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RBI GUIDELINES: JUNE 13

UNIFORMITY IN INTERSOL CHARGES (July 1, 2013)

With the introduction of Core Banking Solution (CBS), it is expected that customers of banks would be treated uniformly at any sales or service delivery point. It is, however, observed by RBI that some banks are discriminating against their own customers on the basis of one branch being designated as the 'home' or 'base' branch where charges are not levied for products/ services and other branches of the same bank being referred to as 'non-home' branches where charges are levied for the same products/ services. The charges generally referred to as 'Intersol' charges, are also not uniform across home/ non-home branches. This practice followed by some banks is contrary to the spirit of the Reserve Bank's guidelines on reasonableness of bank charges. As 'Intersol' charges are charges levied by the bank to cover the cost of extending services to customers by using the CBS/Internet/Intranet platform, the cost should be branch/customer agnostic in-principle. RBI has clarified that cash handling charges may not be included under intersol charges.

In order to ensure that bank customers are treated fairly and reasonably without any discrimination and in a transparent manner at all branches of banks/service delivery locations under CBS environment, RBI has advised banks to follow a uniform, fair and transparent pricing policy and not discriminate between their customers at home branch and non-home branches. Accordingly, if a particular service is provided free at home branch the same should be available free at non home branches also. There should be no discrimination as regards intersol charges between similar transactions done by customers at home branch and those done at non-home branches.

PRIORITY SECTOR LENDING
BANK LOANS TO MFIS FOR ON-LENDING

As per extant guidelines, on Priority Sector Lending, bank credit to MFIs for on lending will be eligible for categorization as priority sector advance if aggregate amount of loan, extended for income generating activity, is not less than 75% of the total loans given by MFIs. On a review of the above provision, RBI has decided that bank credit to MFIs for on lending will now be eligible for categorization as priority sector advance if aggregate amount of loan, extended for income generating activity, is not less than 70% of the total loans given by MFIs.

Import of Gold by Nominated Banks /Agencies

As per extant guidelines, the import of gold on consignment basis by banks, nominated agencies/ premier / star trading houses who have been permitted by Government of India, to import gold has been restricted only to meet the genuine needs of the exporters of gold jewellery. Further, all Letters of Credit (LC) to be opened by Nominated Banks / Agencies for import of gold under all categories will be only on 100 per cent cash margin basis and imports of gold will necessarily have to be on Documents against Payment (DP) basis. Accordingly, gold imports on Documents against Acceptance (DA) basis will not be permitted.

RBI has now clarified that, import of gold against suppliers/buyers credit, as also import of gold on unfixed price basis has to necessarily observe the discipline stipulated relating to cash margins and Documents against Payment (DP) basis. In other words, AD Category I Banks are required to ensure that credit in any form or name is not enabled for import of any form of gold. Import of gold on loan basis may, however, continue to be allowed since the scheme envisages that the nominated banks/nominated agencies can import gold on loan basis for on-lending only to the exporters of jewellery in sync with the non-applicability of the above restrictions to exporters of gold jewellery.

Risk Weights on deposits placed with NABARD/SIDBI/NHB in lieu of shortfall in achievement of priority sector lending targets

As per extant guidelines on Prudential Guidelines on Capital Adequacy and Market Discipline – New Capital Adequacy Framework (NCAF)], claims on public sector entities (including NABARD, SIDBI, NHB, etc.) are required to be risk weighted in a manner similar to claims on corporates as per the ratings assigned by the rating agencies registered with the SEBI and accredited by the Reserve Bank of India. Where the borrower has a specific assessment for an issued debt, but the bank's claim is not an investment in this particular debt, the rating applicable to this specific debt can be applied to the bank's unassessed claim provided certain conditions are satisfied. RBI has clarified that if the these conditions are not satisfied, the rating applicable to the specific debt cannot be used and the claims on NABARD/SIDBI/NHB on account of deposits placed in lieu of shortfall in achievement of priority sector lending targets/sub-targets shall be risk weighted as applicable for unrated claims, i.e. 100%.

Export of Goods and Services- Realization and Repatriation period for units in SEZs

As per extant guidelines, there is no time limit for realization and repatriation of export proceeds, for the exports made by units in Special Economic Zones (SEZs). RBI has now decided that the units located in SEZs shall realize and repatriate, full value of goods/software/services, to India within a period of twelve months from the date of export. Any extension of time beyond the above stipulated period may be granted by Reserve Bank of India, on case to case basis. The above changes will be applicable with effect from 11 June 2013 and shall be valid for one year.

Import of Gold by Nominated Banks /Agencies

As per extant guidelines, the import of gold has been restricted on consignment basis by banks, only to meet the genuine needs of the exporters of gold jewellery. RBI has now decided to extend these provisions to all nominated agencies/ premier / star trading houses who have been permitted by Government of India to import gold. Accordingly, any import of gold on consignment basis by both nominated agencies and banks shall now be permissible only to meet the needs of exporters of gold jewellery. Further, all Letters of Credit (LC) to be opened by Nominated Banks / Agencies for import of gold under all categories will be only on 100 per cent cash margin basis. Further, all imports of gold will necessarily have to be on Documents against Payment (DP) basis. Accordingly, gold imports on Documents against Acceptance (DA) basis will not be permitted. These restrictions will however not apply to import of gold to meet the needs of exporters of gold jewellery.

Acknowledgement by banks at the time of submission of Form 15-G / 15-H

Banks are not required to deduct TDS from depositors who submit declaration in Form 15-G/15-H under Income Tax Rules, 1962. However, there have been instances that

despite submission of Form 15-G/15-H by customers, banks are deducting tax at source, at times, causing inconvenience to customers. Such instances arise because either the forms are misplaced or a track is not kept of forms received in the branches. With a view to protect interest of the depositors and for rendering better customer service, RBI has advised banks to give an acknowledgment at the time of receipt of Form 15-G/15-H. This will help in building a system of accountability and customers will not be put to inconvenience due to any omission on part of the banks.

Housing Sector: New sub-sector CRE (Residential Housing) within CRE and Rationalisation of provisioning, risk-weight and LTV ratios

As loans to the residential housing projects under the Commercial Real Estate (CRE) Sector exhibit lesser risk and volatility than the CRE Sector taken as a whole, RBI has decided to carve out a separate sub-sector called Commercial Real Estate – Residential Housing (CRE-RH) from the CRE Sector. CRE-RH would consist of loans to builders/developers for residential housing projects (except for captive consumption) under CRE segment. Such projects should ordinarily not include non-residential commercial real estate. However, integrated housing projects comprising of some commercial space (e.g. shopping complex, school, etc.) can also be classified under CRE-RH, provided that the commercial area in the residential housing project does not exceed 10% of the total Floor Space Index (FSI) of the project. In case the FSI of the commercial area in the predominantly residential housing complex exceeds the ceiling of 10%, the project loans should be classified as CRE and not CRE-RH.

The above-mentioned CRE-RH segment will attract a lower risk weight of 75% and lower standard asset provisioning of 0.75% as against 100% and 1.00%, respectively for the CRE segment.

Further, as per extant guidelines, banks are required to make provisions and risk-weight for their housing loans to individuals as per the amount of loans as also the Loan to Value (LTV) ratio for such loans. RBI has decided to rationalise the prudential norms on risk-weight, provisioning and LTV ratio for individual housing loans, CRE and CRE-RH exposures, as under:

Category of Loan	LTV Ratio (%)	Risk Weight (%)	Standard Asset Provisioning (%)
(a) Individual Housing Loans			
(i) Up to Rs. 20 lakh	90	50	0.40
(ii) Above Rs. 20 lakh and up to Rs. 75 lakh	80	50	0.40
(iii) Above Rs.75 lakh	75	75	0.40
(b) CRE-RH	N A	75	0.75
(c) CRE	N A	100	1.00
Note: 1 - The LTV ratio should not exceed the prescribed ceiling in all fresh cases of sanction. In case the LTV ratio is currently above the ceiling prescribed for any reasons, efforts shall be made to bring it within limits.			
2 – Banks' exposures to third dwelling unit onwards to an individual will also be treated as CRE exposures.			

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- I have secured 3rd rank in promotion from II to III (R C Goel, CBI RO Kanpur)
- I have got promotion to scale III and got 70 out of 100 in written test only due to you (Binod, UCO Bank, Patna)
- I got highest 90 marks in written exam of UCO Bank II to III on 1.7.12 (Jitendra Kumar, Begusarai)
- More than 40 questions out of 100 from Important questions supplied by you (An officer of OBC: I to II)
- 51 questions from 4 Mock Tests in CBI II to III (Mohan Malviya, CBI Bhopal)
- Almost all the questions in the exams were from your material. Even the order of answers in form of A, B,C, D,E in some questions were same. (Amit Babbar, Manager, Syndicate Bank, Nirman Vihar, Delhi)
- Most of the questions were from Recalled Questions. Thank you very much for my promotion. (Shakuntala, Syndicate Bank, Bangalore)

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Unique Customer Identification Code (UCIC) for banks' customers in India

RBI had advised banks to initiate steps for allotting UCIC to all their customers while entering into any new relationships for individual customers to begin with, and to existing individual customers by end-May 2013. Keeping in view the constraints, the time for completing the process of allotting UCIC to existing customers is extended up to March 31, 2014.

Risk Management and Inter-Bank Dealings-Liberalization of documentation requirements for the resident entities in the Indian Forex Market (July 04, 2013)

As per extant guidelines on Over the Counter (OTC) Foreign Exchange Derivatives and Overseas Hedging of Commodity Price and Freight Risks, in the case of contracted exposure, AD Category I banks must obtain "Quarterly certificates from the statutory auditors of the users, that the contracts outstanding at any point of time with all AD Category I banks during the quarter did not exceed the value of the underlying exposures. RBI has now advised that AD banks, while offering hedging products under the contracted exposure route to their customers may obtain an annual certificate from the statutory auditors to the effect that the contracts outstanding with all AD category I banks at any time during the year did not exceed the value of the underlying exposures at that time. However, the AD bank, while entering into any derivative transaction with a client, shall have to obtain an undertaking from the client to the effect that the contracted exposure against which the derivative transaction is being booked has not been used for any derivative transaction with any other AD bank.

Financing of Infrastructure Definition of 'Infrastructure Lending'

RBI had harmonized the 'Definition of Infrastructure Lending', with that of the 'Master List of Infrastructure sub-sectors' notified by the Government of India on March 27, 2012. Government of India, has updated the Harmonised Master List of Infrastructure sub-sectors and added the following new sub-sectors to the Notification dated March 27, 2012 – (i) Capital Dredging, under the sub-sector 'Ports'; (ii) Slurry Pipelines; (iii) Telecommunication & Telecom Services. An updated list of sub-sectors for infrastructure lending by banks is given below:

1. Transport: Roads and bridges, Ports including Capital Dredging, Inland Waterways, Airport, Railway Track, tunnels, viaducts, bridges including supporting terminal infrastructure such as loading/unloading terminals, stations and buildings, Urban Public Transport (except rolling stock in case of urban road transport)
2. Energy: Electricity Generation, Electricity Transmission, Electricity Distribution, Oil pipelines, Oil/Gas/Liquefied Natural Gas (LNG) storage facility including strategic storage of crude oil, Gas pipelines including City Gas Distribution network,
3. Water & Sanitation: Solid Waste Management, Water supply pipelines, Water treatment plants, Sewage collection, treatment and disposal system, Irrigation (dams, channels, embankments etc), Storm Water Drainage System, Slurry Pipelines.
4. Communication: Telecommunication (Fixed network) including optic fibre/cable networks which provide broadband / internet, Telecommunication towers, Telecommunication & Telecom Services.
5. Social and Commercial Infrastructure: Education Institutions (capital stock), Hospitals (capital stock) including Medical Colleges, Para Medical Training Institutes and Diagnostics Centres, Three-star or higher category classified hotels located outside cities with population of more than 1 million, Common infrastructure for industrial parks, SEZ, tourism facilities and agriculture markets, Fertilizer (Capital investment), Post harvest storage infrastructure for agriculture and horticultural produce including cold storage, Terminal markets, Soil-testing laboratories, Cold Chain including cold room facility for farm level pre-cooling, for preservation or storage of agriculture and allied produce, marine products and meat.

