Securities and Exchange Board of India

CIR/MRD/DSA/2/2011 **February 09, 2011**

<u>Subject: Arbitration mechanism of stock exchanges - Applicability of</u>

1) This is in continuation of circular ref. No. CIR/MRD/DSA/24/2010 dated August 11, 2010, which inter alia prescribed that the limitation period for filing an arbitration reference shall be governed by the provisions of the Limitation Act, 1963. In this regard upon consideration of various representations received by SEBI and pursuant to the discussions held with the representatives of stock exchanges, it has been decided that the limitation period, as modified to three years in terms of Limitation Act, 1963, shall be applicable to cover inter alia the following cases:-

i. where three years have not yet elapsed and the parties have not filed for arbitration with the stock exchange, or
ii. where the arbitration application was filed but was rejected solely on the ground of delay in filing within the earlier limitation period of six months; and three years have not yet elapsed;

2) The cost for arbitration in such cases would be as under:-

i. Cases which were not filed earlier will be subject to the fee amount in terms of SEBI circulars dated August 11, 2010 and August 31, 2010.
ii. For cases filed earlier and rejected on the ground of bar of limitation as per the earlier limitation period of six months, the amount of fee already paid would be deducted from the amount computed in terms of SEBI circulars dated August 11, 2010 and August 31, 2010. The balance shall be borne by the parties to the arbitration in the manner specified vide SEBI circulars dated August 11, 2010 and August 31, 2010.

3) Stock exchanges are advised to widely publicise (including in media) the provisions of this circular. In addition to the above, stock exchanges are also directed to inform those applicants who are eligible to file for arbitration in terms of sub-para (ii) of first para of this circular.

4) The recognized stock exchanges are advised to:-

i. make necessary amendments to the relevant rules/ bye-laws/regulations for the implementation of the above decision immediately;
ii. bring the provisions of this circular to the notice of the members of the stock exchange and also to disseminate the same through their website; and
iii. communicate to SEBI, the status of implementation of the provisions of this circular in the Monthly Development Reports to SEBI.

5) It is clarified that inspection of stock exchanges by SEBI shall cover implementation of this circular.

6) This Circular is issued in exercise of the powers conferred under Section 11 (1) of the Securities and Exchange Board of India Act 1992, read with Section 10 of the Securities Contracts (Regulation) Act, 1956, with a view to protect the interests of investors in securities and to promote the development of, and to regulate the securities market and shall come into effect immediately.

CIR/MRD/DP/ 01 /2011 **January 27, 2011**

Sub: Establishment of Connectivity with both depositories NSDL and CDSL –Companies eligible for shifting from Trade for Trade Settlement (TFTS) to normal Rolling Settlement

1) It is observed from the information provided by the depositories that the companies listed in Annexure 'A' have established connectivity with both the depositories during the month of November 2010.

2) The stock exchanges may consider shifting the trading in these securities to normal Rolling Settlement subject to the following:

a) At least 50% of other than promoter holdings as per clause 35 of Listing Agreement are in dematerialized mode before shifting the trading in the securities of the company from TFTS to normal Rolling Settlement. For this purpose, the listed companies shall obtain a certificate from its Registrar and Transfer Agent (RTA) and submit the same to the stock exchange/s. However, if an issuer-company does not have a separate RTA, it may obtain a certificate in this regard from a practicing company Secretary/Chartered Accountant and submit the same to the stock exchange/s.

b) There are no other grounds/reasons for continuation of the trading in TFTS.

3) The Stock Exchanges are advised to report to SEBI, the action taken in this regard in the Monthly/Quarterly Development Report.

Annexure A

Sr. No.	Name of the Company	ISIN No
1	Krishna-Deep Trade And Investment Limited	INE383L01019
2	JSL Industries Limited	INE581L01018
3	Vallabh Poly Plast International Limited	INE862K01014

All these circulars can be viewed on the website: www.sebi.gov.in

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Reserve Bank of India (RBI)

RBI/ 2010-11/407 RPCD. FID. BC. No. 53 / 12.01.001/ 2010-11 **February 14, 2011**

Subject: Master Circular on Micro Credit

The Reserve Bank of India has, from time to time, issued a number of guidelines/instructions to banks on micro credit. In order to enable the banks to have instructions at one place, a Master Circular incorporating the existing guidelines/instructions on the subject has been updated and enclosed. This Master Circular consolidates and updates all the circulars issued by Reserve Bank on the subject up to January 31, 2011 as indicated in the Appendix.

Master Circular on Micro Credit

1. Micro Credit

Micro Credit has been defined as the provision of thrift, credit and other financial services and products of very small amount to the poor in rural, semi-urban and urban areas for enabling them to raise their income levels and improve their living standards. Micro Credit Institutions are those, which provide these facilities.

2. The Self Help Group (SHG)- Bank Linkage Programme

Despite the vast expansion of the formal credit system in the country, the dependence of the rural poor on moneylenders continues in many areas, especially for meeting emergent requirements. Such dependence is pronounced in the case of marginal farmers, landless labourers, petty traders and rural artisans belonging to socially and economically backward classes and tribes whose propensity to save is limited or too small to be mopped up by the banks. For various reasons, credit to these sections of the population has not been institutionalized. The studies conducted by NABARD, APRACA and ILO on the informal groups promoted by non governmental organizations (NGOs) brought out that Self-Help Savings and Credit Groups have the potential to bring together the formal banking structure and the rural poor for mutual benefit and that their working has been encouraging.

The NABARD accordingly launched a pilot project for the purpose and supported it by way of refinance. It also provided technical support and guidance to the agencies participating in the programme. The following criteria would broadly be adopted by NABARD for selecting SHGs:

a) The Group should be in existence for at least six months.
b) The Group should have actively promoted the savings habit.
c) Groups could be formal (registered) or informal (unregistered).
d) Membership of the group could be between 10 to 20 persons.

The advances given by the banks to the groups were treated as advances to "weaker sections" under the priority sector. While the norms relating to margin, security as also scales of finance and unit cost would broadly guide the banks for lending to the SHGs, deviations therefrom could be made by banks, where deemed necessary. These relaxations in margin, security norms, etc. were only in respect of SHGs to be financed under the pilot project.

NABARD, vide its circular letter No.NB.DPD.FS.4631/92-A/91-92, dated 26 February, 1992, issued detailed operational guidelines to banks for implementation of the project. Quick studies conducted by NABARD in a few states to assess the impact of the linkage project brought out encouraging and positive features like increase in loan volume of the SHGS, definite shift in the loaning pattern of the members from non-income generating activities to production activities, nearly 100% recovery performance, significant reduction in the transaction costs for both the banks and the borrowers, etc., besides leading to gradual increase in the income level of the SHG members. Another significant feature observed in the linkage project was that about 85% of the groups linked with the banks are formed exclusively by women.

With a view to studying the functioning of SHGs and NGOs for expanding their activities and deepening their role in the rural sector, in November 1994, RBI constituted a Working Group comprising eminent NGO functionaries, academicians, consultants and bankers under the Chairmanship of Shri S.K. Kalia, the then Managing Director, NABARD. As a follow up of the recommendations of the Working Group, banks were advised in April 1996 as under :

a) SHG Lending as Normal Lending Activity

The SHGs linkage programme would be treated as a normal business activity of banks. Accordingly, the banks were advised that they may consider lending to SHGs as part of their mainstream credit operations both at policy and implementation level. They may include SHG linkage in their corporate strategy/plan, training curriculum of their officers and staff and implement it as a regular business activity and monitor and review it periodically.

b) Separate Segment under priority sector

In order to enable the banks to report their SHG lending without difficulty, it was decided that the banks should report their lending to SHGs and/or to NGOs for on-lending to SHGs/members of SHGs/discrete individuals or small groups which are in the process of forming into SHGs under the new segment, viz. 'Advances to SHGs' irrespective of the purposes for which the members of SHGs have been disbursed loans. Lending to SHGs should be included by the banks as part of their lending to the weaker sections.

c) Inclusion in Service Area Approach

Banks may identify branches having potential for linkage and provide necessary support services to such branches and include SHG lending within their Service Area Plan. Keeping in view the potential realisability, the Service Area Branches may fix their own programme for lending to SHGs as in the case of other activities under the priority sector.

With a view to enabling the bank branches to get the benefit of catalytic services of NGOS, the names of NGOs dealing with the SHGs would be indicated on a block-wise basis in the "Background Paper for Service Area Credit Plans". The Service Area branch managers may have constant dialogue and rapport with the NGOs and SHGs of the area for effecting linkage. If a NGO/SHG feels more confident and assured to deal with a particular branch other than Service Area branch and the particular branch is willing to finance, such a NGO/SHG may, at its discretion, deal with a branch other than the Service Area branch. The lending to SHGs by banks should be included in the LBR reporting system and reviewed, to start with at SLBC Level. However, it has to be borne in mind that the SHG linkage is a credit innovation and not a targeted credit programme.

d) Opening of Savings Bank A/c.

The SHGs registered or unregistered which are engaged in promoting savings habits among their members would be eligible to open savings bank accounts with banks. These SHGs need not necessarily have already availed of credit facilities from banks before opening savings bank accounts.

e) Margin and Security Norms

As per operational guidelines of NABARD, SHGs may be sanctioned savings linked loans by banks (varying from a saving to loan ratio of 1:1 to 1:4). However, in case of matured SHGs, loans may be given beyond the limit of four times the savings as per the discretion of the bank. Experience showed that group dynamics and peer pressure brought in excellent recovery from members of the SHGS. The flexibility allowed to the banks in respect of margin, security norms, etc. under the pilot project would continue to be operational under the linkage programme even beyond the pilot phase.

f) Documentation

Keeping in view the nature of lending and status of borrowers, the banks may prescribe simple documentation for lending to SHGs.

g) Presence of defaulters in SHGs

The defaults by a few members of SHGs and/or their family members to the financing bank should not ordinarily come in the way of financing SHGs per se by banks provided the SHG is not in default to it. However, the bank loan may not be utilized by the SHG for financing a defaulter member to the bank.

h) Training

An important step in the Linkage Programme would be the training of the field level officials and sensitization of the controlling and other senior officials of the bank. Considering the need and magnitude of training requirements of bank officers/staff both at field level and controlling office level, the banks may initiate suitable steps to internalize the SHGs linkage project and organize exclusive short duration programmes for the field level functionaries. In addition, suitable awareness/sensitization programmes may be conducted for their middle level controlling officers as well as senior officers.

i) Monitoring and Review of SHG Lending

Having regard to the emerging potential of the SHGs and the relative non-familiarity of the bank branches with lending to SHGS, banks may have to closely monitor the progress regularly at various levels. Further the progress of the programme may be reviewed by the banks at regular intervals. A progress report may be sent to NABARD (Micro Credit Innovations Department), Mumbai, in the format as per Annexure, on a half-yearly basis, as on 30 September and 31 March each year so as to reach within 30 days of the half-year to which the report relates.

In order to give a boost to the on going SHG bank linkage programme for credit flow to the unorganised sector, banks were advised in January 2004 that monitoring of SHG bank linkage programme may be made a regular item on the agenda for discussion at the SLBC and DCC meetings.

3. NBFCs engaged in micro-financing activities

The Task Force on Supportive Policy and Regulatory Framework for Microfinance set up by NABARD in 1999 recommended that the policy and regulatory framework should give a fillip to the Self Help Groups (SHGs) or Non-Governmental Organisations (NGOs) engaged in micro-financing activities. Accordingly, it was decided to exempt such NBFCs which are engaged in (i) micro financing activities, (ii) licensed under Section 25 of the Companies Act, 1956 and (iii) which are not accepting public deposits from the purview of Sections 45-IA (registration), 45-IB (maintenance of liquid assets) and 45-IC (transfer of profits to Reserve Fund) of the RBI Act, 1934.

Based on the recommendations of the Advisory Committee on Flow of Credit to Agriculture and Related Activities from the Banking System (Vyas Committee), in the Annual Policy Statement for the year 2004-05, it has been announced that, in view of the need to protect the interests of depositors, microfinance institutions (MFIs) would not be permitted to accept public deposits unless they comply with the extant regulatory framework of the Reserve Bank.

4. Interest rates

The interest rate applicable to loans given by banks to micro-credit organisations or by the micro-credit organisations to Self Help Groups/member beneficiaries would be left to their discretion.

5. Mainstreaming and enhancing outreach

A Micro Credit Special Cell was set up in RBI to suggest measures for augmenting flow of micro credit as announced in Governor’s Monetary and Credit Policy for the year 1999-2000. In the meantime, a Task Force on Supportive Policy and Regulatory Framework for Micro Credit was also set up by NABARD. On the basis of their recommendations, banks were advised to follow the under noted guidelines for mainstreaming micro credit and enhancing the outreach of micro credit providers:

The banks may formulate their own model(s) or choose any conduit/ intermediary for extending micro credit. They may choose suitable branches/pockets/areas where micro credit programmes can be implemented. It will be useful to start with a selected small area and concentrate fully on the poor in that area and thereafter with the experience gained replicate the arrangement in other selected areas. Micro Credit extended by banks to individual borrowers directly or through any intermediary would be reckoned as part of their priority sector lending.

