for the purpose of meeting the funding requirements of NBFCs and MFs. Banks can apportion the total accommodation allowed above between MFs and NBFCs flexibly as per their business needs. Accordingly, banks may apply to the Reserve Bank in writing with a request not to demand payment of the penal interest under sub-section (8) of Section 24 of the Banking Regulation Act, 1949, for the shortfall up to 1.50 per cent of NDTL in maintenance of SLR arising out of availment of this additional liquidity support under LAF.

(DBOD.No.Ret.BC.74/12.02.001/2008-09 dated November 03, 2008)

Prudential Guidelines on Restructuring of Advances by Banks

It has been decided that the ceiling of 10 years, over the repayment period of the restructured advances, would not be applicable for restructured housing loans, subject to compliance with all other terms and conditions prescribed in the aforesaid guidelines. The Board of Directors of the banks should prescribe the maximum period for restructured advances keeping in view the safety and soundness of advances. It has also been decided that the restructured housing loans should be risk weighted with an additional risk weight of 25 percentage points to the risk weights prescribed vide our Master Circular.

(DBOD.No.BP.BC.76 /21.04.0132/2008-09 dated November 3, 2008)

Maintenance of Cash Reserve Ratio

It has been decided to reduce the Cash Reserve Ratio (CRR) for Scheduled Commercial Banks by 100 basis points from 6.50 per cent to 5.50 per cent of their net demand and time liabilities (NDTL) in two stages. 6 per cent effective October 25, 2008 and 5.50 per cent effective November 8, 2008.

(DBOD.No.Ret.BC.71/12.01.001/2008-09 dated November 03, 2008)

Provisioning for Standard Assets and Risk Weights for Exposures to Corporates, Commercial Real Estate and NBFC- ND-SI

It has now been decided, as a countercyclical measure, to effect the following changes in the aforesaid prudential norms, with immediate effect:

a) *Provisioning Norms*: The provisioning requirements for all types of standard assets stand reduced to a uniform level of 0.40 per cent except in the case of direct advances to agricultural and SME sectors, which shall continue to attract a provisioning of 0.25 per cent, as hitherto. The revised norms would be effective prospectively but the provisions held at present should not be reversed. However, in future, if by applying the revised provisioning norms, any provisions are required over and above the level of provisions currently held for the standard category assets, these should be duly provided for.

b) *Risk weights*: The risk weights for the banks' claims on corporates, those secured by commercial real estate and the claims on the NBFC-ND-SI stand revised as follows: (i) Claims on corporates: All unrated claims, long term as well as short term, regardless of the amount of claim, on the corporates shall attract a uniform risk weight of 100 per cent, (ii) Claims secured by commercial real estate: Such claims would attract a risk weight of 100 per cent as against the extant risk weight of 150 per cent, (iii) Claims on NBFC-ND-SI: The claims on the rated as well as unrated NBFC-NDSI (other than AFCs), regardless of the amount of claim, shall be uniformly risk weighted at 100 per cent.

As regards the claims on AFCs, there is no change in the risk weights, which would continue to be governed by the credit rating of the AFC, except the claims that attract a risk weight of 150 per cent under the New Capital adequacy Framework, which shall be reduced to a level of 100 per cent.

(DBOD.BP.BC. 83 / 21.01.002/2008-09 dated November 15, 2008)

Implementation of New Capital Adequacy Framework (NCAF) - Parallel Run Reporting format Monitoring of Prudential Floor

A reporting format (as per the Annex) has been prepared for adoption by all the banks. The reporting in the format is expected to continue till March 2011/ March 2012, as per the date of migration to the NCAF by a bank, for monitoring compliance with Prudential Floors, envisaged in paragraph 4.1.2 of the aforesaid circular on NCAF. The banks are advised to adopt the format for reporting to their Boards with effect from the quarter ending December 31, 2008. The format represents the minimum reporting requirements to the Board and banks could provide such additional information to their Boards as may be considered necessary. A copy of the quarterly report, duly approved by the Boards in the format prescribed, may also be sent to the Reserve Bank of India, so as to reach not later than a month from the end of the quarter to which it relates. In cases, where there the Board's approval of the report is likely to take longer time, the banks may furnish an advance copy of the report to the RBI, to be followed by the comments/remarks/guidance of the Board, if any, on the report.