Rationalisation of Returns

In the light of the recommendation of the Working Group on "Money Supply: Analytics and Methodology of Compilation" and towards rationalisation of returns submitted by the Scheduled Commercial Banks to the Reserve Bank of India, RBI had decided to discontinue submission of the various Special Fortnightly Returns (SFR) with effect from the fortnight beginning August 10, 2002. At present, banks are submitting following SFR Returns/Statements – (i) SFR II; (ii) SFR III; (iii) SFR VIII; (iv) Statement on daily maintenance of SLR. On further rationalisation, RBI has decided to discontinue submission of SFR VIII Return with effect from the fortnight beginning July 12, 2013. However, bank, would continue to submit other SFR returns/statement viz. SFR II, SFR III and "statement on daily maintenance of SLR"

'Non Banking Financial Company Micro Finance Institutions' (NBFC-MFIs) Modifications in Pricing of Credit - Margin cap

As per extant guidelines, on Pricing of Credit, NBFC-MFIs will ensure that the average interest rate on loans during a financial year does not exceed the average borrowing cost during that financial year plus the margin, within the prescribed cap. The cap on margins as defined by Malegam Committee may not exceed 10 per cent for large MFIs (loans portfolios exceeding Rs.100 crore) and 12 per cent for the others. RBI has now decided that the margin cap for all NBFCs irrespective of their size would be 12 % per cent till March 31, 2014. However, with effect from 1st April, 2014 margin caps as defined by Malegam Committee may not exceed 10 per cent for large MFIs (loans portfolios exceeding Rs.100 crore) and 12 per cent for the others.

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Bonds issued by State Distribution Companies (Discoms) – Guidelines on Valuation (June 27, 2013)

Government of India had formulated and approved a Scheme in October 2012, for Financial Restructuring of State Owned Power Discoms to enable their turnaround and ensure their long term viability. The Scheme, inter-alia, envisaged the conversion of 50 per cent of the outstanding Short Term Liabilities (as on March 31, 2012) of Discoms to banks into bonds. These bonds will be issued by Discoms and will be serviced by them for a specified initial period till they are taken over by the State Governments in a phased manner. However, these bonds will be duly backed by the guarantees of the respective State Governments, till the time their liabilities are taken over by them from the Discoms. While issuing guarantee to the Discoms for issuance of bonds, the State Governments are required to take into consideration their respective guarantee limits as per relevant Act/Rules, if any.

As these bonds are to be acquired by banks under special circumstances and these have two distinct features, viz., (i) issued and serviced by State Discoms with the guarantee of the respective State Governments during the initial period and (ii) issued and serviced by the State Governments during the latter period, the following methodology will be applicable for valuation of such bonds:

(i) If these bonds are traded and quoted, they will be valued at their current 'Market Value'.

(ii) In case the bonds are not traded and quoted, they will be valued on the YTM basis. The relevant YTM will be YTM rates for Central Government Securities of equivalent maturities as put out by FIMMDA on the valuation day with the following mark-ups:

(a) During the period when bonds' liabilities are with the State Discoms and if guaranteed by respective State Governments – 75 basis points; if not guaranteed by respective State Governments – 100 basis points

(b) During the period when bonds' liabilities are with the respective State Governments – 50 basis points.

Further, the bonds will continue to be governed by extant prudential norms as applicable to non-SLR securities.

BRIEF PROFILE OF EDITOR
SHRI A. K. GUPTA

1. Shri A.K. Gupta is a post graduate in commerce, LL.B, CAIIB, PG Dip in Personnel Management and IR, PG Dip in Marketing and Management, PG Diploma in Training and Development, Cert in Industrial Finance;
2. Ex- Chief Manager, Punjab National Bank with an experience of more than 28 years as a banker;
3. Experience of more than 12 years in training in the bank's training college (Principal for 5 years); helped thousands of bankers in their banking career;
4. Has been examiner with Indian Institute of Banking & Finance (IIBF, Mumbai) for about 5 years;
5. Remained associated with number of management institutions at MBA level including Masters of Finance, University of Delhi, International Management Institute Conducted programmes in the area of Asset Liability Management and Credit risk management for top management executives in the rank of Chief General Manager/General Manager/DGM/ AGMs of SIDBI, Central Bank of India, Dena Bank, Punjab & Sind Bank
6. Was a student of University of Manchester for 3 months for an advanced programme in Development Banking.

Business Continuity Planning (BCP), Vulnerability Assessment and Penetration Tests (VAPT) and Information Security

RBI has emphasized the importance of securing the Information Systems (IS) of banks. In order for banks to secure their ISs, ensure their continuity, and check their robustness, it is expected that banks put in place appropriate business continuity plans (BCPs) and test them periodically. These ISs should also be subjected to vulnerability assessment and penetration testing (VAPT).

2. Formulation of consolidated BCP documents by banks covering critical aspects of people, process and technology is important in view of the increased contribution of 24x7 electronic banking channels. The documents should cover policies, standards and procedures to ensure continuity, resumption and recovery of critical business processes, at an agreed level and limit the impact of the any disaster on people, processes and infrastructure (including IT); or to minimise the operational, financial, legal, reputational and other material consequences arising from such a disaster. In order to test their internal IT systems to handle unforeseen disruptions, it is important for the banks to conduct Disaster Recovery (DR) Drills on a regular basis. It is also important that these arrangements are subject to periodic testing.

3. Further, considering that cyber attacks could threaten the confidentiality, integrity and availability of data and the systems, it is imperative for the banks to conduct VAPT periodically to prevent any such attacks. There is a need to prepare documents detailing these activities, update the same regularly and ensure that gaps identified from the tests are plugged in a timely manner. This should form part of the Information Security assurance function undertaken by banks.

4. Reserve Bank has been emphasising to banks on the importance of putting appropriate IT and IS governance structures to enable, interalia, better control and security. The policies governing security of ISs may be discussed and approved at the Board level and updated from time-to-time. A certificate confirming the same may be forwarded to us for our record. This aspect may be subjected to scrutiny at a later date during the Annual Financial Inspection of banks.

5. The information regarding the conduct of DR drills and VAPT is received by the Reserve Bank on a quarterly basis and this may be continued.

6. The critical components of Business Continuity Management Framework as enunciated in the report of Working Group on information security, electronic banking, technology risk management, and cyber frauds (Chairman: Shri G Gopalakrishna) can serve as reference material for banks while finalising their policies.

Export of Goods and Services – Project Exports

As per extant guidelines on Project and Service Exports (PEM), an exporter undertaking Project Exports and Service contracts abroad should submit form DPX1, PEX-1 and TCS-1 to the Approving Authority (AA) i.e. AD Bank/ Exim Bank/ Working Group, within 15 days of entering into contract for grant of post-award approval. On a review, RBI has decided to increase the time limit and henceforth the exporter undertaking Project Exports and Service contracts abroad should submit form DPX1, PEX-1 and TCS-1 to the Approving Authority (AA) i. e. AD Bank / Exim Bank / Working Group, within 30 days of entering into contract for grant of post-award approval.

DETECTION AND REPORTING OF COUNTERFEIT NOTES

As per extant guidelines, banks are required to streamline their system in a manner which will make them bear the risk of counterfeit banknotes rather than the common man who unknowingly comes in possession of such notes. Further, failure on the part of the banks to impound counterfeit notes detected at their end will be construed as willful involvement of the bank concerned in circulating counterfeit notes, and appropriate penalty will be imposed. Now, RBI has decided to compensate the banks 25% of the loss incurred in respect of counterfeit notes of Rs 100 and above detected by them and reported to RBI and Police authorities. The procedure for detection and reporting counterfeit notes and penalty there under have been reviewed in light of the above instructions and the same is given below:

1. Procedure for detection of counterfeit notes at banks

i. Detection of counterfeit notes, at banks, should be at the back office / currency chest only. Banknotes when tendered over the counters may be checked for arithmetical accuracy and other deficiencies like whether there are mutilated notes, and appropriate credit passed on to the depositor / account or value in exchange given.

ii. Thereafter the notes should be passed over to the back office / currency chest, as the case may be, for detailed verification and authentication through machines.

iii. The notes categorized as suspect during machine processing should be subjected to manual verification for checking their authenticity.

iv. The notes identified as counterfeit should be kept separately with proper impounding stamp in the prescribed format. Details of each impounded note should be recorded under authentication in a separate register.

v. There will not be any requirement to issue acknowledgement to the tenderer.

vi. In the cases of detection of upto four pieces of counterfeit notes, in a single transaction, consolidated monthly statement should be sent to the Nodal Police Station through the Nodal Officer of the bank. In case of detection of five or more pieces, FIR in the prescribed format should be lodged.

vii. Banks should monitor the patterns / trends of such detection and suspicious trends / patterns should be brought to the notice of RBI /Police authorities immediately.

viii. The reporting will be made to the Regional Offices of RBI in the prescribed format.

2. Compensation to banks

i. The banks will be compensated by RBI to the extent of 25 % of the notional value of the counterfeit notes of Rs 100 denomination and above, detected and reported to RBI and Police authorities.

ii. Claims for compensation should be made through the Forged Note Vigilance Cell of the banks in the prescribed format on a monthly basis through email within fifteen days of the succeeding month.

iii. Reimbursement will be done by RBI, Department of Currency Management, to begin with, on a quarterly basis.

iv. A review of the above system will be conducted after one year.

3. Penalties

i. Penalty on account of detection of counterfeit notes by RBI from soiled note remittance of banks and in currency chest balances will henceforth be three times the notional value of the counterfeit notes.

ii. In case it is found during RBI inspection, etc. that a bank branch or currency chest has detected counterfeit notes but not reported the same to RBI or Police, strict regulatory measures against the bank including stringent disciplinary action and / or imposition of monetary penalty, will be taken by RBI

4. These instructions become effective from July 1, 2013, and the banks should commence reporting to RBI from August 2013, as per format.

NBFCs not to be Partners in Partnership Firms

As per extant guidelines, NBFCs are prohibited from contributing capital to any partnership firm or to be partners in partnership firms. In cases of existing partnerships, NBFCs were required to seek early retirement from the partnership firms. RBI has now clarified that Partnership firms mentioned above will also include Limited Liability Partnerships (LLPs). Further, the aforesaid prohibition will also be applicable with respect to Association of persons; these being similar in nature to partnership firms. Non-Banking Financial Companies which had already contributed to the capital of a LLP/Association of persons or was a partner of a LLP/Association of persons should seek early retirement from the LLP/Association of persons.

LEGAL AUDIT OF TITLE DOCUMENTS IN RESPECT OF LARGE VALUE LOAN ACCOUNTS

As per extant guidelines, banks should put in place a system wherein the concurrent auditors are required to look into and report, inter alia, on the genuineness of the title documents especially for large value loans. On a review, RBI has decided that the banks should also subject the title deeds and other documents in respect of all credit exposures of Rs 5 crore and above to periodic legal audit and re-verification of title deeds with relevant authorities as part of regular audit exercise till the loan stands fully repaid. The banks may furnish a review note to its Board/ Audit Committee of the Board at quarterly intervals on an ongoing basis giving therein the information in respect of such legal audits which should cover aspects, inter alia, like number of loan accounts due for legal audit for the quarter, how many accounts covered, list of deficiencies observed by the auditors, steps taken to rectify the deficiencies, number of accounts in which the rectification could not take place, course of action to safeguard the interest of bank in such cases, action taken on issues pending from earlier quarters.

SETTLEMENT OF OTC TRANSACTIONS IN CORPORATE BONDS ON DVP-I BASIS

As per extant guidelines, the Clearing Corporations of the exchanges have been allowed to open transitory pooling account facility with the Reserve Bank for facilitating settlement of OTC corporate bond transactions in real-time gross settlement system (RTGS) on DvP-I basis (i.e., on a trade-by-trade basis). In pursuance thereto, the clearing house of the National Stock Exchange (NSE), i.e., the National Securities Clearing Corporation Limited (NSCCL) and the clearing house of the Bombay Stock Exchange (BSE), i.e., Indian Clearing Corporation Limited (ICCL) have been permitted to open transitory pooling accounts with the Reserve Bank of India, Mumbai to which, the buyer of the securities will transfer funds through his bank under RTGS to settle OTC trades in corporate bonds on a DvP-I basis. Under the proposed settlement mechanism, it will be the responsibility of the NSCCL/ICCL to ensure DvP-I. As per revised guidelines, MCX-SX Clearing Corporation Limited is

also an eligible entity for clearing and settlement of all OTC trades in corporate bonds in addition to the NSCCL or ICCL.

Settlement of OTC transactions in Certificates of Deposit (CDs) and Commercial Papers (CPs)

RBI had introduced DvP I based settlement for all OTC trades in CDs and CPs on the lines already existing in case of settlement of OTC trades in corporate bonds, i.e., settlement through the pooling accounts of the National Securities Clearing Corporation Limited (NSCCL) and Indian Clearing Corporation Limited (ICCL). Accordingly, with effect from April 1, 2012, all OTC trades in CDs and CPs are cleared and settled through the NSCCL or ICCL under the above arrangement, as per the norms specified by them from time to time. On a review, RBI has decided that MCX-SX Clearing Corporation Limited is also an eligible entity for clearing and settlement of all OTC trades in CDs and CPs in addition to the NSCCL or ICCL.