The criteria for selection of micro credit organisations are not prescribed. It may, however, be desirable for banks to deal with micro credit organisations having proper credentials, track record, system of maintaining accounts and records with regular audits in place and manpower for closer supervision and follow-up.

Banks may prescribe their own lending norms keeping in view the ground realities. They may devise appropriate loan and savings products and the related terms and conditions including the size of the loan, unit cost, unit size, maturity period, grace period, margins, etc. The intention is to provide maximum flexibility in regard to micro lending, keeping in view the prevalent local conditions and the need for provision of finance to the poor. Such credit should, therefore, cover not only consumption and production loans for various farm and non-farm activities of the poor but also include their other credit needs such as housing and shelter improvements.

Micro credit should be included in branch credit plan, block credit plan and state credit plan of each bank. While no target is being prescribed for micro credit, utmost priority is to be accorded to the micro credit sector in preparation of these plans. Micro credit should also form an integral part of the bank's corporate credit plan and should be reviewed at the highest level on a quarterly basis.

A simple system requiring minimum procedures and documentation is a pre-condition for augmenting flow of micro credit. Hence, banks should strive to remove all operational irritants and make arrangements to expeditiously sanction and disburse micro credit by delegating adequate sanctioning powers to branch managers. The loan application forms, procedures and documents should be made simple which would help in providing prompt and hassle-free micro credit.

6. Delivery Issues

The Reserve Bank constituted four informal groups in October 2002 to examine various issues concerning micro-finance delivery. On the basis of the recommendations of the groups and as announced in Paragraph 55 of the Governor’s Statement on mid-term Review of the Monetary and Credit Policy for the year 2003-04, banks have been advised as under:

Banks should provide adequate incentives to their branches in financing the Self Help Groups (SHGs) and establish linkages with them, making the procedures absolutely simple and easy while providing for total flexibility in such procedures to suit local conditions.

The group dynamics of working of the SHGs may be left to themselves and need neither be regulated nor formal structures imposed or insisted upon.

The approach to micro-financing of SHGs should be totally hassle-free and may include consumption expenditures.

7. Financing of MFIs by banks

A joint fact-finding study on microfinance conducted by Reserve Bank and a few major banks made the following observations :

Some of the microfinance institutions (MFIs) financed by banks or acting as their intermediaries/partners appear to be focussing on relatively better banked areas, including areas covered by the SHG-Bank linkage programme. Competing MFIs were operating in the same area, and trying to reach out to the same set of poor, resulting in multiple lending and overburdening of rural households.

Many MFIs supported by banks were not engaging themselves in capacity building and empowerment of the groups to the desired extent. The MFIs were disbursing loans to the newly formed groups within 10-15 days of their formation, in contrast to the practice obtaining in the SHG - Bank linkage programme which takes about 6-7 months for group formation / nurturing / handholding. As a result, cohesiveness and a sense of purpose were not being built up in the groups formed by these MFIs.

Banks, as principal financiers of MFIs, do not appear to be engaging them with regard to their systems, practices and lending policies with a view to ensuring better transparency and adherence to best practices. In many cases, no review of MFI operations was undertaken after sanctioning the credit facility.

These findings were brought to the notice of the banks to enable them to take necessary corrective action where required.

8. Total Financial Inclusion and Credit Requirement of SHGs

Attention is invited to Paragraph 93 of the Union Budget announcement made by the Honourable Finance Minister for the year 2008-09 where in it has been stated as under:

"Banks will be encouraged to embrace the concept of Total Financial Inclusion. Government will request all scheduled commercial banks to follow the example set by some public sector banks and meet the entire credit requirements of SHG members, namely, (a) income generation activities, (b) social needs like housing, education, marriage, etc. and (c) debt swapping".

Banks are advised to meet the entire credit requirements of SHG members, as envisaged therein.

Appendix
List of Circulars consolidated in the Master Circular

Sr. No.	Circular No.	Date	Subject
1	RPCD.No.Plan.BC.13/PL-09.22/91/92	July 24, 1991	Improving Access of Rural Poor to Banking - Role of Intervening Agencies - Self Help Groups
2	RPCD.No.PL.BC.120/04.09.22/95-96	April 2, 1996	Linking of Self Help Groups with Banks-Working Group on NGOs and SHGs-Recommendations-Follow up
3	DBOD.No.DIR.BC.11/13.01.08/98	February 10, 1998	Opening of savings bank accounts in the name of Self Help Groups (SHGs)
4	RPCD.No.PL.BC.12/04.09.22/98-99	July 24,1998	Linking of Self Help Groups with Banks
5	RPCD.No.PLAN.BC.94/04.09.01/98-99	April 24,1999	Loans to Micro credit Organizations-Rates of Interest
6	RPCD.PL.BC.28/04.09.22/99-2000	September 30, 1999	Credit Delivery through Micro Credit Organizations/Self Help Groups

7	DNBS. (PD). CC.No.12/02.01/99-2000	January 13, 2000	Amendments to NBFC Regulations
8	RPCD.No.PL.BC.62/04.09.01/99-2000	February 18, 2000	Micro Credit
9	RPCD. No. Plan.BC.42/04.09.22/2003-04	November 3, 2003	Micro finance
10	RPCD.No.Plan.BC.61/04.09.22/2003-04	January 9, 2004	Credit flow to unorganized sector
11	RBI/385/2004-05, RPCD.No.Plan.BC.84/04.09.22/2004-05	March 3, 2005	Submitting progress report under micro credit
12	RBI 2006-07/185 RPCD.CO.Plan. BC. No.34/ 04.09.22/ 2006-07	November 22, 2006	Microfinance - Joint fact-finding study with the banks
13	RBI/2006-07/441 RPCD.CO.MFFI.BC.No.103/12.01.01/ 2006-07	June 20, 2007	Microfinance-Submission of progress reports
14	RBI/282/2007-08 RPCD.MFFI.BC.No.56/12.01.001/2007-08	April 15, 2008	Total Financial Inclusion and Credit Requirement of SHGs

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RBI/2010-11/406 A.P. (DIR Series) Circular No. 43 **February 14, 2011**

Subject: Exim Bank's Line of Credit of USD 416.39 million to the Government of the Democratic Socialist Republic of Sri Lanka

Export-Import Bank of India (Exim Bank) has concluded an Agreement dated November 26, 2010 with the Government of the Democratic Socialist Republic of Sri Lanka making available to the latter, a Line of Credit (LOC) of USD 416.39 million (USD four hundred sixteen million three hundred ninety thousand) for financing eligible goods and services including consultancy services for financing (i) Track laying by IRCON on the Omanthai- Pallai sector (USD 185.35 million) ,(ii) Track laying by IRCON on the Madhu Church-Tallaimannar sector (USD 149.74 million), and (iii) Track laying on the Medawachchiya- Madhu railway line (USD 81.30 million) in Sri Lanka. The goods and services including consultancy services from India for exports under this Agreement are those which are eligible for export under the Foreign Trade Policy of the Government of India and whose purchase may be agreed to be financed by the Exim Bank under this Agreement. Out of the total credit by Exim Bank under this Agreement, the goods and services including consultancy services of the value of at least 85 per cent of the contract price shall be supplied by the seller from India, and the remaining 15 per cent goods and services (other than consultancy services) may be procured by the seller for the purpose of Eligible Contract from outside India.

2.The Credit Agreement under the LOC is effective from January 24, 2011 and the date of execution of Agreement is November 26, 2010. Under the LOC, the last date for opening of Letters of Credit and Disbursement will be 48 months from the scheduled completion date(s) of contract(s) in the case of project exports and 72 months (November 25, 2016) from the execution date of the Credit Agreement in the case of supply contracts.

3.Shipments under the LOC will have to be declared on GR / SDF Forms as per instructions issued by the Reserve Bank from time to time.

4.No agency commission is payable under the above LOC. However, if required, the exporter may use his own resources or utilize balances in his Exchange Earners' Foreign Currency Account for payment of commission in free foreign exchange. Authorised Dealer Category- I (AD Category-I) banks may allow such remittance after realization of full payment of contract value subject to compliance with the prevailing instructions for payment of agency commission.

5. AD Category-I banks may bring the contents of this circular to the notice of their exporter constituents and advise them to obtain full details of the Line of Credit from the Exim Bank's office at Centre One, Floor 21, World Trade Centre Complex, Cuffe Parade, Mumbai 400 005 or log on to www.eximbankindia.in.

6.The Directions contained in this circular have been issued under sections 10(4) and 11(1) of the Foreign Exchange Management Act (FEMA), 1999 (42 of 1999) and are without prejudice to permissions / approvals, if any, required under any other law.

RBI/2010-11/405 A.P. (DIR Series) Circular No. 42 **February 14, 2011**

Subject: Exim Bank's Line of Credit of USD 1 billion to the Government of the People's Republic of Bangladesh

Export-Import Bank of India (Exim Bank) has concluded an Agreement dated August 7, 2010 with the Government of the People's Republic of Bangladesh making available to the latter, a Line of Credit (LOC) of USD 1 billion (USD one billion) for financing eligible goods and services including project exports and consultancy services in Bangladesh. The goods and services including project exports and consultancy services from India for exports under this Agreement are those which are eligible for export under the Foreign Trade Policy of the Government of India and whose purchase may be agreed to be financed by the Exim Bank under this Agreement. Out of the total credit by Exim Bank under this Agreement, the goods and services including consultancy services of the value of at least 85 per cent of the contract price shall be supplied by the seller from India, and the remaining 15 per cent goods and services (other than consultancy services) may be procured by the seller for the purpose of Eligible Contract from outside India.

2. The Credit Agreement under the LOC is effective from February 1, 2011 and the date of execution of Agreement is August 7, 2010. Under the LOC, the last date for opening of Letters of Credit and Disbursement will be 48 months from the scheduled completion date(s) of contract(s) in the case of project exports and 72 months (August 6, 2016) from the execution date of the Credit Agreement in the case of supply contracts.

3. Shipments under the LOC will have to be declared on GR / SDF Forms as per instructions issued by the Reserve Bank from time to time.

4. No agency commission is payable under the above LOC. However, if required, the exporter may use his own resources or utilize balances in his Exchange Earners' Foreign Currency Account for payment of commission in free foreign exchange. Authorised Dealer Category- I (AD Category-I) banks may allow such remittance after realization of full payment of contract value subject to compliance with the prevailing instructions for payment of agency

commission.

5. AD Category-I banks may bring the contents of this circular to the notice of their exporter constituents and advise them to obtain full details of the Line of Credit from the Exim Bank's office at Centre One, Floor 21, World Trade Centre Complex, Cuffe Parade, Mumbai 400 005 or log on to www.eximbankindia.in.

6. The directions contained in this circular have been issued under sections 10(4) and 11(1) of the Foreign Exchange Management Act (FEMA), 1999 (42 of 1999) and are without prejudice to permissions / approvals, if any, required under any other law.

RBI/2010-11/402 A.P. (DIR Series) Circular No. 41 **February 11, 2011**

Subject: Deferred Payment Protocols dated April 30, 1981 and December 23, 1985 between Government of India and erstwhile USSR

Attention of Authorised Dealer Category-I (AD Category-I) banks is invited to A.P. (DIR Series) Circular No.02 dated July 21, 2010, wherein the Rupee value of the special currency basket was indicated as Rs.62.788607 effective from July 7, 2010.

2. AD Category-I banks are advised that a further revision has taken place on January 26, 2011 and accordingly, the Rupee value of the special currency basket has been fixed at Rs.64.7004 with effect from January 31, 2011.

3. AD Category-I banks may bring the contents of this circular to the notice of their constituents concerned.

4. The Directions contained in this circular have been issued under sections 10(4) and 11(1) of the Foreign Exchange Management Act (FEMA), 1999 (42 of 1999) and are without prejudice to permissions / approvals, if any, required under any other law.

RBI/2010-11/401 IDMD. PCD.No. 26/14.03.05/2010-11 **February 10, 2011**

Subject: Investment in non-Government Securities- Non-Convertible Debentures (NCDs) of maturity up to one year by standalone Primary Dealers (PDs)

Please refer to paragraph 5.8.2 of the Master Circular RBI/2010-11/81 IDMD.PDRD. 01/03.64.00/2010-11 dated July 1, 2010 which, inter alia, advised the PDs that they should not invest in non-Government securities of original maturity of less than one-year, other than the Commercial Papers and Certificates of Deposits which are covered under the RBI guidelines.

2. We also draw your attention to circulars IDMD.DOD.10/11.01.01(A)/2009-10 dated June 23, 2010 and IDMD.PCD.No.24/14.03.03/2010-11 dated December 6, 2010 containing directions on Issuance of Non-Convertible Debentures (NCDs) which, inter alia, allowed PDs to invest in NCDs with original or initial maturity up to one year issued by the corporates [including Non-Banking Financial Companies (NBFCs)] subject to the approval of the statutes governing them and after obtaining regulatory approval.

3. In this connection, we advise that henceforth PDs are permitted to invest in NCDs with original or initial maturity up to one year issued by the corporates (including NBFCs). However, their investments in such unlisted NCDs should not exceed 10 per cent of the size of their non-G-Sec portfolio on an on-going basis.

