

*Press Release**

December 2011

Reserve Bank Cancels the Licence of Bharat Urban Co-operative Bank Ltd., Solapur (Maharashtra)

December 1, 2011

In view of the fact that Bharat Urban Co-operative Bank Ltd., Solapur (Maharashtra), had ceased to be solvent, all efforts to revive it in close consultation with the Government of Maharashtra had failed and the depositors were being inconvenienced by continued uncertainty, the Reserve Bank of India (RBI) delivered the order cancelling its licence to the bank as on the close of business on November 25, 2011. The Registrar of Co-operative Societies, Maharashtra has also been requested to issue an order for winding up the bank and appoint a liquidator for the bank. It may be highlighted that on liquidation, every depositor is entitled to repayment of his/her deposits up to a monetary ceiling of ` 0.1 million/- (Rupees 0.1 million only) from the Deposit Insurance and Credit Guarantee Corporation (DICGC) under usual terms and conditions.

The bank was granted a licence by RBI on February 5, 1998 to commence banking business. The statutory inspection of the bank under Section 35 of the Banking Regulation Act, 1949 (As Applicable to Co-operative Societies) (hereinafter referred to as the 'Act'), with reference to its financial position as on March 31, 2006 revealed deterioration in its financial indicators such as CRAR was at 7.5 per cent as against the regulatory requirement of 9.0 per cent and gross and net NPAs were assessed at 39.9 per cent and 34.3 per cent of the gross and net advances, respectively. The assessed net loss during 2005-06 was ` 2.18 million. The financial parameters of the bank continued to deteriorate further as revealed during subsequent inspections conducted with reference to its financial position as on March 31, 2007, March 31, 2008, March 31, 2009, March 2010 and a scrutiny based on the financial position as on September 30, 2010.

* Important Press Releases during December 2011.

The bank was issued supervisory instructions vide RBI letter dated April 5, 2007, based on its financial position as on March 31, 2006. The supervisory instructions were amended on various dates. In view of deteriorating financial position of the bank, it was placed under all inclusive directions under Section 35 A of the Act from the close of business as on April 13, 2011 vide directive dated April 6, 2011, for a period of six months. The directions were further extended for period of six months vide order dated October 10, 2011.

The Board of directors of the bank was found to be ineffective and responsible for deterioration in the financial position of the bank & for conducting the affairs of the bank in a manner detrimental to the interest of the depositors. Accordingly, a requisition dated May 23, 2011 was made to Registrar of Co-operative Societies, Maharashtra [RCS] for supersession of the Board of Directors of the bank and RCS vide his order dated May 25, 2011 superseded the Board of the bank and appointed Board of Administrators. Based on the financial position of the bank as on March 31, 2010 and September 30, 2010 the bank was issued Show Cause Notice (SCN) for cancellation of licence vide RBI letter dated May 31, 2011. The reply submitted by the bank to the above SCN vide its letters dated June 28, 2011 and July 27, 2011 were examined and found not to be satisfactory.

The statutory inspection of the bank under Section 35 of the Act, with reference to the financial position of the bank as on March 31, 2011 revealed further deterioration in its financial position and other violations. Its net worth was assessed at (-) ` 8.33 million and CRAR was assessed at (-)76.5 per cent The erosion in deposits was to the extent of 38.4 per cent. The gross and net NPAs formed 73.5 per cent and 68.2 per cent of the gross and net advances respectively. The assessed net loss of the bank stood at ` 11.76 million for the year ended March 31, 2011 against the reported net loss of ` 2.40 million by the bank.

Serious deficiencies as mentioned above revealed that the affairs of the bank were being conducted in a

manner detrimental to the interests of the depositors. The bank did not comply with the provisions of sections 11(1), 22(3)(a), 22(3)(b) and 24 of the Act. Pursuant to the aforesaid serious deficiencies/irregularities and the deteriorating financial position of the bank, it was issued a notice vide letter dated September 7, 2011 to show cause notice (SCN) as to why the licence granted to the bank on February 5, 1998 to conduct banking business should not be cancelled. The bank submitted its reply to the SCN vide its letter dated September 26, 2011. The reply to the SCN was considered and examined but not found satisfactory. Further, no concrete proposal was received from the bank for merger or any viable revival / restructuring plan.