Risk Management and Inter Bank Dealings

As per extant guidelines on 'Over the Counter (OTC) Foreign Exchange Derivatives and Overseas Hedging of Commodity Price and Freight Risks', FIIs have been permitted to hedge the currency risk on the market value of their entire investment in equity and/or debt in India. Under these provisions, AD Category I banks are required to verify on a periodical basis that the forward cover outstanding is supported by underlying exposures. In this context, RBI has clarified that in case an FII intends to hedge the exposure of one of its sub-account holders, it will be required to produce a clear mandate from the sub-account holder in respect of the latter's intention to enter into the derivative transaction. Further, the AD Category I banks shall have to verify the mandate as well as the eligibility of the contract vis-a-vis the market value of the securities held in the concerned sub-account.

Prudential Norms for Off-balance Sheet Exposures of Banks – Deferment of Option Premium

As per extant guidelines, banks are permitted to defer, at their discretion, the premium on plain vanilla options sold by them to users subject to certain conditions with effect from January 25, 2012. RBI has now decided to extend this facility to cost reduction forex option structures in which the liability of the users never exceeds the net premium payable to the bank under any scenario. This facility would be subject to the following conditions:

(a) Banks should carry out necessary due diligence with regard to the ability of users to adhere to the premium payment schedule, in accordance with their Board approved policy in this regard, before extending this facility to the users.

(b) Payment of premium for option structure with maturity of more than 1-year may be deferred, provided the premium payment period does not extend beyond the maturity date of the contract.

(c) The premium should be received uniformly over the maturity of the contract and the periodicity of such payment should be at least once in a quarter.

This facility should not be allowed for the contracts which are on past performance basis. Such option structures would continue to be governed by instructions on suitability and appropriateness as regards structured derivative products laid down in 'Comprehensive Guidelines on Derivatives' and Cost Reduction Structures.

The extant instruction requiring additional risk-weight of 25 percentage points for restructured housing loans and higher provisioning of 2% for housing loans extended at teaser rates by banks will continue to remain in force.

Security and Risk Mitigation Measures for Card Present and Electronic Payment Transactions

RBI had issued guidelines on security issues and risk mitigation measures related to Card Present (CP) transactions and on security and risk mitigation measures for electronic payment transactions wherein various timelines were indicated for accomplishment of tasks for securing card and electronic payment transactions. A review of banks' preparedness for securing card as well electronic transactions by RBI indicated that technical glitches like field visits to all the ATM and POS locations, certification delays, re-carding /fall back related issues, non-preparedness of the acquirers leading to rejections, issuers concerns, etc. were hampering the smooth & timely transition to the desired environment for such transactions. With a view to providing uninterrupted services to the customers, it has been decided to grant a onetime extension of time as indicated below:

No.	Task	To be completed by
i.	Acquirers to be ready with the respective tasks	September 30, 2013
ii.	Issuers to be ready with the respective tasks/tests	November 30, 2013
iii.	a) Fall back option/bypass (without PIN requirement) to be enabled for all cards issued in India b) Fall back option/bypass (without PIN requirement) to be enabled for all international cards used in India (cards issued abroad) based on the service codes and jurisdiction mandates	Till November 30, 2013 Present system to be continued
iv.	All other tasks	September 30, 2013

Every issuer and acquirer will honour the transactions based on the above mandates and liabilities fixed accordingly. In the event of a customer complaining of misuse of the card after the date stipulated above, the issuer or the acquirer who has not adhered to the time lines should bear the loss.

ECB Policy – Import of Services, Technical know-how and License Fees

As per the extant guidelines, eligible borrowers can raise ECB for investment such as import of capital goods (as classified by DGFT in the Foreign Trade Policy), new projects, modernization / expansion of existing production units in the real sector – industrial sector including small and medium enterprises (SME), infrastructure sector as defined under the ECB policy and entities in service sector viz. hotels, hospitals and software companies. On a review, RBI has decided to include import of services, technical know-how and payment of license fees as part of import of capital goods by the companies for the use in the manufacturing and infrastructure sectors as permissible end uses of ECB under the automatic / approval route as the case may be subject to:

(i) there should be a duly signed agreement between the service provider and the borrower company;

(ii) the original invoice raised by the service provider as per the payment schedule in the agreement should be duly certified by the borrower company;

(iii) declaration by the importer that the entire expenditure on import of services will be capitalised;

(iv) declaration by the importer that entire expenditure on import of services forms part of project cost; and
(v) AD category – I bank has to ensure the bonafides of the transaction.

ECB Policy – Structured Obligations

As per the extant guidelines, credit enhancement is permitted to be provided by multilateral / regional financial institutions, Government owned development financial institutions, direct/indirect foreign equity holder(s) under the automatic route for domestic debt raised through issue of capital market instruments, such as, Rupee denominated bonds and debentures, by Indian companies engaged exclusively in the development of infrastructure and by Infrastructure Finance Companies (IFCs), which have been classified as such by the Reserve Bank.

RBI has now decided that credit enhancement can be provided by eligible non-resident entities to the domestic debt raised through issue of INR bonds/ debentures by all borrowers eligible to raise ECB under the automatic route. It has also been decided to reduce the minimum average maturity of the underlying debt instruments from seven years to three years. Prepayment and call/put options, however, would not be permissible for such capital market instruments up to an average maturity period of 3 years. On invocation of such credit enhancement, if the guarantor meets the liability and if the same is permissible to be repaid in foreign currency to the eligible non-resident entity, the all-in-cost ceilings, as applicable to the relevant maturity period of the Trade Credit / ECBs as per extant guidelines, would apply to the novated loan.

External Commercial Borrowings (ECB) for the low cost affordable housing projects

As per extant guidelines, ECB for low cost affordable housing projects is allowed as a permissible end-use under the approval route subject to certain conditions. RBI has now modified these guidelines as per details given below:
(a) Developers/builders should have a minimum of three year's experience in undertaking residential projects as against five years prescribed earlier and should have good track record in terms of quality and delivery.
(b) The condition of minimum paid-up capital of not less than INR 50 crore, as per the latest audited balance sheet, for Housing Finance Companies (HFCs) stands withdrawn. However, the condition of the minimum Net Owned Funds (NoF) of Rs. 300 crore for the past three financial years remains unchanged.
(c) The aggregate limit for ECB under the low cost affordable housing scheme is extended for the financial years 2013-14 and 2014-15 with a ceiling of USD 1 billion in each of the two years, subject to review thereafter.
(d) The ECB availed of by developers and builders shall be swapped into Rupees for the entire maturity on fully hedged basis.
(e) Interest rate spread to be charged by National Housing Bank (NHB) may be decided by NHB taking into account cost and other relevant factors. NHB shall ensure that interest rate spread for HFCs for on-lending to prospective owners' of individual units under the low cost affordable housing scheme is reasonable.
(f) Housing Finance Companies (HFCs) while making the applications, shall submit a certificate from NHB, the nodal agency, that the availment of ECB is for financing prospective owners of individual units for the low cost affordable housing; ensure that cost of such individual units does not exceed Rs. 30 lakh and loan amount does not exceed Rs. 25 lakh; ensure that the units financed are having maximum carpet area of 60 square metres; and ensure that the interest rate spread charged by the HFCs to the ultimate buyer is reasonable.

External Commercial Borrowings (ECB) Policy for 3G spectrum allocation

As per the extant policy, the payment for spectrum allocation may initially be met out of the Rupee resources by the successful bidders, to be refinanced with a long term ECB, under the approval route, subject to the condition that ECB should be raised within 12 months from the date of payment of the final installment to the Government. RBI has now decided that ECB window for financing 3G spectrum rupee loans, that are still outstanding in telecom operator's books of accounts, will be open upto March 31, 2014.

External Commercial Borrowings (ECB) for Civil Aviation Sector

As per extant guidelines, the ECB for working capital for civil aviation sector should be raised within twelve (12) months from April 24, 2012. RBI has now decided that the scheme of availing of ECB for working capital for civil aviation sector will continue till December 31, 2013.

External Commercial Borrowings (ECB) in Renminbi

As per extant guidelines, Indian companies in the infrastructure sector are allowed to avail of ECB in Renminbi (RMB) under approval route subject to an annual cap of USD one billion pending further review.
Since, the facility of ECB in Renminbi (RMB) had remained unused so far, RBI has decided that the scheme of ECB in Renminbi may be discontinued immediately.

Buyback / prepayment of Foreign Currency Convertible Bonds (FCCBs)

RBI has decided that considering the developments in the global financial markets, the existing scheme of Buyback / Prepayment of FCCBs under the approval route which expired on March 31, 2013 may be continued till December 31, 2013 and shall stand discontinued thereafter

Foreign investment in India by SEBI registered Long term investors in Government dated Securities

As per extant guidelines, SEBI registered Foreign Institutional Investors (FIIs) and long term investors may purchase, on repatriation basis Government securities and non-convertible debentures (NCDs) / bonds issued by an Indian company. The present limit for investments by FIIs, QFIs and long term investors in Government securities and for corporate debt stand at USD 25 billion and USD 51 billion respectively. RBI has decided to enhance the limit for foreign investment in Government dated securities with USD 5 billion to USD 30 billion with immediate effect. The enhanced limit of USD 5 billion will be available only for investments in Government dated securities by long term investors registered with SEBI – Sovereign Wealth Funds (SWFs), Multilateral Agencies, Pension/ Insurance/ Endowment Funds, Foreign Central Banks.

Foreign Direct Investment – Reporting of issue / transfer of Shares to/by a FVCI

As per extant guidelines, transfer of equity shares / fully and mandatorily convertible debentures/ fully and mandatorily convertible preference shares (hereinafter referred to as 'shares') of an Indian company, from a person resident outside India (non-resident) to a person

resident in India (resident) or vice versa, has to be reported to an Authorized Dealer bank within 60 days of transactions. Further, the receipt of consideration for issue of shares as well as the issue of shares of an Indian company, to a non-resident has to be reported to the Reserve Bank of India through an Authorized Dealer bank within 30 days of the transaction.

RBI has observed that SEBI registered FVCIs making investments in an Indian Company under FDI Scheme in terms of Schedule 1 of Notification No. FEMA.20 / 2000 - RB dated May 3, 2000, also report the same transaction under Schedule 6 of the aforesaid Notification, resulting in double reporting of the transaction. RBI has clarified that wherever a SEBI registered FVCI acquires shares of an Indian company under FDI Scheme in terms of Schedule 1 of the aforesaid Notification, such investments have to be reported in form FC-GPR/FC-TRS only, as applicable. Where the investment is under Schedule 6 of this Notification, no FC-GPR/FC-TRS reporting is required. Such transactions would be reported by the custodian bank in the monthly reporting format as prescribed by RBI. A SEBI registered FVCI while making investment in an Indian company may determine upfront whether the said investment is under FDI or FVCI scheme and report accordingly.

Processing and Settlement of Export related receipts facilitated by Online Payment Gateways

As per extant guidelines, banks have been permitted to offer the facility to repatriate export related remittances by entering into standing arrangements with Online Payment Gateway Service Providers (OPGSPs) for export of goods and services for value not exceeding USD 3000 per transaction. RBI has now decided to increase the value per transaction from USD 3000 to USD 10,000 for export related remittances received through OPGSPS. The revised limit will come into force with effect from 11 June, 2013.

Guidelines on Securitisation Transactions Reset of Credit Enhancement

RBI had issued final guidelines on securitization vide circular dated May 7, 2012. The guidelines introduced norms on minimum holding period, minimum retention ratio, loan origination standards and standards of due diligence with regard to securitisation transactions to ensure orderly growth of the Indian securitisation market. The extant guidelines do not permit reset of credit enhancements during the life of the securities issued by the special purpose vehicle. Now, RBI has issued guidelines on resetting of credit enhancements in securitization transactions which are given below:

1. Credit enhancement is the process of enhancing credit profile of a structured financial transaction through provision of additional security/financial support, for covering losses on securitized assets in adverse conditions. The enhancements can be broadly divided into two types viz. internal credit enhancement and external credit enhancement. A credit enhancement which, for the investors, creates exposure to entities other than the underlying borrowers is called the external credit enhancement. For instance, cash collaterals and first/second loss guarantees are external forms of credit enhancements. Investment in subordinated tranches, over-collateralisation, excess spreads, credit enhancing interest-only strips are internal forms of credit enhancements.

