

RBI Circulars from January-March 2011

1) RBI's Circular No.UBD. CO. BPD. No. 35/12.05.001/2010-11 dated January 10, 2011 on Opening of bank accounts - salaried employees

It has been brought to our notice that for opening bank accounts of salaried employees some banks rely on a certificate / letter issued by the employer as the only KYC document for the purposes of certification of identity as well as address proof. Such a practice is open to misuse and fraught with risk. **It is, therefore, clarified that with a view to containing the risk of fraud, banks need to rely on such certification only from corporates and other entities of repute and should be aware of the competent authority designated by the concerned employer to issue such certificate / letter. Further, in addition to the certificate from employer, banks should insist on at least one of the officially valid documents as provided in the Prevention of Money Laundering Rules (viz. passport, driving licence, PAN Card, Voter's Identity card etc.) or utility bills for KYC purposes for opening bank account of salaried employees of corporates and other entities.**

Any contravention thereof or non-compliance shall attract penalties under the Banking Regulation Act, 1949 (AACS).

2) RBI's Circular No. UBD.BPD.(PCB) Cir. No 5/13.05.000/2010-11 dated January 11, 2011 Interest Rates on Rupee Export Credit – UCBs

It has been decided to extend interest subvention of 2% on pre-shipment rupee export credit upto 270 days and post shipment rupee export credit upto 180 days on the specified export sectors / sub-sectors with effect from April 1, 2010 to March 31, 2011.

Specified Sectors / Sub-sectors: (i) Handicrafts (ii) Carpets (iii) Handlooms (iv) Small and Medium Enterprises (SME) (as defined in Annex I) (v) Leather and Leather Manufactures (specified sub-sectors only) (vi) Jute Manufacturing including Floor Covering (specified sub-sectors only) (vii) Engineering Goods (specified sub-sectors only) (viii) Textiles (specified sub-sectors only) Details of specified sub-sectors are furnished in Annex II.

Claims for re-imburement of subvention amount may be submitted to the Chief General Manager-in-Charge, Urban Banks Department, Reserve Bank of India, Central Office, Garment House, Worli, Mumbai - 400 018 on a quarterly basis starting from quarter ended June 30, 2010 in the format as per Annex III. The amount of subvention will be calculated on the amount of export credit from the date of disbursement up to the date of repayment or up to the date beyond which the outstanding export credit becomes overdue i.e. for pre-shipment credit up to 270 days and post-shipment credit up to 180 days, whichever is earlier. The claims should be accompanied by an Auditor's Certificate certifying that the claim for subvention of Rs for the period..... (specify the quarter) is true and correct. Settlement of the claim will be done only on receipt of this certificate.

3) RBI vide its Circular No. UBD. (PCB).Cir. No. 34/09.80.00/2010-11 dated 18th Jan., 2011 on Accounting Procedure for investments –Settlement Date Accounting.

It has been observed that there is no uniformity in the practice adopted by banks while accounting for investments in Government Securities i.e. they are accounted for either on “Trade Date” or the “Settlement Date”. **Hence, with a view to bringing in uniformity, it has been decided that banks should follow “Settlement Date” accounting for recording both outright and ready forward purchase and sale transactions in Government Securities. These instructions will be applicable with immediate effect.**

4) RBI’s Circular No. UCB (PCB) BPD Cir.No. 36 /16.20.000/2010-11 dated February 18, 2011 on Prudential norms on investment in Zero Coupon Bonds

It is observed that banks are investing in long term Zero Coupon Bonds (ZCBs) issued by corporates including those issued by Non-Banking Financial Companies (NBFCs). As the issuers of ZCBs are not required to pay any interest or installments till the maturity of bonds, credit risk in such investments would go unrecognized till the maturity of bonds and this risk could especially be significant in the case of long term ZCBs. Such issuances and investments if done on a large scale could pose systemic problems.

In view of the above, it has been decided that banks should not, henceforth invest in ZCBs unless the issuer builds up a sinking fund for all accrued interest and keeps it invested in liquid investments/securities (Government bonds).

5) RBI’s Circular No.UBD. BPD. (PCB) No. 37 /12.05.001/2010-11 dated February 18, 2011 on Know Your Customer (KYC) norms / Anti-Money Laundering (AML) standards/ Combating of Financing of Terrorism (CFT) / Obligation of banks under PMLA, 2002

Please refer to our circular UBD. PCB. Cir. 30/09.161.00/2004-05 dated December 15, 2004 on Know Your Customer (KYC) norms and Anti-Money Laundering (AML) standards.

In terms of Paragraph 2 (vi) of the guidelines on “Know Your Customer” norms and Anti-Money Laundering measures appended to the above circular, banks are required to apply enhanced due diligence measures on higher risk customers. Some illustrative examples of customers requiring higher due diligence have also been given in the paragraph under reference. It is further advised that in view of the risks involved in cash intensive businesses, accounts of bullion dealers (including sub-dealers) & jewellers should also be categorised by banks as ‘high risk’ requiring enhanced due diligence.