Therefore, RBI took the extreme measure of cancelling licence of the bank in the interest of bank's depositors. With the cancellation of licence and commencement of liquidation proceedings, the process of paying the depositors of the Bharat Urban Co-operative Bank Ltd., Solapur (Maharashtra) the amount insured as per the DICGC Act, will be set in motion subject to the terms and conditions of the Deposit Insurance Scheme.

Consequent to the cancellation of its licence, Bharat Urban Co-operative Bank Ltd., Solapur (Maharashtra) is prohibited from carrying on 'banking business' as defined in Section 5(b) of the Act.

For any clarifications, depositors may approach Smt. K.S. Jyotsna, Deputy General Manager, Urban Banks Department, Mumbai Regional Office, Reserve Bank of India, Mumbai, whose contact details are as below:

Postal Address: Urban Banks Department, Mumbai Regional Office, Reserve Bank of India, 2nd Floor, Garment House, Dr. A.B. Road, Worli, Mumbai – 400 018 Telephone Number: (022) 24920225, Fax Number: (022) 24935495

The Progressive Mercantile Co-operative Bank Ltd., Ahmedabad – Penalised

December 8, 2011

The Reserve Bank of India has imposed a monetary penalty of ₹ 0.1 million (Rupees 0.1 million only) on the

The Progressive Mercantile Co-operative Bank Ltd., Ahmedabad, in exercise of powers vested in it under the provisions of Section 47(A)(1)(b) read with Section 46(4) of the Banking Regulation Act, 1949 (As applicable to Co-operative Societies), for violation of Reserve Bank of India's instructions on Know Your Customers (KYC) /Anti Money Laundering (AML) norms.

The Reserve Bank of India had issued a show cause notice to the bank, in response to which the bank submitted a written reply. After considering the facts of the case and the bank's reply in the matter, the Reserve Bank of India came to the conclusion that the violation was substantiated and warranted imposition of the penalty.

RBI Board meets at Kolkata; State Govt., Banks and RBI to work together for meaningful Financial Inclusion

December 8, 2011

The Central Board of Directors of the Reserve Bank of India met today at Kolkata. Dr. D. Subbarao, Governor, Reserve Bank of India chaired the meeting. Directors Sarva Shri Dr. Anil Kakodkar, Kiran Karnik, M.V.Rajeev Gowda, Y.H.Malegam, Azim Premji, Dipankar Gupta, G. M. Rao, Ms. Ela Bhatt and Dr. Indira Rajaraman attended the meeting. The Government nominee, Shri R.Gopalan, Secretary, Department of Economic Affairs also attended the meeting. Deputy Governors Dr. K.C. Chakrabarty, Dr. Subir Gokarn, Shri Anand Sinha and Shri H.R. Khan were also present.

The Central Board meets at least once every quarter. Apart from holding meetings in Mumbai, Chennai, Kolkata and one in New Delhi after the Union Budget which is addressed by the Finance Minister, the rest of the meetings are held in other state capitals by rotation. The main function of the Central Board of Directors of the Reserve Bank is to provide overall direction to the Reserve Bank's affairs.

Earlier, the Governor met the Chief Minister Miss Mamata Banerjee and discussed issues of mutual interest. The Governor also met local bankers and State Government officials. At this meeting, the following decisions were taken:

