

Regulatory and Other Measures

December 2011

RBI/2011-12/290DNBS.CC.PD.No.250/03.10.01/2011-12
December 2, 2011

Introduction of New Category of NBFCs - 'Non Banking Financial Company-Micro Finance Institutions' (NBFC-MFIs) - Directions

As indicated in the Second Quarter Review of Monetary Policy in November 2010, a Sub-Committee of the Central Board of the Reserve Bank (Chairman: Shri Y. H. Malegam) was constituted to study issues and concerns in the MFI sector. The Committee submitted its report in January 2011. In the Monetary Policy Statement 2011-12, it was announced that the broad framework of regulations recommended by the Committee has been accepted by the Bank.

2. Creation of a Separate Category of NBFC-MFI

It has been decided to create a separate category of NBFCs viz; Non Banking Financial Company-Micro Finance Institution (NBFC-MFI). Consequently there would be following categories of NBFCs:

- i. Asset Finance Company (AFC)
 - ii. Investment Company (IC)
 - iii. Loan Company (LC)
 - iv. Infrastructure Finance Company (IFC)
 - v. Core Investment Company (CIC)
 - vi. Infrastructure Debt Fund- Non- Banking Financial Company (IDF-NBFC)
 - vii. Non-Banking Financial Company - Micro Finance Institution (NBFC-MFI).
3. The Sub-Committee had recommended a role for industry associations in monitoring of compliance by NBFC-MFIs with the regulations. Separate guidelines in this regard will follow.
 4. The Notification DNBS.PD.No.234 CGM(US)2011 dated December 2, 2011 containing the regulatory

framework for NBFC-MFIs, the amending notifications DNBS.PD.No.235/CGM(US) 2011 dated December 02, 2011 amending the Non-Banking Financial (Non-Deposit accepting or holding) Companies Prudential Norms (Reserve Bank) directions, 2007 and DNBS.PD.No.236/CGM(US)2011 dated December 02, 2011 amending the Non-Banking Financial Companies Auditor's Report (Reserve Bank) Directions, 2008 are enclosed for meticulous compliance.

DNBS. PD.No.234 / CGM(US)-2011 dated December 2, 2011

The Reserve Bank of India having considered it necessary in the public interest and being satisfied that for the purpose of enabling the Bank to regulate the credit system to the advantage of the country, it is necessary to give the directions set out below, hereby, in exercise of the powers conferred by sections 45JA, 45K, 45L and 45M of the Reserve Bank of India Act, 1934 (2 of 1934), and of all the powers enabling it in this behalf, hereby gives the Directions hereinafter specified.

PART I PRELIMINARY

1. Short title and commencement of the Directions

- i. These Directions shall be known as the Non-Banking Financial Company -Micro Finance Institutions (Reserve Bank) Directions, 2011.
- ii. These Directions shall come into force with immediate effect.

2. *Extent of the Directions*

These Directions shall apply to every Non Banking Financial Company-Micro Finance Institution (NBFC-MFI) as defined in these Directions.

3. Definition of NBFC-MFI

An NBFC-MFI is defined as a non-deposit taking NBFC (other than a company licensed under Section 25

of the Indian Companies Act, 1956) that fulfils the following conditions:

- i. Minimum Net Owned Funds of ` 50 million. (For NBFC-MFIs registered in the North Eastern Region of the country, the minimum NOF requirement shall stand at ` 20 million).
- ii. Not less than 85 per cent of its net assets are in the nature of "qualifying assets."

For the purpose of ii. above,

"Net assets" are defined as total assets other than cash and bank balances and money market instruments.

"Qualifying asset" shall mean a loan which satisfies the following criteria:-

- a. *loan disbursed by an NBFC-MFI to a borrower with a rural household annual income not exceeding ` 60,000 or urban and semi-urban household income not exceeding ` 1,20,000;*
 - b. *loan amount does not exceed ` 35,000 in the first cycle and ` 50,000 in subsequent cycles;*
 - c. *total indebtedness of the borrower does not exceed ` 50,000;*
 - d. *tenure of the loan not to be less than 24 months for loan amount in excess of ` 15,000 with prepayment without penalty;*
 - e. *loan to be extended without collateral;*
 - f. *aggregate amount of loans, given for income generation, is not less than 75 per cent of the total loans given by the MFIs;*
 - g. *loan is repayable on weekly, fortnightly or monthly instalments at the choice of the borrower*
- iii. Further the income an NBFC-MFI derives from the remaining 15 percent of assets shall be in accordance with the regulations specified in that behalf.
 - iv. An NBFC which does not qualify as an NBFC-MFI shall not extend loans to micro finance sector, which in aggregate exceed 10 per cent of its total assets.

4. Regulatory Framework for NBFC-MFIs

A. Entry Point Norm

As stated above, all new NBFC-MFIs except those in the North Eastern Region of the country should have a minimum Net Owned Funds(NoF) of ` 50 million; those located in the North eastern region should have a minimum NoF of ` 20 million for purposes of registration. The existing NBFCs to be classified as NBFC-MFIs will be required to comply with this norm w.e.f April 1, 2012.

B. Prudential Norms

a. Capital Requirement

All new NBFC-MFIs shall maintain a capital adequacy ratio consisting of Tier I and Tier II Capital which shall not be less than 15 per cent of its aggregate risk weighted assets. The total of Tier II Capital at any point of time, shall not exceed 100 per cent of Tier I Capital. The risk weights for on-balance sheet assets and the credit conversion factor for off-balance sheet items will be as provided in para 16 of the Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve bank) Directions 2007.

Note:

- i. *Among the existing NBFCs to be classified as NBFC-MFIs, those with asset size less than ` 1billion will be required to comply with this norm w.e.f April 1, 2012. Those with asset size of ` 1billion and above are already required to maintain minimum CRAR of 15 per cent.*
- ii. *The CRAR for NBFC-MFIs which have more than 25 per cent loan portfolio in the state of Andhra Pradesh will be at 12 per cent for the year 2011-2012 only. Thereafter they have to maintain CRAR at 15 per cent.*

b. Asset Classification and Provisioning Norms:

With effect from April 1, 2012 all NBFC-MFIs shall adopt the following norms(till then they shall follow the asset classification and provisioning norms as given in the Non-Banking Financial (Non-Deposit accepting or holding) Companies Prudential Norms (Reserve Bank) Directions, 2007).

Asset Classification Norms:

- i. Standard asset means the asset in respect of which, no default in repayment of principal or payment of interest is perceived and which does not disclose any problem nor carry more than normal risk attached to the business;
- ii. Nonperforming asset means an asset for which, interest/principal payment has remained overdue for a period of 90 days or more.

Provisioning Norms:

The aggregate loan provision to be maintained by NBFC-MFIs at any point of time shall not be less than the higher of a) 1 per cent of the outstanding loan portfolio or b) 50 per cent of the aggregate loan instalments which are overdue for more than 90 days and less than 180 days and 100 per cent of the aggregate loan instalments which are overdue for 180 days or more.

c. All other provisions of the Non-Banking Financial (Non-Deposit accepting or holding) Companies Prudential Norms (Reserve Bank) Directions, 2007 will be applicable to NBFC-MFIs except as indicated therein.

C. Other Regulations

a. Pricing of Credit

- i. All NBFC-MFIs shall maintain an aggregate margin cap of not more than 12 per cent. The interest cost will be calculated on average fortnightly balances of outstanding borrowings and interest income is to be calculated on average fortnightly balances of outstanding loan portfolio of qualifying assets.
- ii. Interest on individual loans will not exceed 26 per cent per annum and calculated on a reducing balance basis.
- iii. Processing charges shall not be more than 1 per cent of gross loan amount. Processing charges need not be included in the margin cap or the interest cap.
- iv. NBFC-MFIs shall recover only the actual cost of insurance for group, or livestock, life, health for borrower and spouse. Administrative charges

where recovered, shall be as per IRDA guidelines.

b. Fair Practices in Lending

I. Transparency in Interest Rates

- a. There shall be only three components in the pricing of the loan viz., the interest charge, the processing charge and the insurance premium (which includes the administrative charges in respect thereof).
- b. There will be no penalty charged on delayed payment.
- c. NBFC-MFIs shall not collect any Security Deposit/Margin from the borrower.
- d. There should be a standard form of loan agreement.
- e. Every NBFC-MFI should provide to the borrower a loan card reflecting
 - (i) the effective rate of interest charged
 - (ii) all other terms and conditions attached to the loan
 - (iii) information which adequately identifies the borrower and
 - (iv) acknowledgements by the NBFC-MFI of all repayments including instalments received and the final discharge.
 - (v) All entries in the Loan Card should be in the vernacular language.
- f. The effective rate of interest charged by the NBFC-MFI should be prominently displayed in all its offices and in the literature issued by it and on its website.

II. Multiple-lending, Over-borrowing and Ghost-borrowers

- a. NBFC-MFIs can lend to individual borrowers who are not member of Joint Liability Group(JLG)/Self Help Group(SHG) or to borrowers that are members of JLG/SHG.
- b. a borrower cannot be a member of more than one SHG/JLG.
- c. not more than two NBFC-MFIs should lend to the same borrower.