2. Resets can be applied to external forms of credit enhancement provided by a third party or the originator, which is in first or second loss position. The original amount of external credit enhancements provided at the time of initiation of securitisation transaction can be reset by the credit enhancement provider subject to the conditions enumerated below.

(a) At the time of reset, all the outstanding tranches of securities should be re-rated (other than equity tranches which are not rated). The first reset of credit enhancement will not be permitted if the rating of any of the tranches has deteriorated vis-a-vis the original rating of these securitization positions. Subsequent resets would not be permitted if the rating of any of the tranches has deteriorated vis-à-vis the rating at the time of previous reset.

(b) If reset is permissible in terms of above, the amount of credit enhancement required for retaining the original or current outstanding rating, whichever is higher should be determined by the concerned rating agency for the first reset. Similarly, for subsequent resets, the amount of credit enhancement required for retaining the higher of the rating at the time of previous reset and current outstanding rating should be determined by the concerned rating agency.

(c) The reset of credit enhancement would be subject to the consent of trustees.

(d) The reset of credit enhancement should be provided for in the contractual terms of the transaction and the initial rating of the transaction should take into account the likelihood of resets. In respect of the transactions already entered into as per circular dated May 7, 2012, reset can be carried out subject to the consent of all investors of outstanding securities. In respect of the transactions entered into prior to May 2012 guidelines, the stipulation pertaining to MRR will also have to be complied with in addition to other conditions for reset of CE mentioned in these guidelines.

(e) The reset may be carried out simultaneously between first loss credit enhancement (FLCE) and second loss credit enhancement (SLCE) in a proportion such that the reset maintains the outstanding rating of second loss credit enhancement (SLCE). However, reset of equity tranche is not allowed as it would tantamount to internal credit enhancement.

3. The pool of underlying loans must demonstrate satisfactory performance before reset is permitted. Accordingly, the reset of credit enhancement and release of collateral/guarantee/ any other exposure constituting external credit enhancement should be based on the compliance with all the terms and conditions/triggers defined as under:

(a) the time of first reset, at least 50% of the total principal amount assigned at the time of initiation of the securitization transaction must have been amortised. The subsequent resets may be carried out after the Pool principal has amortised up to at least 60%, 70% and 80% of the original level. However, a minimum gap of six months and one year should be maintained between successive resets for transactions of up to 5 years' tenor and more than 5 years' tenor, respectively.

(b) reset should happen if the 'Delinquency Trigger' is breached. The Delinquency Trigger for this purpose shall be treated as having been breached if (i) the total amount of all overdues up to 180 days (for transactions of up to 2 years' tenor) or 365 days (for transactions of more than 2 years' tenor) Plus Total value at risk (overdues plus future principal outstanding) in deeper buckets (greater than 180

or 365 days for transactions of tenor up to 2 years and exceeding 2 years, respectively), Plus Other losses not captured in above two categories (irrespective of whether they are written off or not), exceed 50% of the 'amortisation-adjusted amount of first loss and second loss position cover' and (ii) the total amount of all overdues up to 180 days (for transactions of up to 2 years' tenor) or 365 days (for transactions of more than 2 years' tenor) Plus Total value at risk (overdues plus future principal outstanding) in deeper buckets (greater than 180 or 365 days for transactions of tenor up to 2 years and exceeding 2 years, respectively) Plus Other losses not captured in above two categories and not written off exceed 50% of the 'available first loss and second loss position cover'.

4. The excess credit enhancement can be released subject to the following conditions:
(a) release of credit enhancement would be subject to a reserve floor as a percentage of the initial credit enhancement provided at the time of transaction which should not be less than 30% of the initial credit enhancement.
(b) A maximum of 60% of the credit enhancement in excess of that required to retain the credit rating of all the tranches assigned to them can be considered for release, at any point of time subject to fulfilling the reserve floor.
(c) The reset should not lead to exposures retained by originators along with credit enhancements offered by them falling below the level of MRR. In respect of securitization transactions initiated prior to the issue of the revised guidelines of May 2012, the MRR requirement must be fulfilled for availing the reset facility.

RBI penalises Axis Bank, HDFC Bank and ICICI Bank

The Reserve Bank has imposed a monetary penalty on Axis Bank (Rs 500.10 lakh), HDFC Bank (Rs 450 lac) and ICICI Bank (Rs 100.10 lac) for violating Reserve Bank of India instructions. The penalties have been imposed in exercise of powers vested in the Reserve Bank under the provisions of Section 47(A)(1)(c) read with Section 46(4)(i) of the Banking Regulation Act, 1949. RBI had carried out a scrutiny of books of accounts, internal control, compliance systems and processes of these three banks at their corporate offices and some branches during March / April 2013 to investigate into the allegations of contravention of KYC/AML guidelines against them. The scrutiny of these three banks revealed violation of certain regulations and instructions issued by Reserve Bank of India, namely,

- non-observance of certain safeguards in respect of arrangement of "at par" payment of cheques drawn by cooperative banks,
- non-adherence to certain aspects of know your customer (KYC) norms and anti money laundering (AML) guidelines like risk categorisation and periodical review of risk profiling of account holders,
- Non-adherence of KYC for walk in customers including for sale of third party products, omission in filing of cash transaction reports (CTRs) in respect of some cash transactions, sale of gold coins for cash beyond Rs. 50000,
- not-obtaining of permanent account number (PAN) card details or form 60/61 as required,
- non-verification of source of funds credited to a few non-resident ordinary (NRO) accounts, failure to re-designate a few accounts as NRO accounts though required, non-submission of proper information called for by the reserve Bank, etc.

Mid-Quarter Monetary Policy Review: June 2013

Monetary and Liquidity Measures:

1. CRR unchanged at 4% of NDTL
2. SLR unchanged at 23%
3. Repo Rate unchanged at 7.25%
4. Reverse Repo Rate unchanged at 6.25%
5. Bank Rate unchanged at 8.25%

Global Economy: Among advanced economies (AEs), during Q1 of 2013, growth in US and Japan improved while that in the euro area contracted. Growth in most emerging and developing economies (EDEs) has been relatively resilient, although in some large emerging economies, sluggish external demand and stalled domestic investment are dragging down economic activity. Inflation has been easing in the AEs due to weak demand conditions. EDEs, however, present a mixed picture: inflation remains elevated in the BRICS except China.

Domestic Economy:

Growth: India's GDP growth in Q4 of 2012-13 was at 4.8% The growth of industrial production decelerated to 2.3 per cent in April. All constituent categories of industry have slowed, with a persistent contraction in mining activity. The sharp weakening in the growth of capital goods production points to still damped investment demand whereas a pick-up in consumer non-durables could be indicative of a fragile return of consumer confidence. The services sector purchasing managers' index rose in May on order flows.

Inflation: Headline WPI inflation eased for three months in succession with the May reading at 4.7 per cent, down from an average of 7.4% in 2012-13. All constituent categories, barring food, have moderated. Non-food manufactured products inflation too ebbed, driven by metal prices which fell for the eighth successive month in response to softening of global prices. Retail inflation, as measured by the new combined (rural and urban) CPI, edged down from an average of 10.2% last fiscal year to 9.3 in May.

External Sector: The rupee depreciated by 5.8 per cent against the US dollar during the current financial year up to June 14. It fell by 6.6 per cent during May 22-June 11 due to sell-off by foreign institutional investors, reflecting risk-off sentiment triggered by apprehensions of possible tapering off of quantitative easing by the US Fed. The trade deficit has widened sharply due to a surge in festival-related/seasonal gold imports.

Outlook: The continuing weakness in manufacturing activity needs to be urgently reversed. Key to reinvigorating growth is accelerating investment by creating a conducive environment for private investment, improving project clearance and implementation and leveraging on the crowding-in role of public investment. On the inflation front, easing commodity prices at the global level and weaker pricing power of corporates at the domestic level are having a softening influence. Softer global commodity prices and recent measures to dampen gold imports are expected to moderate the CAD in 2013-14 from its level last year. The main challenge is to reduce the CAD to a sustainable level; the near-term challenge is to finance it through stable flows. The most recent number on the Centre's fiscal deficit, at 4.9 per cent of GDP for 2012-13, has turned out better than expected and instils confidence in the Government's commitment to contain the fiscal deficit for 2013-14 at 4.8 per cent. Perseverance with this consolidation should help in mitigating the twin deficit risks to the outlook. These positive developments, should have a favourable impact on investor confidence.

National Rural Livelihood Mission (NRLM) Aajeevika

1.1. Background: The Ministry of Rural Development, Government of India has launched National Rural Livelihood Mission (NRLM) by restructuring Swarnajayanti Gram Swarozgar Yojana (SGSY) replacing the existing SGSY scheme, effective from April 1, 2013.

1.2. Objectives: NRLM is the flagship program of Govt. of India for promoting poverty reduction through building strong institutions of the poor, particularly women, and enabling these institutions to access a range of financial services and livelihoods services. NRLM focuses on intensive application of human and material resources in order to mobilize the poor into functionally effective community owned institutions, promote their financial inclusion and strengthen their livelihoods.

1.3. Women Self Help Group: A women's self help group, coming together on the basis of mutual affinity is the primary building block of the NRLM community institutional design. NRLM focuses on building, nurturing and strengthening the institutions of the poor women, including the SHGs and their Federations at village and higher levels. The mission will provide a continuous hand-holding support to the institutions of poor for a period of 5 – 7 years till they come out of abject poverty.

1.4. Capacity Building of the SHGs: The support from NRLM will include all round capacity building of the SHGs ensuring that the group functions effectively on all issues concerning their members, financial management, providing them with initial fund support to address vulnerabilities and high cost indebtness, formation and nurturing of SHG federations, making the livelihoods of the poor sustainable, skill development of the rural youth to take up self enterprises or jobs in organized sector.

1.5. Mission Mode: The implementation of NRLM is in a Mission Mode. NRLM adopts a demand driven approach, enabling the States to formulate their own State specific poverty reduction action plans. NRLM emphasises continuous capacity building, imparting requisite skills and creating linkages with livelihoods opportunities for the poor, including those emerging in the organized sector, and monitoring against targets of poverty reduction outcomes. The blocks and districts in which all the components of NRLM will be implemented, either through the SRLMs or partner institutions or NGOs, will be the intensive blocks and districts, whereas remaining will be non-intensive blocks and districts. The selection of intensive districts will be done by the states based on the demographic vulnerabilities. It will be rolled out in a phased manner over the next 7 - 8 years. All blocks in the country will become intensive blocks over time.

2. **Key difference from SGSY**:

2.1 Demand Driven Strategy: NRLM is promoting a major shift from purely 'allocation based' strategy to a 'demand driven' strategy wherein states have the flexibility to develop their own plans for capacity building of women SHGs and Federations, infrastructure and marketing, and policy for financial assistance for the SHGs.

2.2 Participatory identification of the poor: NRLM will identify the target group of poor through a 'participatory identification of the poor' process instead of using the BPL list as was done in SGSY. This will ensure that the voiceless, poorest of poor are not ignored. In fact under NRLM, the first preference is given to the poorest of poor households.

2.3 Self Help Group based on affinity: NRLM will promote the formation of women SHGs on the basis of affinity and not on the basis of a common activity, as it used to be under SGSY. It is definitely possible that members who come together on the basis of affinity could be having a common activity.

2.4 Saturation Approach: Unlike SGSY, the NRLM has taken a saturation approach and will ensure all the poor in a village are covered and a woman from each poor family is motivated to join the SHG.

2.5 SHG Federations: All SHGs in a village come together to form a federation at the village level. The cluster federation is the next level of federation. A cluster consists of a group of villages within a block. The exact configuration will vary from State to State, but typically a cluster consists of 25 - 40 villages.

2.6 Hand Holding Support: NRLM will provide continuous hand-holding support to SHGs, and their federations. This was missing in SGSY. Under NRLM this support will be provided to a great extent by capacitating the SHG federations and by building a cadre of community professionals from among the poor women. The federations and the community professionals will be imparted the necessary skills by the mission.

2.7 Repeat finance from banks: The objective of NRLM is to ensure that SHG s are enabled to access repeat finance from Banks, till they attain sustainable livelihoods and decent living standards. This was missing in SGSY, where the emphasis was on one time support.

3. **Women SHGs and their Federations**

3.1 Women SHGs under NRLM consist of 10-15 persons. In case of special SHGs i.e. groups in the difficult areas, groups with disabled persons, and groups formed in remote tribal areas, this number may be a minimum of 5 persons.