- Banks will endeavour to achieve credit deposit (CD) ratio of 65 per cent by the end of March 2012. Current CD ratio in the State was 62 per cent which was significantly lower than the national average of 74 per cent. A higher target for CD ratio to be achieved during 2012-13 would be reviewed after that but would largely be subject to demand for large corporate credit.
- Banks will make efforts to cover at least one hundred thousand Self-Help Groups (SHGs) by March 2012. There are total 0.16 million SHGs to be credit linked in the State, out of which 29,622 SHGs have already been covered by banks.
- To get a clear picture of ground realities with regard to loans to be availed by General Credit Card holders, a team of officials of State government, banks and the Reserve Bank will conduct a survey in four districts of West Bengal – Murshidabad, Howrah, Malda and North 24-Parganas. The survey would be completed by end-December 2011. Based on the findings of the survey, the SLBC will decide on the way forward.
- All the 7,486 villages with population of more than 2,000, will be covered by banking facilities by March 2012 under the Financial Inclusion Plan. Banks had already covered 4348 villages by November 2011.
- State government will give all support to the Reserve Bank in extending electronic benefit transfer (EBT), to begin with, in four districts where pilot project had already been initiated. The objective, however, will be to extend EBT facility to all the districts in West Bengal covering all villages. Banks would need to work out modalities with the active support of State governments in this regard.
- In order to give boost to credit in the State and to ensure district level participation, the Chief Minister has agreed to attend one State Level Bankers' Committee (SLBC) meeting in the next three months.
- To encourage credit enhancement and financial inclusion at the district level, the District Magistrate, Regional Managers of banks and

officials of the Reserve Bank will attend the District Consultative Committee meetings.

- The urgency of extending State contribution for recapitalisation of the three Regional Rural Banks (RRBs) in West Bengal necessary for their improved performance was reiterated.

FSDC Sub Committee meets in Kolkata

December 8, 2011

A meeting of the Sub-Committee of the Financial Stability Development Council (FSDC) was held in Kolkata. Dr. D. Subbarao, Governor, Reserve Bank of India, chaired the meeting. The meeting was attended by Shri R. Gopalan, Secretary, Department of Economic Affairs; Dr. Kaushik Basu, Chief Economic Adviser, Ministry of Finance; Shri U. K. Sinha, Chairman, SEBI; Shri J. Hari Narayan, Chairman, IRDA; Shri Yogesh Agrawal, Chairman, PFRDA; Deputy Governors, RBI: Dr. K.C. Chakrabarty, Dr. Subir Gokarn, Shri Anand Sinha and Shri H.R. Khan; Executive Directors, RBI: Shri V.K. Sharma and Shri V. S. Das; and other officials.

The Sub-Committee reviewed the recent developments in the global macroeconomic and financial sector scenario, focusing on issues relating to potential systemic risks for India.

The Sub-Committee also discussed the stability issues emanating from the macroeconomic outlook, financial markets, financial institutions and financial market infrastructure. It deliberated on the draft Financial Stability Report (FSR) for December 2011, which is scheduled for release later this month.

The functioning of the Technical Group for Financial Inclusion and Literacy and the Inter Regulatory Technical Group was also reviewed by the Sub-Committee.

RBI delegates Compounding Powers under FEMA to its Regional Offices

December 13, 2011

As a customer service measure and for operational convenience, it has been decided to delegate powers to

the Regional Offices of the Reserve Bank of India to compound certain contraventions of FEMA 1999. The contraventions include: (i) delay in reporting of inward remittance, (ii) delay in filing of form FC-GPR after allotment of shares and (iii) delay in issue of shares beyond 180 days. (i.e. paragraphs 9(1)(A), 9(1)(B) and 8, respectively, of Schedule I to the Foreign Exchange Management (Transfer or Issue of Security by a Person Resident Outside India) Regulations, 2000, notified vide Notification No. FEMA 20/2000-RB dated May 3, 2000 and as amended from time to time).

The powers delegated are:

	Contraventions	Regional Offices	Amount of Contravention
a)	Delay in reporting of inward remittance and delay in filing of form FC-GPR after allotment of shares	Bhopal, Bhubaneswar, Chandigarh, Guwahati, Jaipur, Jammu, Kanpur, Kochi, Patna and Panaji	Below Rupees Ten million only
b)	Delay in reporting of inward remittance, delay in filing of form FC-GPR after allotment of shares and delay in issue of shares beyond 180 days	Ahmedabad, Bangalore, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi	Without any limit

Detailed instructions in this regard are given in A.P. (DIR Series) Circular No. 57 dated December 13, 2011.