- d. there must be a minimum period of moratorium between the grant of the loan and the due date of the repayment of the first instalment. The moratorium shall not be less than the frequency of repayment. For eg: in the case of weekly repayment, the moratorium shall not be less than one week.
- e. recovery of loan given in violation of the regulations should be deferred till all prior existing loans are fully repaid.
- f. All sanctioning and disbursement of loans should be done only at a central location and more than one individual should be involved in this function. In addition, there should be close supervision of the disbursement function.

III. Non- Coercive Methods of Recovery

- NBFC-MFIs shall ensure that a Code of Conduct and systems are in place for recruitment, training and supervision of field staff. The Code of Conduct should also incorporate the Guidelines on Fair Practices Code issued for NBFCs vide circular CC No.80 dated September 28, 2006 as amended from time to time.
- Recovery should normally be made only at a central designated place. Field staff shall be allowed to make recovery at the place of residence or work of the borrower only if borrower fails to appear at central designated place on 2 or more successive occasions.
- All other elements of the Fair Practices Code issued for NBFCs vide CC No 80 dated September 28, 2006 as amended from time to time shall be adhered to.

c. Corporate Governance

The Master Circular issued for NBFCs on Corporate Governance vide CC No. 187 dated July 1, 2011 shall be applicable to NBFC-MFIs also.

d. Improvement of Efficiency

NBFC-MFIs shall review their back office operations and make the necessary investments in Information

Technology and systems to achieve better control, simplify procedures and reduce costs.

e. Others

All NBFCs may refer to the circular RPCD.CO.Plan BC. 66 /04.09.01/2010-11 dated May 3, 2011 issued by the Rural Planning and Credit Department of RBI titled "Bank loans to Micro Finance Institutions (MFIs) – Priority Sector status" issued to banks with regard to guidelines on priority sector.

5. Existing NBFCs that satisfy the above conditions may approach the Regional Office in the jurisdiction of which their Registered Office is located, along with the original Certificate of Registration (CoR) issued by the Bank for change in their classification as NBFC-MFIs. Their request must be supported by their Statutory Auditor's certificate indicating the asset (loan) pattern as on March 31, 2011. The onus of including only eligible assets for the purpose of classification as NBFC-MFI shall be that of the company concerned. The change in classification would be incorporated in the Certificate of Registration issued by the Bank as NBFC-MFI.

6. In terms of paragraph 15 of the Non-Banking Financial (Non-Deposit accepting or holding) Companies Prudential Norms (Reserve Bank) Directions, 2007 all NBFCs are required to submit Statutory Auditors Certificate with reference to the position of the company as at end of the financial year ended March 31 every year. For an NBFC-MFI, such Certificate will also indicate that the company fulfils all conditions stipulated to be classified as an NBFC-MFI in this circular.

7. Non-compliance with these Directions shall invite penal provisions under the RBI Act, 1934.

DNBS.PD.No.235/ CGM(US)-2011 dated December 2, 2011

In exercise of the powers conferred by Sections 45JA of the Reserve Bank of India Act, 1934 and of all the powers enabling it in this behalf, and in partial modification of Notification No. DNBS. 193 dated DG

(VL)-2007 dated February 22, 2007, the Reserve Bank hereby notifies as follows, namely-

1. Amendment of paragraph 1–

- i. In sub paragraph (3) clause (vii) may be inserted to read as follows:

'The provisions of paragraph 18 of these Directions shall not apply to an NBFC-MFI as defined in the Non-Banking Financial Company- Micro Finance Institutions (Reserve Bank) Directions 2011'.

'The provisions of paragraphs 8 and 9 will not be applicable to an NBFC-MFI w.e.f April 01, 2012.

2 Amendment of paragraph 2 –

(1) In sub-paragraph (1), after clause (viii), the following clause (viii a) shall be inserted`.

An NBFC-MFI means a non-deposit taking NBFC (other than a company licensed under Section 25 of the Indian Companies Act, 1956) that fulfils the following conditions:

- i. Minimum Net Owned Funds of ` 50 million. (For NBFC-MFIs registered in the North Eastern Region of the country, the minimum NOF requirement shall stand at ` 20 million).
- ii. Not less than 85 per cent of its net assets are in the nature of "qualifying assets."

For the purpose of ii. above,

"Net assets" are defined as total assets other than cash and bank balances and money market instruments.

"Qualifying asset" shall mean a loan which satisfies the following criteria:-

- i. loan disbursed by an NBFC-MFI to a borrower with a rural household annual income not exceeding ` 60,000 or urban and semi-urban household income not exceeding ` 1,20,000;
- ii. loan amount does not exceed ` 35,000 in the first cycle and ` 50,000 in subsequent cycles;
- iii. total indebtedness of the borrower does not exceed ` 50,000;

- iv. tenure of the loan not to be less than 24 months for loan amount in excess of ` 15,000 with prepayment without penalty;
- v. loan to be extended without collateral;
- vi. aggregate amount of loans, given for income generation, is not less than 75 per cent of the total loans given by the MFIs;
- vii. loan is repayable on weekly, fortnightly or monthly instalments at the choice of the borrower

(2) In para 15, after the last sentence the following sentence shall be added:

"For an NBFC-MFI, such Certificate will also indicate that the company fulfils all conditions stipulated to be classified as an NBFC-MFI in the notification DNBS.PD.No.234/CGM(US)-2011 dated December 02, 2011".

DNBS.PD.No.236 /CGM(US)-2011 dated December 2, 2011.

The Reserve Bank of India (hereinafter referred to as "the Bank"), having considered it necessary in the public interest and for the purpose of proper assessment of books of accounts of NBFCs, in exercise of the powers conferred by Section 45MA of the Reserve Bank of India Act, 1934 (Act 2 of 1934) and of all the powers enabling it in this behalf, amend the Non-Banking Financial Companies Auditor's Report (Reserve Bank) Directions, 2008 as specified below.

1. In paragraph 3A, the following sentence may be added as sub clause No.(IV)

"Based on the criteria set forth by the Bank in the Notification viz; Non-Banking Financial Company- Micro Finance Institutions (Reserve Bank) Directions, 2011 dated December 02, 2011 for classification of NBFCs as NBFC-MFIs, whether the non-banking financial company has been correctly classified as NBFC-MFI as defined in the said Directions with reference to the business carried on by it during the applicable financial year".

RBI/2011-12/291DGBA.CDD. No. H- 3572/15.02.001/2011-12 dated December 5, 2011

Amendment to Public Provident Fund Scheme, 1968 (PPF, 1968)

We forward herewith a copy of Government of India Notifications G.S.R. (E) & S.O.(E) dated November 25, 2011, on the captioned subject, the contents of which are self-explicit.

2. In this regard, we advise that the contents of the Notifications may be brought to the notice of the branches of your bank operating the PPF, 1968 and may also be displayed on the notice boards of your branches for the information of the PPF, 1968 subscribers.

[TO BE PUBLISHED IN THE GAZETTE OF INDIA: EXTRAORDINARY, PART II – SEC. 3 (II)] New Delhi, the 25th November, 2011

MINISTRY OF FINANCE
(Department of Economic Affairs)

NOTIFICATION

G.S.R. (E). – In exercise of the powers conferred by sub-section (4) of section 3 of the Public Provident Fund Act, 1968 (23 of 1968), the Central Government hereby makes the following further amendment to the Public Provident Fund Scheme, 1968, namely : -

1. (1) This Scheme may be called the Public Provident Fund (Amendment) Scheme, 2011.

(2) It shall come into force on the 1st day of December 2011.

2. In the Public Provident Fund Scheme, 1968, -

- (i) in paragraph 3, in sub-paragraph (1), for the letters and figures "₹ 70,000/-", the letters and figures "₹ 1,00,000" shall be substituted;
- (ii) in paragraph 11, in sub-paragraph (2), for the words "one per cent. per annum", the words "two per cent. per annum", shall be substituted;
- (iii) in Form-A, in paragraph (iv), for the letters and figures "₹ 70,000/-", the letters and figures "₹ 1,00,000" shall be substituted.

[F.No. 1/9/2011-NS-II]

M.A. Khan, Under Secretary

[TO BE PUBLISHED IN THE GAZETTE OF INDIA: EXTRAORDINARY, PART II – SEC. 3 (II)] New Delhi, the 25th November, 2011

MINISTRY OF FINANCE
(Department of Economic Affairs)

NOTIFICATION

S.O. (E). – In pursuance of section 5 of the Public Provident Fund Act, 1968 (23 of 1968), the Central Government hereby notifies that the subscriptions made to the fund on or after the 1st day of December, 2011 and balances at the credit of the subscriber shall bear interest at the rate of 8.6 per cent. per annum.

[F.No. 1/9/2011-NS-II]

M.A. Khan, Under Secretary

Note :- The Principal notification was published in the Gazette of India vide number S.O.48(E) dated 15th January, 2000 and subsequently amended vide S.O.192 (E) dated 1st March 2011, S.O.271 (E) dated 1st March, 2002 and S.O. 250(E) dated 1st March, 2003.