3.2 NRLM will promote affinity based women Self –help groups.

3.3 Only for groups to be formed with Persons with disabilities, and other special categories like elders, transgenders, NRLM will have both men and women in the self-help groups.

3.4 SHG is an informal group and registration under any Societies Act, State cooperative Act or a partnership firm is not mandatory. Federations of SHGs formed at village level, cluster level, and at higher levels are to be registered under appropriate acts prevailing in their States.

Financial Assistance to the SHGs

4. Revolving Fund (RF): NRLM would provide a Revolving Fund (RF) support to SHGs in existence for a minimum period of 3/6 months and follow the norms of good SHGs, i.e they follow 'Panchasutra' – regular meetings, regular savings, regular internal lending, regular recoveries and maintenance of proper books of accounts. Only such SHGs that have not received any RF earlier will be provided with RF, as corpus, with a minimum of Rs. 10,000 and up to a maximum of Rs. 15,000 per SHG. The purpose of RF is to strengthen their institutional and financial management capacity and build a good credit history within the group.

5. Capital Subsidy: No Capital Subsidy will be sanctioned to any SHG from the date of implementation of NRLM.

6. Community Investment support Fund (CIF): CIF will be provided to the SHGs in the intensive blocks, routed through the Village level/ Cluster level Federations, to be maintained in perpetuity by the Federations. The CIF will be

used, by the Federations, to advance loans to the SHGs and/or to undertake the common/collective socio-economic activities.

7. Interest subvention: NRLM has a provision for interest subvention, to cover the difference between the Lending Rate of the banks and 7%, on all credit from the banks/ financial institutions availed by women SHGs, for a maximum of Rs 3,00,000 per SHG. This will be available across the country in two ways:

(a)150 identified districts, banks will lend to all the women SHGs @7% upto an aggregated loan amount of Rs 3,00,000/- . The SHGs will also get additional interest subvention of 3% on prompt payment, reducing the effective rate of interest to 4%.

(b) In the remaining districts also, NRLM compliant women SHGs will be registered with SRLMs. These SHGs are eligible for interest subvention to the extent of difference between the lending rates and 7% for the loan upto Rs. 3 lakhs, subjected to the norms prescribed by the respective SRLMs. This part of the scheme will be operationalized by SRLMs.

8. **Role of banks**

8.1 Opening of Savings accounts: The role of banks would commence with opening of accounts for all the Women SHGs, SHGs with members of Disability and the Federations of the SHGs. The 'Know Your Customer' (KYC) norms as specified from time to time by Reserve Bank of India are applicable for identification of the customers.

8.2 Lending Norms:

8.2.1. Eligibility criteria for the SHGs to avail loans: SHG should be in active existence at least since the last 6 months as per the books of account of SHGs and not from the date of opening of S/B account. SHG should be practicing 'Panchasutras' i.e. Regular meetings; Regular savings; Regular inter-loaning; Timely repayment; and Up-to-date books of accounts. SHG should be qualified as per grading norms fixed by NABARD. As and when the Federations of the SHGs come to existence, the grading exercise can be done by the Federations to support the Banks. The existing defunct SHGs are also eligible for credit if they are revived and continue to be active for a minimum period of 3 months.

8.2.2. Loan amount: Loan will be provided in multiple doses as given below: (a) First dose: 4-8 times to the proposed corpus during the year or Rs. 50, 000 whichever is higher; (b) Second dose: 5-10 times of existing corpus and proposed saving during the next twelve months or Rs. 1 lakhs, whichever is higher; (c) Third dose: Minimum of Rs. 2 lakhs, based on the Micro credit plan prepared by the SHGs and appraised by the Federations/Support agency and the previous credit history; (d) Fourth dose onwards: Loan amount can be between Rs. 5-10 lakhs for fourth dose and/or higher in subsequent doses. The loan amount will be based on the Micro Credit Plans of the SHGs and their members. The loans may be used for meeting social needs, high cost debt swapping and taking up sustainable livelihoods by the individual members within the SHGs or to finance any viable common activity started by the SHGs. Corpus is inclusive of revolving funds, if any, received by that SHG, its own savings and funds from other sources in case of promotion by other institutes/NGOs.

8.3 Type of facility and repayment: SHGs can avail either Term loan or a CCL loan or both based on the need. In case of need, additional loan can be sanctioned even though the previous loan is outstanding. Repayment schedule could be as follows: (a) The first dose of loan will be repaid in 6-12 instalments; (b) Second dose of loan will be repaid in 12-24 months; (c) Third dose will be sanctioned based on the micro credit plans, the repayment has to be either monthly/quarterly /half yearly based on the cash flow and it has to be between 2 to 5 Years; (d) Fourth dose onwards: repayment has to be either monthly/quarterly /half yearly based on the cash flow and it has to be between 3 to 6 Years

8.4. Security and Margin: No collateral and no margin will be charged upto Rs. 10.00 lakhs limit to the SHGs. No lien should be marked against savings bank account of SHGs and no deposits should be insisted while sanctioning loans.

8.5. Dealing with Defaulters: Wilful defaulters should not be financed under NRLM. In case wilful defaulters are members of a group, they might be allowed to benefit from the thrift and credit activities of the group including the corpus built up with the assistance of Revolving Fund. But at the stage of assistance for economic activities, the wilful defaulters should not have the benefit of further assistance until the outstanding loans are repaid. Wilful defaulters of the group should not get benefits under the NRLM Scheme and the group may be financed excluding such defaulters while documenting the loan. Non-wilful defaulters should not be debarred from receiving the loan. In case of defaulters due to genuine reasons, Banks may follow the norms suggested for restructuring the account with revised repayment schedule.

9. Credit Target Planning: Based on the potential linked plan/state focus paper prepared by NABARD, SLBC sub-committee may arrive at the district-wise, block-wise and branch-wise credit plan. The sub- committee has to consider the existing SHGs, New SHGs proposed, and number of SHGs eligible for fresh and repeat loans as suggested by the SRLMs to arrive at the credit targets for the states. The targets so decided should be approved in the SLBC and should be reviewed and monitored periodically for effective implementation. The district-wise credit plans should be communicated to the DCC. The Block-wise/Cluster-wise targets are to be communicated to the bank Branches through the Controllers.

10. Post credit follow-up: Loan pass books in regional languages may be issued to the SHGs which may contain all the details of the loans disbursed to them and the terms and conditions applicable to the loan sanctioned. The passbook should be updated with every transaction made by the SHGs. At the time of documentation and disbursement of loan, it is advisable to clearly explain the terms and conditions as part of financial literacy. Bank branches may observe one fixed day in a fortnightly to enable the staff to go to the field and attend the meetings of the SHGs and Federations to observe the operations of the SHGs and keep a track of the regularity in the SHGs meetings and performance.

11. Repayment: Banks shall take all possible measures, i.e. personal contact, organization of joint recovery camps with District Mission Management Units(DPMUs) / DRDAs to ensure the recovery of loans. Banks should prepare a list of defaulters under NRLM every month and furnish the list in the BLBC, DLCC meetings. This would ensure that NRLM staff at the district/ block level will assist the bankers in initiating the repayment.

12. Deputation of the bank officials to SRLMs: To strengthen the (DPMUs) / DRDAs and for promoting a

better credit environment, banks may consider deputing officers at various levels to the State Governments/DRDAs in consultation with them.

13. Supervision and monitoring of the Scheme: Banks may set up NRLM cells at Regional/Zonal office. These cells should periodically monitor and review the flow of credit to the SHGs, ensure the implementation of the guidelines to the scheme, collect data from the branches and make available consolidated data to the Head office and the NRLM units at the districts/ blocks. The cell should also discuss this consolidated data in the SLBC, BLBC and DCC meetings regularly to maintain the effective communication with the state staff and all banks.

13.1 State Level Banker's Committee: SLBCs shall constitute a sub-committee on SHG-bank linkage. The sub-committee should consist of members from all banks operating in the State, RBI, NABARD, CEO of SRLM, representatives of State Rural Development Department, Secretary-Institutional Finance and Representatives of Development Departments etc. The sub- committee shall meet once a month with a specific agenda of review, implementation and monitoring of the SHG-Bank linkage and the issues/ constraints in achievement of the credit target. The decisions of SLBCs should be derived from the analysis of the reports of the sub-committee.

13.2 District Coordination Committee: The DCC (NRLM sub-committee) shall regularly monitor the flow of credit to SHGs at the district level and resolve issues that constrain the flow of credit to the SHGs at district level. This committee meeting should have participation of LDMs, AGM of NABARD, district coordinators of the banks and DPMU staff representing NRLM and office bearers of SHG federations.

13.3 Block level Bankers Committee: The BLBC shall meet regularly and take up issues of SHG bank linkage at the block level. In this Committee, the SHGs/ Federations of the SHGs should be included as members to raise their voice in the forum. Branch wise status of SHG credit shall be monitored at the BLBC.

13.4 Reporting to Lead District Managers: The branches may furnish the progress report and the delinquency report achieved under various activities of NRLM in the format to the LDM every month for onward submission to Special Steering Committee/sub-committee constituted by SLBC.

13.5 Reporting to RBI: Banks may give a state-wise consolidated report on the progress made on NRLM to RBI/NABARD at monthly intervals.

13.6 Reporting on SHG-Bank linkages: NABARD shall submit monthly report on the SHG bank linkage, data for which shall flow from the CBS platform to NRLM on regular basis.

13.7 LBR returns: Existing procedure of submitting LBR returns to be continued duly furnishing the correct code.

14. Data Sharing:Data sharing on a mutually agreed format / interval may be provided to SRLM for initiating various strategies including recovery etc. The financing banks may enter into a Memorandum of Understanding (MOU) for regular data sharing with the State Rural Livelihood Missions, through the CBS platform.

15. NRLM support to the bankers:

(a) SRLM would develop strategic partnerships with major banks at various levels. It would invest in creating enabling conditions for both the banks and the poor for a mutually rewarding relationship.

(b) SRLM will assist the SHGs through imparting Financial literacy, extending counselling services on savings, credit and training on Micro-investment Planning embedded in capacity building.

(c) Improving quality of banking services to poor clients by positioning customer relationship managers (Bank Mitra)

(d) Leveraging IT mobile technologies and institutions of poor and youth as business facilitators and business correspondents.

(e) Community based recovery mechanism: One exclusive sub - committee for SHG Bank Linkage may be formed at village/cluster/ block level which will provide support to the banks in ensuring proper utilization of loan amount, recovery etc. The bank linkage sub - committee members from each village level federation along with project staff will meet once in a month under the chairmanship of the Branch Manager in the branch premises with the agenda items relating to bank linkage.

16. Closure of SGSY Scheme: Banks may commence extending credit under NRLM replacing SGSY from 1st July 2013. In respect of Loans sanctioned under SGSY during 2012-13 for which subsidy is released, the banks may disburse the loan before 30th June 2013 or return the subsidy amount, if the loan is not disbursed. The loans sanctioned by banks on or after April 1st, 2013 will be covered under the ambit of NRLM. In case of part disbursal of loans, the Banks may disburse the full amount by availing the balance subsidy amount under SGSY. Interest subvention scheme is not applicable for the outstanding loans sanctioned under SGSY, where capital subsidy is already released.

LIST OF APPLICANTS FOR NEW BANK LICENCES IN THE PRIVATE SECTOR

The Reserve Bank of India in all received 26 (twenty six) applications. The names of the applicants are:

1. Aditya Birla Nuvo Ltd., Mumbai.
2. Bajaj Finserv Ltd., Pune.
3. Bandhan Financial Services Pvt. Ltd., Kolkata.
4. Department of Posts, New Delhi.
5. Edelweiss Financial Services Limited, Mumbai.
6. IDFC Limited, Mumbai.
7. IFCI Limited, New Delhi.
8. Indiabulls Housing Finance Limited, New Delhi.
9. India Infoline Ltd., Mumbai.
10. INMACS Management Services Limited, Gurgaon.
11. Janalakshmi Financial Services Pvt. Ltd., Bangalore.
12. J M Financial Limited, Mumbai.
13. LIC Housing Finance Ltd., Mumbai.
14. L & T Finance Holdings Limited, Mumbai.
15. Magma Fincorp Limited, Kolkata.
16. Muthoot Finance Limited, Kochi.
17. Reliance Capital Limited, Mumbai.
18. Religare Enterprises Limited, New Delhi.
19. Shriram Capital Limited, Chennai.
20. Smart Global Ventures Pvt. Ltd., Noida.
21. SREI Infrastructure Finance Limited, Kolkata.
22. Suryamani Financing Company Limited, Kolkata.
23. TATA Sons Limited, Mumbai.
24. Tourism Finance Corporation of India Limited, New Delhi.
25. UAE Exchange & Financial Services Ltd., Kochi.
26. Value Industries Limited, Aurangabad.