Risk Management and Inter-Bank Dealings

December 13, 2015

Keeping in view the developments in the foreign exchange market, it has been decided to implement the following measures with immediate effect until further review.

- i. Under contracted exposures, forward contracts, involving the Rupee as one of the currencies, booked by residents to hedge current account transactions, regardless of the tenor, and to hedge capital account transactions, falling due within one year, were allowed to be cancelled and rebooked.

It has now been decided to withdraw the above facility. Forward contracts booked by residents irrespective of the type and tenor of the underlying exposure, once cancelled, cannot be rebooked.

- ii. Under probable exposures based on past performance residents were allowed to hedge currency risk on the basis of a declaration of an exposure and based on past performance up to the average of the previous three financial years' (April to March) actual import/export turnover or the previous year's actual import/export turnover, whichever is higher. Further, contracts booked in excess of 75 per cent of the eligible limit were to be on deliverable basis and could not be cancelled.

It has now been decided that

- a. For importers availing of the above past performance facility, the facility stands reduced to 25 per cent of the limit as computed above, *i.e.*, 25 per cent of the average of the previous three financial years' (April to March) actual import/export turnover or the previous year's actual import/export turnover, whichever is higher. In case of importers who have already utilised in excess of the revised /reduced limit, no further bookings may be allowed under this facility.
- b. All forward contracts booked under this facility by both exporters and importers hence forth will be on fully deliverable basis. In case of cancellations, exchange gain, if any, should not be passed on to the customer.
- iii. All cash/tom/spot transactions by the Authorised Dealers on behalf of clients will be undertaken for actual remittances/delivery only and cannot be cancelled/cash settled.

- iv. Foreign Institutional Investors (FIIs) are currently allowed to hedge currency risk on the market value of entire investment in equity and/or debt in India as on a particular date. The contracts once cancelled cannot be rebooked except to the extent of 10 per cent of the market value of the portfolio as at the beginning of the financial year. The forward contracts may, however, be rolled over on or before maturity.

It has now been decided that henceforth forward contracts booked by the FIIs, once cancelled, cannot be rebooked. The forward contracts may, however, be rolled over on or before maturity.

- v. The Board of Directors of Authorised Dealers were allowed to fix suitable limits for various Treasury functions with net overnight open exchange position and aggregate gap limits required to be approved by the Reserve Bank.

It has now been decided that

- a. Net Overnight Open Position Limit (NOOPL) of Authorised Dealers would be reduced across the board. Revised limits in respect of individual banks are being advised to the Authorised Dealers separately.
- b. Intra-day open position/daylight limit of Authorised Dealers should not exceed the existing NOOPL approved by the Reserve Bank.
- c. The above arrangement would be reviewed on an ongoing basis keeping in view the evolving market conditions.

Working Group to Enhance Secondary Market Liquidity in G-Sec and Interest Rate Derivatives Markets

December 16, 2011

The Reserve Bank has set up a Working Group (Chairman: Shri R. Gandhi) comprising representatives from market and RBI officials to examine and suggest ways for enhancing secondary market liquidity in G-Sec

and Interest Rate Derivatives markets. The Terms of Reference of the Group are:

- a. To analyse the evolution of the markets for G-Sec and Interest Rate Derivatives in relation to their depth and breadth;
- b. To study the determining and influencing factors on liquidity of G-Sec and Interest Rate Derivatives from the perspective of primary market, secondary market and Interest Rate Derivatives Market;
- c. To examine the factors enabling and inhibiting the secondary market liquidity in the G-Sec market, especially across the sovereign yield curve, and suggest ways to strengthen/address them;
- d. To examine the factors enabling and inhibiting the growth of the Interest Rate Derivatives market and suggest ways to strengthen/address them;
- e. To suggest measures for promoting retail participation in G-Sec market; and
- f. To examine all other related issues.