RBI/2011-12/294 DGBA.CDD.H- 3657/13.01.298/2011-12 dated December 9, 2011

Committee on Procedures & Performance Audit on Public Services (CPPAPS) – Report No. 2 – Compensation structure for delay in payment of interest and/or principal

Please refer to our circular CO. DT. No. 13.01.298/H-9786/2004-05 dated May 20, 2005 (RBI/2005/477), on the captioned subject. As per para 3 thereat, an investor in Relief/Savings Bonds has to be compensated by the concerned bank at 'current Savings Bank Rate' on account of financial loss incurred by the investor due to late receipt/delayed credit of interest warrants/maturity value of investments, etc.

2. In this regard, we advise that as the interest rate on savings bank deposits has since been deregulated, the banks shall compensate the investors for the above mentioned financial loss at their own savings bank deposit rate for respective amounts (*i.e.* upto ₹ one

hundred thousand and over ` one hundred thousand) without any discrimination.

RBI/2011-12/297 DBOD. FSD. BC.62/24.01.001/2011-12 dated December 12, 2011

All Scheduled Commercial Banks (excluding RRBs)

Section 19 of the BR Act, 1949- Investments in Subsidiaries and other Companies – Guidelines

Please refer to the instructions contained in paragraphs 2 and 3 of our Master Circular DBOD. No. FSD.BC.15 / 24.01.001/ 2011-12 dated July 1, 2011 on Para-Banking Activities which deal with the guidelines for setting up of subsidiaries by banks as also banks' investments in financial services companies which are not subsidiaries. These require Reserve Bank's prior approval and are permitted within certain prescribed prudential limits.

2. Banks' investments in companies which are not subsidiaries are governed by Section 19(2) of the Banking Regulation Act, 1949 (B.R. Act). There is no requirement, at present, for obtaining prior approval of RBI for such investments except in cases where the investee companies are financial services companies. It is, therefore, possible that banks could, directly or indirectly through their holdings in other entities, exercise control on such companies or have significant influence over such companies and thus, engage in activities directly or indirectly not permitted to banks [Section 6(1) of the Act *ibid* deals with the activities permitted to banks]. This would be against the spirit of the provisions of the Act and is not considered appropriate from prudential perspective.

3. It has, therefore, been decided to lay down prudential guidelines for banks' investments in companies which are not subsidiaries and are not 'financial services companies' (as defined in Annex 1).

4. In the following paragraphs, first the existing regulations governing banks' setting up of subsidiaries and banks' investments in companies (not being

subsidiaries) engaged in financial services are enumerated to provide a perspective and then prudential regulations for governing banks' investments in companies (not being subsidiaries) which are non financial services companies are set out.

5. Investments in subsidiaries

In terms of Sub-section (1) of Section 19 of the B.R. Act, a banking company shall not form any subsidiary company except (i) for undertaking any business specified in clause (a) to (o) of Sub-section(1) of Section 6 of the Act, *ibid*, i.e. functions which banks can undertake or (ii) for carrying on the business of banking exclusively outside India with the previous permission of the Reserve Bank of India or (iii) for undertaking such other business, which the Reserve Bank may, with the prior approval of the Central Government, consider to be conducive to the spread of banking in India or to be otherwise useful or necessary in the public interest (for example, banks setting up IT subsidiaries catering to banking sectors' IT requirement may fall in this category).

6. Investments other than in subsidiaries

Sub-section (2) of Section 19 of the B.R. Act, provides that no banking company shall hold shares in any company, whether as pledgee, mortgagee or absolute owner, of any amount exceeding 30 per cent of the paid-up share capital of that company or 30 per cent of its own paid-up share capital and reserves, whichever is less. It may be noted that there are no statutory restrictions, unlike in the case of subsidiaries, on the activities of companies in which banks can hold equity within the ceiling laid down under Section 19(2) of the B.R. Act. In other words, these companies could be both financial services companies as well as companies not engaged in financial services.

7. Prudential regulations for investments in subsidiaries and Financial Services Companies

As per extant regulations, banks are required to obtain prior approval of the Reserve Bank of India for setting up subsidiary companies and for any equity investment in financial services companies, subject to certain limits and conditions as under:

Equity investments by a bank in a subsidiary company, or a financial services company including financial institution, stock and other exchanges, depositories, etc., which is not a subsidiary should not exceed 10 per cent of the bank's paid-up share capital and reserves and the total investments made in all subsidiaries and all non-subsidiary financial services companies should not exceed 20 per cent of the bank's paid-up share capital and reserves. However, the cap of 20 per cent does not apply, nor is prior approval of RBI required, if investments in financial services companies are held under 'Held for Trading' category, and are not held beyond 90 days.

8. Prudential regulation for banks' investments in non financial services companies

Since investments in non financial services companies do not require prior approval from RBI, banks could potentially acquire substantial equity holding in these companies within the provisions of Section 19 (2) of the BR Act. Consequently, as stated in paragraph 2 above, banks could through their direct and indirect holdings in other entities exercise control or have significant influence over such companies and thus, engage directly or indirectly in activities not permitted to banks. It is, therefore, necessary to limit such investments. With this objective, the following guidelines are laid down:

- i. Equity investment by a bank in companies engaged in non financial services activities would be subject to a limit of 10 per cent of the investee company's paid up share capital or 10 per cent of the bank's paid up share capital and reserves, whichever is less. For the purpose of this limit, equity investments held under 'Held for Trading' category would also be reckoned. Investments within the above mentioned limits, irrespective of whether they are in the 'Held for Trading' category or otherwise, would not require prior approval of the Reserve Bank.
- ii. Equity investments in any non-financial services company held by (a) a bank; (b) entities which are bank's subsidiaries, associates or joint ventures or entities directly or indirectly controlled by the

bank; and (c) mutual funds managed by AMCs controlled by the bank should in the aggregate not exceed 20 per cent of the investee company's paid up share capital.

- iii. A bank's request for making investments in excess of 10 per cent of such investee company's paid up share capital, but not exceeding 30 per cent, would be considered by RBI if the investee company is engaged in non financial activities which are permitted to banks in terms of Section 6(1) of the B. R. Act. It is reiterated that banks are permitted to set up subsidiaries for undertaking activities which are conducive to the spread of banking in India or useful or necessary in public interest in accordance with the provisions of Section 19(1) (c) of the B.R. Act.
- iv. A bank's equity investments in subsidiaries and other entities that are engaged in financial services activities together with equity investments in entities engaged in non financial services activities should not exceed 20 per cent of the bank's paid-up share capital and reserves. The cap of 20 per cent would not apply for investments classified under 'Held for Trading' category and which are not held beyond 90 days.
- v. Equity holding by a bank in excess of 10 per cent of non financial services investee company's paid up capital would be permissible without RBI's prior approval (subject to the statutory limit of 30 per cent in terms of Section 19 (2) of the B.R. Act) if the additional acquisition is through restructuring/CDR, or acquired by the bank to protect its interest on loans/investments made in a company. The equity investment in excess of 10 per cent of investee company's paid up share capital in such cases would be exempted from the 20 per cent limit referred to above. However, banks will have to submit to RBI a time bound action plan for disposal of such shares within a specified period.

For the purposes of the above guidelines, the terms subsidiary, associate or joint venture shall have the meanings assigned to them in Accounting

Standards notified by the Central Government under Section 211(3c) of the Companies Act, 1956 (extract enclosed as Annex 2).

9. Banks should strictly observe these guidelines while investing in companies undertaking non financial services activities. Banks should also carry out a review of their investments in non financial companies as also by entities referred to in para 8 above, within a period of three months. Wherever investments do not conform to the above mentioned policy parameters, banks may ensure that (a) the investments are brought down to the prescribed limits and/or control or the exercise of significant influence is given up as the case may be or (b) seek RBI's approval in terms of para 8 above.

10. The review as referred to at para 9 above together with the proposed course of action to comply with the regulatory requirement, where the existing investments are not as per the above guidelines may be forwarded to the Reserve Bank of India within one month from the date of the review.

Annex 1

Financial Services Companies

For the purpose of prudential guidelines on investments in subsidiaries and other companies, 'financial services companies' are companies engaged in the 'business of financial services'. The 'business of financial services' means –

- i. the forms of business enumerated in clauses (a), (c), (d), (e) of sub-section (1) of section 6 of the Banking Regulation Act, 1949 and notified under clause (o) of sub-section (1) of section 6 of the Banking Regulation Act, 1949;
- ii. the forms of business enumerated in clause (c) and clause (f) of Section 45 I of the Reserve Bank of India Act, 1934;
- iii. business of credit information as provided under the Credit Information Companies (Regulation) Act, 2005;
- iv. operation of a payment system as defined under the Payment and Settlement Systems Act, 2007;

- v. operation of a stock exchange, commodity exchange, derivatives exchange or other exchange of similar nature;
- vi. operation of a depository as provided under the Depositories Act, 1996;
- vii. business of a securitization or reconstruction company as provided under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002;
- viii. business of a merchant banker, portfolio manager, stock broker, sub-broker, share transfer agent, trustee of trust deeds, registrar to an issue, merchant banker, underwriter, debenture trustee, investment adviser and such other intermediary as provided in the Securities and Exchange Board of India Act, 1992 and the regulations made thereunder;
- ix. business of a credit rating agency as defined in Securities and Exchange Board of India (Credit Rating Agencies) Regulations, 1999;
- x. business of a collective investment scheme as defined under the Securities and Exchange Board of India Act, 1992;
- xi. business of managing a pension fund;
- xii. business of an authorized person as defined under the Foreign Exchange Management Act, 1999; and
- xiii. such other business as may be specified by the Reserve Bank from time to time.