4. While investing in such instruments, PDs should be guided by the extant prudential guidelines in force and instructions given in the circulars ibid.

RBI/2010-11/400 DBOD.No. BP.BC.80/ 21.04.018/2010-11 February 9, 2011

Subject; Re-opening of pension option to employees of Public Sector Banks and enhancement in gratuity limits - Prudential Regulatory Treatment

Consequent on the re-opening of pension option to employees of Public Sector Banks and enhancement in gratuity limits following the amendment to Payment of Gratuity Act 1972, banks and the Indian Banks' Association (IBA) have approached us for the amortisation of the enhanced expenditure resulting therefrom.

2. The additional liability on account of re-opening of pension option for existing employees who had not opted for pension earlier as well as the enhancement in gratuity limits should be fully recognised and charged to Profit and Loss Account for the financial year 2010-11.

3. However, banks have expressed that it would be difficult to absorb the large amount involved in a single year. We have examined the issues from a regulatory perspective and it has been decided that banks may take the following course of action in the matter:

The expenditure, as indicated in paragraph 2 above, may, if not fully charged to the Profit and Loss Account during the financial year 2010-11, be amortised over a period of five years {subject to (b) and (c) below} beginning with the financial year ending March 31, 2011 subject to a minimum of 1/5th of the total amount involved every year.

Consequent upon the introduction of International Financial Reporting Standards (IFRS) from April 1, 2013 for the banking industry as scheduled, the opening balance of reserves of banks will be reduced to the extent of the unamortised carry forward expenditure.

The unamortised expenditure carried forward as aforementioned shall not include any amounts relating to separated/retired employees.

4. Appropriate disclosures of the accounting policy followed in this regard may be made in the Notes to Accounts to the financial statements.

5. In view of the exceptional nature of the event, new pension option and enhanced gratuity related unamortised expenditure would not be reduced from Tier I capital.

6. Banks should keep in view 3(b) above while planning their capital augmentation, suitably factoring in Basel III requirements also (a separate circular would be issued on Basel III).

Ref.No.IDMD / 3467 /08.02.033/2010-11 February 7, 2011

Subject: Auction of Government of India Dated Securities

Government of India have offered to sell (re-issue) of (a) "7.49 percent Government Stock 2017 " for a notified amount of Rs.3,000 crore (nominal) through a price based auction using uniform price method vide Notification No.4(3)-W&M/2010 dated February 7, 2011, (b) "8.08 percent Government Stock 2022 " for a notified amount of Rs.4,000 crore (nominal) through a price based auction using uniform price method vide Notification No.4(3)-W&M/2010(i) dated February 7, 2011 and (c) "8.26 percent Government Stock 2027" for a notified amount of Rs. 3,000 crore (nominal) through a price based auction using uniform price method vide Notification No.4(3)-W&M/2010(ii) dated February 7, 2011. The Reserve Bank of India at Mumbai will conduct the auctions on February 11, 2011. The salient features of the auctions and the terms and conditions governing the issue of the Stocks are given in the Notifications (copies enclosed), which should be read along with the General Notification F. No. 4 (13)–W&M/2008, dated October 8, 2008 issued by Government of India.

2. We wish to draw your attention, in particular, to the following:
The Stocks will be issued for a minimum amount of Rs.10,000/- (nominal) and in multiples of Rs.10,000/- thereafter.
In all the auctions, Government Stock up to 5% of the notified amount of sale will be allotted to the eligible individuals and institutions under the Scheme for Non-competitive Bidding Facility in the Auctions of Government Securities (enclosed with the notifications F. No.4 (3)-W&M/2010, F. No.4 (3)-W&M/2010(i) and F. No.4 (3)-W&M/2010(ii) all dated February 7, 2011). Each bank or PD on the basis of firm orders received from their constituents will submit a single consolidated non-competitive bid on behalf of all its constituents in electronic format on the Negotiated Dealing System (NDS). Allotment under the non-competitive segment to the bank or PD will be at the cut-off price that will emerge in the auction on the basis of the competitive bidding.

Both competitive and non-competitive bids for the auction should be submitted in electronic format on the Negotiated Dealing System (NDS) on February 11, 2011. Bids in physical form will not be accepted except in extraordinary circumstances such as general failure of the NDS system. The non-competitive bids should be submitted between 10.30 a.m. and 11.30 a.m. and the competitive bids should be submitted between 10.30 a.m. and 12.30 p.m.

An investor can submit more than one competitive bid at different prices in electronic format on the Negotiated Dealing System (NDS). However, the aggregate amount of bids submitted by a person in an auction should not exceed the notified amount of auction.

On the basis of bids received, the Reserve Bank will determine the minimum price up to which tenders for purchase of Government Stock will be accepted at the auctions. Bids quoted at rates lower than the minimum price determined by the Reserve Bank of India will be rejected. Reserve Bank of India will have the full discretion to accept or reject any or all bids either wholly or partially without assigning any reason.

The result of the auctions will be announced on February 11, 2011 and payment by successful bidders will be on February 14, 2011 (Monday).

The Government Stocks will be issued by credit to Subsidiary General Ledger Account (SGL) of parties maintaining such account with Reserve Bank of India or in the form of Stock Certificate. Interest on the Government Stock will be paid half-yearly.

The Government Stocks will be repaid at par on April 16, 2017, August 2, 2022 and August 2, 2027 respectively.

The Stocks will qualify for the ready forward facility.

The Stock will be eligible for “When Issued” trading during the period February 8-11, 2011 in accordance with the guidelines on ‘When Issued’ transactions in Central Government Securities’ issued by the Reserve Bank of India vide circular No. RBI /2006-07/178 dated November 16, 2006 as amended from time to time.

Government of India
Ministry of Finance

Department of Economic Affairs
Budget Division

New Delhi, dated February 7, 2011

NOTIFICATION

Auction for Sale (Re-issue) of '7.49 per cent Government Stock, 2017'

F. No.4 (3)-W&M/2010: Government of India hereby notifies sale (reissue) of '7.49 per cent Government Stock, 2017' (hereinafter called 'the Stock') for an aggregate amount of Rs. 3,000 crore (nominal). The sale will be subject to the terms and conditions spelt out in this notification (called 'Specific Notification') as also the terms and conditions specified in the General Notification F. No. 4 (13)–W&M/2008, dated October 8, 2008 issued by Government of India.

Method of Issue
2. The Stock will be sold through Reserve Bank of India, Mumbai Office, Fort, Mumbai- 400 001 in the manner as prescribed in paragraph 5.1 of the General Notification F. No. 4 (13)–W&M/2008, dated October 8, 2008 by a price based auction using uniform price auction method.

Allotment to Non-competitive Bidders
3. The Government Stock up to 5 % of the notified amount of the sale will be allotted to eligible individuals and institutions as per the enclosed Scheme for Non-competitive Bidding Facility in the Auctions of Government Securities (Annex).

Place and date of auction
4. The auction will be conducted by Reserve Bank of India, Mumbai Office, Fort, Mumbai-400 001 on February 11, 2011. Bids for the auction should be submitted in electronic format on the Negotiated Dealing System (NDS) February 11, 2011. The non-competitive bids should be submitted between 10.30 a.m. and 11.30 a.m. and the competitive bids should be submitted between 10.30 a.m. and 12.30 p.m.

When Issued Trading
5. The Stock will be eligible for "When Issued" trading in accordance with the guidelines issued by the Reserve Bank of India.

Tenure
6. The Stock will be of fifteen-year tenure commencing from April 16, 2002. The Stock will be repaid at par on April 16, 2017.

Date of issue and payment for the stock
7. The result of the auction shall be displayed by the Reserve Bank of India at its Fort, Mumbai office on February 11, 2011. The payment by successful bidders will be on February 14, 2011 i.e., the date of re-issue. The payment for the Stock will include accrued interest on the nominal value of the Stock allotted in the auction from the date of last coupon payment i.e., October 16, 2010 to February 13, 2011.

Interest
8. Interest at the rate of 7.49 per cent per annum will accrue on the nominal value of the Stock from the date of last coupon payment and will be paid half yearly on April 16 and October 16.

Government of India
Ministry of Finance

Department of Economic Affairs
Budget Division

New Delhi, dated February 7, 2011

NOTIFICATION

Auction for Sale (Re-issue) of '8.26 per cent Government Stock, 2027'

F. No.4 (3)-W&M/2010(ii): Government of India hereby notifies sale (reissue) of '8.26 per cent Government Stock, 2027' (hereinafter called 'the Stock') for an aggregate amount of Rs.3,000 crore (nominal). The sale will be subject to the terms and conditions spelt out in this notification (called 'Specific Notification') as also the terms and conditions specified in the General Notification F. No. 4 (13)–W&M/2008, dated October 8, 2008 issued by Government of India.

Method of Issue
2. The Stock will be sold through Reserve Bank of India, Mumbai Office, Fort, Mumbai- 400 001 in the manner as prescribed in paragraph 5.1 of the General Notification F. No. 4 (13)–W&M/2008, dated October 8, 2008 by a price based auction using uniform price auction method.

Allotment to Non-competitive Bidders
3. The Government Stock up to 5 % of the notified amount of the sale will be allotted to eligible individuals and institutions as per the enclosed Scheme for Non-competitive Bidding Facility in the Auctions of Government Securities (Annex).

Place and date of auction
4. The auction will be conducted by Reserve Bank of India, Mumbai Office, Fort, Mumbai-400 001 on February 11, 2011. Bids for the auction should be submitted in electronic format on the Negotiated Dealing System (NDS) February 11, 2011. The non-competitive bids should be submitted between 10.30 a.m. and 11.30 a.m. and the competitive bids should be submitted between 10.30 a.m. and 12.30 p.m.

When Issued Trading
5. The Stock will be eligible for "When Issued" trading in accordance with the guidelines issued by the Reserve Bank of India.

Tenure
6. The Stock will be of twenty-year tenure commencing from August 2, 2007. The Stock will be repaid at par on August 2, 2027.

Date of issue and payment for the stock
7. The result of the auction shall be displayed by the Reserve Bank of India at its Fort, Mumbai Office on February 11, 2011. The payment by successful bidders will be on February 14, 2011, i.e., the date of re-issue. The payment for the Stock will include accrued interest on the nominal value of the Stock allotted in the auction from the date of last coupon payment, i.e., February 2, 2011 to February 13, 2011.

Interest
8. Interest at the rate of 8.26 per cent per annum will accrue on the nominal value of the Stock from the date of last coupon payment and will be paid half yearly on August 2 & February 2.

Government of India
Ministry of Finance

Department of Economic Affairs
Budget Division

New Delhi, dated February 7, 2011

NOTIFICATION

Auction for Sale (Re-issue) of ‘8.08 per cent Government Stock, 2022’

F. No.4 (3)-W&M/2010(i): Government of India hereby notifies sale (reissue) of ‘8.08 per cent Government Stock, 2022’ (hereinafter called 'the Stock') for an aggregate amount of Rs. 4,000 crore (nominal). The sale will be subject to the terms and conditions spelt out in this notification (called ‘Specific Notification’) as also the terms and conditions specified in the General Notification F. No. 4 (13)–W&M/2008, dated October 8, 2008 issued by Government of India.

Method of Issue

2. The Stock will be sold through Reserve Bank of India, Mumbai Office, Fort, Mumbai- 400 001 in the manner as prescribed in paragraph 5.1 of the General Notification F. No. 4 (13)–W&M/2008, dated October 8, 2008 by a price based auction using uniform price auction method.

Allotment to Non-competitive Bidders

3. The Government Stock up to 5 % of the notified amount of the sale will be allotted to eligible individuals and institutions as per the enclosed Scheme for Non-competitive Bidding Facility in the Auctions of Government Securities (Annex).

Place and date of auction

4. The auction will be conducted by Reserve Bank of India, Mumbai Office, Fort, Mumbai-400 001 on February 11, 2011. Bids for the auction should be submitted in electronic format on the Negotiated Dealing System (NDS) on February 11, 2011. The non-competitive bids should be submitted between 10.30 a.m. and 11.30 a.m. and the competitive bids should be submitted between 10.30 a.m. and 12.30 p.m.

When Issued Trading

5. The Stock will be eligible for “When Issued” trading in accordance with the guidelines issued by the Reserve Bank of India.

Tenure

6. The Stock will be of fifteen-year tenure commencing from August 2, 2007. The Stock will be repaid at par on August 2, 2022.

Date of issue and payment for the stock

7. The result of the auction shall be displayed by the Reserve Bank of India at its Fort, Mumbai Office on February 11, 2011. The payment by successful bidders will be on February 14, 2011 i.e., the date of re-issue. The payment for the Stock will include accrued interest on the nominal value of the Stock allotted in the auction from the date of last coupon payment i.e., February 2, 2011 to February 13, 2011.

Interest

8. Interest at the rate of 8.08 per cent per annum will accrue on the nominal value of the Stock from the date of last coupon payment and will be paid half yearly on August 2 and February 2.

