

May 6, 2010

The Chairman and Managing Director / Chief Executive Officer  
All Scheduled Commercial Banks including RRBs /  
Urban Co-operative Banks / State Co-operative Banks /  
District Central Co-operative Banks

Madam / Dear Sir,

**Levy of interest on clearing-related overdraft extended by Clearing House managing banks for settling clearing obligations of member banks**

As you are aware, in terms of provisions contained in Rule 10(g) of the Uniform Regulations and Rules for Bankers' Clearing Houses (URRBCH), for unauthorised overdrafts on account of adverse clearing position, defaulting banks are required to pay penal interest at the rate applicable to clean overdrafts plus 2% from the following working day till the position is regularised.

A number of references were being received on exorbitant interest being levied by some Clearing House managing banks for extending clearing-related overdrafts in member bank settlement accounts and also of some member banks routinely demanding overdraft free of interest from settlement banks to meet clearing-related shortfalls during the day. When the succeeding days are holidays, this results in considerable credit risk to the bank extending overdraft, apart from being out of funds for a longer period without adequate compensation.

Accordingly, in partial modification of Rule 10(g), with effect from October 23, 2009, settlement banks extending clearing overdrafts were permitted to levy interest for intra-day overdrawals as well (irrespective of the number of hours for which the funds have been lent). The interest rate was to be transparent and discussed ab-initio between the clearing settlement and the overdraft availing bank. It was clarified that the entire issue of clearing overdraft and the interest to be charged was being reviewed. A meeting of major clearing house managing banks was recently conducted where the issue was discussed and, for the sake of uniformity in levy of interest for clearing-related overdrafts, it has been decided as under -

- a. To benchmark the applicable interest rate for clearing-related overdrafts to the RBI LAF (Liquidity Adjustment Facility) Repo Rate.
- b. For intra-day overdraft (the day when the overdraft is extended, irrespective of the time period for which the overdraft facility is enjoyed), interest shall be charged at relevant RBI LAF Repo Rate + 100 basis points.
- c. If the overdraft extends to the following day (overnight and beyond), interest shall be charged at relevant RBI LAF Repo Rate + 300 basis points.
- d. The cushion of 100 and 300 basis points over the relevant RBI LAF Repo Rate (repo being collateralised) is provided as the clearing-related overdraft is non-collateralised in nature.
- e. In instances where settlement accounts of member banks (with the settlement bank at the concerned clearing location) are not credited in time and the settlement bank has levied overdraft charges, though funds have already been remitted and credited to the settlement bank's account at Mumbai (or any other central location - through RTGS or otherwise), the overdraft charges shall be refunded, on member banks proving that the funds were received in time by the settlement bank.

The modifications are applicable from the date of this circular. These instructions are issued by the Reserve Bank of India, in exercise of the powers conferred on it under the Payment and Settlement Systems Act, 2007 (Act 51 of 2007).

Yours faithfully  
sd/-  
(G Padmanabhan)  
Chief General Manager