Annex-2

Definition of Subsidiary, Associates, Joint Ventures, 'Control and Significant Influence' in terms of Indian Accounting Standards

Accounting Standards 18, 21, 23 and 27 define the above mentioned terms.

Subsidiary is an enterprise that is controlled by another enterprise (known as the parent).

An Associate is an enterprise in which the investor has significant influence and which is neither a subsidiary nor a Joint venture of the investor, and

Joint Venture is a contractual arrangement whereby two or more parties undertake an economic activity, which is subject to joint control.

Significant Influence is the power to participate in the financial and/or operating policy decisions of the investee but not control over their policies.

Control –

- The ownership, directly or indirectly, through subsidiary (ies), of more than one-half of the voting power of an enterprise; or
- Control of the composition of the board of directors in the case of a company or of the composition of the corresponding governing body in case of any other enterprise so as to obtain economic benefits from its activities.

Control exists when the parent owns, directly or indirectly through subsidiary (ies), more than one-half of the voting power of an enterprise. Control also exists when an enterprise controls the composition of the board of directors (in the case of a company) or of the corresponding governing body (in case of an enterprise not being a company) so as to obtain economic benefits from its activities.

An enterprise is considered to control the composition of the board of directors of a company, if it has the power, without the consent or concurrence of any other person, to appoint or remove all or a majority of directors of that company. An enterprise is deemed to have the power to appoint a director, if any, if the following conditions are satisfied.

- A person cannot be appointed as director without the exercise in his favour by that enterprise of such a power as aforesaid; or
- A person's appointment as director follows necessarily from his appointment to a position held by him in that enterprise; or
- The director is nominated by that enterprise; in case that enterprise is a company, the director is nominated by that company/subsidiaries thereof.

For the purpose of AS 23, significant influence does not extend to power to govern the financial and/or operating policies of an enterprise. Significant influence may be gained by share ownership, statute or agreement. As regards share ownership, if an investor holds, directly or indirectly through subsidiary (ies), 20% or more of the voting power of the investee, it is presumed that the investor has significant influence, **unless it can be clearly demonstrated that this is not the case**. Conversely, if the investor holds, directly or indirectly through subsidiary (ies), less than 20% of the voting power of the investee, it is presumed that the investor does not have significant influence, unless such influence can be clearly demonstrated. A substantial or major ownership by another investor does not necessarily preclude an investor from having significant influence. The existence of significant influence by an investor is usually evidenced in one or more of the following ways:

- representation on the board of directors or corresponding governing body of the investee;
- participation in policy making processes;
- material transactions between the investor and the investee;
- interchange of managerial personnel; and
- provision of essential technical information.

Amendment to Public Provident Fund Scheme, 1968 (PPF, 1968) and Senior Citizens Savings Scheme, 2004 (SCSS, 2004) – Payment of commission to the agents.

We forward herewith a copy of Government of India Notification No. F.1/12/2011-NS-II dated November 25, 2011, on the captioned subject. The contents of the same are self-explicit.

2. In this regard, we advise that the contents of the Notification may be brought to the notice of the branches of your bank operating the PPF, 1968 and SCSS, 2004 Scheme. These should also be displayed on the notice boards of your branches for the information of the PPF, 1968 & SCSS, 2004 subscribers and agents.

[TO BE PUBLISHED IN THE GAZETTE OF INDIA: EXTRAORDINARY, PART I- SEC.1 New Delhi, the 25th November 2011

MINISTRY OF FINANCE

(Department of Economic Affairs)

NOTIFICATION

No. F. 1/12/2011-NS-II – The Central Government hereby notifies that the authorised Standardised Agency System (SAS) and Mahila Pradhan Kshetriya Bachat Yojana (MPKBY) agents for canvassing/securing investments in the small savings schemes as per the terms of agreement executed by them under the Standardised Agency System (SAS) and Mahila Pradhan Kshetriya Bachat Yojana (MPKBY) will be paid commission at the rate indicated below:

(A) MAHILA PRADHAN KSHETRIYA BACHAT YOJANA (MPKBY)

Rate

- (i) Five-Year Recurring Deposit Account - 4%
- (B) STANDARDISED AGENCY SYSTEM (SAS)**
 - (i) One-Year Time Deposit - 0.5%
 - (ii) Two-Year and 3-Year Time Deposit - 0.5%
 - (iii) Five-Year Time Deposit - 0.5%
 - (iv) Monthly Income Account Scheme - 0.5%
 - (v) Five/Six-Year National Savings Certificate (VIII-issue) 0.5%
 - (vi) Ten-year National Savings Certificate (IX-issue) - 0.5%
2. Payment of commission on Public Provident Fund Scheme (1%) and Senior Citizens Savings Scheme (0.5%) shall be discontinued.
3. Incentive, if any, paid by State/Union Territory Governments shall be reduced from commission paid by the Central Government.
4. These instructions shall take effect from the 1st day of December, 2011.

RBI/2011-12/301 RPCD.CO.LBS. BC.No. 42/02.08.01/2011-12 dated December 15, 2011

The Chairman/CMD

All Lead Banks

Formation of two new districts – Fazilka & Pathankot in the State of Punjab Assignment of Lead Bank responsibility

The Department of Revenue & Rehabilitation, Government of Punjab vide their Gazette Notification No. 1/1/2011-RE-II(I)/14544 & 14554 dated July 27, 2011 has advised about the constitution of new districts viz. Pathankot and Fazilka respectively with effect from July 27, 2011. The new district with its headquarter at Pathankot has been carved out from the existing Gurdaspur and comprises of two Tehsils viz. Pathankot & Dharkalan and another new district with its headquarter at Fazilka has been carved out from the existing Ferozepur district and comprises of three Tehsils viz. Fazilka, Jalalabad & Abohar.

2. It has been decided to assign the lead bank responsibility of the two new districts viz. Pathankot and Fazilka to Punjab National Bank. The lead bank responsibility of existing Gurdaspur district and Ferozepur district will continue to be with Punjab National Bank and Oriental Bank of Commerce respectively.

3. There is no change in the lead bank responsibilities of other districts in the State.

RBI/2011-12/302DNBS (PD-MGC) CC. No. 10/03.11.01/2011-12 dated December 16, 2011

Amendment to Mortgage Guarantee Company (Reserve Bank) Guidelines, 2008

The Chairman/CEOs of all Mortgage Guarantee Companies

Please refer to Para 27 of the Mortgage Guarantee Company (Reserve Bank) Guidelines 2008 issued vide Notification DNBS(PD)MGC No.3 /CGM (PK) - 2008 dated February 15, 2008 wherein it has been stated that no mortgage guarantee company shall provide mortgage

guarantee for a housing loan with 90 per cent and above LTV ratio. As scheduled commercial banks are expected to seek mortgage guarantee for their housing loans, it has been decided to align the regulatory prescription of LTV ratio for mortgage guarantee companies with that of commercial banks and revise it downwards from 90 per cent to 80 per cent for housing loans exceeding ` 2 million. However for small value housing loans i.e housing loans up to ` 2 million (which get categorized as priority sector advances), LTV ratio should not exceed 90 per cent.

2. Copy of amending Notification No. DNBS (PD) MGC No. 6 / CGM (US)-2011 dated December 16, 2011 amending Mortgage Guarantee Company (Reserve Bank) Guidelines 2008 is enclosed for meticulous compliance.

Notification DNBS (PD) MGC No. 6 / CGM (US)-2011 dated December 16, 2011

The Reserve Bank of India, having considered it necessary in public interest and being satisfied that, for the purpose of enabling the Bank to regulate the credit system to the advantage of the country, it is necessary to amend the Mortgage Guarantee Company (Reserve Bank) Guidelines 2008 in exercise of the powers conferred by sections 45JA and 45 (L) of the Reserve Bank of India Act, 1934 (2 of 1934) and of all the powers enabling it in this behalf, hereby directs that the said Directions shall be amended with immediate effect as follows, namely -

2. Amendment of paragraph 27 –

The existing clause "No mortgage guarantee company shall provide mortgage guarantee for a housing loan with 90 per cent and above LTV ratio" shall be substituted with the following " *No mortgage guarantee company shall provide mortgage guarantee for a housing loan above ` 2 million where the LTV exceeds 80 per cent.* " For small value housing loans i.e housing loans up to ` 2 million (which get categorized as priority sector advances), LTV ratio should not exceed 90 per cent.

RBI/2011-12/303 DBOD.Dir.BC. 64 /13.03.00/2011-12 dated December 16, 2011

Deregulation of Interest Rates on Non-Resident (External) Rupee (NRE) Deposits and Ordinary Non-Resident (NRO) Accounts

All Scheduled Commercial Banks
(excluding RRBs)

Please refer to paragraph 4 of our circular DBOD.Dir. BC.42/13.03.00/ 2011-12 dated October 25, 2011 on Deregulation of Savings Bank Deposit Interest Rate and paragraph 1 of our circular DBOD.Dir.BC.59/13.03.00/ 2011-12 dated November 23, 2011 on Interest Rates on Non-Resident (External) Rupee (NRE) Deposits and FCNR (B) Deposits.