Subject: Recognition of Permanent Diminution in the Value of Investments in Banks' Subsidiaries / Joint Ventures

In terms of para 14 of Annexure to circular DBS.FID.No.C.9/01.02.00/2000-01 dated November 9, 2000 on 'Guidelines for Classification and Valuation of investments ', FIs are required to recognise any diminution, other than temporary, in the value of their investments in subsidiaries / joint ventures which are included under Held to Maturity category and provide therefor. However, in the absence of any specific instructions on the method of assessment / measurement of permanent diminution, it has been observed that Banks/FIs are not making any attempt to determine whether there is any permanent diminution in their strategic equity investments held under HTM or AFS categories.

2. The need to determine whether impairment has occurred is a continuous process and the need for such determination will arise in the following circumstances:

(a) On the happening of an event which suggests that impairment has occurred. This would include:

(i) the company has defaulted in repayment of its debt obligations.

(ii) the loan amount of the company with any bank/FI has been restructured.

(iii) the credit rating of the company has been downgraded to below investment grade.

(b) When the company has incurred losses for a continuous period of three years and the net worth has consequently been reduced by 25% or more.

(c) In the case of new company or a new project when the originally projected date of achieving the breakeven point has been extended i.e., the company or the project has not achieved break-even within the gestation period as originally envisaged.

3. When the need to determine whether impairment has occurred arises in respect of a subsidiary, joint venture or a material investment, the FI should obtain a valuation of the investment by a reputed / qualified valuer and make provision for the impairment, if any.

4. These guidelines would be applicable with immediate effect.

RBI/2010-11/397 RPCD.CO.Plan.BC. 51/04.09.01/2010-11 **February 2, 2011**

Subject: Classification of loans against gold jewellery

Please refer to paragraph 1.3.14 of our Master Circular on lending to priority sector dated July 1, 2010.

2. It is clarified that loans sanctioned to NBFCs for on-lending to individuals or other entities against gold jewellery, are not eligible for classification under agriculture sector.

3. Similarly investments made by banks in securitised assets originated by NBFCs, where the underlying assets are loans against gold jewellery, and purchase/assignment of gold loan portfolio from NBFCs are also not eligible for classification under agriculture sector.

Government of India
Ministry of Finance
Department of Economic Affairs

Budget Division

New Delhi, dated January 31, 2011

NOTIFICATION
Auction for Sale (Re-issue) of '8.30 per cent Government Stock, 2040'

F. No.4 (3)-W&M/2010(ii): Government of India hereby notifies sale (re-issue) of '8.30 per cent Government Stock, 2040' (hereinafter called 'the Stock') for an aggregate amount of Rs. 3,000 crore (nominal). The sale will be subject to the terms and conditions spelt out in this notification (called 'Specific Notification') as also the terms and conditions specified in the General Notification F. No. 4 (13)–W&M/2008, dated October 8, 2008 issued by Government of India.

Method of Issue

2. The Stock will be sold through Reserve Bank of India, Mumbai Office, Fort, Mumbai- 400 001 in the manner as prescribed in paragraph 5.1 of the General Notification F. No. 4 (13)–W&M/2008, dated October 8, 2008 by a price based auction using uniform price auction method.

Allotment to Non-competitive Bidders

3. The Government Stock up to 5 % of the notified amount of the sale will be allotted to eligible individuals and institutions as per the enclosed Scheme for Non-competitive Bidding Facility in the Auctions of Government Securities (Annex).

Place and date of auction

4. The auction will be conducted by Reserve Bank of India, Mumbai Office, Fort, Mumbai-400 001 on February 4, 2011. Bids for the auction should be submitted in electronic format on the Negotiated Dealing System (NDS) on February 4, 2011. The non-competitive bids should be submitted between 10.30 a.m. and 11.30 a.m. and the competitive bids should be submitted between 10.30 a.m. and 12.30 p.m.

When Issued Trading

5. The Stock will be eligible for "When Issued" trading in accordance with the guidelines issued by the Reserve Bank of India.

Tenure

6. The Stock will be of thirty-year tenure commencing from July 2, 2010. The Stock will be repaid at par on July 2, 2040.

Date of issue and payment for the stock

7. The result of the auction shall be displayed by the Reserve Bank of India at its Fort, Mumbai office on February 4, 2011. The payment by successful bidders will be on February 7, 2011 i.e., the date of re-issue. The payment for the Stock will include accrued interest on the nominal value of the Stock allotted in the auction from the date of last coupon payment i.e., January 2, 2011 to February 6, 2011.

Interest

8. Interest at the rate of 8.30 per cent per annum will accrue on the nominal value of the Stock from the date of last coupon payment and will be paid half yearly on July 2 and January 2.

Government of India
Ministry of Finance
Department of Economic Affairs
Budget Division

New Delhi, dated January 31, 2011

NOTIFICATION

Auction for Sale (Re-issue) of ‘7.17 per cent Government Stock, 2015’

F. No.4 (3)-W&M/2010: Government of India hereby notifies sale (reissue) of ‘7.17 per cent Government Stock, 2015’ (hereinafter called 'the Stock') for an aggregate amount of Rs. 3,000 crore (nominal). The sale will be subject to the terms and conditions spelt out in this notification (called ‘Specific Notification’) as also the terms and conditions specified in the General Notification F. No. 4 (13)–W&M/2008, dated October 8, 2008 issued by Government of India.

Method of Issue

2. The Stock will be sold through Reserve Bank of India, Mumbai Office, Fort, Mumbai- 400 001 in the manner as prescribed in paragraph 5.1 of the General Notification F. No. 4 (13)–W&M/2008, dated October 8, 2008 by a price based auction using uniform price auction method.

Allotment to Non-competitive Bidders

3. The Government Stock up to 5 % of the notified amount of the sale will be allotted to eligible individuals and institutions as per the enclosed Scheme for Non-competitive Bidding Facility in the Auctions of Government Securities (Annex).

Place and date of auction

4. The auction will be conducted by Reserve Bank of India, Mumbai Office, Fort, Mumbai-400 001 on February 4, 2011. Bids for the auction should be submitted in electronic format on the Negotiated Dealing System (NDS) February 4, 2011. The non-competitive bids should be submitted between 10.30 a.m. and 11.30 a.m. and the competitive bids should be submitted between 10.30 a.m. and 12.30 p.m.

When Issued Trading

5. The Stock will be eligible for “When Issued” trading in accordance with the guidelines issued by the Reserve Bank of India.

Tenure

6. The Stock will be of five-year tenure commencing from June 14, 2010. The Stock will be repaid at par on June 14, 2015.

Date of issue and payment for the stock

7. The result of the auction shall be displayed by the Reserve Bank of India at its Fort, Mumbai office on February 4, 2011. The payment by successful bidders will be on February 7, 2011 i.e., the date of re-issue. The payment for the Stock will include accrued interest on the nominal value of the Stock allotted in the auction from the date of last coupon payment i.e., December 14, 2010 to February 6, 2011.

Interest

8. Interest at the rate of 7.17 per cent per annum will accrue on the nominal value of the Stock from the date of last coupon payment and will be paid half yearly on June 14 and December 14.

Government of India
Ministry of Finance
Department of Economic Affairs
Budget Division

New Delhi, dated January 31, 2011

NOTIFICATION
Auction for Sale (Re-issue) of '8.13 per cent Government Stock, 2022'

F. No.4 (3)-W&M/2010(i): Government of India hereby notifies sale (reissue) of '8.13 per cent Government Stock, 2022' (hereinafter called 'the Stock') for an aggregate amount of Rs. 4,000 crore (nominal). The sale will be subject to the terms and conditions spelt out in this notification (called 'Specific Notification') as also the terms and conditions specified in the General Notification F. No. 4 (13)–W&M/2008, dated October 8, 2008 issued by Government of India.

Method of Issue
2. The Stock will be sold through Reserve Bank of India, Mumbai Office, Fort, Mumbai- 400 001 in the manner as prescribed in paragraph 5.1 of the General Notification F. No. 4 (13)–W&M/2008, dated October 8, 2008 by a price based auction using uniform price auction method.

Allotment to Non-competitive Bidders
3. The Government Stock up to 5 % of the notified amount of the sale will be allotted to eligible individuals and institutions as per the enclosed Scheme for Non-competitive Bidding Facility in the Auctions of Government Securities (Annex).

Place and date of auction
4. The auction will be conducted by Reserve Bank of India, Mumbai Office, Fort, Mumbai-400 001 on February 4, 2011. Bids for the auction should be submitted in electronic format on the Negotiated Dealing System (NDS) February 4, 2011. The non-competitive bids should be submitted between 10.30 a.m. and 11.30 a.m. and the competitive bids should be submitted between 10.30 a.m. and 12.30 p.m.

When Issued Trading
5. The Stock will be eligible for "When Issued" trading in accordance with the guidelines issued by the Reserve Bank of India.

Tenure
6. The Stock will be of fifteen-year tenure commencing from September 21, 2007. The Stock will be repaid at par on September 21, 2022.

Date of issue and payment for the stock
7. The result of the auction shall be displayed by the Reserve Bank of India at its Fort, Mumbai office on February 4, 2011. The payment by successful bidders will be on February 7, 2011 i.e., the date of re-issue. The payment for the Stock will include accrued interest on the nominal value of the Stock allotted in the auction from the date of last coupon payment i.e., September 21, 2010 to February 6, 2011.

Interest
8. Interest at the rate of 8.13 per cent per annum will accrue on the nominal value of the Stock from the date of last coupon payment and will be paid half yearly on March 21 and September 21.

Ref.No.IDMD / 3349 /08.02.033/2010-11 **January 31, 2011**

Subject: Auction of Government of India Dated Securities

Government of India have offered to sell (re-issue) of (a) "7.17 percent Government Stock 2015 " for a notified amount of Rs.3,000 crore (nominal) through a price based auction using uniform price method vide Notification No.4(3)-W&M/2010 dated January 31, 2011, (b) “8.13 percent Government Stock 2022 ”for a notified amount of Rs 4,000 crore (nominal) through a price based auction using uniform price method vide Notification No.4(3)-W&M/2010(i) dated January 31, 2011 and (c) “8.30 percent Government Stock 2040” for a notified amount of Rs.3,000 crore (nominal) through a price based auction using uniform price method vide Notification No.4(3)-W&M/2010(ii) dated January 31, 2011. The Reserve Bank of India at Mumbai will conduct the auctions on February 4, 2011. The salient features of the auctions and the terms and conditions governing the issue of the Stocks are given in the Notifications (copies enclosed), which should be read along with the General Notification F. No. 4 (13)–W&M/2008, dated October 8, 2008 issued by Government of India.

2. We wish to draw your attention, in particular, to the following:

(i) The Stocks will be issued for a minimum amount of Rs.10,000/- (nominal) and in multiples of Rs.10,000/- thereafter.

(ii) In all the auctions, Government Stock up to 5% of the notified amount of sale will be allotted to the eligible individuals and institutions under the Scheme for Non-competitive Bidding Facility in the Auctions of Government Securities (enclosed with the notifications F. No.4 (3)-W&M/2010, F. No.4 (3)-W&M/2010(i) and F. No.4 (3)-W&M/2010(ii) all dated January 31, 2011). Each bank or PD on the basis of firm orders received from their constituents will submit a single consolidated non-competitive bid on behalf of all its constituents in electronic format on the Negotiated Dealing System (NDS). Allotment under the non-competitive segment to the bank or PD will be at the cut-off price that will emerge in the auction on the basis of the competitive bidding.

(iii) Both competitive and non-competitive bids for the auction should be submitted in electronic format on the Negotiated Dealing System (NDS) on February 4, 2011. Bids in physical form will not be accepted except in extraordinary circumstances such as general failure of the NDS system. The non-competitive bids should be submitted between 10.30 a.m. and 11.30 a.m. and the competitive bids should be submitted between 10.30 a.m. and 12.30 p.m.

(iv) An investor can submit more than one competitive bids at different prices in electronic format on the Negotiated Dealing System (NDS). However, the aggregate amount of bids submitted by a person in an auction should not exceed the notified amount of auction.

(v) On the basis of bids received, the Reserve Bank will determine the minimum price up to which tenders for purchase of Government Stock will be accepted at the auctions. Bids quoted at rates lower than the minimum price determined by the Reserve Bank of India will be rejected. Reserve Bank of India will have the full discretion to accept or reject any or all bids either wholly or partially without assigning any reason.

(vi) The result of the auctions will be announced on February 4, 2011 and payment by successful bidders will be on February 7, 2011 (Monday).

(vii) The Government Stocks will be issued by credit to Subsidiary General Ledger Account (SGL) of parties maintaining such account with Reserve Bank of India or in the form of Stock Certificate. Interest on the Government Stock will be paid half-yearly.

(viii) The Government Stocks will be repaid at par on June 14, 2015, September 21, 2022 and July 2, 2040 respectively.

(ix) The Stocks will qualify for the ready forward facility.

(x) The Stock will be eligible for “When Issued” trading during the period February 1-4, 2011 in accordance with the guidelines on ‘When Issued’ transactions in Central Government Securities’ issued by the Reserve Bank of India vide circular No. RBI /2006-07/178 dated November 16, 2006 as amended from time to time.

