



Bangalore Chamber of Industry and Commerce

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Finance & Capital Markets

Circular No.133

11.10.2010

All Members

Dear Sirs,

We enclose herewith the following Circulars issued by the Reserve Bank of India, Mumbai for your reference and record.

1. RBI/2010-11/220, DBOD.Dir.BC.46 /13.03.00/2010-11, dated September 30, 2010 - Banks' Exposure to Capital Market - Issue of Irrevocable Payment Commitments (IPCs)
2. RBI/2010-11/ 222, DBOD.BP.BC.No.47/ 21.01.001/2010-11, dated October 1, 2010 - Collection of third party account payee cheques – Prohibition on crediting proceeds to third party accounts
3. RBI/2010-11/224, IDMD.PCD.No. 20/14.03.05/2010-11, dated October 1, 2010 - Raising resources through Inter Corporate Deposits (ICDs)

Thanking you,

Yours faithfully

T.S. Sampath Kumar
Secretary General

RBI/2010-11/220, DBOD.Dir.BC.46 /13.03.00/2010-11, dated September 30, 2010

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

Please refer to our circular No. DBOD.Dir.BC.32/13.03.00/2010-11 dated July 30, 2010 in terms of which the transition period allowed to banks to comply with the requirements contained in our circular No. DBOD.Dir.BC.57/13.03.00/2007-08 dated December 14, 2007, was extended up to September 30, 2010.

2. On a review, it has been decided to put in place adequate risk mitigation mechanism to protect the banks from the adverse movements in the equity prices and the possibility of default by domestic mutual funds/FIIs, while ensuring that there is no undue disruption in the functioning of the capital market in the country.
3. Accordingly, it has been decided as under:
 - (i) Beginning from 1st November 2010
 - (a) only those custodian banks would be permitted to issue IPCs who have a clause in the Agreement with their clients which gives them an inalienable right over the securities to be received as payout in any settlement; and
 - (b) the maximum risk to the custodian banks issuing IPCs would be reckoned at 50% on the assumption of downward price movement of the equities bought by FIIs/ Mutual Funds on the two successive days from the trade date (T) i.e., on T+1 and T+2, of 20% each with an additional margin of 10% for further downward movement.
 - (ii) Accordingly the potential risk on T+1 would be reckoned at 50% of the settlement amount and this amount would be reckoned as CME at the end of T+1 if margin payment / early pay in does not come in.
 - (iii) In case there is early pay in on T+1, there will be no exposure.
 - (iv) In case margin is paid in cash on T+1, the CME would be reckoned at 50% of settlement price minus the margin paid.
 - (v) In case margin is paid on T+1 by way of permitted securities to FIIs / Mutual Funds, the CME would be reckoned at 50% of settlement price minus the margin paid plus haircut prescribed by the Exchange on the securities tendered towards margin payment.

4. The IPC will be treated as a financial guarantee and capital will have to be maintained against it as per para 2.3 of our Master Circular on Exposure Norms DBOD.No. Dir.BC.14/13.03.00/2010-11 dated July 1, 2010.
5. The above mentioned arrangements will continue till October 31, 2011 and would be reviewed with a view to modify it further for reducing the risk to the custodian banks issuing IPCs.

Sd/-
(B. Mahapatra)
Chief General Manager- in-Charge

RBI/2010-11/ 222, DBOD.BP.BC.No.47/ 21.01.001/2010-11, dated October 1, 2010

Collection of third party account payee cheques – Prohibition on crediting proceeds to third party accounts

Please refer to our circular DBOD.BP.BC.No.32/21.01.001/2009-10 dated August 27, 2009 on the captioned subject, in which it has been stated that the practice of collection of cheques crossed 'account payee' through third party accounts (of co-operative credit societies) is not permissible. However, to facilitate collection of cheques from a payment system angle, it has been clarified therein that sub-members of the clearing houses may collect the cheques of their customers for the credit to their accounts through the sponsor member, under certain circumstances referred to therein.

2. 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 have difficulties in collection of account payee cheques drawn in their name. With a view to mitigate the difficulties faced by the members of co-operative credit societies in collection of account payee cheques, it is further 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 have a clear representation in writing given by 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.

3. The collecting bank shall also carry out proper due diligence with respect to such co-operative credit societies and ensure that KYC documents of the customers are preserved in the society's records and are available to the bank for scrutiny.

4. 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.

Sd/-
(B. Mahapatra)
Chief General Manager-In-Charge

RBI/2010-11/224, IDMD.PCD.No. 20/14.03.05/2010-11, dated October 1, 2010

Raising resources through Inter Corporate Deposits (ICDs)

Please refer to paragraph 3.6 of the Master Circular RBI/2010-11/81 IDMD.PDRD.01/03.64.00/2010-11 dated July 1, 2010 on Operational Guidelines to Primary Dealers allowing standalone PDs to raise ICDs to the extent of 50 per cent of their net owned funds (NOF) subject to adherence to other terms and conditions.

2. The above guidelines have been reviewed and it has been decided to permit the standalone PDs to raise funds through ICDs upto 75 per cent of their NOF as at the end of March of the preceding financial year. Further, standalone PDs are allowed to raise ICDs depending on their funding needs. Accordingly, paragraph 3.6 of the Master Circular *ibid* is amended as under:

Existing paragraph:

3.6 Inter-Corporate Deposits

3.6.1 ICDs may be raised by PDs sparingly and should not be used as a continuous source of funds. After proper and due consideration of the risks involved, the Board of Directors of the PD should lay down the policy in this regard, which among others, should include the following general principles:

- i. While the ceiling fixed on ICD borrowings should in no case exceed 50 per cent of the NOF as at the end of March of the preceding financial year, it is expected that actual dependence on ICDs would be much below this ceiling.

- ii. ICDs accepted by PDs should be for a minimum period of one week.
- iii. ICDs accepted from parent/promoter/group companies or any other related party should be on "arms length basis" and disclosed in financial statements as "related party transactions".
- iv. Funds raised through ICDs are subject to ALM discipline.

3.6.2 PDs are prohibited from placing funds in ICD market.

Revised paragraph:

3.6 Inter-Corporate Deposits

3.6.1 ICDs may be raised by PDs as per their funding needs. After proper and due consideration of the risks involved, the Board of Directors of the PD should lay down the policy in this regard, which among others, should include the following general principles:

- i. The ICD borrowings should in no case exceed 75 per cent of the NOF as at the end of March of the preceding financial year.
- ii. ICDs accepted by PD should be for a minimum period of one week.
- iii. ICDs accepted from parent/promoter/group companies or any other related party should be on "arms length basis" and disclosed in financial statements as "related party transactions".
- iv. Funds raised through ICDs are subject to ALM discipline.

3.6.2 PDs are prohibited from placing funds in ICD market.

3. The above guidelines are effective from the date of this circular.

**Sd/-
(K.K Vohra)
Chief General Manager**

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