NON BANKING FINANCIAL COMPANY

Non-Banking Financial Company: A Non-Banking Financial Company (NBFC) is a company a) registered under the Companies Act, 1956, b) its principal business is lending, investments in various types of shares/stocks/bonds/debentures/securities, leasing, hire-purchase, insurance business, chit business, and c) its principal business is receiving deposits under any scheme or arrangement in one lump sum or in installments. However, a Non-Banking Financial Company does not include any institution whose principal business is agricultural activity, industrial activity, trading activity or sale/purchase/construction of immovable property. The financial activity of loans/advances, should be for activity other than its own.

Systemically important NBFCs: NBFCs whose asset size is of Rs.100 cr or more as per last audited balance sheet are considered as systemically important NBFCs. The rationale for such classification is that the activities of such NBFCs will have a bearing on the financial stability in our country.

Financial companies regulated by RBI: The Reserve Bank regulates and supervises companies which are engaged in financial activities as their principal business like (i) lending (ii) acquisition of shares, stocks, bonds, etc., or (iii) financial leasing or hire purchase. The Reserve Bank also regulates companies whose principal business is to accept deposits.

Principal Business Criteria (PBC): Financial activity as principal business is when a company's financial assets constitute more than 50 per cent of the total assets and income from financial assets constitute more than 50 percent of the gross income. A company which fulfils both these criteria will be registered as NBFC by RBI. The term 'principal business' is not defined by the Reserve Bank of India Act. The Reserve Bank has defined it so as to ensure that only companies predominantly engaged in financial activity get registered with it and are regulated and supervised by it and other trading, manufacturing or industrial companies are not brought under its regulatory jurisdiction. This test is popularly known as 50-50 test and is applied to determine whether or not a company is into financial business. A company which does not have financial assets which is more than 50% of its total assets and does not derive at least 50% of its gross income from such assets is not an NBFC. Its principal business would be non-financial activity like agricultural operations, industrial activity, purchase or sale of goods or purchase/construction of immoveable property, and will be a non-banking non-financial company. Acceptance of deposits by a Non-Banking Non-Financial Company is governed by the Companies Acceptance of Deposits Rules, 1975. The Registrar of Companies in the State Governments administer the schemes.

Entities not Regulated by RBI: The Reserve Bank does not regulate all financial companies. Some financial businesses have specific regulators established by law to regulate and supervise them, such as, IRDA for insurance companies, Securities Exchange Board of India (SEBI) for Merchant Banking Companies, Venture Capital Companies, Stock Broking companies and mutual funds, National Housing Bank (NHB) for housing finance companies, Department of Companies Affairs (DCA) for Nidhi companies and State Governments for Chit Fund Companies. Companies which do financial business but are regulated by other regulators, are given specific exemption by the Reserve Bank from its regulatory requirements, such as, registration, maintenance of liquid assets, statutory reserves, etc. to avoid dual regulation on them as they are regulated by other financial sector regulators.

Powers of the Reserve Bank with regard to 'Non-Bank Financial Companies': The Reserve Bank has been given the powers under the RBI Act 1934 to register, lay down policy, issue directions, inspect, regulate, supervise and exercise surveillance over NBFCs that meet the 50-50 criteria of principal business. The Reserve Bank can penalize NBFCs for violating the provisions of the RBI Act or the directions or orders issued by RBI under RBI Act. The penal action can also result in RBI cancelling the Certificate of Registration issued to the NBFC, or prohibiting them from accepting deposits and alienating their assets or filing a winding up petition.

Residuary Non-Banking Companies (RNBCs): Residuary Non-Banking Company is a class of NBFCs whose 'principal business' is to receive deposits, under any scheme or arrangement or in any other manner. These companies are not into investment, asset financing or lending. Functioning of these companies is different from that of NBFCs in terms of method of mobilization of deposits and requirement of deployment of depositors' funds. Though, there is no ceiling on raising of deposits by RNBCs, every RNBC has to ensure that the amounts deposited with it are fully invested in into highly liquid and secure instruments, namely, Central/State Government securities, fixed deposits with scheduled commercial banks (SCB), Certificate of deposits of SCB/FIs, units of Mutual Funds, etc. Residuary Non-Banking Company cannot forfeit any amount deposited by the depositor, or any interest, premium, bonus or other advantage accrued thereon if deposit instalments are not paid regularly or discontinued. The minimum interest an RNBC should pay on deposits should be 5% (to be compounded annually) on the amount deposited in lump sum or at monthly or longer intervals; and 3.5% (to be compounded annually) on the amount deposited under daily deposit scheme. Interest here includes premium, bonus or any other advantage, that an RNBC promises to the depositor by way of return. An RNBC can accept deposits for a minimum period of 12 months and maximum period of 84 months from the date of receipt of such deposit. They cannot accept deposits repayable on demand. However, at present, the two RNBCs in existence (Peerless and Sahara India Financial Corporation Ltd) have been directed by the Reserve Bank to stop collecting deposits, repay the deposits to the depositor and wind up their RNBC business as their business model is inherently unviable.

Meaning of deposits: Deposits mean monies collected in any manner, other than that collected by way of share capital, contribution of capital by the partners of a partnership firm, security deposit, earnest money deposit, advance consideration for purchase of goods, services or construction, loans taken from banks, financial institutions and money lenders and subscription to chit funds. Monies collected in any manner other than these would be termed as deposits

Entities allowed by RBI to legally accept deposits from public: Banks, including co-operative banks, can accept deposits. Non-bank finance companies, which have been issued Certificate of Registration by RBI with a specific licence to accept deposits, are entitled to accept public deposit. Not all NBFCs registered with the Reserve Bank are

entitled to accept deposits but only those that hold a deposit accepting Certificate of Registration can accept deposits and that too only to the extent permissible. Since 1997, RBI has not issued any Certificate of Registration (CoR) for new NBFCs for acceptance of public deposits. The Reserve Bank regulates the deposit acceptance only of banks, cooperative banks and NBFCs. Unincorporated bodies like individuals, proprietorship firms, partnership firms, and other association of individuals are prohibited from carrying on the business of acceptance of deposits as their principal business. Such unincorporated bodies are prohibited from even accepting deposits if they are carrying on financial business. However, money accepted by Jewellery shops in instalments for the purpose of delivering jewellery at the end of the period of contract is not accepting deposit.

Other Entities allowed to accept deposits from public: Housing Finance Companies, which are again specifically authorized to collect deposits and companies authorized by Ministry of Corporate Affairs under the Companies Acceptance of Deposits Rules framed by Central Government under the Companies Act can also accept deposits also up to a certain limit. Cooperative Credit Societies can accept deposits from their members within the limit specified in their bye laws but not from the general public. Salary Earners' Society can accept deposit only from their own members and not from general public.

Interest rates charged by NBFCs: Reserve Bank of India has deregulated interest rates to be charged to borrowers by financial institutions (other than NBFC- Micro Finance Institution).

Steps taken by RBI do to protect the interest of NBFC depositors: RBI has issued detailed regulations on deposit acceptance, including the quantum of deposits that can be collected, mandatory credit rating, mandatory maintenance of liquid assets for repayment to depositors, manner of maintenance of its deposit books, prudential regulations including maintenance of adequate capital, limitations on exposures, and inspection of the NBFCs, besides others, to ensure that the NBFCs function on sound lines.

Depositor Protection Issues: Precautions to be taken by a depositor before placing deposit with an NBFC: (i) Ensure that the NBFC is registered with RBI and specifically authorized by the RBI to accept deposits and not appearing in the list of companies prohibited from accepting deposits. (ii) NBFCs have to prominently display the Certificate of Registration (CoR) issued by the Reserve Bank on its site. This certificate should also reflect that the NBFC has been specifically authorized by RBI to accept deposits. (iii) The maximum interest rate that an NBFC can pay to a depositor should not exceed 12.5%. The Reserve Bank keeps altering the interest rates depending on the macro-economic environment. (iv) The Reserve Bank does not guarantee repayment of deposits by NBFCs even though they may be authorized to collect deposits. As such, investors and depositors should take informed decisions while placing deposit with an NBFC. (v) If an NBFC registered with the RBI fails to return depositor's money, the depositor can complain against the NBFC to the nearest Regional Office of the Reserve Bank. Depositors can also approach the Company Law Board constituted under the Companies Act 1956 or a civil court or Consumer Disputes Redressal Forums for recovery of their money. Affected persons can complain to the State Police authorities/Economic Offences Wing of the State Police as well.

Unauthorized acceptance of deposits by companies not registered with RBI or of NBFCs engaged in lending or investment activities without obtaining the Certificate of Registration from RBI: The Reserve Bank gets to know of NBFCs unauthorizedly accepting deposits or engaged in lending and investment without its authorization, mainly through complaints and grievances received from the public, from industry sources and from Exception Reports received from Statutory Auditors of these companies, market intelligence gathered from newspapers or from information gathered by its own Regional Offices or any other such sources. Such unincorporated entities, if found accepting public deposits, are liable for criminal action. Further NBFCs are prohibited by RBI from associating with any unincorporated bodies. If NBFCs associate themselves with proprietorship/partnership firms accepting deposits in contravention of RBI Act, they are also liable to be prosecuted under criminal law or under the Protection of Interest of Depositors (in Financial Establishments) Act, if passed by the State Governments. If companies that are required to be registered with the Reserve Bank as NBFCs, are found to be conducting non-banking financial activity, such as, lending, investment or deposit acceptance as their principal business, without seeking registration, the Reserve Bank can impose penalty or fine on them or can even prosecute them in a court of law. It is illegal for any financial entity or unincorporated body to make a false claim of being regulated by the Reserve Bank to mislead the public to collect deposits and is liable for penal action under the Indian Penal Code.

Power to take action against Unincorporated Bodies (UIBs) accepting deposits: As per Section 45T of RBI Act, both the RBI and State Governments have been given concurrent powers. However, in order to take immediate action against the offender, the information should immediately be passed on to the State Police or the Economic Offences Wing of the concerned State who can take prompt and appropriate action. Since the State Government machinery is widespread and the State Government is also empowered to take action under the provisions of RBI Act, 1934, any information on such entities accepting deposits may be provided immediately to the respective State Government's Police Department/EOW.

Protection of Interest of Depositors in Financial Establishments Act by the State Governments: The purpose of enacting this law is to protect the interests of the depositors. The Act makes offences, such as, unauthorized acceptance of deposits by any entity, firm or company a cognizable offence, and officials of such companies can be immediately imprisoned and prosecuted. Under the Act, the State Governments have been given vast powers to attach the property of such entities, dispose them off under the orders of special courts and distribute the proceeds to the depositors. Sixteen States and 1 Union Territory have this legislation in place as on date. These States are Andhra Pradesh, Assam, Bihar, Goa, Gujarat, Himachal Pradesh, Karnataka, Madhya Pradesh, Maharashtra, Mizoram, New Delhi, Tamil Nadu, Tripura, Uttaranchal, Sikkim, Meghalaya, J&K and Chandigarh Administration. The provisions of RBI Act are directed towards enabling RBI to issue prudential regulations that make the financial entities function on sound lines. RBI is a civil body and the RBI act is a civil Act. Both do not have specific provisions to effect recovery by attachment and sale of assets of the defaulting companies, entities or their officials. It is the State government

machinery which can effectively do this. The Protection of Interest of Depositors in Financial Establishments Acts, confers adequate powers on the State Governments to attach and sell assets of the defaulting companies, entities and their officials.

Collective Investment Schemes (CIS): CIS are schemes where money is exchanged for units, be it time share in resorts, profit from sale of wood or profits from the developed commercial plots and buildings and so on. SEBI is the regulator of CIS and not RBI. Information on such schemes and grievances against the promoters may be immediately forwarded to SEBI as well as to the EOW/Police Department of the State Government.

Chit Funds: Chit Funds activity involves contributions by members in instalments by way of subscription to the Chit and by rotation each member of the Chit receives the chit amount. The chit funds are governed by Chit Funds Act, 1982 which is a Central Act administered by state governments. Those chit funds which are registered under this Act can legally carry on chit fund business. The subscriptions made by members are specifically excluded from the definition of deposits and cannot be termed as deposits. Chit funds are prohibited by RBI from accepting deposits from public with effect from August 2009. In case any Chit Fund is accepting public deposits, RBI can prosecute such chit funds.