RBI/2010-11/395 DBOD. No. BP.BC.79/21.04.141/2010-11 January 31, 2011

Subject: Recognition of permanent diminution in the value of investments in banks’ subsidiaries/joint ventures

In terms of para 15 of Annexure to circular DBOD.No.BP.BC.32/21.04.048/2000-2001 dated October 16, 2000 on ‘Guidelines for Classification and Valuation of investments by Banks’, banks are required to recognise any diminution, other than temporary, in the value of their investments in subsidiaries/ joint ventures which are included under Held to Maturity category and provide therefor. However, in the absence of any specific instructions on the method of assessment/measurement of permanent diminution, it has been observed that banks are not making any attempt to determine whether there is any permanent diminution in their strategic equity investments held under HTM or AFS categories.

2. The need to determine whether impairment has occurred is a continuous process and the need for such determination will arise in the following circumstances:

(a) On the happening of an event which suggests that impairment has occurred. This would include:

(i) the company has defaulted in repayment of its debt obligations.
(ii) the loan amount of the company with any bank has been restructured.
(iii) the credit rating of the company has been downgraded to below investment grade.

(b) When the company has incurred losses for a continuous period of three years and the net worth has consequently been reduced by 25% or more.

(c) In the case of new company or a new project when the originally projected date of achieving the breakeven point has been extended i.e., the company or the project has not achieved break-even within the gestation period as originally envisaged.

3. When the need to determine whether impairment has occurred arises in respect of a subsidiary, joint venture or a material investment, the bank should obtain a valuation of the investment by a reputed/qualified valuer and make provision for the impairment, if any.

4. These guidelines would be applicable with immediate effect.

RBI/2010-11/393 RPCD.CO.Plan.BC. 49/04.09.01/2010-11 January 28, 2011

Subject: Annual Financial Inspection – Priority Sector Loans – Mis-classification by Banks

The Annual Financial Inspection conducted by the Department of Banking Supervision, Reserve Bank of India, inter-alia, reports cases of misclassification of loans under priority sector and/or its sub-sectors.

2. It has been decided that henceforth the amount of loans wrongly classified under priority sector identified and reported by Principal Inspecting Officers (PIOs) during Annual Financial Inspection of banks will be taken into account for arriving at the shortfall under priority sector lending targets.

3. Accordingly, to begin with, such misclassifications reported during the current year will be added to the shortfall reported by banks as on the last reporting Friday of following year, for allocation to various

funds.

4. Besides, it has also been reported that typically when banks buy loans from intermediaries like MFI/NBFCs given to eligible priority sector borrowers, they reckon the present value of the loans arrived at by discounting at their rate of lending which is typically much lower than the actual rate charged to end–borrowers by such intermediaries. This has the effect of overstating the actual amount of priority sector loans to the extent of premium paid by banks to such intermediaries. Banks must, therefore, report the nominal amount actually disbursed to end priority sector borrowers and not the premium-embedded amount paid to the intermediaries.

RBI/2010-11/391 DNBS.CC.PD.No.208/03.10.01/2010-11 January 27, 2011

Subject: Services to Persons with Disability - Training Programme for Employees

In terms of DNBS.CC.PD.No. 191/03.10.01/2010-11 dated July 27, 2010, NBFCs were advised that there shall be no discrimination in extending products and facilities including loan facilities to the physically/visually challenged applicants on grounds of disability and that they may also advise their branches to render all possible assistance to such persons for availing of the various business facilities.

2. In continuation to the above, NBFCs are advised that they may include a suitable module containing the rights of persons with disabilities guaranteed to them by the law and international conventions, in all the training programmes conducted for their employees at all levels. Further, NBFCs may ensure redressal of grievances of persons with disabilities under the Grievance Redressal Mechanism already set up by them.

RBI/2010-11/ 390 DBOD.No.BL.BC. 78/22.01.001/2010-11 January 27, 2011
7 Magha, 1932 (Saka)

Subject: Section 23 of the Banking Regulation Act, 1949 Relaxations in Branch Authorisation Policy

In terms of Circular DBOD.No.BL.BC. 65/22.01.001/2009-10 dated December 1, 2009, general permission was granted to domestic scheduled commercial banks (other than RRBs) to open branches in Tier -3 to Tier- 6 centres (with population upto 49,999 as per Census 2001) and in rural, semi urban and urban centres in the North Eastern States and Sikkim, subject to reporting.

2. We have been receiving queries from banks regarding applicability of distance criteria envisaged in paragraph 6.3(b) of the Master Circular on Branch Authorisation DBOD.No. BL.BC. 8/22.01.001/2010-11 dated July 1, 2010 for opening of branches under general permission. It is clarified that conditions mentioned at paragraph 6.3 (b) of the Master Circular referred to above is not applicable to opening of branches under general permission.

3. Further, it has been decided to grant general permission to domestic scheduled commercial banks (other than RRBs) to open Administrative Offices and Central Processing Centres (CPC) / service branches in Tier- 3 to Tier- 6 centres (with population upto 49,999 as per census 2001) and in rural, semi urban and urban centres in the North Eastern States and Sikkim, subject to reporting. Administrative Office (Controlling Offices) would be carrying out administrative work. Central Processing Centres (CPCs)/ Service branches would exclusively attend to back office functions. These Central Processing Centres (CPCs)/ Service branches should not have direct interface with customers.

4. Banks should ensure that the centres where the branches are opened under general permission are

not the outgrowth (locality developed around bigger centre) of a bigger centre. Department of Statistics and Information Management (DSIM) has clarified that outgrowth of a bigger centre would have the same population group classification as that of the bigger centre.

5. Details of Administrative Offices and Central Processing Centres (CPC) / service branches opened by banks under general permission should be reported to RBI in terms of the existing reporting system envisaged in paragraph 19 of the Master circular on Branch Authorisation dated July 1, 2010.

RBI/2010-11/389 DBOD.AML.No. 77/14.01.001/2010-11 **January 27, 2011**

Subject: Opening of "Small Account"

Please find enclosed a copy of the Government of India, Notification No. 14/2010/ F.No.6/2/2007-E.S. dated December 16, 2010, amending the Prevention of Money-laundering (Maintenance of Records of the Nature and Value of Transactions, the Procedure and Manner of Maintaining and Time for Furnishing Information and Verification and Maintenance of Records of the Identity of the Clients of the Banking Companies, Financial Institutions and Intermediaries) Rules, 2005.

A. Small Accounts

2. In terms of Rule 2 clause (fb) of the Notification 'small account' means a savings account in a banking company where-

(i) the aggregate of all credits in a financial year does not exceed rupees one lakh;
(ii) the aggregate of all withdrawals and transfers in a month does not exceed rupees ten thousand; and
(iii) the balance at any point of time does not exceed rupees fifty thousand .
3. Rule (2A) of the Notification lays down the detailed procedure for opening 'small accounts'. Banks are advised to ensure adherence to the procedure provided in the Rules for opening of small accounts.

B. Officially Valid Documents

4. The Notification has also expanded the definition of 'officially valid document' as contained in clause (d) of Rule 2(1)of the PML Rules to include job card issued by NREGA duly signed by an officer of the State Government or the letters issued by the Unique Identification Authority of India containing details of name, address and Aadhaar number.

5. It is further advised that where a bank has relied exclusively on any of these two documents, viz. NREGA job card or Aadhaar letter, as complete KYC document for opening of an account (ref. paragraph 2.4 (f) of the Master circular dated July 1,2010) the bank account so opened will also be subjected to all conditions and limitations prescribed for small account in the Notification.

6. Accordingly, all accounts opened in terms of procedure prescribed in Rule 2A of the Notification enclosed and all other accounts opened ONLY on the basis of NREGA card or Aadhaar letter should be treated as "small accounts" subject to the conditions stipulated in clause (i) to (v) of the sub-rule (2A) of Rule 9.

Government of India
Ministry of Finance
(Department of Revenue)

Notification New Delhi, the 16th December, 2010

GSR (E) – In exercise of the powers conferred by sub-section (1) read with clauses (h) (i), (j) and (k) of sub-section (2) of Section 73 of the Prevention of Money-laundering Act, 2002 (15 of 2003), the Central Government hereby makes the following amendments to the Prevention of Money-laundering (Maintenance of Records of the Nature and Value of Transactions, the Procedure and Manner of Maintaining and Time for Furnishing Information and Verification and Maintenance of Records of the Identity of the Clients of the Banking Companies, Financial Institutions and Intermediaries) Rules, 2005, namely::-

(1) These rules may be called the Prevention of Money-laundering (Maintenance of Records of the Nature and Value of Transactions, the Procedure and Manner of Maintaining and Time for Furnishing Information and Verification and Maintenance of Records of the Identity of the Clients of the Banking Companies, Financial Institutions and Intermediaries) Third Amendment Rules, 2010.

(2) They shall come into force on the date of their publication in the Official Gazette.

In the Prevention of Money-laundering (Maintenance of Records of the Nature and Value of Transactions, the Procedure and Manner of Maintaining and Time for Furnishing Information and Verification and Maintenance of Records of the Identity of the Clients of the Banking Companies, Financial Institutions and Intermediaries) Rules, 2005, -

(a) in rule 2,-
(i) after clause (b), the following clause shall be inserted, namely:-
"(bb) "Designated Officer" means any officer or a class of officers authorized by a banking company, either by name or by designation, for the purpose of opening small accounts".
(ii) in clause (d), for the words "the Election Commission of India or any other document as may be required by the banking company or financial institution or intermediary", the words "Election Commission of India, job card issued by NREGA duly signed by an officer of the State Government, the letter issued by the Unique Identification Authority of India containing details of name, address and Aadhaar number or any other document as notified by the Central Government in consultation with the Reserve Bank of India or any other document as may be required by the banking companies, or financial institution or intermediary" shall be substituted;

(iii) after clause (fa), the following clause shall be inserted, namely:-
"(fb) "small account" means a savings account in a banking company where-

(i) the aggregate of all credits in a financial year does not exceed rupees one lakh,
(ii) the aggregate of all withdrawals and transfers in a month does not exceed rupees ten thousand, and;
(iii) the balance at any point of time does not exceed rupees fifty thousand".

(b) In rule 9, after sub-rule (2), the following sub-rule shall be inserted, namely:-
"(2A) Notwithstanding anything contained in sub-rule (2), an individual who desires to open a small account in a banking company may be allowed to open such an account on production of a self-attested photograph and affixation of signature or thumb print, as the case may be, on the form for opening the account.

Provided that –

(i) the designated officer of the banking company, while opening the small account, certifies under his signature that the person opening the account has affixed his signature or thumb print, as the case may be, in his presence;

(ii) a small account shall be opened only at Core Banking Solution linked banking company branches or in a branch where it is possible to manually monitor and ensure that foreign remittances are not credited to a small account and that the stipulated limits on monthly and annual aggregate of transactions and balance in such accounts are not breached, before a transaction is allowed to take place;
(iii) a small account shall remain operational initially for a period of twelve months, and thereafter for a further period of twelve months if the holder of such an account provides evidence before the banking company of having applied for any of the officially valid documents within twelve months of the opening of the said account, with the entire relaxation provisions to be reviewed in respect of the said account after twenty four months.
(iv) a small account shall be monitored and when there is suspicion of money laundering or financing of terrorism or other high risk scenarios, the identity of client shall be established through the production of officially valid documents, as referred to in sub rule (2) of rule 9"; and
(v) foreign remittance shall not be allowed to be credited into a small account unless the identity of the client is fully established through the production of officially valid documents, as referred to in sub-rule (2) of rule 9."

(Notification No.14/2010/F.No.6/2/2007-ES)

RBI/2010-11/388 FMD.MOAG. No.56/01.01.01/2010-11 January 25, 2011

Subject: Liquidity Adjustment Facility – Repo and Reverse Repo Rates

As announced today in the Third Quarter Review of Monetary Policy 2010-11, it has been decided to increase the repo rate under the liquidity adjustment facility (LAF) by 25 basis points from 6.25 per cent to 6.50 per cent and the reverse repo rate by 25 basis points from 5.25 per cent to 5.50 per cent with immediate effect.

2. All other terms and conditions of the current LAF Scheme will remain unchanged.

RBI/2010-11/386 REF.No.MPD.BC.340/07.01.279/2010-11 January 25, 2011

Subject: Standing Liquidity Facilities for Banks and Primary Dealers

Please refer to the Third Quarter Review of Monetary Policy 2010-11 dated January 25, 2011, in terms of which the repo rate under the Liquidity Adjustment Facility (LAF) has been increased by 25 basis points from 6.25 per cent to 6.50 per cent with immediate effect.
2. Accordingly, the Standing Liquidity Facilities provided to banks (export credit refinance) and Primary Dealers (PDs) (collateralised liquidity support) from the Reserve Bank will be available at the revised repo rate, i.e., at 6.50 per cent with effect from January 25, 2011.

RBI/2010-11/387 Ref. DBOD.No.Ret.BC. 76 /12.02.001/2010-11 January 25, 2011

Subject: Section 24 of Banking Regulation Act, 1949 - Shortfall in Maintenance of Statutory Liquidity Ratio (SLR) – Additional Liquidity Support under Liquidity Adjustment Facility (LAF)

Please refer to our circular DBOD. No. Ret. BC.68/12.02.001/2010-11 dated December 16, 2010 wherein it was advised that Scheduled Commercial Banks may avail of the additional liquidity support under the Liquidity Adjustment Facility (LAF) to the extent of up to 1.0 per cent of their Net Demand and Time Liabilities (NDTL) from December 18, 2010 to January 28, 2011. For any shortfall in SLR maintenance up to January 28, 2011 arising out of availment of this facility, banks may seek waiver of penal interest on a fortnightly basis purely as an ad hoc, temporary measure.