Suggestions/comments in this regard may be mailed by January 17, 2012.

Janatha Seva Co-operative Bank Ltd., Bangalore – Penalised

December 16, 2011

The Reserve Bank of India has imposed a monetary penalty of ₹ 0.5 million (Rupees 0.5 million only) on Janatha Seva Co-operative Bank Ltd., Bangalore, in exercise of powers vested in it under the provisions of Section 47(A)(1)(b) read with Section 46(4) of the Banking Regulation Act, 1949 (As applicable to Co-operative Societies), for violation of Reserve Bank of India's instructions on Know Your Customers (KYC) norms and Anti Money Laundering (AML) guidelines.

The Reserve Bank of India had issued a show cause notice to the bank, in response to which the bank submitted a written reply. After considering the bank's reply in the matter and submission made during the personal hearing, the Reserve Bank of India came to the conclusion that the violation was substantiated and warranted imposition of the penalty.

RBI Book titled *Regional Economy of India: Growth and Finance* released

December 20, 2011

Dr. Subir Gokarn, Deputy Governor, Reserve Bank of India released a book on *Regional Economy of India: Growth and Finance* last Friday at the Annual Conference of the economists of the Reserve Bank of India. Edited by Shri Deepak Mohanty, Executive Director, Reserve Bank of India, the book is jointly published by the Reserve Bank of India and the Academic Foundation.

The book covers important research findings of economists working in regional offices of the Reserve Bank of India. Given the divergence in growth potential, financial development and inflation across regions in India, studies on regional economies become particularly relevant. The analysis in the book reveals that -

- The share of agriculture has shrunk across the states
- the share of services has risen sharply
- However, industrial growth remains uneven.
- Urban-rural inequality has worsened.
- There is, therefore, a need for concerted action on agricultural growth and infrastructure development besides increasing the penetration of formal financial sector to alleviate the constraints on growth and to control inflation.
- There is also a need to prioritise expenditure towards social sector to develop the quality of the labour force and promote well-being.

The book is available from Academic Foundation, 4772-73/23, Bharat Ram Road (23, Ansari Road), Darya Ganj, New Delhi-110002, India.

Third Quarter Review of Monetary Policy 2011-12 on January 24, 2012

December 22, 2011

Dr. D. Subbarao, Governor, Reserve Bank of India will announce the Third Quarter Review of Monetary Policy 2011-12 in a meeting with the chief executives

of major scheduled commercial banks at 11.00 a.m. on Tuesday, January 24, 2012 at the Central Office, Reserve Bank of India, Mumbai.

The Gondal Nagrik Sahakari Bank Ltd., Gondal – Penalised

December 22, 2011

The Reserve Bank of India has imposed a monetary penalty of ₹ 0.5 million (Rupees 0.5 million only) on The Gondal Nagrik Sahakari Bank Ltd., Gondal, in exercise of powers vested in it under the provisions of Section 47(A)(1)(b) read with Section 46(4) of the Banking Regulation Act, 1949 (AACS) for granting loan to Directors, not correctly reporting loans to directors to Reserve Bank of India in the statutory returns on advances to directors and not submitting Cash Transaction Reports (CTRs) to Financial Intelligence Unit-India (FIU-IND), New Delhi.

The Reserve Bank of India had issued a show cause notice to the bank in response to which the bank submitted a written reply. After considering the facts of the case and the bank's reply as also personal submissions in the matter, the Reserve Bank of India came to the conclusion that the violation was substantiated and warranted imposition of the penalty.

Money Masters Leasing & Finance Limited (MMLFL) Prohibited from Accepting Deposits

December 26, 2011

The Reserve Bank of India in exercise of powers vested in it under Section 45MB (1) and 45 MB (2) of the Reserve Bank of India Act, 1934, has prohibited with immediate effect Money Masters Leasing & Finance Limited, having its registered office at 1/18, Rizvi Park, S.V.Road, Santacruz (W), Mumbai-400054 from accepting public deposits from any person in any form whether by way of fresh deposits or renewal of the deposits or otherwise as well as from selling, transferring, creating charge or mortgage or deal in any manner with its property and assets without prior permission of the Bank for a period of six months from the date of this order.

