

HIGHLIGHTS OF THE FOREIGN TRADE POLICY (2004-09)

- (e) **DFRC:** Import of fuel under DFRC entitlement shall be allowed to be transferred to marketing agencies authorized by the Ministry of Petroleum and Natural Gas.
- (f) **DEPB:** The DEPB scheme would be continued until replaced by a new scheme to be drawn up in consultation with exporters.

2.35 **New Status Holder Categorization:**

A new rationalized scheme of categorization of status holders as Star Export Houses has been introduced as under:

Category	Total performance over three years (2001-02 to 2003-04)
One Star Export House	15 crores
Two Star Export House	100 crores
Three Star Export House	500 crores
Four Star Export House	1500 crores
Five Star Export House	5000 crores

Star Export Houses shall be eligible for a number of privileges including fast-track clearance procedures, exemption from furnishing of Bank Guarantee, eligibility for consideration under Target Plus Scheme etc.

2.36 **Export Oriented Units (EOUs):**

- EOUs shall be exempted from Service Tax in proportion to their exported goods and services.
- EOUs shall be permitted to retain 100% of export earnings in EEFC accounts.
- Income Tax benefits on plant and machinery shall be extended to DTA units which convert to EOUs.
- Import of capital goods shall be on self-certification basis for EOUs.
- For EOUs engaged in Textile & Garments manufacture leftover materials and fabrics upto 2% of CIF value or quantity of import shall be allowed to be disposed of on payment of duty on transaction value only.
- Minimum investment criteria shall not apply to Brass Hardware and Hand-made Jewellery EOUs (this facility already exists for Handicrafts, Agriculture, Floriculture, Aquaculture, Animal Husbandry, IT and Services).

2.37 **Free Trade and Warehousing Zone:**

A new scheme to establish Free Trade and Warehousing Zone has been introduced to create trade-related infrastructure to facilitate the import and export of goods and services with freedom to carry out trade transactions in free currency. This is aimed at making India into a global trading-hub.

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FDI would be permitted up to 100% in the development and establishment of the zones and their infrastructural facilities.

Each zone would have minimum outlay of Rs.100 crores and five lakh sq. mts. built up area. Units in the FTWZs would qualify for all other benefits as applicable for SEZ units.

2.38 Import of Second hand Capital Goods

- Import of second-hand capital goods shall be permitted without any age restrictions.
- Minimum depreciated value for plant and machinery to be re-located into India has been reduced from Rs.50 crores to Rs.25 crores.

2.39 Services Export Promotion Council: An exclusive Services Export Promotion Council shall be set up in order to map opportunities for key services in key markets, and develop strategic market access programmes, including brand building, in co-ordination with sectoral players and recognized nodal bodies of the services industry.

2.40 Common Facilities Centre: Government shall promote the establishment of Common Facility Centres for use by home-based service providers, particularly in areas like Engineering & Architectural design, Multi-media operations, software developers etc., in State and District-level towns, to draw in a vast multitude of home-based professionals into the services export arena.

2.41 Procedural Simplification & Rationalisation Measures: All exporters with minimum turnover of Rs.5 crores and good track record shall be exempt from furnishing Bank Guarantee in any of the schemes, so as to reduce their transactional costs.

- All goods and services exported, including those from DTA units, shall be exempt from Service Tax.
- Validity of all licences/entitlements issued under various schemes has been increased to a uniform 24 months.
- Number of returns and forms to be filed have been reduced. This process shall be continued in consultation with Customs & Excise.
- Enhanced delegation of powers to Zonal and Regional offices of DGFT for speedy and less cumbersome disposal of matters.
- Time bound introduction of Electronic Data Interface (EDI) for export transactions. 75% of all export transactions to be on EDI within six months.

2.42 Pragati Maidan: In order to showcase our industrial and trade prowess to its best advantage and leverage existing facilities, **Pragati Maidan will be transformed into a world-class complex.** There shall be state-of-the-art, environmentally controlled, visitor friendly exhibition areas and marts. A huge Convention Centre to accommodate 10,000 delegates with flexible hall spaces, auditoria and meeting rooms with high-tech equipment, as well as multi-level car parking for 9,000 vehicles will be developed within the envelope of Pragati Maidan.

