Section 42 (2) of the Reserve Bank of India Act, 1934 -
Collection of Data from Scheduled Commercial Banks
in Annexure A and B

RESERVE BANK OF INDIA
CENTRAL OFFICE
DEPARTMENT OF BANKING OPERATIONS AND DEVELOPMENT
CENTRE - 1, WORLD TRADE CENTRE
CUFFE PARADE, COLABA, MUMBAI - 400 005

DBOD No. BC. 50 / 12.01.001/2000-01.

November 7, 2000.

To All Scheduled Commercial Banks
(Excluding Regional Rural Banks)

Dear Sir,

Section 42 (2) of the Reserve Bank of India Act, 1934 -
Collection of Data from Scheduled Commercial Banks
in Annexure A and B

Please refer to our circular letter DBOD No. BC.89/12.01.001/98-99 dated 24.8.98 advising Scheduled Commercial Banks (excluding Regional Rural Banks) to submit data on their foreign currency assets and liabilities and revaluation thereof in Annexure A to Form A returns under Section 42 (2) of the Reserve Bank of India Act, 1934 .

2. An analysis of the bank-wise data furnished by Scheduled Commercial Banks so far, in **Annexure A to Form A** revealed certain conceptual deficiencies in the compilation of data on foreign currency assets as also in regard to revaluation of foreign currency assets and liabilities. In particular, it has been observed that banks have been reporting the outstanding balances converted at the current exchange rate instead of the revaluation component on account of exchange rate changes. In order to enable the banks to furnish required information accurately, the following guidelines are issued **for compilation of data in Annexure A** :

- Banks should provide data in Column 2 on overseas foreign currency assets (as specified in footnote 5 vide circular letter DBOD No. BC. 89/12.01.001/98-99 dated 24 August, 1998) **on the basis of actual *Nostro* balances.** As stated in footnote 5, overseas foreign currency assets include i) balances held abroad i.e. the cash component of Nostro account, debit balances in ACU (US Dollar) account and credit balances with the commercial banks of ACU countries, ii) short-term foreign deposits and investments in eligible securities, iii) foreign money market instruments including Treasury Bills and iv) foreign shares and bonds. This should , thus, *ipso facto* cover FCNR (B) deposits held in Nostro accounts which have not been swapped into rupees, excluding bank credit in India in foreign currency out of such deposits.

- **For reporting in Column 2,** banks should convert their overseas foreign currency assets and bank credit in India in foreign currency in the four major currencies (viz., US dollar, GBP, Japanese Yen and DM/Euro) at the **FEDAI noon mean rate** on the reporting Friday , as is the case with the conversion of FCNR(B) deposits vide circular DBOD No. BC. 39/12.01.001/95 dated April 05, 1995.
- In case of currencies other than the four major currencies, banks could use cross currency rates through the US dollar, using New York closing rates on the FXXZ screen on the Reuters screen ; and
- In the case of currencies which are not traded in New York, banks could use the cross currency rates through the US dollar using the Reuter Asian screen or the national currency market in question.
- Banks should, therefore, submit data in Column 2 on FCNR (B) deposits , bank credit in India in foreign currency and overseas foreign currency assets and overseas borrowings on the basis of the conversion methodology prescribed above. **The term 'book value' in column 2 in respect of these four categories of foreign currency assets /liabilities would, therefore, refer to the rupee value arrived at by the conversion method prescribed above.** Data on other foreign currency assets /liabilities may be provided in Column 2 on the basis of rupee value in their books.
- Banks should calculate their Net Demand and Time Liabilities as the sum total of Column 2 (as compiled by the conversion methodology prescribed above) and column 4 in respect of all foreign currency liabilities including FCNR (B) deposits and overseas borrowings. **The term 'revaluation value' in column 3 of Annexure A may be defined as the sum of appreciation /depreciation and revaluation gains/losses of foreign currency assets /liabilities arising out on account of exchange rate changes between the current reporting Friday and the immediately preceding reporting Friday.** Banks may provide data on the revaluation value

of their FCNR(B) deposits, bank credit in India in foreign currency , overseas foreign currency assets and overseas borrowings in column 3. Banks may provide the revaluation value in column 3 in respect of other foreign currency assets /liabilities in case data in column 2 are inclusive of such revaluation**. The data on revaluation value submitted in respect of foreign currency assets/liabilities in column 3 would not affect the NDTL calculations.**

The above procedure supercedes the instructions relating to compilation of data in respect of liabilities under EEFC, RFC, ESCROW accounts, foreign credit line under PCFC Scheme, credit balance in ACU (US dollar) accounts under column 3 in Annexure A, vide circular DBOD No.BC.10/12.01.001/98-99 dated 15 February 1999.

- **For reporting data in column 3** banks should work out the revaluation value of their foreign currency assets (in the form of overseas foreign currency assets and bank credit in India in foreign currency)/FCNR(B) liabilities/overseas borrowings by subtracting the difference in book value (as per prescribed methodology) between two reporting fortnights less current value of the incremental transactions (illustration is given in the Annexure to this circular).

3. **In Annexure B,** the revaluation of investments for submission of data in column 3 may be done as per the guidelines contained in our circular DBOD No.BP.BC.32/21.04.048/2000-2001 dated 16 October, 2000.