2. As set out in the Third Quarter Review of Monetary Policy 2010-11 announced on January 25,

2011, the additional liquidity support to Scheduled Commercial Banks under the LAF to the extent of one per cent of their NDTL, currently set to expire on January 28, 2011, is now extended up to April 8, 2011. For any shortfall in maintenance of the SLR arising out of availment of this facility, banks may seek waiver of penal interest purely as an ad hoc, temporary measure. The liquidity support availed under this facility would, however, need to be reported on a daily basis.

RBI/2010-11/384 A.P. (DIR Series) Circular No. 40 **January 25, 2011**
A.P. (FL Series) Circular No. 10

Subject: Participation by Full Fledged Money Changers (FFMCs) and Authorised Dealers Category-II (ADs Category-II) in the Currency Futures and the Exchange traded Currency Options markets

Attention of all the Authorized Persons, who are Full Fledged Money Changers (FFMCs) and Authorised Dealers Category-II (ADs Category-II) is invited to the A.P.(DIR Series) Circular No. 5 dated August 6, 2008 and A.P.(DIR Series) Circular No. 5 dated July 30, 2010 enumerating the guidelines on trading of currency options contracts on recognized stock / new Exchanges.

2. It has now been decided that the FFMCs and the ADs Category-II [which are not Regional Rural Banks (RRBs), Local Area Banks (LABs), Urban Co-operative Banks (UCBs) and Non-Banking Financial Companies (NBFCs)], having a minimum net worth of Rs. 5 crore, may participate in the designated currency futures and currency options on exchanges recognized by the Securities and Exchange Board of India (SEBI) as clients only for the purpose of hedging their underlying foreign exchange exposures.
3. FFMCs and the ADs Category–II which are RRBs, LABs, UCBs and NBFCs, may be guided by the instructions issued by the respective regulatory Departments of the Reserve Bank in this regard.

4. Authorised Persons may bring the contents of this circular to the notice of their constituents concerned.

5. The directions contained in this circular have been issued under Section 10(4) and Section 11(1) of the Foreign Exchange Management Act, 1999 (42 of 1999), and non-compliance with the guidelines would attract penal provisions of Section 11(3) of the Act ibid.

RBI/2010-11/385 DBOD.FID.FIC.No.10 /01.02.00/2010-11 **January 25, 2011**

Subject: Prudential Guidelines on Restructuring of Advances by select All-India Financial Institutions (AIFIs): Credit Support to MFIs

In continuation of our letter DBOD.No.FID.FIC.6 /01.02.00/2010-11 dated October 14, 2010 on the captioned subject, please find enclosed DBOD.BP.BC.No. 74 /21.04.132/2010-11 dated January 19, 2011 on `Credit Support to Micro Finance Institutions (MFIs) ' issued to scheduled commercial banks. In this connection, it is advised that these guidelines, shall apply mutatis mutandis to the select All-India Financial Institutions (AIFIs)

2. However, certain activities are generally not undertaken by FIs, such as extending working capital, overdrafts and personal loans, etc. The provision of the circular relating to such activities shall not be applicable to the AIFIs.

January 25, 2011

Subject: Third Quarter Review of Monetary Policy 2010-11

Introduction

1.There have been significant changes in the macroeconomic environment since the Second Quarter Review issued on November 2, 2010. Globally, the recovery in the advanced economies appears to be consolidating and expectations of growth during 2011, particularly in the US, are generally being revised upwards. However, inflationary tendencies are clearly visible. Though still subdued in the advanced economies, inflationary pressures in emerging market economies (EMEs), which were already strong, have intensified due to sharp increases in food, energy and commodity prices.

2. The Indian economy has reverted to its pre-crisis growth trajectory, with growth in the first half of 2010-11 estimated at 8.9 per cent. Recent data on agricultural output and service sector indicators suggest that the growth momentum continued in the third quarter. The robustness of growth is also reflected in corporate sales, tax revenues and bank credit, notwithstanding some moderation in the index of industrial production (IIP).

3. Inflation is clearly the dominant concern. Even as the rate itself remains uncomfortably high, the reversal in the direction of inflation is striking. After some moderation between August and November 2010, inflation rose again in December 2010 on the back of sharp increase in the prices of primary food articles and the recent spurt in global oil prices. Non-food manufacturing inflation has remained sticky, reflecting both buoyant demand conditions and rising costs.

4. Against this backdrop, this statement sets out the Reserve Bank's assessment of the current macroeconomic situation and forward projections. It is organised in four sections. Section I provides an overview of global and domestic macroeconomic developments. Section II sets out the outlook and projections for growth, inflation and monetary aggregates. Section III explains the stance of monetary policy. Section IV specifies the policy measures. This statement should be read and understood together with the detailed review in Macroeconomic and Monetary Developments released yesterday by the Reserve Bank.

I. The State of the Economy

The Global Economy

5. Global growth prospects have improved in recent weeks. The recovery in major advanced economies, which had weakened during Q2 of 2010, regained strength in Q3 of 2010. Real GDP growth in the US, which had moderated from 3.7 per cent in Q1 of 2010 to 1.7 per cent in Q2 of 2010, improved to 2.6 per cent in Q3. Corporate capital spending and retail sales in the US have improved. While uncertainty persists in the Euro area and Japan, the baseline outlook for both is improving. Growth in EMEs has remained strong, supported largely by domestic demand.

6. In advanced economies, the earlier fears of deflation have given way to early signs of inflation. In EMEs, inflation has accentuated significantly in the recent period. Rapidly rising food prices in several economies such as China, India, Indonesia, Brazil and Russia are a major contributory factor. According to the Food and Agriculture Organisation (FAO), international food prices rose by 25 per cent in December 2010 in comparison with the level at the end of 2009. The increase in global food prices has been led by prices of edible oils (55 per cent), cereals (39 per cent) and sugar (19 per cent). Significantly, the FAO expects food prices to further harden during 2011, intensifying global inflationary pressures.

7. These pressures are likely to be reinforced by trends in energy and commodity prices. The crude oil (Brent) price perked from US$ 85 per barrel on November 2, 2010 to US$ 97 per barrel on January 21, 2011. The price of crude (ICE Brent) in the futures market is ruling at US$ 98 per barrel for March 2011 delivery. Many other commodities have seen similar movements. As growth prospects in the US improve, the consequent increase in global demand for energy and commodities will exert further pressure on prices. Already, the 10-year benchmark US government securities yield increased from

2.4 per cent in early October 2010 to 3.4 per cent in mid-January 2011, indicating, among other things, rising inflationary expectations.

The Domestic Economy

8. Real GDP in India increased by 8.9 per cent during the first half of 2010-11, reflecting strong domestic demand, especially private consumption and investment, and improving external demand. Although on a cumulative basis, the IIP grew by 9.5 per cent during April-November 2010, it has been volatile in the current financial year with growth rates ranging between 2.7 per cent and 16.6 per cent. Overall, robust corporate sales, large indirect tax collections, advance tax payments and leading indicators of service sector activity suggest persistence of the growth momentum.

9. On the other hand, the latest quarterly Industrial Outlook Survey conducted by the Reserve Bank during October-December 2010 indicates a marginal moderation in overall business expectations during January-March 2011 from their high level in the previous quarter. The Reserve Bank's order book, inventories and capacity utilisation survey for July-September 2010 showed a marginal improvement in capacity utilisation in Q2 of 2010-11, while the HSBC Purchasing Managers' Index (PMI) showed some moderation in the pace of manufacturing sector expansion in December 2010.

10. Headline inflation, based on year-on-year changes in the wholesale price index (WPI), moderated to a single digit in August 2010 and softened further to 7.5 per cent in November 2010, the lowest level attained during 2010. However, inflation reversed course to rise to 8.4 per cent in December 2010, driven primarily by food and fuel inflation.

11. Year-on-year primary food articles inflation spiked to 13.5 per cent in December from 9.4 per cent in November due to severe supply constraints in respect of some food items. In particular, vegetable prices increased by 22.9 per cent in December 2010 over the previous month's level. Month-on-month price increases were very high for some vegetables such as brinjals (65 per cent), onions (35 per cent), garlic (26 per cent), cabbage (22 per cent), tomatoes (19 per cent) and potatoes (16 per cent).

12. Year-on-year fuel inflation, which had moderated from 14.4 per cent in May 2010 to 10.3 per cent in November 2010, rose again to 11.2 per cent in December 2010 due to a rise in non-administered domestic fuel prices, reflecting the sharp increase in international prices. In the first fortnight of January 2011, oil marketing companies further raised the prices of petroleum products (petrol and aviation turbine fuel) which will further add to fuel inflation. The year-on-year WPI non-food manufactured products (weight: 55 per cent) inflation, which moderated from 5.9 per cent in April 2010 to 5.1 per cent in September 2010, increased to 5.4 per cent in November, though it softened marginally to 5.3 per cent in December. Significantly, non-food manufactured products inflation continues to remain above its medium-term trend of 4.0 per cent. Moreover, in recent months, the underlying inflation momentum in this segment has been positive.

13. Between November and December 2010, as WPI inflation moved up from 7.5 per cent (year-on-year) to 8.4 per cent, the wholesale price index increased by 1.3 per cent. Of this increase in index, 82 per cent was contributed by primary articles and fuel groups and 18 per cent by the manufactured products group. At a disaggregated level, vegetables alone contributed as much as 40 per cent to the increase in the index in December, followed by mineral oil (13 per cent), condiment and spices (8 per cent) and minerals (7 per cent).

14. Money supply (M3) growth moderated during the year, reflecting slower deposit growth and faster currency expansion which reduced the money multiplier. Several banks raised their deposit rates after the Second Quarter Review of 2010-11 which contributed to a larger deposit mobilisation in December. Consequently, M3 growth increased to 16.5 per cent by end-December 2010, close to the indicative projection of 17 per cent for 2010-11.

15. However, year-on-year nonfood credit growth has been above the Reserve Bank's indicative projection of 20 per cent since early October 2010, rising to 24 per cent by end-December 2010. The wide gap between credit growth and deposit growth resulted in a sharp increase in the incremental non-food credit-deposit ratio to 102 per cent by end-December 2010, up from 58 per cent in the corresponding period of previous year.

16. Disaggregated data suggest that credit growth, which was earlier driven by the infrastructure sector, is becoming increasingly broad-based across sectors and industries, evidencing growth momentum and demand pressures. Credit flow to the services sector increased significantly for transport operators, tourism, hotel and restaurant and commercial real estate, besides retail housing and personal loans. As regards industry, apart from infrastructure, increase in credit was significant for metals, engineering, textiles, food processing and chemical and chemical products.

17. Rough estimates showed that the total flow of financial resources from banks and non-banks to the commercial sector during April-December 2010 was `9,01,000 crore, up from `6,36,000 crore during the corresponding period of last year. While bank credit to the commercial sector surged, the flow of funds from other sources was lower than last year's level mainly on account of lower net inflows from foreign direct investment (FDI).

18. As part of the calibrated exit from the crisis driven expansionary monetary stance, the Reserve Bank increased the repo rate by 150 basis points (bps) and the reverse repo rate by 200 bps during March–November 2010. In addition, the cash reserve ratio (CRR) was raised by 100 bps. In response to these monetary policy measures, scheduled commercial banks (SCBs) raised their deposit rates in the range of 25-250 bps during March 2010 -January 2011 across various maturities, indicating strong monetary policy transmission.

19. The Base Rate system replaced the Benchmark Prime Lending Rate system with effect from July 1, 2010. Several banks reviewed and increased their Base Rates by 25-100 bps between July 2010 and January 2011. Base Rates of 67 banks with a share of 98 per cent in the total bank credit were in the range of 7.5-9.0 per cent in December 2010.

20. Tight liquidity conditions persisted throughout the third quarter of 2010-11. The average daily net injection of liquidity through the liquidity adjustment facility (LAF) increased from around `62,000 crore in October to around `99,000 crore in November and further to around `1,20,000 crore in December, with the peak injection of around `1,71,000 crore on December 22, 2010. While the overall liquidity in the system has remained in deficit consistent with the policy stance, the extent of tightness after the Second Quarter Review of 2010-11 was outside the comfort zone of the Reserve Bank, i.e., (+)/(-) one per cent of net demand and time liabilities (NDTL) of banks. Above-normal government cash balances, which rose from an average of `73,000 crore in October to `1,53,000 crore by the second half of December 2010, contributed to the frictional component of liquidity deficit. However, the widening difference between credit and deposit growth rates coupled with high currency growth accentuated the structural liquidity deficit.

21. The Reserve Bank instituted a number of measures to mitigate the liquidity deficit. First, the statutory liquidity ratio (SLR) of SCBs was reduced from 25 per cent of their NDTL to 24 per cent with effect from December 18, 2010. Second, it conducted open market operation (OMO) purchase of government securities of the order of over `67,000 crore. Third, additional liquidity support to SCBs was provided under the LAF. This facility, which was initially available up to 2 per cent of their NDTL, was brought down to one per cent of NDTL after reduction in the SLR by one percentage point. Fourth, a second LAF window was introduced.