(DBOD.No.BP.BC.92 /21.06.001/2008-09 dated December 4, 2008)

Prudential Guidelines on Restructuring of Advances by Banks

It has been decided to effect the following modifications to prudential guidelines on restructuring of advances contained in our circular dated August 27, 2008. (i) In terms of para 6.1 of the aforesaid circular, exposures to commercial real estate, capital market exposures and personal/consumer loans are not eligible for the exceptional regulatory treatment of retaining the asset classification of the restructured standard accounts in standard category as given in para 6.2 of the circular. As the real estate sector is facing difficulties, it has been decided to extend exceptions/special treatment to the commercial real estate exposures which are restructured up to June 30, 2009. (ii) In terms of para 6.2.2(vi) of the circular, the special regulatory treatment is restricted only to the cases where the restructuring under consideration is not a 'repeated restructuring' as defined in para (v) of Annex 2 to the circular. In the face of the current economic downturn, there are likely to be instances of even viable units facing temporary cash flow problems. To address this problem, it has been decided, as a one-time measure, that the second restructuring done by banks of exposures (other than exposures to commercial real estate, capital market exposures and personal/consumer loans) upto June 30, 2009, will also be eligible for exceptional/special regulatory treatment.

(DBOD.No.BP.BC.No.93 /21.04.132/2008-09 dated December 8, 2008)

Lending under Consortium Arrangement / Multiple Banking Arrangements

The formats for declaration of information by the borrower at the time of applying for a credit facility to a bank (Annex I) and the format for exchange of information among the banks in respect of borrowers enjoying credit facilities from more than one bank (Annex II), enclosed to the aforesaid circular have been revised to reflect information relating to the derivatives transactions entered into by banks with the borrowers and the unhedged foreign currency exposures of the borrowers

(DBOD.No.BP.BC.94/08.12.001/2008-09 dated December 08, 2008)

Unhedged Foreign Exchange Exposure of Clients Monitoring by Banks

Reference is invited to the instructions contained in the circular dated December 5, 2003 and advise that the Board policy of banks should cover unhedged foreign exchange exposure of all their clients including Small and Medium Enterprises (SMEs). Further, for arriving at the aggregate unhedged foreign exchange exposure of clients, their exposure from all sources including foreign currency borrowings and External Commercial Borrowings should be taken into account. Banks which have large exposures to clients should monitor and review on a monthly basis, through a suitable reporting system, the unhedged portion of the foreign currency exposures of those clients, whose total foreign currency exposure is relatively large (say, about US \$ 25 million or its equivalent). The review of unhedged exposure for SMEs should also be done on a monthly basis. In all other cases, banks are required to put in place a system to monitor and review such position on a quarterly basis. In the case of consortium / multiple banking arrangements, the lead role in monitoring the unhedged foreign exchange exposure of clients, as indicated above, would have to be assumed by the consortium leader / bank having the largest exposure. Banks have already been advised to put in place a system of information sharing and dissemination.

(DBOD.BP.BC.96/21.04.103/2008-09 dated December 10, 2008)

Guidelines on Managing Risks and Code of Conduct in Outsourcing of Financial Services by Banks

It has been decided to add a new sub para 7.4 in our earlier circular dated November 3, 2006. "As regards the off-shore outsourcing of financial services relating to Indian Operations, banks should additionally ensure that (a) Where the off-shore service provider is a regulated entity, the relevant off-shore regulator will neither obstruct the arrangement nor object to RBI inspection visits / visits of banks internal and external auditor, (b) The availability of records to management and the RBI will withstand the liquidation of either the offshore custodian or the bank in India, (c) The regulatory authority of the offshore location does not have access to the data relating to Indian operations of the bank simply on the ground that the processing is being undertaken there (not applicable if off shore processing is done in the home country of the bank), (d) The jurisdiction of the courts in the off shore location where data is maintained does not extend to the operations of the bank in India on the strength of the fact that the data is being processed there even though the actual transactions are undertaken in India, and (e) All original records continue to be maintained in India."

(DBOD.No.BP.97/21.04.158/2008-09 dated December 11, 2008)

Internal assignments in Banks by Statutory Auditors

The issue relating to the internal assignments allotted to the audit firms at the time of their appointment as statutory auditors has been examined afresh and it has been decided that "Audit firms should not undertake statutory audit assignment while they are associated with internal assignments in the bank during the same year. In case the firms are associated with internal assignment it should be ensured that they relinquish the internal assignment before accepting the statutory audit assignment during the year."

(DBS.ARS.No.BC.02/08.91.001/2008-09 dated December 31, 2008)

(Compiled by S. Thyagarajan, Member of Faculty, College of Agricultural Banking, Reserve Bank of India, Pune)