4. Accordingly, it has been decided that from the Reporting Friday, December 01, 2000 all the Scheduled Commercial Banks in India should submit Form A Returns along with the Annexure A & B in the prescribed format as per the revised methodology indicated above.

5. In case any clarification on compilation *etc;* of data is needed, you may contact Dr. M.D. Patra, Director, Division of Money and Banking, Department of Economic Analysis and Policy, Reserve Bank of India, Central Office, Mumbai - 400 001 at either at his telephone 022 266 0529, fax 022 2633186 or e-mail mdpatra@rbi.org.in.

6. We shall be glad if you will please take necessary action urgently in the matter.

7. Please acknowledge receipt.

Yours faithfully,

(A.L. Narasimhan)
Chief General Manager.
Encl : as above

Endt. DBOD No. BC. 723 / 12.01.001/2000-01 of date.

Copy forwarded for information and necessary action to :

1. The Deputy General Manager, Department of Banking Operations and Development, Reserve Bank of India, All Regional Offices,

2. The General Manager, Department of Banking Supervision, Reserve Bank of India, All Regional Offices,

3. The Chief General Manager, Department of Banking Supervision, Reserve Bank of India, Central Office, Mumbai,

4. The Adviser-in-Charge, Department of Economic and Statistical Analysis & Computer Services, Reserve Bank of India, Central Office, Mumbai,

5. The Adviser-in-Charge, Department of Economic Analysis & Policy, Reserve Bank of India, Central Office, Mumbai,

6. The Adviser-in-Charge, MPD, RBI, Central Office, Mumbai 400 001.

(R.C. Mittal)
General Manager

ANNEXURE

CONVERSION OF NOSTRO BALANCES AND EXCHANGE RATE REVALUATION

REPORTING FRIDAY 1

Assume that

1. A bank has foreign currency assets of one US dollar and one Hong Kong dollar.

2. The Rupee- US dollar rate works out to Rs.10 and the Hong Kong dollar -US dollar rate works out to HKD 2.

Then,

Step I : Calculation of Book Value

1. The book value of the bank's US dollar works out to Rs.10 * 1 = Rs.10.

2. The book value of the bank's HK dollar works out to 0.5(Rs.10)*1= Rs.5, given that the Hong Kong Dollar -US dollar rate is HKD 2.

3. The book value of the banks' foreign currency assets works out to Rs.15 (= 10+5).

Step 2. Calculation of Revaluation value.

4. Since this is the base Reporting Friday, revaluation does not arise.

REPORTING FRIDAY 2

Assume that,

1. A bank purchases one more US dollar and one more Hong Kong dollar. Consequently, the banks' foreign currency assets comprise two US dollars and two Hong Kong dollars.

2. The Rupee-US dollar rate depreciates to Rs.20 but the Hong Kong dollar -US dollar rate still works out to HKD 2.

Then,

Step 1.

3. The book value of banks' two US dollar works out Rs.40 (=20*2)

4. The book value of banks' two HKD works out Rs.20 { (=20 * 0.5)* 2}.

5. The book value of the banks' foreign currency works out to Rs.60 (= 40 +20).

Step 2. Calculation of Book Vlaue.

6. The revaluation value may be worked out by subtracting the difference in book value as on the two Reporting Fridays less the current value of the incremental transaction.

7. In case of foreign currency assets held in the US dollar , the difference between the book value as on the two dates works out to Rs.30 (= 40-10). The current value of the incremental US dollar is Rs.20. Hence the revaluation value would work out to Rs.10 (= 30-20).

8. In the case of foreign currency assets held in the HK dollar , the difference between the book value as on the two dates works out to Rs15 (= 20 - 5). The current value of the incremental HK dollar is Rs.10. Hence the revaluation value would work out to Rs.5 (=15-10).

9. The total revaluation value of the bank's foreign currency assets works out to Rs.15 (= 10+5).
10. The revaluation value, as computed above , is essentially the sum of the products of the base reporting Friday date 1 quantity of each foreign currency and the difference in the exchange rate of that currency in Rupee between the current reporting Friday date 2 and the base previous reporting Friday date 1. Mathematically,

    Revaluation Value $= \boldsymbol{\Sigma(_i (p_{i2}-p_{i1})x_{i1}}$**,**

    Where , $\boldsymbol{p_{i2}}$ and $\boldsymbol{p_{i1}}$ are the exchange rate of foreign currency i in respect of the Indian rupee at current reporting Friday date 2 and the previous / base reporting Friday date 1, respectively and $\boldsymbol{x_{i1}}$ is the quantity of the foreign currency i at the previous /base reporting Friday date 1.

    This holds in all cases.
11. In our example ,

    In case of the US dollar , $\boldsymbol{p_{us2} = Rs.20, p_{us1} = Rs.10}$ **and** $\boldsymbol{x_{us1} = 1}$**,**

    In case of the HK dollar $\boldsymbol{p_{Hk2} = Rs.10, p_{Hk1} = Rs.5}$ **and** $\boldsymbol{x_{Hk1} = 1}$**,**

    Therefore, Revaluation Value $= \boldsymbol{(_i (p_{i2}-p_{i1})x_{i1}}$

    $= \boldsymbol{(p_{us2}-p_{us1})x_{us1} + (p_{Hk2}-p_{Hk1})x_{Hk1}}$

    $= \boldsymbol{(20-10)*1 + (10-5)*1}$

    = 10+5 = Rs15.