2. With a view to providing greater flexibility to banks in mobilising non-resident deposits and also in view of the prevailing market conditions, it has been decided to deregulate interest rates on Non-Resident (External) Rupee (NRE) Deposits and Ordinary Non-Resident (NRO) Accounts (the interest rates on term deposits under Ordinary Non-Resident (NRO) Accounts are already deregulated). Accordingly, banks are free to determine their interest rates on both savings deposits and term deposits of maturity of one year and above under Non-Resident (External) Rupee (NRE) Deposit accounts and savings deposits under Ordinary Non-Resident (NRO) Accounts with immediate effect. However, interest rates offered by banks on NRE and NRO deposits cannot be higher than those offered by them on comparable domestic rupee deposits.

3. Prior approval of the Board/Asset Liability Management Committee (if powers are delegated by the Board) may be obtained by a bank while fixing interest rates on such deposits. At any point of time, individual banks should offer uniform rates at all their branches.

4. The revised deposit rates will apply only to fresh deposits and on renewal of maturing deposits. Further, banks should closely monitor their external liability arising on account of such deregulation and ensure asset-liability compatibility from systemic risk point of view.

5. An amending directive DBOD.Dir.BC. 63 /13.03.00/2011-12 dated December 16, 2011 is enclosed.

Deregulation of Interest Rates on Non-Resident (External) Rupee (NRE) Deposits and Ordinary Non-Resident (NRO) Accounts

DBOD.Dir.BC. 63 /13.03.00/2011-12 dated December 16, 2011

In exercise of the powers conferred by Section 35A of the Banking Regulation Act, 1949, and in modification of the directive DBOD. Dir. BC. 41/ 13.03.00/ 2011-12 dated October 25, 2011 on Deregulation of Savings Bank Deposit Interest Rate and DBOD.Dir.BC.58/13.03.00/ 2011-12 dated November 23, 2011 on Interest Rates on Non-Resident (External) (NRE) Deposits and FCNR(B) Deposits, the Reserve Bank of India being satisfied that it is necessary and expedient in the public interest so to do, hereby directs that banks are free to determine their interest rates on both savings deposits and term deposits of maturity of one year and above under Non-Resident (External) Rupee (NRE) Deposit accounts and savings deposits under Ordinary Non-Resident (NRO) Accounts with immediate effect. However, interest rates offered by banks on NRE and NRO deposits cannot be higher than those offered by them on comparable domestic rupee deposits.

RBI/2011-12/307 RPCD.CO.RRB.BC.No.45 /03.05.33 (C) /2011-12 dated December 19, 2011

Deregulation of Interest Rates on Non-Resident (External) Rupee (NRE) Deposits and Ordinary Non-Resident (NRO) Accounts

The Chairmen
All Regional Rural Banks (RRBs)

Please refer to paragraph 4 of our circular RPCD.CO.RRB.BC.No. 33/03.05.33/2011-12 dated November 23, 2011 on Deregulation of Savings Bank Deposit Interest Rate and paragraph 1 of our circular RPCD.CO.RRB.BC.No. 36/03.05.33(C)/2011-12 dated November 24, 2011 on Interest Rates on Non-Resident (External) Rupee (NRE) Deposits and FCNR (B) Deposits.

2. With a view to providing greater flexibility to RRBs in mobilising non-resident deposits and also in view of the prevailing market conditions, it has been decided to deregulate interest rates on Non-Resident (External) Rupee (NRE) Deposits and Ordinary Non-Resident (NRO) Accounts (the interest rates on term deposits under Ordinary Non-Resident (NRO) Accounts are already deregulated). Accordingly, RRBs are free to determine their interest rates on both savings deposits and term deposits of maturity of one year and above under Non-Resident (External) Rupee (NRE) Deposit accounts and savings deposits under Ordinary Non-Resident (NRO) Accounts **with immediate effect**. However, interest rates offered by RRBs on NRE and NRO deposits cannot be higher than those offered by them on comparable domestic rupee deposits.

3. Prior approval of the Board/Asset Liability Management Committee (if powers are delegated by the Board) may be obtained by an RRB while fixing interest rates on such deposits. At any point of time, individual banks should offer uniform rates at all their branches.

4. The revised deposit rates will apply only to fresh deposits and on renewal of maturing deposits. Further, RRBs should closely monitor their external liability arising on account of such deregulation and ensure asset-liability compatibility from systemic risk point of view.

5. An amending directive RPCD.CO.RRB.BC.Dir.No. 44 /03.05.33 dated December 19, 2011 is enclosed.

Deregulation of Interest Rates on Non-Resident (External) Rupee (NRE) Deposits and Ordinary Non-Resident (NRO) Accounts

RPCD.CO.RRB.Dir.No.44 /03.05.33 (C) /2011-12 dated December 19, 2011

In exercise of the powers conferred by Section 35A of the Banking Regulation Act, 1949, and in modification of the directive RPCD.CO.RRB.BC. Dir.No. 27 /03.05.33 / 2011-12 dated October 25, 2011 on Deregulation of Savings Bank Deposit Interest Rate and RPCD.CO.RRB.Dir.No.35/03.05.33(C)/2011-12 dated November 24,

2011 on Interest Rates on Non-Resident (External) Rupee (NRE) Deposits and FCNR(B) Deposits, the Reserve Bank of India being satisfied that it is necessary and expedient in the public interest so to do, hereby directs that Regional Rural Banks (RRBs) are free to determine their interest rates on both savings deposits and term deposits of maturity of one year and above under Non-Resident (External) Rupee (NRE) Deposit accounts and savings deposits under Ordinary Non-Resident (NRO) Accounts with immediate effect. However, interest rates offered by RRBs on NRE and NRO deposits cannot be higher than those offered by them on comparable domestic rupee deposits.

RBI/2011-12/306 RPCD.CO.Plan.BC.43 /04.09.01/2011-12 dated December 19, 2011

Credit under dairy segment of Agriculture and Allied Activities-Treatment under Indirect Finance to Agriculture

The Chairman / Managing Director /
Chief Executive Officer

[All Scheduled Commercial Banks
(excluding Regional Rural Banks)]

Please refer to para 1.3.2 of our circular on lending to priority sector, RPCD.CO.Plan.BC.No.10/04.09.01/2011-12 dated July 1, 2011, wherein bank loans to entities other than individual farmers engaged in food and agro based processing under Agriculture and Allied activities are treated as indirect finance to agriculture.

2. A doubt has been expressed on the financial activities which promote dairy development in the districts. As credit under the dairy segment (including procurement, storage, processing, collection, transportation, etc.) primarily benefits small/marginal farmers and tiny units, it has been decided that bank credit to all activities which contribute to the development of dairy business would be treated as indirect finance to agriculture under priority sector. However, due care may be exercised by banks to ensure that the ultimate beneficiaries are farmers engaged in dairy farming, who will benefit from such investment.

RBI/2011-12/308 FMD. No.65 /01.18.001/2011-12 dated December 21, 2011

Marginal Standing Facility - Scheme

All Scheduled Commercial Banks

Please refer to our Circular RBI/2010-11/515 dated May 9, 2011 on the captioned subject.

2. It has been decided to permit banks to avail themselves of funds from RBI on overnight basis, under Marginal Standing Facility (MSF), against their excess SLR holdings. Additionally, they can also avail themselves of funds, on overnight basis below the stipulated SLR, up to one per cent of their respective Net Demand and Time Liabilities outstanding at the end of second preceding fortnight. In the event the banks' SLR holdings fall below the statutory requirement, banks will not have the obligation to seek a specific waiver for default in SLR compliance arising out of use of this facility in terms of notification issued under sub section (2A) of Section 24 of the Banking Regulation Act, 1949.

3. All other terms and conditions of the current MSF Scheme will remain unchanged.

RBI/2011-12/310Ref.DBOD.Ret..BC No.66/12.06.001/2011-12 dated December 21, 2011

Exclusion from the Second Schedule to the Reserve Bank of India Act, 1934 – State Bank of India Commercial and International Bank Limited

All Scheduled Commercial Banks

We advise that the name of "State Bank of India Commercial and International Bank Limited" has been excluded from the Second Schedule to the Reserve Bank of India Act, 1934 by notification DBOD.No.Ret. BC.35/12.06.059/2011-12 dated September 26, 2011, published in the Gazette of India (Part III – Section-4) dated October 29 – November 04, 2011.

DBOD.No.Ret.BC. 35/12.06.059/2011-2012 dated September 26, 2011

NOTIFICATION

In exercise of the powers conferred under Clause (b) of sub section (6) of Section 42 of the Reserve Bank of India Act, 1934 (2 of 1934), the Reserve Bank of India hereby directs exclusion of the "State Bank of India Commercial and International Bank Limited" from the Second Schedule to the said Act, as the said bank has ceased to carry on banking business with effect from July 29, 2011.

RBI/2011 -12/312 DPSS.CO.PD.No. 1098 / 02.23.02 / 2011-12 dated December 22, 2011

Mobile Banking Transactions in India - Operative Guidelines for Banks

The Chairman and Managing Director /
Chief Executive Officers

All Scheduled Commercial Banks including RRBs /
Urban Co-operative Banks / State Co-operative Banks /
District Central Co-operative Banks

A reference is invited to the guidelines appended to our circular no. RBI / 2008-09 / 208, DPSS.CO.No.619 / 02.23.02 / 2008-09 dated October 08, 2008, followed by directions issued vide circulars RBI / 2009-10 / 273, DPSS.CO.No.1357 / 02.23.02 / 2009-10 dated December 24, 2009 and RBI/2010-11/511, DPSS.CO.No.2502 / 02.23.02 / 2010-11 dated May 4, 2011 on the captioned subject.