2.43 Legal Aid: Financial assistance would be provided to deserving exporters, on the recommendation of Export Promotion Councils, for meeting the costs of legal expenses connected with trade-related matters.

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- 2.44 Grievance Redressal:** A new mechanism for grievance redressal has been formulated and put into place by a Government Resolution to facilitate speedy redressal of grievances of trade and industry.
- 2.45 Quality Policy:**
- DGFT shall be a business-driven, transparent, corporate oriented organization.
 - Exporters can file digitally signed applications and use Electronic Fund Transfer Mechanism for paying application fees.
 - All DGFT offices shall be connected via a central server making application processing faster. DGFT HQ has obtained ISO 9000 certification by standardizing and automating procedures.
- 2.46 Bio Technology Parks:** Biotechnology Parks to be set up which would be granted all facilities of 100% EOUs.
- 2.76 Co-acceptance/ Avalisation introduced** as equivalent to irrevocable letter of credit to provide wider flexibility in financial instrument for export transaction.
- 2.47 Board of Trade:** The Board of Trade shall be revamped and given a clear and dynamic role. An eminent person or expert on trade policy shall be nominated as President of the Board of Trade, which shall have a Secretariat and separate Budget Head, and will be serviced by the Department of Commerce.

ANNUAL SUPPLEMENT 2007-08 TO FOREIGN TRADE POLICY OF 2004-09

- 2.48** A Five-Year Foreign Trade Policy regime was announced by the Commerce and Industry Minister, Mr Kamal Nath in the year 2004. Stability of trade policy regime has yielded very positive results and in the three years since then, India 's merchandise exports have almost doubled. India 's share of world trade has moved from 0.76%o above 1%.
- Incremental exports in last 3 years have created additional 75 lakhs jobs.
 - Consistent growth kept pace with target touched us\$125 billion during last financial year.
 - Export targe for 2007-08 fixed at us\$160 billion, to be raised to us\$200 billion for 2008-09.
 - Current Annual Supplement to FTP aims to provide further momentum to exports growth. Changes include the following major initiatives:-
 - Encouragement to agro exports and employment generation in the agriculture sector.
 - New initiative for infrastructure development namely cold storage units, pack houses, reefer vans/ containers, etc., for agro sector, is being launched.
 - In line with the Government objective of having all inclusive growth, Vishesh Krishi and Gram Udyog Yojana Scheme expanded further to include forest based and agricultural products.

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- A new scheme to give impetus to exports of high tech products is being launched. Exports of specified high tech products are proposed to be rewarded.
- Long standing major grievance of trade is being addressed by providing service tax exemption/ remission on services rendered in India and utilised by exporters. This should bring cheers to the exporting fraternity.
- In line with the government approach to address genuine grievances, services rendered abroad and charged on exports from India to be exempted from service tax.
- For effectively ensuring all inclusive growth for farmers and tribals, focus products scheme expanded further to include new agro and forest products.
- For diversifying exports to tap hitherto unexplored markets, scope of focus market scheme is being expanded to include 16 new countries including 10 CIS countries.
- Exports and employment in handloom and handicraft sectors provided further push through duty free access to machinery and equipment for effluent treatment plants.
- To sharpen core strength of promising gems and jewellery sectors and handicraft sector, duty free access to tools, machinery and equipment proposed to be provided to give them competitive edge.
- Export of rhodium polished silver jewellery to be encouraged further.
- To reduce transaction cost for diamond sector, testing facility at Dubai incorporated in the list of certifying agencies.
- Employment, manufacturing and value additions in the EOU scheme to be encouraged further by extending the benefit of focus products, focus market, and vishesh krishi and gram udyog yojana scheme.
- Major simplification attempted through fine tuning of existing procedures under various schemes for transparency, accountability, and reducing transaction time.
- Efforts to be made to provide timely disbursement of central sales tax, duty drawback, and terminal excise duty. In case of any delay, interest to be provided with effect from 1.4.2006.
- Exporters affected by force majeure or other unforeseen circumstances/reasons, to be provided more time for completing their export obligation.
- For encouraging product development & diversification for competing in the international market, the limit for duty free import of samples increased to rs.75,000/-.