Money circulation/Ponzi/multi-level marketing schemes: Money circulation, multi level marketing / Chain Marketing or Ponzi schemes are schemes promising easy or quick money upon enrollment of members. Income under Multi level marketing or pyramid structured schemes do not come from the sale of products they offer as much as from enrolling more and more members from whom hefty subscription fees are taken. It is incumbent upon all members to enroll more members, as a portion of the subscription amounts so collected are distributed among the members at the top of the pyramid. Any break in the chain leads to the collapse of the pyramid, and the members lower in the pyramid are the ones that are affected the most. Ponzi schemes are those schemes that collect money from the public on promises of high returns. As there is no asset creation, money collected from one depositor is paid as returns to the other. Since there is no other activity generating returns, the scheme becomes unviable and impossible for the people running the scheme to meet the promised return or even return the principal amounts collected. The scheme inevitably fails and the perpetrators disappear with the money. Acceptance of money under Money Circulation/Multi-level Marketing/Pyramid structured schemes and Ponzi schemes is not allowed as acceptance of money under those schemes is a cognizable offence under the Prize Chit and Money Circulation (Banning) Act 1978.

The Act prohibits any person or individual to promote or conduct any prize chit or money circulation scheme or enrol as member to its schemes or anyone to participate in it by either receiving or remitting any money in pursuance of such chit or scheme. Contravention of the provisions of this Act, is monitored and dealt with by the State Governments and not by RBI.

As per Paris-based think-tank 'Organisation for Economic Cooperation and Development' (OECD), India has probably surpassed Japan to become the world's third largest economy after the US and China, even as it lowered country's economic growth projection for 2013 to 5.3%.

WEAVERS CREDIT CARD (WCC)
SCHEME FOR FINANCING HANDLOOM WEAVERS

The Ministry of Textiles is implementing a number of Welfare Schemes for an holistic development of Handloom Weavers. They have identified over 500 clusters of weavers in the country under integrated Handloom Development Scheme (IHDS). Photo ID Cards have also been issued to all registered weavers. In March, 2011, a High Level meeting chaired by the Principal Secretary to the Prime Minister had reviewed various issues relating to weavers in the Handloom Sector. Access to institutional credit was found to be a difficulty faced by the weavers. Accordingly, a scheme was prepared by Development Commissioner (Handlooms), Ministry of Textiles. This was vetted by Depart of Financial Services, Ministry of Finance and Indian Bank Association and was circulated by IBA in October 2011. Salient features of the scheme are given below:

1. Nature of limit: Term loan / Working capital limit in the form of Simplified Open Cash Credit (SOCC)
2. Purpose: To meet credit requirement of Weavers both Investment needs as well as working capital.
3. Eligibility: All handloom weavers and ancillary workers involved in handloom weaving activities. Preference would be given to weavers identified under the 3rd Census of Handloom weavers conducted by Development Commissioner (Handlooms), Ministry of Textiles and weavers identified by the State Governments. Clusters of weavers and ancillary workers who have joined to form Primary Weavers Co-operative Societies /Self Help Groups/ Consortia/Producer Companies/Joint Liability Groups. All exiting handloom weaver borrowers of the Bank upon clearance of existing liabilities and having satisfactory dealings.
4. Maximum loan: Rs.2.00 lakhs (Aggregate amount)
5. Rate of interest: As per prevailing guidelines of the Bank linked to Base Rate of the Bank.
6. Repayment: Term loan – Repayable within a maximum period of 36 months; Working capital - Limit is valid for 3 years subject to annual review
7. Guarantee cover: CGMSE cover available wherever eligible
8. Special offers: No submission of stock statements; Working capital facility is valid for 3 years and can be operated by way of cheques; Laminated cards will be issued duly affixing he photograph of the borrower; Photocopy of the Weavers Identity Card, Voter Identity Card/Ration Card and photograph of the weaver are to be submitted by the weaver at the time of applying for the loan.
9. Margin money: of Rs.4200/- per weaver available from Govt. of India
10. Interest Subvention: 3% interest subvention for 3 years from the date of first disbursement available from Govt. of India (no interest subvention is available if the loan account become Non Performing Asset)
11. Security: Primary security will be hypothecation of assets financed by the bank. No collateral security as loans to be covered under CGTMSE.
12. Validity: The Credit Card would normally be valid for 3 years subject to annual review.

MOBILE BANKING TRANSACTIONS IN INDIA

1. Introduction: The rapid growth of mobile users in India, through wider coverage of mobile phone networks, have made this medium an important platform for extending banking services to every segment of banking clientele in general and the unbanked segment in particular. 'Mobile Banking transaction' means undertaking banking transactions using mobile phones by bank customers that involve accessing / credit / debit to their accounts. Banks are permitted to offer mobile banking services after obtaining necessary permission from the Department of Payment & Settlement Systems, Reserve Bank of India. Mobile Banking services are available to bank customers irrespective of the mobile network. Customers need to first register for Mobile Banking with their bankers and download the Mobile Banking application on their mobile handsets.

2. Regulatory & Supervisory Issues:

2.1 Banks which are licensed, supervised and having physical presence in India, are permitted to offer mobile banking services. Only banks who have implemented core banking solutions are permitted to provide mobile banking services.

2.2 The services shall be restricted only to customers of banks and/or holders of debit/credit cards.

2.3 Only Indian Rupee based domestic services shall be provided. Use of mobile banking services for cross border inward and outward transfers is strictly prohibited.

2.4 Banks may also use the services of Business Correspondent, for extending this facility to their customers.

2.5 The guidelines issued by the Reserve Bank on 'Risks and Controls in Computers and Telecommunications' and on "Know Your Customer (KYC)", would be applicable to mobile based banking services also. Banks shall file Suspicious Transaction Report (STR) to Financial Intelligence Unit – India (FIU-IND) for mobile banking transactions as in the case of normal banking transactions.

3. Registration of customers for mobile service: Banks shall put in place a system of document based registration with mandatory physical presence of their customers, before commencing mobile banking service. Reserve Bank would consider relaxation in specific cases while approving the proposals of banks. On registration of the customer, the full details of the Terms and Conditions of the service offered by the bank shall be communicated to the customer.

4. Technology and Security Standards: Technology used for mobile banking must be secure and should ensure confidentiality, integrity, authenticity and non-repudiability. Transactions up to Rs 5000/- can be facilitated by banks without end-to-end encryption.

5. Inter-operability: Banks offering mobile banking service must ensure that customers having mobile phones of any network operator are in a position to avail the service, i.e. should be network independent. Restriction, if any, for the customers of particular mobile operator(s) are permissible only during the initial stages of offering the service, up to a maximum period of six months subject to review. The long term goal of mobile banking framework in India would be to enable funds transfer from account in one bank to any other account in the same or any other bank on a real time basis irrespective of the mobile network a customer has subscribed to. This would require interoperability between mobile banking service providers and banks and development of a host of message formats. To ensure inter-operability between banks, and between their mobile banking service providers, banks shall adopt the message formats like ISO 8583, with suitable modification to address specific needs.

6. Clearing and Settlement for inter-bank funds transfer transactions: To meet the objective of nation-wide mobile banking framework facilitating inter-bank settlement, a robust clearing and settlement infrastructure operating on a 24x7 basis is necessary. Bank and non-bank entities putting such systems in place, bilateral or multilateral, need authorisation from Reserve Bank of India, under the Payment and Settlement System Act, 2007.

7. Grievance Redressal Mechanism:

7.1. Any security procedure adopted by banks for authenticating users needs to be recognized by law as a substitute for signature. In India, the Information Technology Act, 2000, provides for a particular technology as a means of authenticating electronic record.

7.2. Banks are required to maintain secrecy and confidentiality of customers' accounts. The banks should, therefore, institute adequate risk control measures to manage risks of liability to customers on account of breach of secrecy, denial of service etc., on account of hacking/ other technological failures.

7.3. In the mobile banking scenario too, there is very limited or no stop payment privileges for mobile banking transactions as the transactions are completely instantaneous and are incapable of being reversed. Hence, banks offering mobile banking should notify the customers the timeframe and the circumstances in which any stop-payment instructions could be accepted.

7.4. Taking into account the risks arising out of unauthorized transfer through hacking, denial of service on account of technological failure etc. banks providing mobile banking would need to assess the liabilities arising out of such events and take appropriate counter measures like insuring themselves against such risks, as in the case with internet banking.

7.6. Banks should set up a help desk and disclose the details of the help desk and escalation procedure for lodging the complaints, on their websites. Details should be made available to the customer at the time of sign up.

7.8. In cases where the customer files a complaint with the bank disputing a transaction, it would be the responsibility of the service providing bank, to expeditiously redress the complaint. The grievance handling procedure including the compensation policy should be disclosed.

7.9. Customers complaints / grievances arising out of mobile banking facility would be covered under the Banking Ombudsman Scheme.

7.10. The jurisdiction of legal settlement would be within India.

8. Transaction limit: Banks are permitted to offer mobile banking facility to their customers without any daily cap for transactions involving purchase of goods/services. However, banks may put in place per transaction limit depending on the bank's own risk perception, with the approval of its Board.

9. Remittance of funds for disbursement in cash: In order to facilitate the use of mobile phones for remittance of cash, banks are permitted to provide fund transfer services which facilitate transfer of funds from the accounts of their customers for delivery in cash to the recipients. The disbursal of funds to recipients of such services can be facilitated at ATMs or through any agent(s) appointed by the bank as business correspondents. The recipient can be

a non-account holder also. In case of cash out, the maximum value of such transfers shall be Rs 10,000/- per transaction. Banks may place suitable cap on the velocity of such transactions, subject to a maximum value of Rs 25,000/- per month, per beneficiary. The disbursal of funds at the agent/ATM shall be permitted only after identification of the recipient. Banks may carry out proper due diligence of the persons before appointing them as authorized agents for such services. Banks shall be responsible as principals for all the acts of omission or commission of their agents.

10. Board approval: Approval of the Board of Directors for the product, as also the perceived risks and mitigation measures proposed to be adopted must be obtained before launching the scheme.

11. Approval of Reserve Bank of India: One time approval from RBI should be taken by furnishing full details.

12. Technology and Security Standards:
12.1. Banks are required to put in place appropriate risk mitigation measures like transaction limit (per transaction, daily, weekly, monthly), transaction velocity limit, fraud checks, AML checks etc. depending on the bank's own risk perception, unless otherwise mandated by RBI.
12.2. Authentication:
a) All mobile banking transactions shall be permitted only by validation through a two factor authentication.
b) One of the factors of authentication shall be mPIN or any higher standard.
c) Where mPIN is used, end to end encryption of the mPIN is desirable, i.e. mPIN shall not be in clear text anywhere in the network.
d) The mPIN shall be stored in a secure environment.
12.3. Proper level of encryption and security shall be implemented at all stages of the transaction processing. The following guidelines with respect to network and system security shall be adhered to:
a) Implement application level encryption over network and transport layer encryption wherever possible.
b) Establish proper firewalls, intruder detection systems (IDS), data file and system integrity checking, surveillance and incident response procedures and containment procedures.
c) Conduct periodic risk management analysis, security vulnerability assessment of the application and network etc at least once in a year.
d) Maintain proper and full documentation of security practices, guidelines, methods and procedures used in mobile banking and payment systems and keep them up to date based on the periodic risk management, analysis and vulnerability assessment carried out.
e) Implement appropriate physical security measures to protect the system gateways, network equipments, servers, host computers, and other hardware/software used from unauthorized access and tampering. The Data Centre of the Bank and Service Providers should have proper wired and wireless data network protection mechanisms.
12.4. The dependence of banks on mobile banking service providers may place knowledge of bank systems and customers in a public domain. Therefore, sensitive customer data, and security and integrity of transactions should be protected. Mobile banking servers at the bank's end or at the mobile banking service provider's end, if any, should be certified by an accredited external agency.
12.5. For mobile banking facilities which do not contain the phone number as identity, a separate login ID and password is desirable to ensure proper authentication.

SUPERVISORY PROCESSES FOR COM BANKS

(Draft Report of the High Level Steering Committee)

The specificity of banks, the volatility of financial markets, increased competition and diversification, expose banks to risks and challenges. The protection of depositors' interests and ensuring financial stability are two of the major drivers for putting in place an effective system of supervision of banks. An effective supervisory system is, critical for preventing bank failures by ensuring the safety and soundness of banks.