It was observed during inspection of the books of account of Money Masters Leasing & Finance Limited with reference to its financial position as on March 31, 2010, that the company has violated extant Directions on the deposit acceptance. (Notification No. DFC.118/DG (SPT)-98 dated January 31, 1998 amended vide Master Circular DNBS (PD) CC No.176/03.02.001/2010-11 dated July 1, 2010).

In view of the above, on being satisfied that to protect the interests of depositors and in public interest, it is necessary and expedient so to do, in exercise of the powers vested in RBI under Sections 45 MB(1) 45 MB (2) of RBI Act, 1934, RBI hereby passes the following order:

- (i) Money Masters Leasing & Finance Limited is hereby prohibited with immediate effect from accepting any deposit in whatsoever manner either from its existing depositors or new depositors whether by way of renewal or otherwise.
- (ii) MMLFL shall repay the deposits as and when they mature.
- (iii) MMFL is prohibited from selling, transferring, creating charge or mortgage or deal in any manner with its property and assets without prior written permission of the Bank for a period of 180 days from the date of the order.
- (iv) MMLFL subject to (i), (ii), and (iii) above, shall strictly comply with the requirements of all the applicable provisions of the RBI Act, the Directions, guidelines, instructions and circulars issued by RBI there-under from time to time until such time as all the deposits are repaid with interest in full.
- (v) MMLFL shall forthwith notify all its agents and employees that it has been prohibited from accepting deposits and shall paste a copy of the operative portion of this Order in a conspicuous place at each of its branches and offices.
- (vi) MMLFL shall, without prejudice to the above, be entitled to carry on its other business activities in accordance with law.

RBI Releases Draft Guidelines on Basel III Capital Regulations

December 30, 2011

The Reserve Bank today released on its website, draft guidelines outlining proposed implementation of Basel III capital regulation in India. These guidelines are in response to the comprehensive reform package entitled 'Basel III: A global regulatory framework for more resilient banks and banking systems' of the Basel Committee on Banking Supervision (BCBS) issued in December 2010.

The major highlights of the draft guidelines are:

Minimum Capital Requirements

- Common Equity Tier 1 (CET1) capital must be at least 5.5 per cent of risk-weighted assets (RWAs);
- Tier 1 capital must be at least 7 per cent of RWAs; and
- Total capital must be at least 9 per cent of RWAs.

Capital Conservation Buffer

- The capital conservation buffer in the form of Common Equity of 2.5% of RWAs.

Transitional Arrangements

- It is proposed that the implementation period of minimum capital requirements and deductions from Common Equity will begin from January 1, 2013 and be fully implemented as on March 31, 2017.
- Capital conservation buffer requirement is proposed to be implemented between March 31, 2014 and March 31, 2017.
- The implementation schedule indicated above will be finalized taking into account the feedback received on these guidelines.
- Instruments which no longer qualify as regulatory capital instruments will be phased-out during the period beginning from January 1, 2013 to March 31, 2022.

Enhancing Risk Coverage

- For OTC derivatives, in addition to the capital charge for counterparty default risk under Current Exposure Method, banks will be required to

compute an additional credit value adjustments (CVA) risk capital charge.

Leverage Ratio

- The parallel run for the leverage ratio will be from January 1, 2013 to January 1, 2017, during which banks would be expected to strive to operate at a minimum Tier 1 leverage ratio of 5 per cent. The leverage ratio requirement will be finalised taking into account the final proposal of the Basel Committee.

Comments/Feedback

Comments/feedback on the draft guidelines, including implementation schedule may be sent on or before February 15, 2012 to the Chief General Manager-in-Charge, Department of Banking Operations and Development, Reserve Bank of India, Central Office Building, 12th Floor, S.B. Singh Marg, Mumbai – 400001, through e-mail . The guidelines will be finalised taking into account the suggestions and comments.