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- Rationalisation in the threshold criteria and re-classification of status holder scheme.
- Duty on fuel and 4% special additional duty to be factored in the DEPB scheme.
- EPCG Scheme revamped to achieve simplification and make it user friendly.
- Benefits of all duty exemption and remission schemes such as advance authorisation scheme, DEPB and DFIA extended to the supply of goods to developer and co-developer of the special economic zones.
- Verification at customs dispensed with under EPCG and advance authorization scheme.

ANNUAL SUPPLEMENT 2008-09 TO FOREIGN TRADE POLICY OF 2004-09

2.49 It is in this context that I am happy to present the final Annual Supplement to the Foreign Trade Policy for 2004-2009. In this Supplement, we have roposed several innovative steps, which include the following:

- To promote modernization of our manufacturing and services exports, the import duty under the EPCG scheme is being reduced from 5% to 3%.
- Refund of tax on a large number of services relating to exports has already been announced by the Government. A few remaining issues regarding refund of service tax on exports would also be resolved soon.
- Income tax benefit to 100% EOUs available under Section 10B of Income Tax Act is being extended for one more year, beyond 2009.
- Sports and toys are mainly produced by our unorganized labour intensive sector. To promote export of these items and also to compensate disadvantages suffered by them, an additional duty credit of 5% over and above the credit under Focus Product Scheme is being provided.
- Our export of fresh fruits and vegetables and floriculture suffers from high incidence of freight cost. To neutralize this disadvantage, an additional credit of 2.5% over and above the credit available under VKGUY is proposed.
- Interest relief already granted for sectors affected adversely by the appreciation of the rupee is being extended for one more year.
- The DEPB scheme is being continued till May 2009.

Source : *Compiled by Office of the Economic Adviser, Ministry of Commerce & Industry, Ministry of Commerce & Industry .*

REDUCTION IN INDIA'S CUSTOM TARIFF RATES:

2.49 India's customs tariff rates have been steadily declining during post reforms period. As per announcements made in union Budget Proposals, the customs tariff rate in 2005-06 was 15 per cent as against 150 percent in 1991-92 (Table 2.5).

Table 2.5 Change in Customs Tariff Rates (1991-92 to 2007-08)

Year	Tariff Rate (%)	Remarks
1991-92	150	Basic plus auxiliary duties to a maximum of 150%.
		Tariff peaks above 150% eliminated except for alcoholic beverages and passenger baggage.
1992-93	110	Basic + Auxiliary rates to a maximum of 110 % except alcoholic beverages and passenger baggage.
1993-94	85	Excepting the above two
1994-95	65	Excepting the above two
1995-96	50	
1996-97	50	
1997-98	40	
1998-99	(40)	
1999-00	(40)	
2000-01	(35)	Economic Survey 2000-01 stated that after a gap of 3 years, peak customs tariff rate was scaled down from 40% to 35%
2001-02	(35)	
2002-03	30	Peak rate reduced from 35% to 30%
2003-04	25	Excluding agriculture and dairy products. Peak rate reduced to 20% in January 2004.
2004-05	20	Peak rate lowered for non-agriculture goods.
2005-06	15	Peak rate lowered for non-agriculture goods.
2006-07	12.5	Peak rate lowered for non-agriculture goods.
2007-08	10.0	Peak rate lowered for non-agriculture goods.

Source : Various Budget Documents (Data compiled by the Office of the Economic Adviser)

HIGHLIGHTS OF CAPITAL MARKET REFORMS 2007-08

Major Policy Initiatives and Developments in the Securities Market during

I. PRIMARY SECURITIES MARKET

Grading of Initial Public offerings (IPOs)

The grading of all the IPOs was made mandatory and is to be done by credit rating agencies, registered with SEBI. Grading is to be obtained from at least one credit rating agency and would be disclosed in the prospectus, abridged prospectus and in every advertisement for IPOs.

Relaxation for Government Companies in Infrastructure Sector

Certain provisions of DIP Guidelines were relaxed in order to facilitate government companies/corporations, statutory authorities/corporations or any special purpose vehicle engaged in infrastructure sector to raise funds in the Indian primary market through IPOs.