22. Government spending resulted in a reduction of its cash balances during January 2011 (up to January 21, 2011). As a result, the average daily net liquidity injection through the LAF declined from around `1,20,000 crore during December 2010 to around `90,000 crore in January 2011 (up to January 21, 2011).

23. Reflecting the improvement in the tight liquidity conditions, the average daily call rate moderated from 6.7 per cent during December 2010 to 6.5 per cent in January 2011 (up to January 21, 2011). At the longer end, 10-year government security (G-Sec) yield, which had generally remained above 8 per cent during most of October-November 2010 on account of inflationary pressures and persistent liquidity tightness, also softened in the second half of December 2010. However, the yield on 10-year G-sec moved up again to 8.2 per cent by January 21, 2011, reflecting both liquidity conditions and inflationary expectations.

24. Over 95 per cent of the Central Government's budgeted borrowing programme (net) was completed by January 24, 2011. During the first eight months of 2010-11, the fiscal deficit of the Central Government was less than 50 per cent of the budget estimates. The one-off revenue generated from spectrum auctions, estimated to be around 1.5 per cent of GDP for the year, has been a major contributor to the current improvement on the revenue side.

25. During 2010-11 (up to December 2010), the real exchange rate of the rupee showed a mixed trend. It appreciated by 3.7 per cent on the basis of the trade based 6-currency real effective exchange rate (REER), reflecting both nominal appreciation of the rupee against the US dollar and the higher inflation differential with major advanced countries. However, against broader baskets of 36-currency and 30-currency REER, the rupee depreciated over its March 2010 levels by 0.6 per cent and 2.5 per cent, respectively.

26. On a balance of payments (BoP) basis, the trade deficit widened to US$ 35.4 billion in Q2 of 2010-11 from US$ 31.6 billion in Q1. Coupled with stagnation in invisibles receipts, this led to a widening of the current account deficit (CAD) from US$ 12.1 billion in Q1 of 2010-11 to US$ 15.8 billion in Q2 of 2010-11. In the first half of 2010-11, the CAD expanded to 3.7 per cent of GDP from 2.2 per cent in the corresponding period of last year. Subsequent trade data indicate faster growth in exports vis-a-vis imports which may help improve the CAD in Q3 of 2010-11. However, the sharp increase in global commodity prices, particularly oil, could have an adverse impact on our trade balance going forward. For the year as a whole, India's CAD is expected to be close to 3.5 per cent of GDP.

II. Outlook and Projections

Global Outlook

Growth

27. With advanced economies showing firmer signs of sustainable recovery, global growth in 2010 is expected to have been less imbalanced than before. While growth in advanced economies may improve, growth in EMEs, which have been the main engine of global economic growth in the recent period, may moderate due to tightening of monetary policy to address rising inflationary concerns and the waning impact of the fiscal stimulus measures taken in the wake of the global financial crisis.

Inflation

28. Even as a large slack persists, inflation has edged up in major advanced economies owing mainly to increase in food and energy prices. Inflation in the Euro area exceeded the European Central Bank's (ECB) medium-term target for the first time in more than two years in December 2010. Similarly in the UK, the headline inflation has persisted above the target of the Bank of England. In the US, the headline CPI rose to 1.5 per cent in December 2010 from 1.1 per cent in November 2010. Whereas signs of inflation in the advanced countries are only incipient, many EMEs have been facing strong inflationary pressures, reflecting higher international commodity prices and rising domestic demand pressures.

29. Significantly, food, energy and commodity prices are widely expected to harden during 2011, driven by a combination of supply constraints and rising global demand, as the advanced economies consolidate their recovery. This suggests that inflation could be a global concern in 2011.

Domestic Outlook

Growth

30. On the domestic front, the 8.9 per cent GDP growth in the first half of 2010-11 suggests that the economy is operating close to its trend growth rate, powered mainly by domestic factors. The kharif harvest has been good and rabi prospects look promising. Good agricultural growth has boosted rural demand. Export performance in recent months has been encouraging.

31. With the risks to growth in 2010-11 being mainly on the upside, the baseline projection of real GDP growth is retained at 8.5 per cent as set out in t he Second Quarter Review of Monetary Policy of July 2010 but with an upside bias (Chart 1).

Inflation

32. The moderation in headline inflation observed between August and November 2010 was along the projected trajectory of the Reserve Bank. This trend, however, reversed in December 2010 due mainly to sharp increase in the prices of vegetables, mineral oils and minerals.

33. While the current spike in food prices is expected to be transitory, structural demand-supply mismatches in several non-cereal food items such as pulses, oilseeds, eggs, fish and meat and milk are likely to keep food inflation high. Non-food manufacturing inflation also remains significantly above its medium-term trend of 4 per cent. The Reserve Bank's quarterly inflation expectations survey, conducted during the first fortnight of December 2010, indicates that expectations of households remain elevated.

34. Going forward, the inflation outlook will be shaped by the following factors. First, it will depend on how the food price situation – both domestic and global – evolves. Domestic food price inflation has witnessed high volatility since mid-2009 due to both structural and transitory factors. A significant part of the recent increase in food price inflation is due to structural constraints. This is reflected in the less than expected moderation in food price inflation even in a normal monsoon year. There has also been a sharp increase in the prices of some food items due to transitory supply shocks. What is more worrying is the substantial increase in pr ice s of sever a l food items even though their production has not been affected. As a result, the usual moderation in vegetable prices in the winter season has not materialised.

35. Notably, high food price inflation is not unique to India. Food prices have spiked in many countries in the recent period. India is a large importer of certain food items such as edible oils, and the domestic food price situation could be exacerbated by the increase in global food prices. This, therefore, poses an additional risk to domestic food price inflation.

36. The second factor that will shape the inflation outlook is how global commodity prices behave. Prices of some commodities rose sharply in the recent period even as the global recovery was fragile. Should these trends continue, they will impact inflation, domestically and globally.

37. The third factor is the extent to which demand side pressures may manifest. This risk arises from three sources, viz., the spill-over of rising food inflation; rising input costs, particularly industrial raw materials and oil; and pressure on wages, both in the formal and informal sectors. The rise in food inflation has not only persisted for more than two years now, the increase has been rather sharp in the recent period. This cannot but have some spill-over effects on generalised inflation, particularly when the growth momentum is strong and both workers and producers are likely to have pricing power. There are indications that, in the corporate sector, the share of wages in total costs is increasing. The indexation of the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) wages will also raise the wage rate in the agricultural sector. Further, besides oil, the prices of some primary non-food articles have risen sharply in the recent period. Since these are inputs into manufactured products, the risk to headline inflation is not only from the increase in non-food items but also because the increase in input costs will ultimately impact output prices. As the output gap closes, corporates will also be able to sustain higher output prices. In the absence of commensurate increase in capacity, there is the risk of demand side pressures accentuating.

38. In the Second Quarter Review of November 2010, the Reserve Bank set out the baseline projection of WPI inflation for March 2011 at 5.5 per cent, based on the new WPI series (2004-05=100). The Mid-Quarter Review of December 2010 indicated that the risks to inflation going forward were largely on the upside. Some of these risks have materialised as reflected in the increase in the prices of metals and non-administered fuel. There have also been some transitory supply shocks as reflected in the sharp increase in vegetable prices. In addition, petroleum and aviation turbine fuel prices were raised in early January which will add 9 bps to WPI inflation.

While the impact of transitory factors is expected to wane, the price pressures on account of demand-supply imbalances in respect of some commodities will persist. Considering the increase that has already occurred and the emerging domestic and external scenario, the baseline projection of WPI inflation for March 2011 is revised upwards to 7.0 per cent from 5.5 per cent (Chart 2).

Monetary Aggregates

39. While the year-on-year money supply (M3) growth at 16.5 per cent in December 2010 was close to the indicative projection of 17 per cent, non-food credit growth at 24.4 per cent was much above the indicative projection of 20 per cent. Credit expansion in the recent period has been rather sharp, far outpacing the expansion in deposits. Rapid credit growth without a commensurate increase in deposits is not sustainable.

40. As a result of injection of primary liquidity of over `67,000 crore through OMO auctions since early November 2010, the structural liquidity deficit in the system has declined significantly. While the Reserve Bank will endeavour to provide liquidity to meet the productive credit requirements of a growing economy, it is important that credit growth moderates to conform broadly to the indicative projections. This will prevent any further build-up of demand side pressures. Accordingly, the projection for 2010-11 of M3 growth has been retained at 17 per cent and that for non-food credit growth at 20 per cent. As always, these numbers are indicative projections and not targets.

Risk Factors

41. The growth and inflation projections as outlined above are subject to several risks.

i) Food inflation has remained at an elevated level for more than two years now. It is not only that the moderation in food price inflation as expected during a normal monsoon year has not occurred to the extent expected, but also that there has been sharp unusual increase in prices. It is also significant that food inflation is not confined to a few items which were affected by unseasonal rains in some parts of the country but is fairly widespread across several food items. The inflation rates for primary articles and fuel items have risen sharply. Inflationary expectations remain at elevated levels. As high food inflation persists, the prospect of it spilling over to the general inflation process is rapidly becoming a reality.

ii) Non-food manufacturing inflation is persistent and has remained sticky in recent months as several industries are operating close to their capacity levels. Imports as a means to supplement domestic availability for many commodities will become less of an option as global growth consolidates and capacity utilisation increases. This may accentuate demand side pressures.

iii) India's CAD has widened significantly. Although recent trade data suggest moderation of the trade deficit in the latter part of the year, overall CAD for 2010-11 is expected to be about 3.5 per cent of GDP. A CAD of this magnitude is not sustainable. Further, commodity prices, which rose sharply even when the global recovery was sluggish, may rise further if the global recovery is faster than expected. This has implications for both the CAD and inflation. There is, therefore, a need for concerted policy efforts to diversify exports and contain the CAD within prudent limits.

iv) Apart from the level of CAD, financing of CAD also poses a risk. Global growth prospects have improved significantly in the recent period. Should global recovery be faster than expected, it may also have implication for the financing of CAD. Capital flows, which so far have been broadly sufficient to finance the CAD, may be adversely affected. Faster than expected global re cover y may enhance the attractiveness of investment opportunities in advanced economies, which may impact capital flows to India. This may increase the vulnerability of our external sector. Hence, the composition of capital inflows needs to shift towards longer-term commitments such as FDI.

v) The recent improvement in the fiscal situation has been mainly the result of one-off revenue generated from spectrum auctions. The Government also had the benefit of disinvestment proceeds, which may continue to occur for some more time. However, fiscal consolidation based on one-off receipts is not sustainable. As emphasised in the Second Quarter Review of November 2010, fiscal consolidation is important for several reasons, including the fact that monetary policy works most efficiently while dealing with an inflationary situation when the fiscal situation is under control. Apart from this, the commodity price developments that have been referred to earlier pose significant risks for fiscal consolidation in the year ahead. Rising oil prices will impact prices of both petroleum products and fertilisers. If the Government chooses to restrict the pass-through to consumers and farmers, it will have to make adequate budgetary provisions, which will constrain its ability to reduce the fiscal deficit. If it does not, either fiscal credibility will be undermined or inflationary expectations will be reinforced by the likelihood of higher prices of these key inputs, both of which will further complicate inflation management.

vi) The combined risks from inflation, the CAD and fiscal situation contribute to an increase in uncertainty about economic stability that consumers and investors will have to deal with. To the extent that this deters consumption and investment decisions, growth may be impacted. While slower growth may contribute to some dampening of inflation and a narrowing of the CAD, it can also have significant impact on capital inflows, asset prices and fiscal consolidation, thereby aggravating some of the risks that have already been identified.

III. The Policy Stance

42. The Reserve Bank began exiting from the crisis driven expansionary monetary policy as early as in October 2009. Since then, it has cumulatively raised the CRR by 100 bps, and the repo and reverse repo rates under the LAF by 150 and 200 bps, respectively. As the overall liquidity in the system has transited from a surplus to a deficit mode, the effective tightening in the policy rate has been of 300 bps. The monetary policy response was calibrated on the basis of India specific growth-inflation dynamics in the broader context of global uncertainty.

43. While the Reserve Bank decided to leave the policy rates unchanged in the Mid-Quarter Review of December 2010, developments on the inflation front since then have reinforced the already elevated concern in this regard. Accordingly, our monetary policy stance for the remaining period of 2010-11 has been guided by the following considerations:

First, since the Second Quarter Review of November 2010, inflationary pressures, which were abating until then, have re-emerged significantly. Primary food articles inflation has risen again sharply after moderating for a brief period. Non-food articles and fuel inflation are already at elevated levels. Importantly, non-food manufacturing inflation has remained sticky. There are, therefore, signs of rapid food and fuel price increases spilling over into generalised inflation. As it is, there is some evidence of rising demand side pressures which are reflected in rapid bank credit growth, robust corporate sales and rising input and output prices, and buoyancy in tax revenues. The need, therefore, is to persist with measures to contain inflation and anchor inflationary expectations.

