

# Gist of Important RBI Circulars

## RPCD Circulars

### Maintenance of CRR

The Cash Reserve Ratio (CRR) for Scheduled State Co-operative Banks/Regional Rural Banks is reduced by 50 basis points from 5.50 per cent to 5.00 per cent of their net demand and time liabilities (NDTL), effective from the fortnight beginning January 17, 2009.

(RPCD.CO.RF.BC.No.81/07.02.01/2008-09 dated January 05, 2009); (RPCD.CO.RRB.BC. No.82/ 03.05.28(B)/2008-09 dated January 5, 2009)

### Financial Literacy and Credit Counselling Centres (FLCCs) - Model Scheme

A Model Scheme for Financial Literacy and Credit Counseling Centres has been formulated and is annexed to the circular. In order to make Financial Literacy and Credit Counselling initiative a success, it is necessary to create widespread awareness about the concept and, more importantly, for banks to appreciate the overall benefits of such initiatives. It is necessary to have the total and complete involvement of the top management of banks in this initiative. (For details of model scheme, please see the original circular)

(RPCD.CO.MFFI.BC.No.86/12.01.18/2008-09 dated February 4, 2009)

### Delays in Cheque Clearing - Case No. 82 of 2006 before National Consumer Disputes Redressal Commission

Banks are advised to frame/ reframe their Cheque Collection Policies (CCPs) covering local and outstation cheque collection as per the timeframe prescribed by the Commission. For local cheques, credit and debit shall be given on the same day or at the most the next day of their presentation in clearing. Ideally, in respect of local clearing, banks shall permit usage of the shadow credit afforded to the customer accounts immediately after closure of relative return clearing and in any case withdrawal shall be allowed on the same day or maximum within an hour of commencement of business on the next working day, subject to usual safeguards.

Timeframe for collection of cheques drawn on state capitals/major cities/other locations to be 7/10/14 days respectively. If there is any delay in collection beyond this period, interest at the rate specified in the CCPs of the bank, shall be the interest rate on fixed deposits for the corresponding maturity. The timeframe for collection specified by the Commission shall be treated as outer limit and credit shall be afforded if the process gets completed earlier. Banks shall give wide publicity to the CCPs by prominently displaying salient features thereof in bold and visible letters on the notice board at their branches. A copy of the complete CCPs shall be made available by the branch manager, if the customers require so.

(RPCD.CO.RRB.BC.No. 87 /03.05.33 /2008-09 dated February 5, 2009); (RPCD.CO.RF. BC. No. 88 / 07.06.00 / 2008-09 dated February 6, 2009)

### Valuation of Investment in SLR/Approved Securities by Regional Rural Banks (RRBs)

Exemption granted to RRBs up to the financial year 2007-08 from 'mark to market' norms in respect of their investments in SLR securities is extended by one more year i.e. for the financial year 2008-09. Accordingly, RRBs will have the freedom to classify

their entire investment portfolio of SLR securities under 'Held to Maturity' for the financial year 2008-09 with valuation on book value basis and amortisation of premium, if any, over the remaining life of securities.

(RPCD.RRB.BC.No.94/03.05.34/2008-09 dated March 26, 2009)

## UBD Circulars

### Maintenance of Cash Reserve Ratio (CRR)

The Cash Reserve Ratio (CRR) for Scheduled Primary (Urban) Co-operative Banks is reduced by 50 basis points from 5.50 per cent to 5.00 per cent of their net demand and time liabilities (NDTL), effective from the fortnight beginning January 17, 2009.

(UBD (PCB).No./9/12.03.000/2008-09 dated January 05, 2009)

### Instruments for Augmenting Capital Funds

In continuation of the circular dated July 15, 2008, banks are advised (i) PNCPs held may be treated as shares for the purpose of compliance with extant share linking norms. (ii) No loans and advances should be sanctioned against the collateral of preference shares (including PNCPs). (iii) There is no prohibition on existing shareholders subscribing to Long Term Deposits (LTDs).

(UBD.PCB. Cir .No.32/09.18.201/2008-09 dated January 13 , 2009)

### USD Denominated Cheques—Improvements in Collection Process

Authorised Dealer UCBs may initiate steps as detailed below to provide customer friendly collection arrangements: -