Introduction of Fast Track Issuances

Fast track issue mechanism was introduced to enable compliant listed companies to access Indian primary market in a time effective manner through follow-on public offerings and rights issues.

Tightening of Eligibility Requirement for Qualified Institutions' Placement (QIP)

The eligibility criterion for companies desirous of making a QIP was amended and in addition to criteria specified in the guidelines for QIP, such companies were also required to have a listing history of at least one year on the date of issuance of notice to its shareholders for convening a general meeting in terms of Section 81(1A) of the Companies Act, 1956 to consider the QIP.

Relaxation of Provision Relating to Issuance of Debt Securities

SEBI amended SEBI (DIP) Guidelines concerning Issuance of Debt Securities in regard to: a) requirement of credit rating from one agency as against two earlier, b) permitting below investment grade debt instruments; and c) removal of structural restrictions.

Rationalisation of Certain Requirements Pertaining to Indian Depository Receipts (IDRs)

Amendments were made to permit all categories of investors to apply in IDR issues. These are subject to (i) at least 50 per cent of the issue being subscribed by QIBs, and (ii) the balance being made available for subscription to other categories of investors at the discretion of the issuer, which should be disclosed in the prospectus.

Amendments to Guidelines for Preferential Issues

To enable companies with listing history of less than six months to raise money through preferential allotment, preferential allotment guidelines were amended, subject to complying with the modified pricing and disclosure norms. Also, listed companies planning to make preferential allotment were required to obtain PAN from each applicant.

Electronic filing through Corporate Filing and Dissemination System (CFDS)

Clause 52 was introduced in the Equity Listing Agreement as SEBI decided to phase out EDIFAR gradually in view of a new portal, viz., CFDS put in place jointly by BSE and NSE.

Amendments pertaining to Issue Process

The following amendments were made to issue process:

- a) mandatory quoting of PAN in application form,
- b) permitting of discount in issue price for retail investors/retail shareholders,

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- c) providing definition for “retail individual shareholder” for listed companies,
- d) giving clarification on the term CEO/CFO,
- e) deleting of the chapter on “guidelines for issue of capital by designated financial institutions (DFIs),
- f) monitoring of issue proceeds and
- g) making of pledged shares eligible for computation of minimum promoters’ contribution.

Amendments to Clause 41 of the Listing Agreement

The Clause 41 of the Listing Agreement was revised to provide an option to the listed companies to furnish either unaudited or audited quarterly and year-to-date financial results to the stock exchange within one month of the end of each quarter (other than the last quarter). The revised clause also specified the manner of approval and authentication of the financial results and formats.

Amendments to Clause 49 of the Listing Agreement

Clause 49 of the Listing Agreement was amended to provide for a monitoring agency on utilisation of issue proceed. The report of the monitoring agency would be placed before the Audit Committee of the issuer company, which would, in turn, make appropriate recommendations to the Board of the issuer company. Issuer company was also required to state material deviations in the utilization of issue proceeds to the stock exchanges.

II. SECONDARY SECURITIES MARKET**Mandatory Requirement of Permanent Account Number (PAN) for all Transactions in the Securities Market**

PAN was made the sole identification number for all participants in the securities market, irrespective of the amount of transaction with effect from July 02, 2007 to strengthen the ‘Know Your Client’ (KYC) norms through a single identification number for all participants in the securities market for facilitating sound audit trail.

Short Selling and Securities Lending and Borrowing (SLB)

A broad regulatory framework for short selling by institutional investors and a full-fledged securities lending and borrowing scheme was stated by SEBI and relevant amendments were made to SEBI (FII) Regulations, 1995 and SEBI (Mutual Funds) Regulations, 1996, enabling FIIs and Mutual Funds to participate in short selling and SLB.

Margining of Institutional Trade in the Cash Market

SEBI mandated that all institutional trades in the cash market would be subject to payment of margins as applicable to transactions by other investors. With effect from April 21, 2008, trades would be margined on a T+1 basis with margin being collected from the custodian upon confirmation of the trade.

Draft SEBI (Investment Advisers) Regulations, 2007

Draft SEBI (Investment Advisers) Regulations, 2007 were placed on the website inviting public comments and suggestions. The comments/ suggestions received were being examined.