Second, global commodity prices have risen sharply which has heightened upside risks to domestic inflation.

Third, growth has moved close to its pre-crisis growth trajectory as reflected in the 8.9 per cent GDP growth in the first half of 2010-11, even in the face of an uncertain global recovery.

Fourth, the global economic situation has improved in the recent period. The uncertainty with regard to global recovery, which was prevailing at the time of the Second Quarter Review, has reduced with the US economy showing signs of stabilising. Although uncertainty continues in the Euro area, there is an overall improvement in the global growth prospects.

44. To sum up, the current growth-inflation dynamics in the last few weeks suggest that the balance of risk has tilted towards intensification of inflation. In this scenario, the stance of the monetary policy is intended to :

Contain the spill-over of high food and fuel inflation into generalised inflation and anchor inflationary expectations, while being prepared to respond to any further build-up of inflationary pressures.

Maintain an interest rate regime consistent with price, output and financial stability.

Manage liquidity to ensure that it remains broadly in balance, with neither a surplus diluting monetary transmission nor a deficit choking off fund flows.

45. It is important to emphasise that the role of monetary policy in the current inflationary situation is confined to containment and prevention of food and energy prices from spilling over into generalised inflation and anchoring inflation expectations. While energy prices are driven by global developments, the food price scenario is primarily a reflection of persistent structural constraints in the domestic agricultural sector. While these have been known and debated upon for a long time, the recent price dynamics highlight the need for rapid action to increase the output of a number of products, the demand for which is being driven by changing consumption patterns reflecting increasing incomes. Unless meaningful output enhancing measures are taken, the risks of food inflation becoming entrenched loom large and threaten both the sustainability of the current growth momentum and the realisation of its benefits by a large number of households.

46. Another challenge to effective management of inflation by monetary policy arises from the persistence of a large fiscal deficit. While the Government may succeed in raising receipts, both from high tax buoyancy and one-off sources, the real measure of fiscal consolidation lies in improving the quality of expenditure. If the Government is able to commit more resources to capital expenditure, it will help deal with some of the bottlenecks that contribute to supply-side inflationary pressures. With reference to revenue expenditure, while large and diffused subsidies may contribute in the short term to keeping supply-side inflationary pressures in check, they may more than offset this benefit by adding to aggregate demand.

IV. Policy Measures

Monetary Measures

47. On the basis of the current assessment and in line with the policy stance as outlined in Section III, the following monetary policy measures are announced.

Bank Rate

48. The Bank Rate has been retained at 6.0 per cent.

Repo Rate

49. It has been decided to:
increase the repo rate under the liquidity adjustment facility (LAF) by 25 basis points from 6.25 per cent to 6.5 per cent with immediate effect.
Reverse Repo Rate

50. It has been decided to :
increase the reverse repo rate under the LAF by 25 basis points from 5.25 per cent to 5.50 per cent with immediate effect.

Cash Reserve Ratio

51. The cash reserve ratio (CRR) of scheduled banks has been retained at 6.0 per cent of their net demand and time liabilities (NDTL).

Liquidity Management Measures

52. On the basis of an assessment of the current liquidity situation, it has been decided to extend the following liquidity management measures:

i) The additional liquidity support to scheduled commercial banks under the LAF to the extent of up to one per cent of their net demand and time liabilities (NDTL), currently set to expire on January 28, 2011, is now extended up to April 8, 2011. For any shortfall in maintenance of the SLR arising out of availment of this facility, banks may seek waiver of penal interest purely as an ad hoc measure.

ii) The second LAF (SLAF) will be conducted on a daily basis up to April 8, 2011.

53. The Reserve Bank will constantly monitor the credit growth and, if necessary, will engage with banks which show an abnormal incremental credit-deposit ratio.

Expected Outcomes

54. These actions are expected to:

(i) Contain the spill-over from rise in food and fuel prices to generalised inflation.

(ii) Rein in rising inflationary expectations, which may be aggravated by the structural and transitory nature of food price increases.

(iii) Be moderate enough not to disrupt growth.

(iv) Continue to provide comfort to banks in their liquidity management operations.

Guidance

55. Current growth and inflation trends warrant persistence with the anti-inflationary monetary stance. Looking beyond 2010-11, the Reserve Bank expects domestic growth momentum to stabilise, though the GDP growth rate may decline somewhat as agriculture reverts to its trend (assuming a normal monsoon). Inflation is likely to resume its moderating trend in the first quarter of 2011-12, but several upside risks are already visible in the global environment and more may surface domestically. The monetary stance will be determined by how these factors impact the overall inflationary scenario. For the fiscal consolidation process to be credible and effective, it is important that apart from augmenting revenue, the composition and quality of expenditure improves. Any slippage in the fiscal consolidation process at this stage may render the process of inflation management even harder.
56. The frictional liquidity shortage is expected to ease as government balances adjust to the expenditure schedule. However, banks need to focus on the underlying structural cause of liquidity tightness arising out of the gap between the credit and deposit growth rates.

Mid-Quarter Review of Monetary Policy

57. The next mid-quarter review of Monetary Policy for 2010-11 will be announced through a press release on March 17, 2011.

Monetary Policy 2011-12

58. The Monetary Policy for 2011-12 will be announced on Tuesday, May 3, 2011.

All these circulars can be viewed on the website: www.rbi.org.in

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Central Board of Excise & Customs (Customs)

Circular No.8 / 2011-Customs **28th January, 2011**

Subject: Procedure regarding Transfer / Transshipment of cargo – regarding.

1) Attention is invited to Board Circular No.6/2007-Customs dated 22.01.2007 which outlines comprehensive procedures and guidelines for transhipment of cargo from one Custom station to other Custom stations.
2) Representations have been received from trade that procedures regarding international transhipment of cargo arriving from a foreign destination and proceeding to a foreign destination via an airport in India from one flight to another needs to be simplified in order to ensure an efficient Cargo Transfer Facility and to reduce dwell time.
3) The matter has been examined in the Board. In order to redress the issue and to simplify the procedure, it has been decided that in case of international transhipped cargo (Foreign to Foreign), for the pre-sorted containers wherein Cargo does not require segregation, ramp to ramp or tail to tail transfer of cargo can be effected, provided the same is carried out under preventive supervision on payment of MOT and Observance of Cargo Transfer Manifest (CTM) procedure. In these cases, transhipment Cargo meant for destination abroad need not be sent to Cargo warehouses. In the case of containers other than pre – sorted containers, the existing procedure for transhipment of Cargo (Foreign to Foreign) would continue to apply.
4) Para 3.3 of the Circular No.6/2007-Customs dated 22.01.2007 stands modified to the above extent.

5) These instructions may be brought to the notice of all concerned by way of issuance of suitable Public Notice / Standing Order.
6) Difficulties, if any, in implementation of these instructions may be brought to the notice of the Board, immediately.

This circular can be viewed on the website: www.cbec.gov.in

Central Board of Excise & Customs (Central Excise)

Circular No. 941/02/2011-CX **14th February, 2011**

Subject: - Clarification regarding excisability of Bagasse prior to the budget of 2008–reg

1) Attention is invited to Board's circular No. 904/24/09-CX dated 28.10.2009 wherein the field formations were directed to keep the cases of the excisability of bagasse for the period prior to the budgetary changes of 2008 in call book till department's appeal is decided in the case of Balrampur Chinni Mills Ltd.
2) The Civil Appeal filed by the department in the case of M/s Balrampur Chinni Mills Ltd. has been dismissed by the Hon'ble Supreme Court on 21.7.2010. Accordingly the cases pending for the period prior to budgetary changes of 2008 in respect of excisability of Bagasse may be taken out from the Call Book and decided in the light of the law decided by the Apex Court.
3) It is, however, clarified that the aforesaid decision of the Apex Court will not have any bearing on the clarification given in the aforesaid circular of 2009 in respect of the period after the budgetary changes of 2008 when the definition of the "excisable goods" was amended in the Central Excise Act.
4) Trade and Industry may be informed.

This circular can be viewed on the website: www.cbec.gov.in

Ministry of Corporate Affairs

General Circular No: 2 /2011
No: 51/12/2007-CL-III

Dated: 8th February, 2011

Subject: Direction under Section 212(8) of the Companies Act, 1956.

It has been noticed that a large number of companies are approaching the Ministry for exemption under Section 212(8) of the Companies Act, 1956. The matter was examined in the context of the globalizing Indian economy, the increased number of subsidiaries, and the introduction of accounting standards on consolidated financial statements. It has been decided to
grant a general exemption provided certain conditions are fulfilled.
The Central Government hereby directs that provisions of Section 212 shall not apply in relation to subsidiaries of those companies which fulfil the following conditions:-
(i) The Board of Directors of the Company has by resolution given consent for not attaching

the balance sheet of the subsidiary concerned;
(ii) The company shall present in the annual report, the consolidated financial statements of holding company and all subsidiaries duly audited by its statutory auditors;
(iii) The consolidated financial statement shall be prepared in strict compliance with applicable Accounting Standards and, where applicable, Listing Agreement as prescribed by the Security and Exchange Board of India;
(iv) The company shall disclose in the consolidated balance sheet the following information in aggregate for each subsidiary including subsidiaries of subsidiaries:- (a) capital (b) reserves (c) total assets (d) total liabilities (e) details of investment (except in case of investment in the subsidiaries) (f) turnover (g) profit before taxation (h) provision for taxation (i) profit after taxation (j) proposed dividend;
(v) The holding company shall undertake in its annual report that annual accounts of the subsidiary companies and the related detailed information shall be made available to shareholders of the holding and subsidiary companies seeking such information at any point of time. The annual accounts of the subsidiary companies shall also be kept for inspection by any shareholders in the head office of the holding company and of the subsidiary companies concerned and a note to the above effect will be included in the annual report of the holding company. The holding company shall furnish a hard copy of details of accounts of subsidiaries to any shareholder on demand;
(vi) The holding as well as subsidiary companies in question shall regularly file such data to the various regulatory and Government authorities as may be required by them;
(vii) The company shall give Indian rupee equivalent of the figures given in foreign currency appearing in the accounts of the subsidiary companies along with exchange rate as on closing day of the financial year;

This circular can be viewed on the website: www.mca.gov.in

General Circular No. 1/2011
F. No. 2/7/2010-CL V

Dated: 3 rd Feb, 2011

Subject: Easy Exit Scheme , 2011

In continuation to this Ministry's earlier circular no. 6/2010 dated 03.12.2010 on the subject cited above, it has been decided to extend the Scheme for another three months i.e. upto 30 th April, 2011.

2. All the terms of circular no. 6/2010 dated 03.12.2010 will remain the same.

Insurance Regulatory and Development Authority

Ref: IRDA/F&I/CIR/F&A/015/02/2011 **Date: 02-02-2011**

Subject: Creation of Reserve for Unexpired Risk (URR) by the Non-life Insurance Companies for Health Segment

Authority vide Circular No. IRDA/F&A/CIR/49/Mar-09 dated March 24, 2009 had relaxed the requirement of Section 64(1)(ii)(b) of the Act for computation of Reserve for Unexpired Risk for Health segment for the year 2008-09 and had permitted to compute Reserve for Unexpired Risk on 1/365 days method basis. The said relaxation was extended to the financial year 2009-10 vide Circular No. IRDA/F&I/CIR/F&A/081/12/2009 dated 17th December, 2009.

The Authority has examined the representations from non-life insurers for extension of the above said relaxation for a further period of 3 years. Taking into account the unique nature of the health segment and in order to promote the health insurance, Authority hereby extends the said relaxation to the non life insurers with respect to the health segment for a further period of three financial years starting from 2010-11 provided that the following conditions are complied with:-

a) Insurer must comply with the item 2, 3 & 4 of the Circular No. IRDA/F&A/CIR/49/Mar-09 dated March 24,2009.

b) Insurer must ensure to make adequate provision for incurred claims, outstanding claims and IBNR/IBNER in the books of accounts for the respective year itself.

c)The operating profit, net of tax, generated on account of the difference between the reserve created on the basis of 1/365 method and URR as would have been created based on Section 64V(1)(ii)(b) of the Act shall be transferred to a “Contingency Reserve for Unexpired Risks” as stated in Para 3 of Circular No.IRDA/F&A/CIR/49/Mar-09 dated March 24, 2009. Such reserve may be transferred to General Reserve in the succeeding financial year provided that

i) It will be shown separately as an addition to the General Reserve;
ii) A disclosure to this effect will be made in the notes to the accounts.

d)In the Notes to the Accounts, the following disclosures shall be made:-
“The Company has created the Reserve for Unexpired Risk as at the end of the Accounting period based on the 1/365 method in the health segment as per IRDA Circular No.IRDA/F&I/CIR/015/02/2011 dated February 02, 2011. The difference between the reserve on the basis of 1/365 method and URR as would have been created based on Section 64V(1)(ii)(b) of the Act has been transferred to “Contingency Reserve for Unexpired Risks” and the same will be transferred to the General Reserve in the succeeding year.

e)The relaxation given above will be applicable for the financial years 2010-11, 2011-12 and 2012-13 only.

This circular can be viewed on the website: www.irda.gov.in