i) UCBs shall make the US Dollar currency cheque collection scheme transparent and a part of their regular cheque collection policy. Various modes of collection along with the time period and charges for each mode should be appropriately covered therein, ii) The policy shall be widely disseminated and displayed on the notice board of branches / web site, iii) Customer shall be suitably educated / informed of the collection mode based on need, convenience and cost, including the advantages of using electronic modes of payment, iv) UCBs may review their collection policies on an on-going basis and explore using faster methods of realization such as leveraging on Check-21 facility in the US for saving in transit time, direct deposit mechanism with correspondent bank (CB), etc., for early collection of USD cheques, v) There is scope for reducing the transit time for moving the cheques from branches to CBs. The transit period may be reduced by 2 to 3 days by sending cheques on the same day from branches to centralized pooling branch and from centralized pooling branch to CB. Use of efficient and reliable courier / postal service may help in reducing the transit time, vi) UCBs may explore the possibility of forming / pooling the cheques to a service bureau to avail benefit of imaging, reduced infrastructure costs, etc., with the intent of saving in transit / collection time, vii) Service charges for collection of USD cheques shall be decided by UCBs and be made a part of their USD cheque collection policy, viii) UCBs shall pay interest on the amount of cheques from the date of sighting credit in their nostro account till such time the customer account is credited. Interest shall be paid at saving bank rate calculated on the amount of proceeds credited to the customer's account, ix) Compensation by way of additional interest shall be paid to the customer for delay in collection beyond the declared collection period as per the bank's policy, without the customer requesting for the same and such interest shall be on 'step-up basis' for the period of delay, x) UCBs may formulate a policy on 'instant' credit for small value cheques as a part of their USD cheque collection policy, xi) Complaints from customers alleging delay in collection / receipt of proceeds or otherwise shall be properly examined and redressed, and xii) UCBs shall continuously evaluate the industry best practices and adopt such practices wherever feasible.

(UBD (PCB). Cir. No. 33/16.26.00/2008-09 dated January 14, 2009)

### Reconciliation of Transactions at ATMs Failure-Time Limit

Banks are advised, as per circulars dated October 23, 2008 and February 11, 2009 issued by DPSS, RBI, to strictly adhere to the time discipline of 12 days, from the date of receipt of complaints, prescribed for reimbursement to the customers the amount wrongfully debited to their account. The directions have been issued under Section 18 of Payment and Settlement Systems Act 2007 (Act 51 of 2007)

(UBD.CO. BPD. (PCB) Cir. No.50/09.39.000/2008-09 dated February 17, 2009)

### Lending under Consortium Arrangement / Multiple Banking Arrangements

In order to strengthen the information sharing system among banks in respect of the borrowers enjoying credit facilities from multiple banks, the banks are required to obtain regular certification by a professional, preferably a Company Secretary, regarding compliance of various statutory prescriptions that are in vogue, as per specimen given in **Annex III** to the circular dated January 21, 2009. In addition to Company Secretaries, banks can also accept the certification by Chartered Accountants & Cost Accountants.

(UBD.PCB.No. 49 /13.05.000/2008-09 dated February 12, 2009)

### Prudential Guidelines on Restructuring of Advances

In view of the current economic downturn and the spillover effects of the global recession on the Indian economy particularly from September 2008 onwards, which has created stress on liquidity and payments for the otherwise viable units / activities, certain modifications in the guidelines are considered necessary. The matter has been reviewed and it has now been decided to introduce revised guidelines on restructuring of advances and also realign the extant instructions on the Debt Restructuring Mechanism for SMEs. These guidelines are in supersession of all the guidelines issued on the subject so far and will be applicable to all accounts restructured after the date of issue of the circular. For the guidelines, please see the original circular.

(UBD.PCB. BPD. No. 53 /13.05.000 / 2008-09 dated March 6, 2009)

### Co-operative Banks (Nomination) Rules, 1985 – Acknowledgement of Nomination and indicating the Name of the Nominee in Pass Books / Fixed Deposit Receipts

Banks are advised to strictly comply with the provisions of Banking Regulation Act, 1949 (AACS) and Co-operative Banks (Nomination) Rules, 1985 and devise a proper system of acknowledging the receipt of the duly completed form of nomination, cancellation and / or variation of the nomination. Such acknowledgement should be given to all the customers irrespective of whether the same is demanded by the customers. Banks are advised that in addition to the legend "Nomination Registered", they should also indicate the name of the Nominee in the Pass Books / Statement of Accounts / FDRs, in case the customer is agreeable to the same.

(UBD.CO. BPD. (PCB) Cir. No. 56 /09.39.000/2008-09 dated March 12, 2009)

### Bankers' Book Evidence Act, 1891 – Submission of certified copies of entries/print out to Courts

UCBs are advised to comply with the provisions of the Bankers' Books Evidence Act, 1891 while furnishing certified copies and computer printouts to Courts. In the absence of such statutory certificate, the court would not be obliged to admit the document in evidence without any further proof.

(UBD. CO. BPD. PCB. Cir. No. 57 /12.05.001/2008-09 dated March 31, 2009)

## DBOD Circulars

### Maintenance of CRR

The Cash Reserve Ratio (CRR) for Scheduled Commercial Banks is reduced by 50 basis points from 5.50 per cent to 5.00 per cent of their net demand and time liabilities (NDTL), effective from the fortnight beginning January 17, 2009.