2. Banks are increasingly extending mobile banking facilities (financial) to their customers. Interbank Mobile Payment Service (IMPS) developed and operated by National Payment Corporation of India (NPCI) has also enabled real time transfer of funds through the medium of the mobile phone between accounts in different banks. The volume and value of mobile banking transactions is also showing an uptrend.

3. In terms of Para 2.1 of our circular dated December 24, 2009, a transaction limit of ` 50,000/- per customer per day had been mandated. On a review it has been decided to remove this cap. However, banks may place per transaction limits based on their own risk perception with the approval of its Board.

4. It is also clarified that the directions under Para 3 "**Remittance of funds for disbursement in cash**" of our circular dated December 24, 2009 stands superseded with the directions contained in our circular RBI / 2011-12 / 213 DPSS. PD. CO. No. 622 / 02.27.019 / 2011-2012 dated October 05, 2011.

5. All other provisions of the extant guidelines on mobile banking remain unchanged.

6. The directive is issued under Section 18 of Payment and Settlement Systems Act, 2007, (Act 51 of 2007) and shall come into force from the date of this circular.

RBI/2011-12/315 RPCD.CO.RCB.BC.No.47/07.38.01/2011-12 dated December 26, 2011

Deregulation of Savings Bank Deposit Interest Rate - Guidelines

All State and Central Co-operative Banks

Please refer to our circular RPCD.CO.RCB.BC.No.65/07.38.01/2010-11 dated May 3, 2011.

2. As indicated in the Second Quarter Review of Monetary Policy announced on October 25, 2011, it has been decided to deregulate the savings bank deposit interest rate and, accordingly, the following Guidelines will be effective from October 25, 2011:

- Banks are free to determine their savings bank deposit interest rate, subject to the following two conditions:
- First, each bank will have to offer a uniform interest rate on savings bank deposits up to ` 100 thousand, irrespective of the amount in the account within this limit.
- Second, for savings bank deposits over ` 100 thousand, a bank may provide differential rates of interest, if it so chooses, subject to the condition that banks will not discriminate in the matter of interest paid on such deposits, between one deposit and another of similar amount, accepted on the same date, at any of its offices.

3. The above revised Guidelines would be applicable to savings bank deposits of resident Indians only.

4. An amending directive RPCD.CO.RCB.BC.Dir.No.25/07.38.01/2011-12 dated October 25, 2011 is enclosed.

RPCD.CO.RCB.BC.Dir.No.25/07.38.01/2011-12 dated October 25, 2011

Deregulation of Savings Bank Deposit Interest Rate

In exercise of the powers conferred by Section 35 A of the Banking Regulation Act, 1949 (As Applicable to Co-operative Societies) and in partial modification of its directive RPCD.CO.RCB.BC.No.64/07.38.01/2010-11 dated May 3, 2011, the Reserve Bank of India, being satisfied that it is necessary and expedient in the public interest so to do, hereby directs that banks are free to determine their savings bank deposit interest rate for resident Indians only with immediate effect subject to two conditions. First, each bank will have to offer a uniform interest rate on savings bank deposits up to ₹ 100 thousand, irrespective of the amount in the account within this limit. Second, for savings bank deposits over ₹ 100 thousand, a bank may provide differential rates of interest, if it so chooses, subject to the condition that banks will not discriminate in the matter of interest paid on such deposits, between one deposit and another of similar amount, accepted on the same date, at any of its offices.

RBI/2011-12/316 DNBS.CC.PD.No.252/03.10.01/2011-12 dated December 26, 2011

Revised Capital Adequacy Framework for Off-Balance Sheet Items for NBFCs

All NBFCs (excluding RNBCs)

In the normal course of their business, NBFCs are exposed to credit and market risks in view of the asset-liability transformation. With liberalisation in Indian financial markets over the last few years and growing integration of domestic markets with external markets and greater use of derivatives products, asset liability management for NBFCs have become complex and large, requiring strategic management. Off balance sheet exposures of NBFCs have increased with the increased participation in the designated currency options and futures and interest rate futures as clients

for the purpose of hedging their underlying exposures. It is therefore necessary that NBFCs move over to modern techniques of risk measurement to strengthen their capital framework.

3. The Non-Banking Financial (Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007 and The Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007 require the NBFCs to maintain a minimum CRAR based on risk weights assigned to both on and off balance sheet items. Explanation (2) to para 16 of the afore-mentioned Regulations, however, recognizes only 6 items as off balance sheet items which have linkages to NBFI activities. There is therefore a need to recognize instruments which would find use in balance sheet management/ hedging, in liquidity management or which provide alternate forms of resources, other than the traditional ones.

4. It is therefore considered necessary to expand the off-balance sheet regulatory framework to introduce greater granularity in the risk weights and credit conversion factors for different types of off balance sheet items. For this purpose, NBFCs will need to calculate the total risk weighted off-balance sheet credit exposure as the sum of the risk-weighted amount of the market related and non-market related off-balance sheet items. The risk-weighted amount of an off-balance sheet item that gives rise to credit exposure will be calculated by means of a two-step process :

- a. the notional amount of the transaction is converted into a credit equivalent amount, by multiplying the amount by the specified credit conversion factor or by applying the current exposure method; and
- b. the resulting credit equivalent amount is multiplied by the applicable risk weight.

5. For the off-balance sheet items already contracted by NBFCs, the risk weights shall be applicable with effect from the Financial Year beginning April 01, 2012. For all new contracts undertaken including CDS, the new risk weights shall be applicable from the date of the circular.

6. The amending Notifications DNBS.PD.No.237/CGM (US) 2011 and DNBS.PD.No. 238/CGM (US) 2011 both dated December 26, 2011 amending the Non-Banking Financial (Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) directions, 2007 and the Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007 respectively are enclosed for meticulous compliance.

RBI/2011-12/317 DNBS.CC.PD.No.253/03.10.01/2011-12 dated December 26, 2011

Credit Default Swaps – NBFCs as Users

All NBFCs(excluding primary dealers)

Please refer to the Guidelines on Credit Default Swaps for Corporate Bonds issued vide Circular No. IDMD.PCD.No.5053/14.03.04/2010-11 dated May 23, 2011 in terms of which broad guidelines including the eligible participants and other requirements were outlined. It was also indicated that market participants will have to follow the capital adequacy guidelines for credit default swaps (CDS) issued by their respective regulators.

2. In this connection, it has been decided that NBFCs shall only participate in CDS market as users. As users, they would be permitted to buy credit protection only to hedge their credit risk on corporate bonds they hold. They are not permitted to sell protection and hence not permitted to enter into short positions in the CDS contracts. However, they are permitted to exit their bought CDS positions by unwinding them with the original counterparty or by assigning them in favour of buyer of the underlying bond.

3. Apart from complying with all the provisions above, NBFCs, as users, shall also be required to ensure that the guidelines detailed in the annex-1 including operational requirements for CDS are fulfilled by them.

RBI/2011-12/321 DBOD.No.BP.BC. 69/21.06.001/2011-12 dated December 27, 2011

Capital Requirement for banks' investments in financial entities exempted from Capital Market Exposure

The Chairman and Managing Directors/Chief Executive Officers of All Scheduled Commercial Banks(Excluding RRBs and LABs)

Please refer to paragraph 5.13.4 of our Master Circular No. DBOD.No.BP.BC.11/ 21.06.001/2010-11 dated July 1, 2011 on Prudential Guidelines on Capital Adequacy and Market Discipline - New Capital Adequacy Framework (NCAF), as per which capital market exposure will attract a 125 percent risk weight or risk weight warranted by external rating (or lack of it) of the counterparty, whichever is higher. However, in terms of paragraph 5.13.7 of the said circular, the investment in paid up equity of financial entities, which are specifically exempted from 'capital market exposure' (CME), shall be assigned a 100 percent risk weight.

2. The matter has been reviewed and it has been decided that the risk weight and capital requirement should be linked to risk characteristics of the investment, irrespective of whether they are exempted from CME or not. Therefore, banks' investments in paid up equity of financial entities, even if they are exempted from CME norms, will henceforth be assigned a 125 percent risk weight or risk weight warranted by external rating (or lack of it) of the counterparty, whichever is higher, as prescribed in paragraph 5.13.4 of the above mentioned circular.

3. Accordingly, banks' capital market investments in banking book, including those exempted from CME norms, will attract risk weight of 125 percent (i.e. 11.25 percent of capital charge on gross equity position) or as per the risk weight warranted by external rating (or lack of it) of the counterparty, whichever is higher. However, if such investments are in trading book, they will attract capital charge of 20.25 percent or higher [i.e. capital charge towards specific risk at 11.25 percent or as per the risk weight warranted by external rating (or lack of it) of the counterparty, whichever is higher and

general market risk at 9 percent of gross equity position].