A High Level Steering Committee (HLSC) was constituted under the Chairmanship of Dr. K. C. Chakrabarty, Deputy Governor for Review of Supervisory Processes for Commercial Banks to review the extant approaches, methodologies, processes/tools for onsite and off-site supervision, Supervisory Rating & Stress Testing Frameworks and recommend measures for a gradual progression to a Risk Based Supervision Framework. The salient recommendations of the Committee are given below:

1. Supervisory Approach
(a) While the protection of depositors' interests should be the primary objective of RBI's supervisory process, promotion of financial stability and customers' protection should also be articulated as overarching objective of RBI's supervision.
(b) In view of the emerging challenges and ensuring optimization of supervisory resources, there should be a risk based approach for supervision for commercial banks in India. It is imperative that each bank has a certain basic risk management framework in place before the Risk Based Supervision can be rolled out. Accordingly, the Committee has outlined the ingredients of a baseline risk management framework and full-scale RBS should be implemented across the banking industry from 2013 Supervisory cycle.
(c) Along with focus on supervision of banks on a solo basis, RBI should also focus on Consolidated Supervision of banking groups. In view of the fragmented set up within RBI for supervising different entities belonging to the same banking group, a single point contact in the form of a 'Supervisory Relationship Manager' should be created within the Department of Banking Supervision to ensure efficient and effective communication between the supervisor and the supervised entities and to aid the Consolidated Supervision process.
(d) The domains of regulation and supervision should be firmly demarcated and any entity specific decision should only emanate from the supervisory department. This is necessary for clarity of jurisdiction for the supervised entity and for making the relationship manager an effective single point of contact in the Department of Banking Supervision (DBS). The communication between the supervisor and the supervised entity is confidential and should not be subject to any public scrutiny.

2 Supervisory Methods/Tools under RBS
Off-site Supervision: In view of increased reliance on offsite supervision under RBS it is important to ensure quality and integrity of data. Accordingly, manual intervention in the flow of data to RBI from the supervised entities should be eliminated and penal provisions should be invoked for deliberate submission of wrong data/ supervisory information.
On-site Examination: The level of risk and the probable impact of a bank's failure rather than the volume of business should be the determinant of the periodicity/intensity of on-site examination in banks. In view

of continuous off-site supervision under RBS, a differentiated approach based on the risk/impact assessment of individual banks for determining the periodicity of onsite supervisory examination /reviews (ranging between 1 to 3 years) should be decided.

Reliance on External Auditors: RBI and the statutory auditors should jointly work towards a formal code to enlist the mutual expectations, documentation requirements, information sharing requirements etc with the objective of eliminating duplicity of supervisory efforts. As the branch audit of public sector banks could be dispensed with or drastically curtailed in future RBI could commission special audits to probe into specific areas of concern.

Interactions with the Top Management of banks: The present system of holding quarterly discussions with the Top Management of all banks may be replaced with formal interactions, the periodicity of which may be determined by the supervisor based on its risk assessment for a particular bank /banking group.

3 Supervisory Processes

Supervisory Processes under RBS: The proposed supervisory cycle under RBS would involve six key processes: (i) Understanding the bank (Bank Profile), (ii) Assessing risks faced by the bank for supervisory purpose (Risk Assessment / Matrix), (iii) Scheduling and Planning Supervisory Activities (Planning for supervisory actions / interventions), (iv) Defining Examination Activities, on-site reviews and on-going monitoring (Onsite Inspection – objective, scope), (v) Inspection Procedure (Onsite Inspection, conduct of SREP, offsite continuous supervision) and (vi) Reporting findings and recommendations and follow-up (Inspection Reports, Updating of the bank Profile).

Bank Profile: A profile containing comprehensive yet concise information about the bank should be prepared and the same should be updated on an ongoing basis.

Risk Assessment: The risk assessment process involving updating bank related information collected from various sources should be conducted by the supervisor on a continuous basis. Both the risk score and the impact scores derived from the template based exercise would determine the Risk –Impact Matrix indices.

Supervisory Actions /Intervention: In order to ensure consistency/ standardization of supervisory judgment across the banking system an objective risk assessment template for identified risk groups would be used to produce an optimum Risk Matrix. Towards this end, technical inputs from professionals or specialists could be used to ensure that the risk assessment process is robust, consistent and conforms to the global standards. The process of Risk Assessment must be documented in a Supervisory Manual and a gist of the risk assessment process may also be shared with the supervised entities

Scheduling and Planning Supervisory Activities: The supervisory actions on a bank based on the perceived risks about the bank, would range from an on-site inspection to only a continuous off-site monitoring during a particular year. All banks, irrespective of their risk profile /outcome of the risk assessment exercise, should be subjected to an on-site inspection at least once in three years.

Stress Tests: Stress testing should be an integral part of the supervisory process and used extensively for determining the soundness/capital adequacy of banks. In this regard, reverse stress testing should be undertaken by the banks with active involvement of Senior Management.

Thematic Review: Thematic reviews should be increasingly used under the proposed risk based supervisory framework for supplementing and enhancing efficiency and effectiveness of the supervisory process.

4. Supervisory Rating

The existing CAMELS based rating system would not be appropriate under the risk based approach. Under the RBS, the focus of the rating framework should be to measure the riskiness of a bank and not to evaluate its performance. Under the risk focused rating framework, the riskiness of a bank would be computed using a risk template for identifying the inherent prudential risk and the risk control elements for various risk groups. The outcome of the SREP and the supervisory risk rating above would be used for determining the nature of supervisory intervention (for reduction of risk or prescription for additional capital over and above the regulatory capital, wherever necessary). The supervisory rating should not be made public as it is confidential information and can only be shared with the concerned banks.

5 Consolidated and Cross Border Supervision

A differentiated and risk focused approach to Consolidated Supervision with more focused attention on large and complex banking groups is necessary.

Understanding Group structure and business: The supervisor should develop clear understanding of the group structure and share holding pattern along with major lines of accountability within the group.

Governance: For assessing the effectiveness of Governance, the key parameters would include: (i) Competence (ii) Strategies and policies (iii) Internal control and audit including group wide oversight (iv) Internal risk management structure (v) Policy on Conflict of interest (vi) Transparency and Public Disclosures.

Cross- Sector Supervision (Domestic): To facilitate flow of information and have a coordinated approach towards issues of concern, a mechanism for structured exchange of information and cooperation amongst the sectoral supervisors should be developed. In this context, a formal MoU is also desirable.

Cross-Border (Overseas): Supervisory colleges be set up in respect of large globally active Indian banks having significant share of overseas assets as a percentage of total assets.

6. Institutional Structure and Human Resources

The safety and soundness of a bank is driven by the triad of Corporate Governance, effective risk management and internal control systems. There is a need to strengthen the triad in banks.

Conflicts of Interest: To achieve transparency in addressing conflicts of interest, the board should have a formal written conflicts of interest policy and an objective compliance process for implementing the policy.

Segregation of the post of Chairman and CEO: Given the positive experience in India as well as internationally, separation of the posts of chairman of the board and the CEO could be extended to public sector banks.

Single point of Supervisory Contact: There should be a single point of contact in DBS in the form of a Supervisory Relationship Manager / Desk Officer for each individual bank. As the work assigned to the 'Supervisory Relationship Manager' will be multifaceted in nature, minimum qualifications of expertise / experience may be mandated, keeping in view the profile of the bank.

FINANCIAL AWARENESS

1. S.K. Roy has been appointed as the new Chairman of Life Insurance Corporation.
2. Indian Railways has decided to start offering train tickets via mobile SMS. The services of IRCTC, the subsidiary of Indian Railways will come into effect from July 2013. The fees will be around 0.15 to 0.25 US dollars.
3. China has developed the Fastest Computer of the World Called Tianhe-2. Tianhe-2 is a supercomputer developed by China's National University of Defense Technology.
4. Retirement fund body Employees' Provident Fund Organization (EPFO) has launched its e-Passbook service. It will help PF subscribers to access their accounts online. Active subscribers, whose electronic challan-cum-return is already uploaded, can download their e-Passbook every month.
5. A survey conducted by United Nations Conference on Trade and Development (UNCTAD) revealed that India was the third most attractive destination for investment in the world after China and the United States.
6. Muthoot Finance got in-principal approval from the Reserve Bank of India (RBI) for establishing as well as operating White Label ATMs (WLAs).
7. An On-site Passenger Complaint Redressal System (OPCRS) is being developed by Railways to launch an SMSbased service for immediate response to passenger complaints regarding housekeeping service in coaches.
8. The Government has announced that growth in India's gross domestic product (GDP) in 2012-13 crashed to 5%, the lowest in 10-years.
9. Due to higher revenue receipts and higher non tax revenue collection, fiscal deficit for 2012-13 has come to 4.89 per cent of GDP against revised estimate of 5.2 per cent. The government in the Budget had proposed to lower fiscal deficit to 4.8 per cent of GDP in 2013-14 and reduce it gradually to 3 per cent by 2016-17.
10. As per RBI, overseas direct investment by Indian companies more than trebled to USD 7.64 bn in April 2013, from USD 1.89 bn in March 2013.
11. As per a new index of financial inclusion released by ratings and analytics firm CRISIL, southern states have emerged on top on financial inclusion parameters, while the East and some of the developed states of the West - including Gujrat and Maharastra are below the national average. As per the index, Puducherry topped the list, followed by Chandigarh and Kerala.
12. The first-ever Dalit industries-focused social impact fund, - DICCI SME Fund has been launched. The venture capital fund, initiated by the Dalit Indian Chamber of Commerce & Industry (DICCI), aims to raise Rs 500 crore which would be deployed over the next 10 years to finance Dalit entrepreneurs. The fund, approved by Sebi, was launched with an initial contribution of Rs 10 crore by the Small Industries Development Bank of India.
13. The Govt has raised import duty on gold by two percent from 6% to 8% to discourage imports.
14. As per 68th round of National Sample Survey Organisation (NSSO), the percentage of Indians employed in agriculture hasslipped below 50%; Male unemployment in urban areas has risen to 3.2%.
15. India has slipped to 70th position in terms of foreign money lying with the Swiss banks and accounts for a meager 0.10% of total global wealth held in the Switzerland banking system.
16. As per United Nations population report, India would pip China as the world's most populated country in the world by 2028.
17. The Global Innovation Index (GII) 2013, has ranked India as 66th most innovative nation among 142 economies. Switzerland topped the list, followed by Sweden, United Kingdom, Netherlands and the US.
18. India is projected to replace China as the world's largest cotton producer by 2022 on account of higher growth in output over the next decade.
19. As per 'Organisation for Economic Cooperation and Development' (OECD), India has probably surpassed Japan to become the world's third largest economy after the US and China, even as it lowered country's economic growth projection for 2013 to 5.3%.
20. By early 2030s, the BRIICS' (Brazil, Russia, India, Indonesia, China and South Africa) combined GDP should roughly equal that of the OECD (based on current membership).
21. As per Ministry of Statistics and Programme Implementation, monthly per capita expenditure (MPCE), measured in terms of uniform reference period, for urban areas rose by 17% from Rs 2,399.24 in 2011-12 to Rs. 1,785.81 in 2009-10. However, rural MPCE rose faster by 19% to Rs. 1,278.94 from Rs 9,27.70 during the same period.
22. Due to robust increase in business in the last two years, the Finance Ministry has allowed 15 of the 19 nationalised banks to create up to three additional positions in the rank of general manager. The ministry has also relaxed the guidelines for promotion of officers, who do not have sufficient work experience in rural/semi-urban areas, and specialist officers, who do not have sufficient experience in field operations.
23. The Railway Board hopes to complete installation of bio-toilets in all 40,000-plus coaches of the Indian Railways by 2019.
24. The headline inflation for May dropped to a 42-month low of 4.7 per cent.
25. A total of 29 Axis Bank accounts, including 12 salary accounts of Mumbai police personnel, were hacked in April and May. A sum of Rs 13 lakh was withdrawn through ATMs in Greece from 29 accounts.
26. Huge costs, particularly relating to employee benefits and provisioning for non-performing assets, might delay the merger of the five associate banks with State Bank of India.
27. The consumer price index (CPI)-based inflation for May was, however, lower than retail inflation of 9.39 per cent in April.
28. Fitch revises India's rating outlook to 'stable' from negative mainly because of a lower-than-estimated fiscal deficit and reform initiatives by the Government.
29. April industrial growth revised upward to 2.3%. Electricity generation growth has been revised to 4.2%.

VARIOUS RATES AT GLANCE		
Bank Rate	**8.25%**	03.05.2013
CRR	**4.0%**	09.02.2013
SLR	**23.0%**	11.08.2012
Repo Rate	**7.25%**	03.05.2013
Reverse Repo Rate	**6.25%**	03.05.2013
MSF Rate	**8.25%**	03.05.2013