(DBOD.No.Ret.BC.103/12.01.001/2008-09 dated January 02, 2009)

### Prudential Guidelines on Restructuring of Advances by Banks

Banks are advised that (a) all accounts covered under the circular dated December 8, 2008 which were standard accounts on September 1, 2008 would be treated as standard accounts on restructuring provided the restructuring is taken up on or before January 31, 2009 and the restructuring package is put in place within a period of 120 days from the date of taking up the restructuring package, (b) the period for implementing the restructuring package would stand extended from 90 days to 120 days in respect of accounts covered under the circular dated August 27, 2008 also, (c) the value of security is relevant to determine the likely losses which a bank might suffer on the exposure should the default take place. This aspect assumes greater importance in the case of restructured loans. However, owing to the current downturn, the full security cover for the WCTL created by conversion of the irregular portion of principal dues over the drawing power, may not be available due to fall in the prices of security such as inventories. In view of the extraordinary situation, this special regulatory treatment will also be available to 'standard' and 'sub-standard accounts', covered under circulars dated August 27, 2008 and December 8, 2008 even where full security cover for WCTL is not available, subject to the condition that provisions are made against the unsecured portion of the WCTL, as under: (i) *standard Assets: 20%*, (ii) *sub-standard Assets: 20% during the first year and to be increased by 20% every year thereafter until the specified period (one year after the first payment is due under the terms of restructuring)*, (iii) *if the account is not eligible for upgradation after the specified period, the unsecured portion will attract provision of 100%*. These provisions would be in addition to the usual provisions as per the current regulation.

All the modifications indicated are one time measure and would be available for restructuring packages implemented till June 30, 2009. It is re-iterated that the basic objective of restructuring is to preserve economic value of units, not ever greening of problem accounts. This can be achieved by banks and the borrowers only by careful assessment of the viability, quick detection of weaknesses in accounts and a time-bound implementation of restructuring packages.

(DBOD.BP.No.104/21.04.132/2008-09 dated January 2, 2009)

### Prudential Guidelines on Restructuring of Advances by Banks

It has been decided to extend the date for regulatory dispensation to March 31, 2009. It is clarified that this relaxation is applicable to all accounts which were eligible under our August 27, 2008 circular and were standard accounts as on 1st September 2008. It is clarified that (i) The general framework of Restructuring of Advances by banks continue to be governed by the circular dated August 27, 2008 and (ii) All the provisions in this circular and the circulars dated December 8, 2008 and January 2, 2009, to the extent relevant, are also applicable to the accounts restructured under CDR mechanism.

(DBOD. No.BP.BC.No. 105/21.04.132/2008-09 February 4, 2009)

### Introduction of Advanced Approaches of Basel II Framework in India – Draft Time Schedule

Having regard to the necessary up-gradation of risk management framework as also capital efficiency likely to accrue to the banks by adoption of the advanced approaches envisaged under the Basel II Framework and the emerging international trend in this regard, it is considered desirable to lay down a timeframe for implementation of the advanced approaches in India. This would enable the banks to plan and prepare for their migration to the advanced approaches for credit risk and operational risk, as also for the Internal Models Approach (IMA) for market risk. Keeping in view the likely lead time that may be needed by the

banks for creating the requisite technological and the risk management infrastructure, including the required databases, the MIS and the skill up-gradation, etc., it is proposed to lay down the following time schedule for implementation of the advanced approaches for the regulatory capital measurement.

S.No.	Approach	The earliest date of making application by banks to the RBI	Likely date of approval by the RBI
a.	Internal Models Approach (IMA) for Market Risk	April 1, 2010	March 31, 2011
b.	The Standardised Approach (TSA) for Operational Risk	April 1, 2010	September 30, 2010
c.	Advanced Measurement Approach (AMA) for Operational Risk	April 1, 2011	March 31, 2013
d.	Internal Ratings-Based (IRB) Approaches for Credit Risk (Foundation- as well as Advanced IRB)	April 1, 2012	March 31, 2014

The banks are advised to undertake an internal assessment of their preparedness for migration to advanced approaches, in the light of the criteria envisaged in the Basel II document, as per the aforesaid time schedule, and take a decision, with the approval of their Boards, whether they would like to migrate to any of the advanced approaches. The banks deciding to migrate to the advanced approaches may approach us for necessary approvals, in due course, as per the stipulated time schedule.

Banks, at their discretion, would have the option of adopting the advanced approaches for one or more of the risk categories, as per their preparedness, while continuing with the simpler approaches for other risk categories, and it would not be necessary to adopt the advanced approaches for all the risk categories simultaneously. However, the banks should invariably obtain prior approval of the RBI for adopting any of the advanced approaches.

(DBOD.BP.BC.No.109/21.06.001/2008-09 dated February 5, 2009)

### Lending under Consortium Arrangement / Multiple Banking Arrangements

In terms of Paragraph 2(iii) of the above circular, in order to strengthen the information sharing system among banks in respect of the borrowers enjoying credit facilities from multiple banks, the banks are required to obtain regular certification by a professional, preferably a Company Secretary, regarding compliance of various statutory prescriptions that are in vogue, as per specimen given in **Annex III** to the circular dated September 18, 2008. In this context it is clarified that in addition to Company Secretaries, banks can also accept the certification by a Chartered Accountants & Cost Accountants.

(DBOD.No. BP.BC.110/08.12.001/2008-09 dated February 10, 2009)

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