4. This instruction will be applicable from January 1, 2012.

RBI/2011-12/322 DBOD.Dir.BC. 68 /13.03.00/2011-12 dated December 27, 2011

Banks' Exposure to Capital Market - Issue of Irrevocable Payment Commitments (IPCs)

All Scheduled Commercial Banks
(excluding RRBs)

Please refer to our circulars No.DBOD.Dir. BC.46/13.03.00/2010-11 dated September 30, 2010, DBOD.Dir.BC.52/13.03.00/2010-11dated October 28, 2010 and DBOD.Dir.BC.43/13.03.00/2011-12 dated October 31, 2011 wherein banks issuing Irrevocable Payment Commitments (IPCs) to various Stock Exchanges on behalf of Mutual Funds and FIIs had been advised to adopt the following risk mitigation measures:

- i. Only those custodian banks, who have a clause in the Agreement with their clients which gives them an inalienable right over the securities to be received as pay out in any settlement, would be permitted to issue IPCs. However, in cases where transactions are pre-funded i.e. there are clear INR funds in the customer's account and, in case of FX deals, the bank's nostro account has been credited before the issuance of the IPC by custodian banks, the requirement of the clause of inalienable right over the security to be received as pay out in the agreement with the clients will not be insisted upon.
- ii. The maximum risk to the custodian banks issuing IPCs would be reckoned at 50 per cent, on the assumption of downward price movement of the equities bought by FIIs/ Mutual Funds on the two successive days from the trade date (T) i.e., on T+1 and T+2, of 20per cent each with an additional margin of 10per cent for further downward movement.

iii. Accordingly the potential risk on T+1 would be reckoned at 50per cent of the settlement amount and this amount would be reckoned as CME at the end of T+1 if margin payment / early pay in does not come in.

iv. In case there is early pay in on T+1, there will be no Capital Market exposure. By T+1, we mean 'end of day' (EOD) as per Indian Time. Thus, funds received after EOD as per Indian Time, **will not be** reckoned as early pay-in on T+1. CME will have to be computed accordingly.

v. In case margin is paid in cash on T+1, the CME would be reckoned at 50 per cent of settlement price minus the margin paid. In case margin is paid on T+1 by way of permitted securities to FIIs / Mutual Funds, the CME would be reckoned at 50 per cent of settlement price minus the margin paid plus haircut prescribed by the Exchange on the securities tendered towards margin payment.

vi. The IPC will be treated as a financial guarantee with a Credit Conversion Factor (CCF) of 100. However, capital will have to be maintained only on exposure which is reckoned as CME and the risk weight would be 125 per cent thereon.

2. It has now been decided that the above mentioned arrangements will continue to be in force until further review.

RBI/2011-12/323 UBD.BPD.(PCB)CIR No. 16/13.01.000/2011-12 dated December 28, 2011

Deregulation of Interest Rates on Non-Resident (External) Rupee (NRE) Deposits and Ordinary Non-Resident (NRO) Accounts

The Chief Executive Officers
All Primary (Urban) Co-operative Banks

Please refer to our circular UBD.BPD.(PCB)CIR No.12/13.01.000/2011-12 dated November 24, 2011 on Interest Rates on Non-Resident (External) Rupee (NRE) Deposits and paragraph 4 of our circular UBD.BPD.(PCB) CIR. No.13/13.01.000/2011-12 dated November 25, 2011 on Deregulation of Savings Bank Deposit Interest Rate.

2. With a view to providing greater flexibility to banks in mobilising non-resident deposits and also in view of the prevailing market conditions, it has been decided to deregulate interest rates on Non-Resident (External) Rupee (NRE) Deposits and Ordinary Non-Resident (NRO) Deposit Accounts (the interest rates on term deposits under Ordinary Non-Resident (NRO) Accounts are already deregulated). Accordingly, banks are free to determine their interest rates on both savings deposits and term deposits of maturity of one year and above under Non-Resident (External) Rupee (NRE) Deposit accounts and savings deposits under Ordinary Non-Resident (NRO) Accounts with immediate effect. However, interest rates offered by banks on NRE and NRO deposits cannot be higher than those offered by them on comparable domestic rupee deposits.

3. Prior approval of the Board/Asset Liability Management Committee (if powers are delegated by the Board) may be obtained by banks while fixing interest rates on such deposits. At any point of time, individual banks should offer uniform rates at all their branches.

4. The revised deposit rates will apply only to fresh deposits and on renewal of maturing deposits. Further, banks should closely monitor their external liability arising on account of such deregulation and ensure asset-liability compatibility from systemic risk point of view.

5. An amending directive UBD.BPD.DIR. No. 5/13.01.000/2011-12 dated December 28, 2011 is enclosed.

Deregulation of Interest Rates on Non-Resident (External) Rupee (NRE) Deposits and Ordinary Non-Resident (NRO) Accounts

UBD.BPD.DIR. No. 5/13.01.000/2011-12 dated December 28, 2011

In exercise of the powers conferred by Section 35A read with Section 56 of the Banking Regulation Act, 1949, and in modification of the directive UBD.BPD.DIR.No.2/13.01.000/2011-12 dated November 23, 2011

on Interest Rates on Non-Resident (External) (NRE) Deposits and in continuation of the directive UBD.BPD.DIR.No.4/13.01.000/2011-12 dated November 25, 2011 on Deregulation of Savings Bank Deposit Interest Rate, the Reserve Bank of India being satisfied that it is necessary and expedient in the public interest so to do, hereby directs that banks are free to determine their interest rates on both savings deposits and term deposits of maturity of one year and above under Non-Resident (External) Rupee (NRE) Deposit accounts and savings deposits under Ordinary Non-Resident (NRO) Accounts with immediate effect. However, interest rates offered by banks on NRE and NRO deposits cannot be higher than those offered by them on comparable domestic rupee deposits.

RBI/2011-12/325 RPCD.CO.RCB.Dir.BC.No.49/07.38.01/2011-12 dated December 28, 2011

StCBs/DCCBs - Deregulation of Interest Rates on NRE Deposits and NRO Accounts

All State and Central Co-operative Banks

Please refer to paragraph 1 of our circular RPCD.CO.RCB.BC.No.38/07.38.01/2011-12 dated November 24, 2011 on Interest Rates on Non-Resident (External) Rupee (NRE) Deposits and paragraph 2 of our circular RPCD.CO.RCB.BC.No.65/07.38.01/2010-11 dated May 3, 2011 on Interest Rates on Deposits.

2. With a view to providing greater flexibility to banks in mobilising non-resident deposits and also in view of the prevailing market conditions, it has been decided to deregulate interest rates on Non-Resident (External) Rupee (NRE) Deposits and Ordinary Non-Resident (NRO) Accounts (the interest rates on term deposits under Ordinary Non-Resident (NRO) Accounts are already deregulated). Accordingly, banks are free to determine their interest rates on both savings deposits and term deposits of maturity of one year and above under Non-Resident (External) Rupee (NRE) Deposit accounts and savings deposits under Ordinary Non-Resident (NRO) Accounts with immediate effect. However, interest rates offered by banks on NRE and NRO deposits cannot be higher than those offered by them on comparable domestic rupee deposits.

3. Prior approval of the Board/Asset Liability Management Committee (if powers are delegated by the Board) may be obtained by a bank while fixing interest rates on such deposits. At any point of time, individual banks should offer uniform rates at all their branches.

4. The revised deposit rates will apply only to fresh deposits and on renewal of maturing deposits. Further, banks should closely monitor their external liability arising on account of such deregulation and ensure asset-liability compatibility from systemic risk point of view.

5. An amending directive RPCD.CO.RCB.Dir.BC.No.48/07.38.01/2011-12 dated December 28, 2011 is enclosed.

Deregulation of Interest Rates on Non-Resident (External) Rupee (NRE) Deposits and Ordinary Non-Resident (NRO) Accounts

RPCD.CO.RCB.Dir.BC. No.48/07.38.01/2011-12 dated December 28, 2011

In exercise of the powers conferred by Section 35A of the Banking Regulation Act, 1949 (As Applicable to Co-operative Societies) and in modification of the directive RPCD.CO.RCB.BC.Dir.No.37/07.38.01/2011-12 dated November 24, 2011 on Interest Rates on Non-Resident (External) (NRE) Deposits and RPCD.CO.RCB.BC.Dir.No.64/07.38.01/2010-11 dated May 3, 2011 on Interest Rates on Deposits, the Reserve Bank of India being satisfied that it is necessary and expedient in the public interest so to do, hereby directs that State Co-operative Banks (StCBs) and District Central Co-operative Banks (DCCBs) are free to determine their interest rates on both savings deposits and term deposits of maturity of one year and above under Non-Resident (External) Rupee (NRE) Deposit accounts and savings deposits under Ordinary Non-Resident (NRO) Accounts with immediate effect. However, interest rates offered by banks on NRE and NRO deposits cannot be higher than those offered by them on comparable domestic rupee deposits.