Derivatives Market

SEBI introduced (i) mini contracts in equity indices, (ii) options contracts with longer life/tenure, and permitted exchanges to compute and disseminate volatility indices and bond indices.

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Clearing members were permitted to accept Foreign Sovereign Securities as collateral from foreign institutional investors (FIIs) for exchange traded derivative transactions.

Corporatisation and Demutualisation (C & D) of Stock Exchanges

16 stock exchanges had completed demutualisation process by diluting at least 51 per cent of their equity shareholding to public other than shareholders having trading rights.

The recognition of Saurashtra Kutch Stock Exchange Limited and Magadh Stock Exchange Limited was withdrawn for failing to comply with observations in the inspection report.

Hyderabad Stock Exchange Limited was derecognised for its failure to complete the demutualisation process within the prescribed time.

III. CORPORATE DEBT MARKET

A number of policy initiatives were taken for the development of corporate bond market with respect to the following areas:

- (i) setting up of reporting platforms for corporate bonds,
- (ii) setting up of trading platform for corporate bonds,
- (iii) issues pertaining to trading in corporate bonds,
- (iv) making amendments to the listing agreement for debentures,
- (v) issuing securitised debt instruments regulations,
- (vi) evolving policy guidelines on debenture trustees,
- (vii) introducing Repos in corporate bonds,
- (viii) facilitating setting up of quote dissemination platforms,
- (ix) simplifying corporate bond issuance norms and
- (x) framing of draft issue and listing regulations for corporate bonds.

IV. MUTUAL FUNDS

Parking of Funds in Short-term Deposits of Scheduled Commercial Banks by Mutual Funds: Pending Deployment

SEBI issued guidelines restricting parking of funds in short-term deposits of scheduled commercial banks – pending deployment.

Extension of Time for Uploading of NAVs of Fund of Fund Schemes

SEBI had decided that the time limit for uploading of NAV for fund of fund schemes will be extended to 10:00 am the following business day.

Investment in ADRs/GDRs/Foreign Securities and Overseas Exchange Traded Funds (ETFs) by Mutual Funds

Aggregate industry-wise ceiling for overseas investments by mutual funds was raised to USD four billion and subsequently to USD five billion and within the overall limit, mutual funds could make overseas investments subject to a maximum of USD 300 million per mutual fund.

HIGHLIGHTS OF CAPITAL MARKET REFORMS 2007-08

Reduction in Expenses Charged by Index Fund Scheme

The limit on investment and advisory fee for index fund schemes was reduced to 0.75 per cent. The total expenses of the scheme including the investment and advisory fees were reduced to 1.5 per cent of the weekly average net assets. The reduced expenses and investment and advisory fees were made applicable to exchange traded index funds also.

Short Selling and Securities Lending and Borrowing

Vide notification dated October 31, 2007, enabling provisions were made for mutual funds to engage in short selling of securities as well as lending and borrowing of securities.

Waiver of Load for Direct Applications

Keeping in view the interest of the investors, it was decided that no entry load would be charged for direct applications received by the Asset Management Company (AMC) i.e. applications received through the internet, submitted to AMC or collection centre/ Investor Service Centre that were not routed through any distributor/ agent/ broker.

Removal of Initial Issue Expenses

Provision of charging initial issue expenses and amortisation of the same were removed. All expenses connected with sales and distribution of schemes mutual funds should met from the entry load.

Standard Warning in Advertisements by Mutual Funds

Mutual Funds were directed to enhance the time for display and voice on the standard warning to five seconds in audio visual advertisements. In case of audio advertisements, the standard warning would be read in an easily understandable manner over a period of five seconds.

Load on Bonus Units and Units Allotted on Reinvestment of Dividend

AMCs were directed not to charge entry as well as exit load on bonus units and units allotted on reinvestment of dividend.

Dedicated Infrastructure Funds

A four member Committee under the Chairmanship of Mr. U. K. Sinha (CMD, UTI AMC) was set up to suggest a detailed action plan to promote flow of investment to the infrastructure sector through dedicated infrastructure mutual funds.