In terms of Paragraph 4 of the Circular cited above, banks are also required to subject these ' high risk accounts ' and the transactions to intensified monitoring. It is advised that high risk associated with such accounts should be taken into account by banks to identify suspicious transactions for filing Suspicious Transaction Reports (STRs) to FIU-IND.

6) RBI's Circular No. UBD. BPD. (PCB) No. 38 /12.05.001/2010-11 on March 15, 2011 on Amendments to the Prevention of Money Laundering Rules, 2005

(Please refer to Notification of Government of India bearing No. 14/2010/F.No. 6/2/2007 –ES dated 16th Dec., 2010 on the above subject).

7) RBI's Circular No. UBD. BPD. (PCB). Cir.No. 39 /09.73.000/2010-11 dated March 15, 2011 on Coins of 25 Paise and Below - Withdrawal from Circulation

The Government of India has decided to withdraw coins of denomination of 25 paise and below from circulation with effect from June 30, 2011. The Reserve Bank of India has instructed the banks maintaining small coin depots to arrange for exchange of coins of denomination of 25 paise and below for their face value at their branches. The coins will be exchanged at the branches of these banks as also the offices of the Reserve Bank till the close of business on June 30, 2011. Coins of denomination of 25 paise and below will not be accepted for exchange at the bank branches from July 1, 2011 onwards. The UCBs may take note of the above instructions.

8) RBI's Circular No. UBD. BPD. (PCB). Cir.No. 40 /13.01.000/2010-11 March 17, 2011 on Exchange Traded Interest Rate Futures (IRFs) – UCBs

It has been decided to introduce Interest Rate Futures on 91-Day Treasury Bills issued by Government of India. In this regard, Reserve Bank of India has issued an amendment direction IDMD.PCD.27/ED(HRK)-2010 dated March 7, 2011 under section 45W of the Reserve Bank of India Act, 1934, which has been placed on the Reserve Bank of India website (www.rbi.org.in). A copy of the Direction is enclosed therein.

9) RBI's Circular No. UBD.CO.BPD (PCB) Cir.No. 6 /14.01.062/2010-11 dated March 17, 2011 on Anti-Money Laundering (AML)/Combating of Financing of Terrorism (CFT) – Standards.

Financial Action Task Force (FATF) has issued a further Statement on October 22, 2010 on the subject (copy enclosed). It may be observed that the statement divides the strategic AML/CFT deficient jurisdictions into two groups as under:

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Jurisdictions subject to FATF call on its members and other jurisdictions to apply countermeasures to protect the international financial system from the ongoing and substantial money laundering and terrorist financing (ML/FT) risks emanating from the jurisdiction : Iran

Jurisdictions with strategic AML/CFT deficiencies that have not committed to an action plan developed with the FATF to address key deficiencies as of October 2010. The FATF calls on its members to consider the risks arising from the deficiencies associated with each jurisdiction: Democratic People's Republic of Korea (DPRK).

The Urban Co-operative Banks are accordingly advised to take into account risks arising from the deficiencies in AML/CFT regime of these countries, while entering into business

relationships and transactions with persons (including legal persons and other financial institutions) from or in these countries/ jurisdictions.

10) RBI's Circular No. UBD.CO.BPD (PCB) Cir.No. 7 /14.01.062/2010-11 dated March 17, 2011 on Anti-Money Laundering (AML)/Combating of Financing of Terrorism (CFT) – Standards

FATF has further issued a Statement on October 22, 2010 calling upon jurisdictions listed in the Statement to complete the implementation of their action plan within the timeframe. The FATF, in the Statement, has called upon its members to consider the information given in the Statement.

The Urban Co-operative Banks are accordingly advised to consider the information contained in the enclosed Statement.

11) RBI's Circular No. UBD. BPD. No. 41/12.05.001/2010-11 dated March 29, 2011 on Collection of account payee cheques – Prohibition on crediting proceeds to third party accounts

It has been brought to our notice that since co-operative credit societies are not even sub-members of clearing houses, members of such co-operative credit societies who do not have bank accounts face difficulties in collection of account payee cheques drawn in their name. With a view to mitigating the difficulties faced by the members of co-operative credit societies in collection of account payee cheques, it is clarified that collecting banks may consider collecting account payee cheques drawn for an amount not exceeding Rs.50,000/- to the account of their customers who are co-operative credit societies, if the payees of such cheques are the constituents of such co-operative credit societies. While collecting the cheques as aforesaid, banks should obtain a clear undertaking in writing from the co-operative credit societies concerned that, upon realization, the proceeds of the cheques will be credited only to the account of the member of the co-operative credit society who is the payee named in the cheque. This shall, however, be subject to the fulfillment of the requirements of the provisions of Negotiable Instruments Act, 1881, including Section 131 thereof.

The collecting bank shall subject the society to the usual KYC norms and enter into an agreement with the society that the KYC documents in respect of the society's customers are preserved in the society's records and are available to the bank for scrutiny. The collecting banks should, however, be aware that in the event of a claim by the true owner of the cheque, the rights of the true owner of the cheque are not in any manner affected by this circular and banks will have to establish that they acted in good faith and without negligence while collecting the cheque in question.