RBI/2011-12/331 DBOD.No.BP.BC. 71/ 21.06.201 / 2011-12 dated December 30, 2011

Implementation of Basel III Capital Regulations in India – Draft Guidelines

The Chairman and Managing Directors/
Chief Executives Officers of
All Scheduled Commercial Banks
(Excluding Local Area Banks and Regional Rural Banks)

As you are aware, the Basel Committee on Banking Supervision (BCBS) has issued comprehensive reform packages entitled "Basel III: A global regulatory framework for more resilient banks and banking systems" and "Basel III: International framework for liquidity risk measurement, standard and monitoring" in December 2010, with the objective of improving banking sector resilience by strengthening global capital and liquidity regulations, respectively. The reform package addresses the lessons of the financial crisis and aims at enhancing banking sector's ability to absorb shocks arising from financial and economic stress. Further, the BCBS, through the reform package also aims to improve risk management and governance as well as strengthen banks' transparency and disclosure standards relating to regulatory capital. The reforms also have a macroprudential focus, addressing system-wide risks which can build up across the banking sector as well as the procyclical amplification of these risks over time.

2. Reserve Bank of India, being a member of the BCBS, is fully committed to the objectives of Basel III reform package and therefore, intends to implement these proposals for banks operating in India. Accordingly, guidelines have been drafted based on the Basel III reforms on capital regulation, to the extent applicable to banks operating in India. RBI is currently working on operational aspects of implementation of the Countercyclical Capital Buffer. Guidance to banks on this will be issued in due course. Similarly, guidelines on new global liquidity standards introduced as part of Basel III (Basel III: International framework for liquidity risk measurement, standards and monitoring, December 2010) will be issued separately.

3. The Basel III framework will be applicable both at the level of consolidated bank as well as at the level of stand-alone bank. Accordingly, overseas operations of a bank through its branches will be covered in both the scenarios.

4. Draft guidelines are enclosed. Banks are requested to offer their comments / suggestions on the various proposals enumerated therein latest by February 15, 2012 by mail to the Chief General Manager-in-Charge, Reserve Bank of India, Department of Banking Operations and Development, Central Office, 12th floor, Central Office Building, Shahid Bhagat Singh Marg, Mumbai-400001 or through e-mail .

RBI/2011-12/332 DNBS.CC.PD.No.255/03.10.01/2011-12 dated December 30, 2011

Issuance of Non-Convertible Debentures (NCDs)

All NBFCs (Including RNBCs)

It has come to the notice of the Reserve Bank that some NBFCs have raised funds under private placement by issuing NCDs of maturity less than 90 days. This is in clear violation of Issuance of Non-Convertible Debentures (Reserve Bank) Directions, 2010 dated June 23, 2010 issued by Internal Debt Management Department, Reserve Bank of India.

2. All NBFCs may note that the issue of NCDs of original or initial maturity up to one year are governed under the above mentioned Directions and these Directions may be followed for meticulous compliance.

RBI/2011-12/333 DNBS.CC.PD.No.254/03.10.01/2011-12 dated December 30, 2011

Revised Capital Adequacy Framework for Off-Balance Sheet Items for NBFCs-Clarification

All NBFCs (excluding RNBCs)

Please refer to the Company Circular No.252 and Notifications No.237 and 238 all dated December 26, 2011 on the captioned subject.

2. In this connection, it is clarified that the Paragraph E in both the above Notifications (No.237 and 238) may be replaced with the following.

E. Credit conversion factors for Credit Default Swaps (CDS):

NBFCs are only permitted to buy credit protection to hedge their credit risk on corporate bonds they hold. The bonds may be held in current category or permanent category. The capital charge for these exposures will be as under:

(i) For corporate bonds held in current category and hedged by CDS where there is no mismatch between the CDS and the hedged bond, the credit protection will be permitted to be recognised to a maximum of 80% of the exposure hedged. Therefore, the NBFC will continue to maintain capital charge for the corporate bond to the extent of 20% of the applicable capital charge. This can be achieved by taking the exposure value at 20% of the market value of the bond and then multiplying that with the risk weight of the issuing entity. In addition to this, the bought CDS position will attract a capital charge for counterparty risk which will be calculated by applying a credit conversion factor of 100 percent and a risk weight as applicable to the protection seller i.e. 20 per cent for banks and 100 per cent for others.

(ii) For corporate bonds held in permanent category and hedged by CDS where there is no mismatch between the CDS and the hedged bond, NBFCs can recognise full credit protection for the underlying asset and no capital will be required to be maintained thereon. The exposure will stand fully substituted by the exposure to the protection seller and attract risk weight as applicable to the protection seller i.e. 20 per cent for banks and 100 per cent for others.

3. The Notifications DNBS.PD.No.239/ CGM (US) 2011 and DNBS.PD.No. 240/CGM (US) 2011 both dated December 30, 2011 amending the Non-Banking Financial (Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007 and the Non-Banking Financial (Non-Deposit Accepting or

Holding) Companies Prudential Norms (Reserve Bank) Directions, (as amended vide Notifications.No.237 and No. 238 both dated December 26, 2011) are enclosed for meticulous compliance.

Notification DNBS. PD.No.239 / CGM(US)-2011 dated December 30, 2011

The Reserve Bank of India, having considered it necessary in public interest and being satisfied that, for the purpose of enabling the Bank to regulate the credit system to the advantage of the country, it is necessary to amend the Non-Banking Financial (Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007 (hereinafter referred to as the said Directions), contained in Notification No. DNBS. 192/DG(VL)-2007 dated February 22, 2007, in exercise of the powers conferred by section 45JA of the Reserve Bank of India Act, 1934 (2 of 1934) and of all the powers enabling it in this behalf, hereby directs that the said Directions shall be amended with immediate effect as follows, namely -

In paragraph 16(2), under Explanations (2), Para E *viz*:
"E Credit conversion factors for Credit Default Swaps (CDS)

A CDS creates a notional short position for specific risk in the reference asset/obligation for the protection buyer. This position will attract a Credit Conversion Factor of 100 and a risk weight of 100. The Add On factor may be fixed as 10 percent (of notional principal of CDS) in relation to potential future exposure".

shall be replaced by the following

"E. Credit conversion factors for Credit Default Swaps (CDS):

NBFCs are only permitted to buy credit protection to hedge their credit risk on corporate bonds they hold. The bonds may be held in current category or permanent category. The capital charge for these exposures will be as under:

- (i) *For corporate bonds held in current category and hedged by CDS where there is no mismatch between the CDS and the hedged bond, the credit*

protection will be permitted to be recognised to a maximum of 80% of the exposure hedged. Therefore, the NBFC will continue to maintain capital charge for the corporate bond to the extent of 20% of the applicable capital charge. This can be achieved by taking the exposure value at 20% of the market value of the bond and then multiplying that with the risk weight of the issuing entity. In addition to this, the bought CDS position will attract a capital charge for counterparty risk which will be calculated by applying a credit conversion factor of 100 percent and a risk weight as applicable to the protection seller i.e. 20 per cent for banks and 100 per cent for others.

- (ii) *For corporate bonds held in permanent category and hedged by CDS where there is no mismatch between the CDS and the hedged bond, NBFCs can recognise full credit protection for the underlying asset and no capital will be required to be maintained thereon. The exposure will stand fully substituted by the exposure to the protection seller and attract risk weight as applicable to the protection seller i.e. 20 per cent for banks and 100 per cent for others."*

Notification DNBS. PD.No.240 / CGM(US)-2011 dated December 30, 2011

The Reserve Bank of India, having considered it necessary in public interest and being satisfied that, for the purpose of enabling the Bank to regulate the credit system to the advantage of the country, it is necessary to amend the Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007 (hereinafter referred to as the said Directions), contained in Notification No. DNBS. 193/DG(VL)-2007 dated February 22, 2007, in exercise of the powers conferred by section 45JA of the Reserve Bank of India Act, 1934 (2 of 1934) and of all the powers enabling it in this behalf, hereby directs that the said Directions shall be amended with immediate effect as follows, namely -

In paragraph 16(2), under Explanations (2), Para E viz;

"E. Credit conversion factors for Credit Default Swaps (CDS)

A CDS creates a notional short position for specific risk in the reference asset/obligation for the protection buyer. This position will attract a Credit Conversion Factor of 100 and a risk weight of 100. The Add On factor may be fixed as 10 percent (of notional principal of CDS) in relation to potential future exposure".

shall be replaced by the following

"E. Credit conversion factors for Credit Default Swaps (CDS):

NBFCs are only permitted to buy credit protection to hedge their credit risk on corporate bonds they hold. The bonds may be held in current category or permanent category. The capital charge for these exposures will be as under:

- (i) For corporate bonds held in current category and hedged by CDS where there is no mismatch between the CDS and the hedged bond, the credit protection will be permitted to be recognised to a*

maximum of 80 per cent of the exposure hedged. Therefore, the NBFC will continue to maintain capital charge for the corporate bond to the extent of 20 per cent of the applicable capital charge. This can be achieved by taking the exposure value at 20% of the market value of the bond and then multiplying that with the risk weight of the issuing entity. In addition to this, the bought CDS position will attract a capital charge for counterparty risk which will be calculated by applying a credit conversion factor of 100 percent and a risk weight as applicable to the protection seller i.e. 20 per cent for banks and 100 per cent for others.

- (ii) For corporate bonds held in permanent category and hedged by CDS where there is no mismatch between the CDS and the hedged bond, NBFCs can recognise full credit protection for the underlying asset and no capital will be required to be maintained thereon. The exposure will stand fully substituted by the exposure to the protection seller and attract risk weight as applicable to the protection seller i.e. 20 per cent for banks and 100 per cent for others."*