Real Estate Mutual Funds

During 2007-08, steps were taken to address certain residual issues relating to accounting and valuation of assets, for Real Estate Mutual Funds in discussion with AMFI, ICAI and Credit Rating Agencies and the necessary amendments to the SEBI (Mutual Fund), Regulations 1996 were notified on April 16, 2008.

V. FOREIGN INSTITUTIONAL INVESTORS (FIIS)

Registration of FII/Sub-Accounts, Issuance of P-Notes, Investment Limit in Debt Securities

Directions were issued for modifying the criteria for registration of FII/Sub-Accounts and issuance of P-Notes by them.

The investment limit for FIIs in Government Securities (including Treasury Bills) was enhanced from USD 2.6 billion to USD 3.2 billion.

HIGHLIGHTS OF CAPITAL MARKET REFORMS 2007-08**VI. RATIONALISATION OF FEE STRUCTURE**

Fee structure was rationalised by reducing fee ranging between 50 per cent to 90 per cent in case of filing of offer document for public/righttc issues, offer for takeover and buy-back of securities, schemes of mutual funds, ad-valorem fee from custodians for assets under the custody and registration fee from venture capital funds.

VII. REGULATORY DEVELOPMENTS :

- Securities Contracts (Regulation) Act, 1956 was amended during 2007-08.
- SEBI (Certification of Associated Persons in the Securities Markets) Regulations, 2007 was framed during 2007-08.
- SEBI (Manner of Service of Summons and Notices Issued by the Board) (Amendment) Regulations, 2007, SEBI (Mutual Funds) Regulations, 1996, SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997, SEBI (Buy-Back of Securities) Regulations, 1998, SEBI (Merchant Bankers) Regulations, 1992, SEBI (Depositories and Participants) Regulations, 1996, SEBI (Foreign Institutional Investors) Regulations, 1995 and SEBI (Payment of Fees) (Amendment) Regulations, 2008 were amended during 2007-08.

Source: Securities and Exchange Board of India (SEBI).

FINANCIAL SECTOR REFORMS 2007-08

- 2.50 With the enactment of the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 and its notification on October 2, 2006, the definition of micro, small and medium enterprises engaged in manufacturing/production or providing/ rendering of services was modified and required to be implemented by the banks along with other policy measures.
- 2.51 Banks' lending to medium enterprises would not be included for the purpose of reckoning under the priority sector. The boards of banks may review the existing guidelines/instructions and formulate a comprehensive and liberal policy in respect of loans to micro, small and medium sectors and adopt the same at the earliest. Similar guidelines were issued to UCBs on April 18, 2007.
- 2.52 NBFCs advised to explicitly state in their advertisements issued in print/electronic media (including web-sites)/statement in lieu of advertisement that the Reserve Bank does not accept any responsibility or guarantee about the financial soundness of the company or for the correctness of any of the statements or representations made or opinions expressed by the company and for repayment of deposits/discharge of the liabilities by the company.
- 2.53 SCBs (excluding RRBs) advised to ensure that the date of completion of the infrastructure projects financed by them should be clearly spelt out at the time of financial closure of the project and to treat such accounts as sub-standard if the date of commencement of commercial production extended beyond a period of one year after the date of completion of the project as originally envisaged. The revised instructions came into force with effect from March 31, 2007.
- 2.54 Guidelines on KYC Norms/AML Standards/Combating of Financing of Terrorism (CFT) – Wire Transfers issued to SCBs. Similar guidelines were issued to StCBs and DCCBs on May 18, 2007, to RRBs on May 21, 2007, to UCBs on May 25, 2007 and to NBFCs on April 23, 2008.
- 2.55 SCBs (excluding RRBs) advised that for the purpose of segment reporting under AS-17, the 'other banking business' segment should be divided into three categories: corporate/wholesale banking, retail banking and other banking operations. Accordingly, banks were required to adopt the following business segments for public reporting purposes, from March 31, 2008: a) treasury; b) corporate/wholesale banking; c) retail banking; and d) other banking business. The geographical segments would remain unchanged as 'domestic' and 'international'.
- 2.56 Comprehensive guidelines on derivatives issued to banks enunciating the major requirements for undertaking any derivative transaction from the regulatory perspective. The guidelines also cover extant instructions relating to rupee interest rate derivatives. Final guidelines on compliance function in banks issued to SCBs for implementation. SCBs were advised that as compliance function in banks is one of the key elements in the banks' corporate governance structure, it has to be adequately enabled and made sufficiently independent. Banks should organise their compliance function and set priorities for the management of the compliance risks in their organisation to suit their requirement.
- 2.57 The maximum interest rate payable on public deposits by NBFCs/miscellaneous non-banking companies (chit fund companies) revised to 12.5 per cent per annum. The new rate of interest would be applicable to fresh public deposits and renewals of matured public deposits.
- 2.58 Banks advised to ensure that none of their bank branches/staff refuse to accept lower denomination notes and/or coins. Stern action would have to be taken in the event of refusal/non-compliance by any staff member. Similar guidelines were issued to RRBs on May 10, 2007.

FINANCIAL SECTOR REFORMS 2007-08

- 2.60 Prudential Guidelines on Capital Adequacy and Market Discipline – Implementation of the New Capital Adequacy Framework finalised for implementation. Systemically Important NBFCs – ND advised to put in place a system for submission of an annual statement of capital funds, risk asset ratio *etc.*, as at end-March every year in Form NBS-7. The first such return would be submitted for the year ending March 31, 2007. The return would be submitted within a period of three months from the close of the financial year, every year. SCBs advised to monitor credit flow to minorities in 103 minority concentration districts, which have at least 25 per cent minority population. On July 16, 2007, the number of minority concentrated districts for monitoring credit flow was revised to 121.
- 2.61 SCBs (including RRBs) to immediately dispense with the requirement of “no dues” certificate for small loans up to Rs.50,000 to small and marginal farmers, share-croppers and the like and, instead, obtain self-declaration from the borrower. Furthermore, banks may accept certificates provided by local administration/*Panchayati Raj* Institutions regarding the cultivation of crops in case of loans to landless labourers, share-croppers and oral lessees. The risk weight on loans up to Rs.1 lakh against gold and silver ornaments reduced to 50 per cent from 125 per cent in the case of UCBs with immediate effect.
- 2.62 Revised guidelines on lending to priority sector issued to SCBs (excluding RRBs).
- RRBs permitted to take up corporate agency business, without risk participation, for distribution of all types of insurance products, including health and animal insurance, subject to specified guidelines. Risk weight in respect of housing loans extended by banks up to Rs. 20 lakh to individuals against the mortgage of residential housing properties reduced from 75 per cent to 50 per cent. Similarly, the risk weight for banks’ investment in mortgage backed securities, which are backed by housing loans and are issued by the housing finance companies regulated by the National Housing Bank, reduced from 75 per cent to 50 per cent. The reduced risk weights would be reviewed after one year keeping in view the default experience and other relevant factors. Similar guidelines were issued to UCBs on May 4, 2007.
- 2.63 SCBs advised to scale up their financial inclusion efforts by utilising appropriate technology. Banks were also advised to ensure that the solutions developed are highly secure, amenable to audit and follow widely accepted open standards to allow inter-operability among the different systems adopted by different banks. Similar guidelines were issued to StCBs/DCCBs on May 18, 2007 and to RRBs on May 21, 2007. UCBs registered in States that have entered into MoUs with the Reserve Bank or registered under the Multi State Cooperative Societies Act, 2002 permitted to undertake insurance agency business as corporate agents without risk participation, provided that the UCB has a minimum networth of Rs. 10 crore and it has not been classified as Grade III or IV bank.
- 2.64 Exemption to RRBs from ‘mark to market’ norms in respect of their investments in SLR securities extended by one more year, *i.e.*, for the financial year 2007-08. Accordingly, RRBs would have the freedom to classify their entire investment portfolio of SLR securities under ‘Held to Maturity’ for the financial year 2007-08, with valuation on book value basis and amortisation of premium, if any, over the remaining life of securities.
- 2.65 Deposit taking NBFCs with deposit size of Rs.20 crore and above and NBFCs-ND-SI have been advised to frame their internal guidelines on corporate governance which, *inter alia*, include constitution of audit committee, nomination committee, risk management committee; to follow disclosure and transparency practices and instructions on connected lending.